



REPORT AND FINANCIAL STATEMENTS

31 MARCH 2020

**Registered Number: SC103046
Charity Number: SC003712**

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It is impossible to start this introduction without reference to the subject which has dominated the news agenda – and indeed our lives – since March 2020. Covid-19 has had a profound impact on the entire world, not only in terms of death and illness, but in terms of the economy and our daily life.

It has caused a seismic shift in the way we do business, the way we interact socially and, of course, the way we teach and the way we learn. At SRUC, we went almost overnight from the hustle and bustle of our campuses to working remotely in box rooms, spare bedrooms and at kitchen tables.

All these changes have an impact – and come at a cost – and that cost is often personal. Despite all this, I have been both inspired and humbled by the response of SRUC. Staff at all levels have adapted to the challenges with flexibility, insight and innovation. Our approach to putting people before profit, and to welcoming students back at the start of the academic year has been distinctive, and recognised as such by government and opposition politicians alike. More broadly, our detailed pandemic recovery plans have been hailed by the Scottish Funding Council as an “exemplar” for the HE sector.

I am also incredibly proud of our students who, in the most challenging and unusual of circumstances, were able to finish their studies remotely, with those moving on to the next stage of their lives sadly having to miss out on one of our magnificent graduation ceremonies in Glasgow. Like our entire programme of events, this year's graduation ceremony was delivered online; a way of working we all had to get to grips with very quickly.

Fortunately, we were already looking to the future by introducing more blended (online and face-to-face) ways of teaching and learning while maintaining the key practical elements so popular among our students.

During the year we worked with the Centre for Innovation Excellence in Livestock (CIEL) to open the Allermuir Avian Innovation and Skills Centre – the UK's largest facility to improve avian nutrition, while SAC Consulting was chosen to deliver a multi-million project to combat BVD in cattle.

Our Faculties have rejuvenated our regional presence, creating a sense of place to support our local teaching and learning together with purposeful engagement with stakeholders, communities and business. For example, our work

in the South and West Faculty is making great progress in advancing ‘digital twinning’ in the dairy sector and value chains to support high quality manufacturing in the Food and Drink industry. This is being advanced through close collaboration and working with the Borders Growth Deal and a UKRI Strength in Places Bid.

In the Northern Faculty, the thematic area of Planetary Health is being advanced to support such areas as zoonoses through the establishment of the Rural Veterinary Hub in Inverness. Co-location of the SeedPod on the Craibstone Campus will bring new opportunities for business led research and maximise opportunities for engagement with SMEs.

Our Central Faculty is galvanising our work on Enterprise through a series of new appointments and closer engagement of the Rural Policy Centre with Food Policy, and a renewed focus on food systems. These brief examples represent a significant shift in the way in which we work internally and engage externally so that we are better aligned to the needs of our customers.

We have doubled the number of Full time equivalent (FTE) staff to be submitted to the next REF exercise in 2021, reflecting a continued focus on research excellence with outstanding impact case studies.

Our previous decision to relocate our Vet services to the Pentland Science Park to maximise opportunities for collaboration with the Moredun Research Institute is very evident in our capacity to undertake Covid-19 diagnostic testing on behalf of NHS Lothian. This is a great example of collaboration in practice for the benefit of Society and the people of Scotland. It also illustrates the innovation spirit in Vet Services, who have introduced new ‘pooling’ strategies to improve the efficiency and cost savings to the diagnostics programme.

And although it seems a long time ago now, last summer saw a hugely successful and memorable Royal Highland Show, which in 2019 saw First Minister Nicola Sturgeon and Fergus Ewing, Cabinet Secretary for Rural Affairs, visit the SRUC stand, which captured the imagination of thousands of members of the public with our displays of disruptive technology and delicious milkshakes.

We invested in our teaching, with a notable example being the new £350,000, state-of-the-art animal care and gamekeeping facilities at Elmwood.

Principal's Report



At the beginning of 2020, we were delighted to announce a new partnership with ADAS, which gives agri-business across the UK greater access to the latest independent advice backed by world-leading research and innovation.

During the year a highly competitive search was undertaken for new non-executive board members and three outstanding new members were appointed: Annette Bruton, Margaret Khnichich and Elma Murray, bringing considerable new expertise in Public and Private sector leadership and extensive knowledge of the Further Education sector.

We are making great progress on achieving Degree Awarding Powers with SRUC receiving the highest possible ranking in the recent Enhancement-led Institutional Review (ELIR) evaluation. Obtaining degree-awarding powers (DAP) is central to our ambition to gain University status and is an institution-wide priority, fundamental to our ambition, relevance and most importantly, purpose.

Covid-19 has brought into sharp focus the purpose of Universities and those that have lost purpose. Our overall vision and mission – to become Scotland's Enterprise University at the heart of the Natural Economy - is bigger than SRUC and is about inspiring communities, particularly rural communities about the potential of the natural economy to lead a green recovery, support jobs, enterprise and innovation. Pivotal to this is our commitment to working in partnership with government, business and other Colleges and Universities to generate innovation and the human capital to use this innovation.

SRUC's clarity of purpose embedded in a dispersed, tertiary model of delivery is well placed to provide a more balanced educational offering that recognises the importance of vocational/technical skills alongside cognitive learning that has dominated University teaching for the past century.

Furthermore, the imagination and creativity that will be in great demand in the future will also need to be nurtured through the development of emotional intelligence and communication skills. Our future portfolio will recognise these drivers but will also embrace a flexible, personalised, digitally-enabled set of learning opportunities. To do this we will need to undergo a major transformation of our digital capability alongside changes to our ways of

working and behaviours to fully benefit and absorb the benefits of digital technology.

We are witnessing unprecedented levels of change that are impacting us individually as well as organisationally. During these periods of extreme disruption, uncertainty and anxiety we depend more and more on our values, identity and sense of purpose. It is these attributes alongside a strong sense of community and trust that will ensure that SRUC emerges stronger and better post Covid-19.

Professor Wayne Powell
25 November 2020

The directors present the Strategic Report of SRUC for the year ended 31 March 2020. The aim of the Strategic Report is to provide stakeholders with the ability to assess how the directors have performed their duty to promote the success of SRUC.

The format of the financial statements is in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2019 and in accordance with Financial Reporting Standards (FRS 102). SRUC is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102.

Principal Operations

SRUC, is unique, founded on world class and sector-leading research, that demonstrates the greatest research power (volume x quality) of any specialist institution offering land-based subjects in the UK. This was acknowledged in the 2014 Research Excellence Framework (REF) which is a peer assessment of the quality of UK universities' research across all disciplines. In particular SRUC's research impact scored particularly highly with 76% of the impact case studies judged as being 'outstanding'.

SRUC delivers comprehensive skills, education, business support and consultancy services for Scotland's rural industries, and associated food and drink sector. The integration of these three complementary 'knowledge exchange' services is of significant value to all with an interest in land-based activities – be they students, businesses, communities or policy-makers.

The activities of SRUC were delivered through three operational divisions: Research, Education and Consulting and these divisions were supported by a Finance and Professional Services Division.

During the year to 31 March 2020 the main education and research activities operated from six campuses in Aberdeen, Ayr, Broxburn, Cupar, Dumfries and Edinburgh. Consultancy Services are delivered through a network of 24 Farm and Rural Business Services offices, eight Veterinary Disease Surveillance Centres and the Central Diagnostic Laboratory. In addition, SRUC operated six farms.

Constitution, Governance and Regulation

SRUC is a private company limited by guarantee, registered in Scotland and has charitable status. The SRUC Board of Directors is responsible for the management and regulation of the financial affairs of

the organisation, ensuring compliance with the Financial Memorandum and associated guidance of the Scottish Further and Higher Education Funding Council ("SFC").

The primary purpose activities of SRUC the charity are transacted through that company with the trading activities of the divisions transacted through SAC Commercial Limited. The profits of SAC Commercial are surrendered by way of gift aid.

A full statement of the Board's responsibilities is detailed on page 20, membership of the Board is detailed on page 9 and the Board's corporate governance arrangements are detailed on pages 17-19. The directors are also trustees and are referred to throughout this document as directors.

The Principal and Chief Executive is appointed by the Board and is directly accountable to the Chief Executive of SFC for the institution's proper use of public funds.

SRUC's educational activities are funded by SFC. SRUC continues to receive direct funding and contractual income for its research, veterinary and advisory activities from the Scottish Government.

In these financial statements SRUC Group at 31 March 2020, is taken to include SRUC and SAC Commercial Limited and the SAC Foundation.

SRUC Strategic Aims 2020-2025

SRUC's new model as outlined in the strategic plan, will deliver to the needs of the rural economy. We will achieve this through our strategic aims as a new, successful 21st Century university.

Vision

To be Scotland's Enterprise University at the heart of our sustainable natural economy.

Mission

Our mission is to create and mobilise knowledge and talent, partnering locally and globally to benefit Scotland's natural economy.

Values

Respect - we will recognise that everyone in the organisation makes a contribution to our success.

Innovate - we don't wait for things to happen, we constructively challenge how things are done.

Support - we look beyond the boundary of our own roles to support others and share knowledge.

Excel - we take pride in contributions, we have high standards of excellence and always work to our core values.

Financial Highlights

Results for the year

Reconciliation of total comprehensive income to operating performance.

	2020 £m	2019 £m
Total comprehensive income (page 24)	3.8	(5.2)
Actuarial (gain)/loss	(7.6)	4.7
Actuarial loss on investments	1.0	-
Severance costs	2.2	1.1
(Gain)/loss on fixed asset disposals	(0.5)	0.3
Other non-recurring items	<u>-</u>	<u>(0.4)</u>
Operational (deficit)/surplus	<u>(1.1)</u>	<u>0.5</u>

The Statement of Comprehensive Income reports a total surplus on comprehensive income of £3.8m for the year (2019: loss of £5.2m). The underlying operating position was a deficit of £1.1m (2019: surplus of £0.5m) as shown in the table above.

The Statement of Comprehensive Income shows a decrease in turnover of £1.4m from 2019 (2019: increase by £5m on 2018). When the figures are adjusted for the deferred grants released in respect of fixed assets, turnover has increased by £0.4m (2019: increase by £3.1m).

The performance against the financial KPIs as set by the operational plan to achieve the strategic plan goals was as follows:

As a % of turnover	Target	Actual 2020	Actual 2019
Underlying operating surplus	0%	(1.4%)	0.6%
Operating cash flow	4.5%	(8.25%)	7%
Staff costs	58.7%	57.8%	58.5%

Note: The turnover figure used to calculate the operating surplus and staff cost percentages excludes the release of deferred capital grants and endowment income.

The restructuring commenced in the prior year and continued during the year, resulting in an improvement to the staff/revenue ratio for the year. There are still material restructuring costs expected in the financial year 2020/21 which are critical to ensure SRUC's financial sustainability.

For the year ended 31 March 2020, SAC Commercial Ltd made a profit of £1,873k and after payment of £1,842k of gift aid, had a retained surplus of £31k (2019: retained loss of £9k).

Balance Sheet

	2020 £m	2019 £m
Net assets	<u>10.8</u>	<u>7.0</u>

The main reason for the increase in net assets is the decrease in the pension liability.

Fixed assets

The net book value of fixed assets at 31 March 2020 was £83m. Additions in the year amounted to £2.6m (2019: £6m) and relate to buildings under construction, building additions and equipment. The building under construction was The Allermuir Avian Innovation and Skills Centre officially opened in June 2019. Included in additions in the year are the animal care facilities in Elmwood and Craibstone and works completed on the Arcade student space in Edinburgh campus.

SFC University Financial Transactions Funding of £1.9m was received for the animal care facilities and Arcade student space and for the vet facilities on Craibstone campus.

The disposal of the unused land in Auchincruive was concluded in March 2020. The underlying assets at this property were impaired to £NIL in 2018/19.

The Covid-19 pandemic will impact the way SRUC provides its services. Given the SRUC business model and the measured response to the pandemic it was concluded that no group of asset's carrying amount is lower than its value in use and no impairment was recognised in the financial statements as the result of Covid-19.

There is impairment recognised in respect of vacated properties.

Investments and Endowments

The value of investments and endowments decreased by £850k to £4,384. The significant change in value is the result of significant market disruptions due to Covid-19 at the valuation date.

Cash & Treasury Management

The bank and cash balance (including short term deposits) held by SRUC at 31 March 2020 was £20.5m, an increase of £0.8m, which reflects the cash generated from the disposals of assets and the SFC funding used on fixed asset expenditure.

Pension Liability

The total pension liability at 31 March 2020 was £24m. This was a decrease of £6.6m from 2019 and relates to the four final salary pension schemes operated by SRUC. The liability was adjusted for the estimated impact of the Guaranteed Minimum Pension ruling (GMP) and the McCloud judgement.

Three of the schemes are Local Government Pension schemes with a combined deficit of £4.8m and the other scheme, Citrus, is a multi-employers scheme which had a deficit of £19.2m at the year end. Deficit recovery plans are in place. The impact of the Goodwin court judgement from June 2020 was considered and concluded to have an immaterial effect on the year end liability.

Principal Risks and Uncertainties

In common with other Higher Educational Institutions (HEIs), SRUC has to manage its activities while facing significant pressures on its funding as well as its cost base.

Significant Risks

- Loss of students and research customers as the result of social distancing measures
- Public sector spending reductions and policy changes influenced by:
 - External political and economic uncertainty
 - Student funding uncertainty
 - Common Agricultural Policy reform/Brexit
- Most research funding at significantly less than full economic cost.
- Failure to retain and attract high quality people across the organisation and related pressure on staff costs in terms of pay awards and pension provision.
- Reduced number of available students in Scotland, increasing competition in the sector.
- Viability/suitability of the large estate.
- Funding sources for capital investment.

These significant risks will be addressed through the restructuring and refocus from the implementation of the new strategy. SRUC has engaged pension advisors to perform a review of the pension schemes to assist in managing, and where possible, mitigating the liabilities to reduce future exposure and risk. Work is progressing on the assessment of the estates needs in new faculties to match future aspirations.

The Covid-19 pandemic significantly changed the world and the sector that SRUC operates in. The risks arising from this change are varied. From the very outset of the outbreak we maintained effective communication with our staff, students and customers; their health and wellbeing was paramount. We carefully measure the likely impact for the future and engaged with our customers and suppliers to ensure continuation of necessary services and limited the negative impact to SRUC and the wider community.

The outcome of the Brexit negotiations may impact the free movement of persons which may have staff recruitment issues in respect of research staff and may also impact the recruitment of post graduate students. It may also impact our ability to collaborate in cross-European research projects which we have historically participated in. There is also a potential risk to the supply chain for certain of our consumables, particularly for the vets.

The identification and management of risks is firmly embedded within SRUC's structure and processes. The institutional Strategic Risk Register is formally reviewed by the Executive Leadership Team (ELT), the Audit and Risk Committee and the Board. SRUC has developed Risk Registers for each of the operating areas.

Financial risk management policy

The Group's principal financial instruments comprise cash, cash equivalents and loans. Other financial assets and liabilities, such as trade debtors and creditors arise directly from the Group's operating activities. The main risks associated with the Group's financial assets and liabilities are set out below.

Interest rate risk

Interest is charged on a fixed rate basis on loans. Therefore, there is no exposure in this area.

Credit risk

A significant percentage of the Group's income is derived from UK government departments in the form of grant-in-aid and other project funding.

SRUC's commercial activities are spread across a significant number of smaller customers and the Group therefore has a relatively low level of exposure to external credit risk.

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generated by its operations. Flexibility is maintained by retaining surplus cash in readily accessible bank deposit accounts. Cash flow forecasts are reviewed monthly.

Foreign currency risk

The Group's principal transactions in foreign currency are Single Farm Payments and European Union funded Research projects. As a result, the Group's income can be affected by movements in the Euro exchange rate. Hedging activity is undertaken as appropriate for large receipts to mitigate this risk.

Future Developments and Factors Influencing Performance

Alongside the pandemic there are several additional challenges that we need to confront. These include Brexit, the climate emergency and major changes in geo-politics that will resonate in a post Covid-19 world.

Post-pandemic, the HE sector will be a key part of Scotland's recovery. However, currently the sustainability of the sector is being questioned with the continuing Covid-19 emergency revealing the unsustainability of a funding model that depends on international students' fees to support core teaching, research and knowledge exchange.

To address these challenges, we will build strategically on four interconnected themes:

- Emphasising the resilience of our modular business model that builds on a balanced contribution from research, teaching and consultancy. In particular our consultancy business represents a major differentiator with recent evidence indicating that SRUC has the highest level of engagement with SMEs of any University or College in the UK. This provides a vehicle to accelerate the translation of research into business innovation and economic growth.
- Reinforcing our purpose built around the theme of the [natural economy](#) that represents an area of comparative advantage to Scotland, and supports a green recovery built around nature-based solutions.
- Our campuses as 'anchor institutions' to sustain high-quality employment and learning opportunities for the communities we are part of throughout Scotland. Building place-based collaboration with local enterprise agencies and regional/city deals.
- Undertake a major digital transformation of SRUC to transform the digital experience for staff, students, business partners and wider stakeholder groups with a view to increased efficiency and effectiveness of learning, research and business processes.

We also see major opportunities emerging. The UKRI budgets have increased further and faster than expected and, while the focus on excellence and competition remains, there is a growing emphasis on the 'levelling up' agenda. The UK Government has committed repeatedly to increasing overall investment in R&D to 2.4% of GDP by 2027 from a starting point of 1.7% in 2016. A significant portion of this funding is geared towards translational research which is well aligned to SRUC's strengths. In response to this SRUC has established five challenge led research centres that provide outward facing platforms for interdisciplinary collaboration and appointed 17 new Professorial and Research Fellows.

The UK Government's recently published Research and Development Roadmap makes repeated reference to the levelling up agenda. This increased focus on regional inequality means there will be greater opportunities for regional partnerships to be pursued. SRUC's regional presence aligns well with a place based economic geography approach.

Brexit and the removal of CAP will require the introductions of new policies to support land use, agriculture and food production. The UK and Scottish governments' commitment to net zero carbon emissions will require considerable input into evidence synthesis to support new policy interventions. An emphasis on public money for public goods will require monitoring systems where tools such as AgreCalc will be in demand to support positive carbon farming.

The award-winning AgreCalc tool is part of our consulting team's strategy to continue to develop a broad customer base through a suite of distinct services, supporting the growth of customers and strengthening their ability to overcome industry challenges such as Brexit and climate change.

Through evidence-based knowledge transfer and training, the consulting team will continue to help customers achieve improvements in productivity, reduce emissions and implement sustainable practices, supporting them to market their products and improve produce integrity within a circular economy.

The SFC-led review of coherence and sustainability across the College and University sector is likely to emphasise the importance of an integrated and connected tertiary education and skills system for the future. SRUC's commitment to a tertiary model of education coupled with degree awarding powers will provide a powerful platform for Scotland's future skills needs. This will include upskilling and reskilling to meet the changing demands of employers together with work-based learning.

Finally, the pandemic has changed attitudes to working together and sharpened the focus on collaboration rather than competition. This bodes well for the future and SRUC remains committed to working with others to deliver solutions that are beyond the reach of single institutions.

Wayne Powell
Principal and Chief Executive
25 November 2020

Directors' Report

Registered No: SC103046



The directors present their report for the year ended 31 March 2020

The current directors and those who held office during the year and to the date of approval of the financial statements are:

	Date of Appointment	Date of Retirement	Status of Appointment
Dr M Aitchison (union representative)	10 Dec 2019	Dec 2022	Non-Executive
Ms K Allison (staff elected)	13 Dec 2018	Oct 2021	Non-Executive
Mrs A Bruton	13 June 2019	June 2022	Non-Executive
Miss H Colbert (student elected)	3 Sept 2019	30 June 2020	Non-Executive
Mr J Cumming CBE (Chairman from 1 August 2017)	1 Apr 2011	April 2022	Non-Executive
Mr R Dinning	11 Dec 2014	Sept 2020	Non-Executive
Ms K Dubarry (student elected)	1 Jul 2019	30 June 2020	Non-Executive
Ms J Fortune (union representative)	10 Dec 2019	Dec 2022	Non-Executive
Mr K Hamilton (student elected)	1 Jul 2020	30 June 2021	Non-Executive
Mr J Hume	6 Oct 2017	Sept 2023	Non-Executive
Mrs M Khnichich	13 June 2019	June 2022	Non-Executive
Mr A Marshall (Vice Chairman from October 2012)	5 Oct 2012	Sept 2019	Non-Executive
Mr S MacKenzie (student elected)	13 Dec 2018	30 June 2019	Non-Executive
Professor S McDaid CBE (Vice Chairman from October 2015)	11 Oct 2013	Sept 2020	Non-Executive
Mrs C Millar	6 Oct 2017	Sept 2020	Non-Executive
Ms E Murray	3 Sept 2019	Sept 2022	Non-Executive
Professor W Powell	1 Jul 2016	n/a	Chief Executive
Dr K Richards	11 Oct 2013	Sept 2020	Non-Executive
Mr W Ross OBE	6 Oct 2017	Sept 2023	Non-Executive
Ms C Sangster	1 Jul 2020	30 June 2021	Non-Executive
Mr S Thomson (staff elected)	13 Dec 2018	Oct 2021	Non-Executive
Professor C Williams	9 Oct 2015	Sept 2021	Non-Executive
Mr B Wood CVO	6 Oct 2017	Sept 2023	Non-Executive

Non-Executive Directors are appointed for a term of up to three years. They are eligible for reappointment for one further term. The Board reviews appointments on an annual basis and appointments do not necessarily run to the full term. The Chair is appointed for a period of three years and may be appointed for a further consecutive period of three years. Staff members are elected for a term of three years and can choose to run for re-election for one further three year term. Union representatives are appointed for a term of three years and can be nominated by the relevant Trades Union for one further three year term. Students are appointed for one year - i.e. the length of their elected office.

The Executive Leadership Team (ELT) is responsible for the day to day management and currently consists of:

Principal and Chief Executive	Professor Wayne Powell
Academic Director	Professor Jamie Newbold
Director of Commercialisation and Innovation	Colin MacEwan
Director of Finance	Hugh Anderson
Director of Marketing, Digital and Communications	Caroline Bysh
Director of Policy Engagement	Professor Sarah Skerratt (until 31 January 2020)
Director of Professional Services	Gavin Macgregor

Directors' attendance

Details of the Directors' attendance record at Board meetings and relevant Board Committee meetings in the period 1 April 2019 to 31 March 2020 are set out below. The number in brackets represents the number of meetings that the Director was eligible, as a member of the Board or Committee, to attend during the year.

	Board	SAC Commercial	Remuneration & Appointments Committee	Audit & Risk Committee	Finance & Estates Committee
Number of meetings in period	5⁺	5⁺	4	4	4
Non-Executives SRUC					
Dr M Aitchison (union representative)	3(3)				
Ms K Allison (staff elected)	4(5)		4(4)		
Mrs A Bruton	4(5)			2(3)	
Miss H Colbert (student elected)	1(1) *** 4(4)		2(2)		
Mr J Cumming CBE (Chairman from 1 August 2017)	5(5)	5(5)	4(4)		
Mr R Dinning	5(5)			4(4)	
Ms K Dubarry (student elected)	4(5)				
Ms J Fortune (union representative)	3(3)				
Mr J Hume	5(5)				3(4)
Mrs M Khnichich	5(5)				2(3)
Mr A Marshall (Vice Chairman from October 2012)	2(2)	4(5)	4(4)	2(2)	
Mr S MacKenzie (student elected)	1(1)		1(1)		
Professor S McDaid CBE (Vice Chairman from October 2015)	5(5)		4(4)		4(4)
Mrs C Millar	5(5)	5(5)			4(4)
Ms E Murray	3(4)		2(2)		
Dr K Richards	4(5)	4(5)			1(1) ***
Mr W Ross OBE	4(5)				3(4)
Mr S Thomson (staff elected)	5(5)				
Professor C Williams	5(5)		4(4)		
Mr B Wood CVO	5(5)	5(5)		4(4)	
Executives					
Prof W Powell	5(5)	5(5)	4(4) **	3(4) **	3(4) **
Mr H Anderson *	5(5) **	5(5)		4(4) **	4(4) **
Mr C MacEwan *	5(5) **	5(5)			
Non-Executives SAC Commercial only					
Mr J Cross *		5(5)		4(4)	
Mr D Overton, OBE *		3(3)			

* The March 2020 SRUC and SAC Commercial Ltd Board meetings were cancelled due to the Covid-19 outbreak and had been scheduled for the week the country went into "lockdown". The papers were distributed to Board members and comments and approvals were received via email.

** In attendance as an Executive

*** By invitation as a Non-Executive

Section 172(1) Statement - Companies Act 2006

This statement sets out how the Directors of SRUC have applied and complied with Section 172(1) of the Companies Act 2006 in accordance with The Companies (Miscellaneous Reporting) Regulations 2018.

The Directors of SRUC, as those of all UK companies, must act in accordance with a set of general duties set out in section 172 of the Companies Act 2006 (the Act). The Board of Directors of SRUC consider, both individually and together, that they have acted in the way, in good faith, that would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 30 June 2020.

Decision Making

The Board of Directors' intention is to behave responsibly and ensure that the business operates in a responsible manner with the aim of maintaining a reputation for high standards of business conduct and good governance.

The Board is collectively responsible for the long-term success of the business and, as part of their induction programme, the Directors are briefed on their duties under the Act. Directors also have access to ongoing training and development to provide them with the relevant skills and knowledge to conduct their duties as Directors on the Board. Plans to create a formalised continuous awareness programme will be developed during 2020.

The Directors fulfil their duties partly through a governance framework that facilitates delegation of day-to-day decision making to Management of the Company. Delegation of all areas of the Company's activities below Board level, as well as the financial parameters of authority, are set out in the delegated authority framework. This framework ensures that unusual or material transactions are brought to the Board for approval.

The Board maintains oversight of the Company's performance including financial reporting, risk management, governance and internal control processes through monthly Directors meetings with Senior Management.

Each year the Board undertakes an in-depth review of the Company's business objectives. In setting the business objectives, the Board has regard to a variety of matters including the interests of various stakeholders, the consequences of its decisions in the long term and its long-term reputation.

Overview of how the Board performed its Duties within the financial year

The Board of Directors at SRUC communicates effectively with its stakeholders and understands their views in order to act fairly towards the different groups. The following outlines the impact of the Board's regard of stakeholders when making decisions during the financial year.

Communication with Staff

SRUC is conscious of the value of keeping employees informed of the progress and future plans of the organisation and of the mutual benefit that is engendered by good internal communications particularly in times of change.

Information on matters important to employees is given through the SRUC Engage website, through staff briefing sessions and regular communications from the Engagement Leadership Team and the Principal.

It is also important to listen to our colleagues about what has been happening. SRUC regularly runs surveys to look at how well we are articulating our change to internal audiences, how positive our people feel about the future of SRUC and how engaged they feel with SRUC.

Due to Covid-19 we ran a pulse survey in May, this survey had two purposes: The first was to help us learn about our institutional response to the pandemic to help respond better in the future. The second was to explore ideas around the "New Normal" and how we could create a more agile and blended working culture. The outcomes of the survey were very positive and we have used the data to review how we work in a more flexible and agile way.

Communication with Students

SRUC values the need to ensure effective clear communication with students. The Student association (SRUCSA) is represented formally on the SRUC Board, the Academic board and various other bodies, committees and groups within the institution. Informal consultation with SRUCSA takes place at many levels in respect of various relevant matters.

SRUCSA runs 'Student Panel' meetings throughout the year to keep students updated through the Class Representative network. SRUCSA also uses email and social media to provide a variety of media for students to be updated and comment of the work of SRUCSA and their learning experience at SRUC.

MySRUC, a free app for students, is used to promote student voice opportunities, while SRUC's primary learning platform, Moodle, is used to keep students informed, as well as to promote surveys and student voice mechanisms.

In addition, SRUC's Communications team works with senior management and SRUCSA to update students on things such as any changes to term times and teaching arrangements, something particularly important during the Covid-19 pandemic.

Corporate Social Responsibility Policy

Corporate social responsibility (CSR) represents a commitment by SRUC to behave fairly and responsibly, sustain economic development while improving the quality of life for staff as well as contributing to local communities and society. SRUC recognises that social, economic and environmental responsibilities to stakeholders in the land-based industries are integral to SRUC's mission, vision and values and business success.

SRUC's mission to enhance the sustainability of the land-based industries is at the heart of its CSR policy. SRUC aims to improve the competitiveness of the land-based sector and thereby enhance livelihoods. We are reducing our greenhouse gas emissions by introducing energy efficiency measures and adopting procurement policies that favour sustainably-produced goods. Whenever feasible, SRUC promotes the adoption of modern and cleaner technologies by actively assisting its clients in minimising the environmental impacts of their operations.

SRUC is committed to ensuring that its business is carried out in all respects according to rigorous ethical, professional and legal standards.

SRUC values its staff. Our employment policies are directed at creating an environment that will attract, develop, motivate and reward employees of high calibre. Alongside its financial success as a business, SRUC recognises its responsibility to work in ways that add value to the lives of stakeholders and improve the world in which they live.

Disability Policy

SRUC is committed to ensuring disability equality in all our employment and operational practices, policies and procedures, and to a positive and pro-active approach to people who have a disability/learning difficulty (e.g. a physical disability, sensory impairment, medical condition, learning difficulty or mental health condition).

SRUC seeks to enable employees with any such disability/learning difficulty to pursue successfully their work in equality with all other employees, through recognition of the additional support they may need to achieve this.

However, SRUC understand that many people are disabled by social, attitudinal and physical barriers and as such recognise a social model of disability that uses the following definition:

'There are societal barriers that prevent disabled people from achieving their full potential, hinder their personal development opportunities and limit access to a full role in society'.

In order to address this, SRUC will seek to overcome these barriers by providing any reasonable adjustments where appropriate to do so. SRUC acknowledge that disabled people are not all the same and that each person may have different needs. SRUC understand that disabled people and organisations which represent them are best placed to describe their individual needs and specific requirements.

Equalities Policy

SRUC is committed to a policy of equal opportunity for all employees and potential recruits irrespective of a person's gender, age, marital status, parental status, race, colour, nationality, ethnic origin, religious beliefs, sexual orientation, gender identity, gender reassignment, transsexualism or physical or mental disability, or any other discriminatory distinction. Information is maintained to enable appropriate data to be collated.

The aim of SRUC's policy is to ensure that the talents of all employees are used to the full and that each individual has the opportunity to fulfil their potential and achieve their career ambitions.

SRUC believes that excellence will be achieved through recognising the value of every individual. We aim to create an environment that respects the diversity of employees and enables them to achieve their full potential, to contribute fully, and to derive maximum benefit and enjoyment from their involvement in the business life of SRUC.

Union representation

During the year ended 31 March 2020 SRUC employed 7 staff who were relevant union officials which equated to 5.8 full time employees. They all spent between one and sixty four percent of their hours on facility time. The cost of this facility time was £43,308 which equated to 24% of the total relevant pay bill.

Modern Slavery Act 2015

In line with the provisions of the Modern Slavery Act 2015 (the Act) SRUC has a zero tolerance policy towards slavery and human trafficking and we are fully committed to ensuring there are no instances of modern slavery or human trafficking within our organisation, or within our supply chains.

SRUC has a permanent presence in Scotland and carries out some activities in other countries, principally in England, the rest of Europe and in Africa. Our business is conducted under the names of SRUC, SAC Commercial Limited and SAC Consulting and this statement covers all our activity.

During 2019/2020 we assessed the risk of Modern Slavery within SRUC'S activities conducted in Scotland and the rest of the UK, and concluded that the risk is low. However, we recognise the potential risks linked to the extended and indirect supply chain of goods and services generated by the global economy and have therefore formally adopted APUC's Supply Chain Code of Conduct. The Code of Conduct applies to all regulated procurement processes (and when deemed appropriate to those below this threshold), and details SRUC's and tenderers' duties in respect to corporate social responsibility and sustainability across each identifiable supply chain. All tenderers are required, as a contractual obligation, to commit to the Code's principles which includes a pledge that each party shall:

- not use forced, involuntary or child labour;
- provide suitable working conditions and terms;
- treat employees fairly;
- ensure ethical compliance and support economic development;
- ensure environmental compliance.

For SRUC, such risks are reduced as an ever increasing proportion of these goods and services are sourced through collaborative contracts let by Advanced Procurement of Universities and Colleges (APUC), the Scottish Government, and other Public Sector centres of procurement excellence.

SRUC encourages all of our employees to report in 'good faith' any issues or concerns about potential breaches of the Modern Slavery Act. Any employee that raises an issue is fully protected by our Whistle Blowing Policy. To support our staff and improve their understanding of the risks of Modern Slavery, SRUC provides a suite of online training modules which are completed by all staff during their induction period, one of which covers Modern Slavery.

In addition SRUC recruitment policies and procedures, and the consistent application and monitoring of them ensure that we meet the provision of the act as an employer.

Customers and Suppliers

SRUC is committed to fostering positive and successful business relationships with its customers and suppliers. Sales, Procurement and Engineering departments regularly communicate with these key stakeholders and this has been particularly evident during this financial year as SRUC prepares for Brexit. Sales and Governance departments provided regular updates to key customers, while the Procurement and Health & Safety departments helped to ensure that SRUC's key suppliers are prepared for the changes that Brexit would bring to their business.

The Board has visibility on developments to these relationships through presentations from Sales and Procurement Senior Management during monthly Directors meetings, thus allowing the Board to consider customer and supplier needs when making decisions.

Environmental Policy

SRUC is committed to promoting sustainability in the land-based sector, helping to mitigate climate change and minimising any adverse impact of our activities, directly and through our influence on others. To achieve excellence in sustainable development we provide further and higher education to prepare future generations with the necessary skills, knowledge and understanding. Our main goal is to embed sustainability in learning and teaching, and supporting careers that contribute to sustainability

both directly and through sparking debate on the complex issues surrounding a sustainable world.

We undertake world leading research on climate change mitigation and adaptation, particularly in the agricultural and wider land based sectors. Through our consultancy and education functions, we foster collaborative relationships between research and education. This ensures that research is translated into impact as quickly and effectively as possible to support and inform Scotland's land-based sector.

Our commitment to act on climate change mitigation and adaptation includes action to meet the 2050 greenhouse gas reduction targets. We will continue to develop and monitor our Carbon Management Plan, our environmental objectives and targets to assist in meeting our obligations and commitments.

Health and Safety Policy

Health, safety and welfare are an integral part of every function within SRUC, and their successful management is as important as any other management activity. SRUC recognises that legal requirements define the *minimum* level of achievement. A cornerstone of SRUC's approach is to plan for continuous improvement in health and safety management systems.

It is SRUC's policy to provide and maintain a programme of continual improvement incorporating good Health and Safety practices into all aspects of its services. This was demonstrated by successful implementation of our Healthy Learning and Wellbeing Strategy over the past year.

The Health and Safety Leadership Policy document was issued in February 2017 reinforcing the need for Health and Safety to be embedded into the culture of SRUC. This emphasises the leadership responsibility of managers whilst empowering staff to raise issues to ensure a safety conscious environment. The Health and Safety Policy Statement and Health and Safety Leadership Policy have both been recently updated. Considering the current Coronavirus pandemic SRUC has issued a COVID-19 Policy Statement. This emphasises the actions SRUC have taken to ensure the health, safety and welfare of its staff, students, and visitors.

Quality Assurance

SAC Consulting and SRUC Research are certified to ISO 9001:2008 and as an organisation significant other parts of SRUC are also certified to OHSAS 18001:2007.

The SRUC Environment & Design Team and Elmwood campus are certified to ISO 14001:2004 and the Veterinary Services Group (part of the Consulting Division) holds ISO 17025:2005 accreditation for the SRUC Veterinary Services Group and SAC Commercial Ltd.

SRUC, as a Scottish Higher Education Institution, is compliant with the requirements of the Scottish Quality Enhancement Framework. Quality is further monitored by Education Scotland, Awarding Bodies such as Scottish Qualifications Authority and City and Guilds as well as the Validating Universities of Glasgow and Edinburgh.

Creditors Policy

SRUC follows the Better Payment Practice Code. As a business our policy is to agree payment terms at the outset and stick to them; explain our payment procedures to suppliers; pay bills in accordance with any contract agreed with the supplier or as required by law; inform suppliers without delay when an invoice is contested, and settle disputes quickly.

As at 31 March 2019 there were 27 days (2018 – 33 days) of creditors outstanding. Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 amounted to nil (2017 nil).

Third Party Indemnity Insurance

SRUC has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

SRUC provided a letter of support to SAC Foundation and its full subsidiary SAC Commercial limited.

Directors' Statement on Going Concern

In line with the Financial Reporting Council's guidance on going concern, the directors have undertaken an exercise to review the appropriateness of the continued use of the going concern basis. The Group's financial statements for 2019/20 have been prepared on a going concern basis. The uncertainty as to the future impact on the financial performance and cashflows on the Group, as a result of the Covid-19 pandemic, has been considered as part of the Group's adoption of the going concern basis in these financial statements and in developing a sustainable financial plan.

While Covid-19 implications have consequences across the Group's range of activities, the most significant impacts are those arising from teaching and the ability and willingness of students to travel to campuses for the purposes of Further and Higher Education. The potential impact of volatility on student numbers was a significant factor in producing the Group's financial plan. These financial statements have been prepared on a going concern basis which the Board of Directors believe to be appropriate for the reasons outlined below.

SRUC is well-established and renowned for its excellence in teaching and research. As such the demand for learning at SRUC remains strong, as evidenced in the student cohort for 2020/21, even during the pandemic. SRUC's ability to adapt its teaching model, with all lectures being delivered online, supplemented by face to face remote small group tutorials and seminars gives students the ability to learn on campus or remotely, mitigating the risk of Covid-19 on teaching activity.

The award-winning AgreCalc tool is part of our consulting team's strategy to continue to develop a broad customer base through a suite of distinct services, supporting the growth of customers and strengthening their ability to overcome industry challenges such as Brexit and climate change.

Through evidence-based knowledge transfer and training, the consulting team will continue to help customers achieve improvements in productivity, reduce emissions and implement sustainable practices, supporting them to market their products and improve produce integrity within a circular economy.

A financial plan for 2020/21 through to 2022/23 is in place which takes into consideration the anticipated impact of Covid-19, recognising the significant impact it has had on the Group. In support of this plan, cashflow projections have been prepared for twelve months from the date of approval of these consolidated financial statements, together with forecast subsidiary balances to reflect the consolidated group balance. On this basis, the Group is forecast to operate within its available committed facilities, with forecast headroom no lower than £7.2m throughout the going concern period. Management carefully monitors the impact of Covid-19 on its financial position regularly.

Senior management have considered various scenarios in assessing the impact of Covid-19 on future financial performance and cashflows. The ability to deliver on-line teaching mitigates risk in

this respect against any further government enforced restrictions, with the expectation, backed by the latest Government indicators, that students would remain in residential accommodation throughout any period of additional restrictions. From the very outset of the outbreak we maintained effective communication with our staff, students and customers; their health and wellbeing was paramount. We carefully measured the likely impact for the future and engaged with our customers and suppliers to ensure continuation of necessary services and limited the negative impact to SRUC and the wider community.

In testing the robustness of the Group's financial position, we have modelled a severe downside scenario to forecast a plausible worst-case scenario for the Group's finances. Should a severe downside scenario occur, a range of mitigating actions could be initiated by management primarily through managing discretionary spend that does not have an impact on its ability to maintain its high standards of teaching and research together with restricting non-essential and non-committed capital expenditure in the next 12-18 months.

Based on the above analysis it remains wholly appropriate to prepare the SRUC and consolidated financial statements on a going concern basis.

Subsequent events

The World Health Organisation officially declared Covid-19 a global pandemic on 11 March 2020. On the 23 March 2020 the UK Government initiated a UK wide lockdown with immediate effect. As the balance sheet date of 31 March 2020 was subsequent to the start of the Covid-19 lockdown period, the emergence of Covid-19 is not a post balance sheet event, and the impact on the financial performance in the year and yearend balance sheet position has been accounted for in these financial statements. The potential impact from developments after the 31 March 2020 yearend have been considered accordingly for disclosure in the financial statements. From our assessment of these developments we have not identified any adjusting post balance sheet events.

There have been numerous developments in relation to the pandemic subsequent to 31 March 2020, including the return of students to the SRUC campus for teaching the 2020/21 academic year and ongoing revisions to relevant legislation and guidance which SRUC is following. SRUC continues to monitor and assess the financial impact of Covid-19 and the subsequent changes to its operating environment for 2020/21.

Auditor

External audit services were put to competitive tender in 2015 and Ernst & Young LLP were successful in securing the contract for three years to 31 January 2019. During 2018/19 the contract was extended for a further two years to 31 January 2021. Internal audit services were also tendered in 2015 and KPMG were reappointed for three years to 31 March 2019. The contract was extended to 31 March 2021.

Directors' Statement as to Disclosure of Information to External Auditor

The directors who were members of the board at the time of approving the Directors' Report are listed in this report. Having made enquiries of fellow directors and of the company's external auditor, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's external auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's external auditor is aware of that information.

This report was approved by the Board on 25 November 2020 and signed on its behalf by:

James Cumming
Chairman

Wayne Powell
Principal and Chief Executive

Introduction

SRUC is committed to upholding best practice in all aspects of Corporate Governance.

This summary describes the manner in which the Board has applied the principles in the Annual Financial Statements Direction as issued by the Scottish Funding Council. The purpose of this summary is to help the reader of the reports and financial statements understand how the principles of good governance set out in the codes have been applied.

Statement of Compliance with the Scottish Code of Good HE Governance

A revised Scottish Code of Good Higher Education Governance was published in 2017 (“the Code”) replacing the 2013 Scottish Code of Good Higher Education Governance.

In the opinion of the Board, SRUC complies with the principles and provisions of the 2017 Scottish Code of Good Higher Education Governance.

During the year ended 31 March 2020, implementation of the Higher Education Governance (Scotland) Act 2016 (“HEGA”) was completed and further detail is provided below. Board induction and training was carried out in the year and, following Board approval of strategy related KPIs in the previous year, the planned cycle of regular performance reviews based on these indicators was commenced. Two student members were appointed following elections by the student body. A public engagement event was held at Elmwood campus to coincide with the formal opening of new animal care facilities and the Board carried out a visit to Barony campus. Efforts are made where practicable to hold Board meetings in different SRUC locations.

During the year, the requirements of HEGA were fully implemented, including adoption of new Articles of Association to bring SRUC formally into compliance with the statute. The new Articles of Association were adopted by the Board on 24 March 2020 by special resolution following earlier approval by the Scottish Ministers and represent the final element of SRUC’s compliance with HEGA, incorporating all of the statutory provisions and giving formal effect to actions already undertaken.

Board of Directors

The Board comprises non-executive directors and one executive director, who is the Principal & Chief Executive. The roles of Chair and Vice-Chair of the Board are separated from the role of the Principal and Chief Executive. The Board is responsible for the on-going strategic direction of SRUC, approval of major developments, and the receipt of regular reports from executive directors and managers on the day to day operations of its business and its subsidiary companies.

Previously, the size of the Board was a maximum of 25 directors of which 19 could be non-executive directors. The new Articles allow for a maximum of 20 directors, up to 19 of whom may be non-executive directors. SRUC maintains a skills matrix which is used for the recruitment of non-executive directors and succession planning to ensure our diverse needs are adequately reflected in the skills of the Board. During the year, 3 new non-executive directors were appointed which had a significant, positive effect on the gender balance of the Board. In addition, 2 directors were appointed following nomination from the recognised Trades Unions in accordance with HEGA.

Covid-19 governance

The initial lockdown in the early spring resulted in cancellation of a Board meeting in March, although the preceding Board Committee meetings did take place either face to face or virtually and a number of decisions or authorisations required from the Board were made within a few days of the cancelled meeting via email. Authorisation of temporary measures to address potential coronavirus issues such as incapacitation of senior executives and the Chair, authorisation limits and document execution were included in these measures. The temporary measures have been reviewed at every subsequent virtual Board meeting and extended in time as required to ensure that they can meet continuing Covid-19 restrictions.

All Board and Board Committee meetings since March have been carried out successfully online. The impact of remote working on governance has therefore been limited with Board and Executive business having been moved quickly to online facilities, with particular emphasis on video enabled platforms. The successful move of governance related activity to an online basis mirrored the general success of a rapid institutional move to online working.

Health, safety and welfare of staff and students was, naturally, a major priority for the institution and therefore procedures and processes were kept under constant review or changed as required. A Covid-19 planning group covering all areas of SRUC was set up in advance of lockdown. Through this group communication of restrictions, procedures and all relevant information or guidance to staff and students was maintained. As time progressed much of the H&S effort moved from immediate contingency work to planning for a safe potential return to work by staff and for the safe return of students to studies. This effort has been guided throughout with reference to government requirements and participation in sector-related practice. The recognised trade unions and student association have been consulted throughout in all aspects of Health, Safety & Welfare.

A Covid-19 specific risk register was established early in the crisis with an operational risk mitigation log used to track implementation of mitigation measures. This register has been monitored by the Audit & Risk Committee, in conjunction with the general risk register.

Intensive efforts have been made throughout the crisis to ensure maximum, effective communications to staff, students and the Board. Daily updates from the Principal and the Executive Group were given for a number of months, then these became weekly. Monthly online question and answer sessions with ELT have been held with staff together with other online events. Communications whether by email or video with staff and students have been extensively shared with the Board. A monthly meeting involving the Chair, the Principal and the Chairs of the Finance & Estates Committee, the Audit & Risk Committee and the Remuneration and Appointments Committee has been established to provide further continuity of communication.

Board Committees

In order to be able to devote sufficient time to strategic issues, the Board delegates certain tasks to its standing committees as set out below. All of these committees are formally constituted with terms of reference and comprise (with the exception of the Academic Board) mainly non-executive directors and are attended as appropriate by members of the ELT. Each committee is chaired by a non-executive director. The decisions of these committees are reported to the Board. During the year, all committees

reviewed their terms of reference, which were duly updated as required.

Academic Board

The Academic Board has delegated authority from the SRUC Board to be responsible for the overall planning, development, co-ordination and supervision of the academic work of SRUC. Membership is drawn from across SRUC and includes elected academic staff and student representatives as set out in HEGA. During the year ended 31 March 2020, the first round of elections for academic staff and students were held. The remit and related sub-committee arrangements of the Academic Board have been arranged to reflect changes in the Academic structure and will be regularly reviewed. The Academic Board meets at least once a term and is chaired by the Principal and Chief Executive.

Remuneration and Appointments Committee

The Remuneration and Appointments Committee, as part of its remit, considers nominations for new directors and makes recommendations on appointment to the Board. The Committee includes staff and student representatives in accordance with requirements of the 2017 Code and HEGA. The Remuneration and Appointments Committee determines the remuneration of executive directors. It also considers overall pay and employment terms for the Group and makes recommendations to the Board for Professorial and Honorary awards. The Appointments and Remuneration Committee meets a minimum of three times each year and is chaired by a Non-Executive Director.

Audit and Risk Committee

The Audit and Risk Committee reviews the effectiveness of financial and internal control systems, in particular those relating to risk management, corporate governance, internal and external audit as well as overseeing compliance with legislation. The Committee is chaired by a Non-Executive Director, includes an external independent member and meets a minimum of three times each year, with the external and internal auditor in attendance.

Finance and Estates Committee

The Finance and Estates Committee monitors the financial affairs of the Group and advises the Board on financial policy and planning. It also provides strategic direction in terms of the Infrastructure Strategy and has responsibility for oversight of SRUC's estate. It is chaired by the Vice Chair of the Board and meets a minimum of three times annually. During the year, the remit of the Committee, in common with the other two Board Committees was reviewed. The Finance and Estates Committee discharges Trustee responsibilities with regard to the investment and disbursement of trust funds and reviews these on an annual basis.

Statement of Internal Control

The SRUC Board is ultimately responsible for SRUC's system of internal control and the Principal and Chief Executive is responsible for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The ELT receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms.

The strategic planning process acts as a key control. The ELT meets annually with senior managers to consider progress over the last financial year and key drivers for the planning process for the forthcoming planning cycle. This informs the discussion with the SRUC Board at an annual board strategic planning session. Meetings are held with each division to discuss the specific group plans.

The Audit and Risk Committee's role in internal control is integral to managing the externally sourced internal audit function. The internal auditor monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan, and report their findings to management and the Audit and Risk Committee. Management is responsible for the implementation of agreed audit recommendations and the internal auditor undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Audit and Risk Committee considers summarised reports together with recommendations for the improvement of the SRUC's systems of internal control and

management's responses and implementation plans.

It also receives and considers reports from the Scottish Funding Council as they affect SRUC's business and monitors adherence to the regulatory requirements.

Whilst senior executives attend meetings of the Audit and Risk Committee as necessary, they are not members of the Committee and the Committee meets the internal and external auditors, at least once a year, on their own for independent discussions.

The SRUC Board receives regular reports from the ELT and the Audit and Risk Committee.

The SRUC Board is of a view that there is an on-going process for identifying, evaluating and managing the SRUC's significant risks, and that it has been in place throughout the year ended 31 March 2020 and up to the date of approval of the annual report and financial statements.

James Cumming
Chairman

Wayne Powell
Principal and Chief Executive

25 November 2020

Statement of the Responsibilities of the Board of SRUC



The Board is responsible for ensuring that the affairs of SRUC are administered and managed appropriately including an effective system of internal control, and that audited financial statements are presented for each financial year.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of SRUC, and ensure that the financial statements are prepared in accordance with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006, the Statement of Recommended Practice on Accounting in Higher Education Institutions, and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between SRUC and SFC, the Board, through its designated Accountable Officer (Principal and Chief Executive), is required to prepare financial statements for each financial year which give a true and fair view of SRUC's state of affairs and of the surplus or deficit and cash flows for that year and comply with the principles of good governance set out in the 2013 Scottish Code of Good Higher Education Governance and be working towards compliance with the principles of good governance set out in the 2017 Scottish Code of Good Higher Education Governance.

In causing the financial statements to be prepared, the Board has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Institution will continue in operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board has taken reasonable steps to:

- ensure that funds from Scottish Government and SFC and other public funding bodies are used only for the purposes for which they have been granted;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of SRUC and prevent and detect fraud;
- secure the economical, efficient and effective management of SRUC's resources and expenditure.

Independent Auditor's Report to the Trustees and Members of SRUC

Opinion

We have audited the financial statements of SRUC ("the parent company") and its subsidiaries (the Group") for the year ended 31 March 2020 which comprise the Group and Company Statement of Comprehensive Income, the Group and Company Statement of Changes in Reserves, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Statement of Principal Accounting Policies and the related notes 1 to 40. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the Group's and of the Charitable Company's affairs as at 31 March 2020 and of the Group's surplus and the Charitable Company's deficit and the Group's cash flows for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK";
- ▶ have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other

ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – effects of COVID-19

We draw attention to the Statement of Principal Accounting Policies and Note 40 in the financial statements, which describe the economic consequences SRUC is facing as a result of Covid-19 which is impacting the financial and operation position and performance during 2020/21 and beyond. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Trustees and Members of SRUC

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Opinion on other matters prescribed by the Scottish Funding Council'

In our opinion, in all material respects:

- the requirements of the Scottish Funding Council's accounts direction have been met;
- funds from whatever source administered by the institution for specific purposes have been applied properly to those purposes and, if relevant, managed in accordance with relevant legislation, and any other terms and conditions attached to them; and
- funds provided by Scottish Funding Council have been applied in accordance with the requirements of the SFC Financial Memorandum with Higher Education Institutions.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and parent charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of the directors

As explained more fully in the Statement of the Responsibilities of the Board of SRUC, the directors (who are also the trustees for the purposes of charity law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report

Independent Auditor's Report to the Trustees and Members of SRUC

that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members and trustees of SRUC, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and with section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the members and trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than SRUC and the members and trustees as a body, for our audit work, for this report, or for the opinions we have formed.

**Stephen Reid (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh**

30 November 2020

Group and Company Statement of Comprehensive Income



Year ended 31 March 2020

	Note	2020 Group £000	2019 Group £000	2020 Company £000	2019 Company £000
Income					
Scottish Government grants	1	14,699	17,000	11,816	14,010
Scottish Funding Council	2	28,129	26,238	28,129	26,238
Tuition fees and education contracts	3	6,516	7,422	6,501	7,378
Research grants and contracts	4	7,356	8,081	3,538	3,627
Advisory and consultancy contracts	5	16,238	15,785	1,074	1,122
Other operating income	6	8,414	8,295	5,219	6,783
Investment income	7	347	280	347	280
Total income before endowments and donations		81,699	83,101	56,624	59,438
Endowments and donations	8	2	31	2	31
Total Income		81,701	83,132	56,626	59,469
Expenditure					
Staff costs	9	47,803	47,104	46,133	45,467
Other operating expenditure		30,491	27,811	7,236	5,945
Depreciation and impairment	13-15	5,876	7,850	5,756	7,683
Interest and other finance costs	12	764	681	764	681
Total expenditure	11	84,934	83,446	59,889	59,776
Deficit before other gains and losses		(3,233)	(314)	(3,263)	(307)
Gain/(Loss) on disposal of fixed assets		465	(267)	465	(267)
Movement in value of investments		(1,006)	70	(1,006)	70
(Deficit)/surplus for the year		(3,774)	(511)	(3,804)	(504)
Actuarial gain/(loss) in respect of pension schemes		7,565	(4,722)	7,565	(4,722)
Total comprehensive income/(loss) for the year		3,791	(5,233)	3,761	(5,226)
Represented by:					
Endowment comprehensive income for the year		(850)	216	(850)	216
Unrestricted comprehensive income for the year		4,641	(5,449)	4,611	(5,442)
		3,791	(5,233)	3,761	(5,226)

All items of income and expenditure relate to continuing activities.

Statement of Changes in Reserves

Year ended 31 March 2020



	Endowment	Unrestricted	TOTAL
Group	£000	£000	£000
Balance at 1 April 2018	5,018	7,196	12,214
Surplus from the income and expenditure statement	216	(727)	(511)
Other comprehensive loss	-	(4,722)	(4,722)
Total comprehensive income for the year	216	(5,449)	(5,233)
Balance at 1 April 2019	5,234	1,747	6,981
Deficit from the income and expenditure statement	(850)	(2,924)	(3,774)
Other comprehensive income	-	7,565	7,565
Total Comprehensive income for the year	(850)	4,641	3,791
Balance at 31 March 2020	4,384	6,388	10,772
Company			
Balance at 1 April 2018	5,018	7,081	12,099
Surplus from the income and expenditure statement	216	(720)	(504)
Other comprehensive income	-	(4,722)	(4,722)
Total Comprehensive income for the year	216	(5,442)	(5,226)
Balance at 1 April 2019	5,234	1,639	6,873
Surplus/(deficit) from the income and expenditure statement	(850)	(2,954)	(3,804)
Other comprehensive income	-	7,565	7,565
Total Comprehensive income for the year	(850)	4,611	3,761
Balance at 31 March 2020	4,384	6,250	10,634

Balance Sheet

At 31 March 2020



	Note	Group		Company	
		2020 £000	2019 £000	2020 £000	2019 £000
Non-current assets					
Intangible assets	13	998	924	998	924
Negative goodwill arising from College merger	14	(31,693)	(33,050)	(31,693)	(33,050)
Fixed assets	15	82,923	85,951	82,923	85,951
Investments	16	4,540	5,434	4,526	5,434
		<u>56,768</u>	<u>59,259</u>	<u>56,754</u>	<u>59,259</u>
Current assets					
Stocks	17	2,674	2,742	2,674	2,742
Debtors	18	14,393	13,521	10,562	9,596
Assets held for resale		-	284	-	284
Current asset investments		8,051	2,300	8,051	2,300
Cash and cash equivalents		12,408	17,698	11,968	17,364
Total current assets		<u>37,526</u>	<u>36,545</u>	<u>33,255</u>	<u>32,286</u>
Creditors: amounts falling due within one year	19	<u>(21,184)</u>	<u>(22,144)</u>	<u>(17,037)</u>	<u>(17,993)</u>
Net current assets		<u>16,342</u>	<u>14,401</u>	<u>16,218</u>	<u>14,293</u>
Total assets less current liabilities		<u>73,110</u>	<u>73,660</u>	<u>72,972</u>	<u>73,552</u>
Creditors: amounts falling due after one year	20	(37,426)	(34,900)	(37,426)	(34,900)
Provisions					
Other provisions	23	(947)	(1,145)	(947)	(1,145)
Pension provisions	33	(23,965)	(30,634)	(23,965)	(30,634)
Total Net Assets		<u>10,772</u>	<u>6,981</u>	<u>10,634</u>	<u>6,873</u>
Reserves					
Restricted reserve					
Endowment reserve	31	4,384	5,234	4,384	5,234
Unrestricted reserves					
Income and expenditure reserve		6,388	1,747	6,250	1,639
Total Reserves		<u>10,772</u>	<u>6,981</u>	<u>10,634</u>	<u>6,873</u>

The financial statements were approved on 25 November 2020 and signed on behalf of the Board by:

James Cumming
Chairman

Wayne Powell
Principal and Chief Executive

Group Cash Flow Statement

For the Year Ended 31 March 2020



		2020	2019
	Note	£000	£000
Net cash (outflow)/ inflow from operating activities	25	(6,521)	5,548
Return on investments and servicing of finance	26	150	101
Capital expenditure and financial investment	27	5,513	(4,554)
Financing	28	1,319	5,090
Management of liquid resources	29	<u>(5,751)</u>	<u>3,400</u>
(Decrease)/ Increase in cash in the year		<u>(5,290)</u>	<u>9,585</u>
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the year	30	(5,290)	9,585
(Increase)/decrease in debt and leasing finance	30	<u>(1,303)</u>	<u>(5,108)</u>
(Decrease)/increase in net cash		(6,593)	4,477
Net cash at 1 April	30	<u>12,386</u>	<u>7,909</u>
Net cash as at 31 March	30	<u>5,793</u>	<u>12,386</u>

Statement of Principal Accounting Policies



Statement of compliance

SRUC is a company limited by guarantee incorporated in Scotland. The registered office is West Mains Road, Edinburgh EH9 3JG.

The group's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Group for the year ended 31 March 2020.

Basis of preparation

These financial statements have been prepared under the historic cost convention, modified to include listed investments at their market value, and have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2019 and in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. The College is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102.

The Group's financial statements for 2019/20 have been prepared on a going concern basis. The uncertainty as to the future impact on the financial performance and cashflows on the Group, as a result of the Covid-19 pandemic, has been considered as part of the Group's adoption of the going concern basis in these financial statements and in developing a sustainable financial plan. While Covid-19 implications have consequences across the Group's range of activities, the most significant impacts are those arising from teaching and the ability and willingness of students to travel to campuses for the purposes of Further and Higher Education. The potential impact of volatility on student numbers was a significant factor in producing the Group's financial plan. These financial statements have been prepared on a going concern basis which the Board of Directors believe to be appropriate for the reasons outlined below.

SRUC is well-established and renowned for its excellence in teaching and research. As such the demand for learning at SRUC remains strong, as evidenced in the student cohort for 2020/21, even during the pandemic. SRUC's ability to adapt its teaching model, with all lectures being delivered online, supplemented by face to face remote small group tutorials and seminars enables students the ability to learn on campus or remotely, mitigating the risk of Covid-19 on teaching activity.

The award-winning AgreCalc tool is part of our consulting team's strategy to continue to develop a broad customer base through a suite of distinct services, supporting the growth of customers and strengthening their ability to overcome industry challenges such as Brexit and climate change.

Through evidence-based knowledge transfer and training, the consulting team will continue to help customers achieve improvements in productivity, reduce emissions and implement sustainable practices, supporting them to market their products and improve produce integrity within a circular economy.

A financial plan for 2020/21 through to 2022/23 is in place which takes into consideration the anticipated impact of Covid-19, recognising the significant impact it has had on the Group. In support of this plan, cashflow projections have been prepared for twelve months from the date of approval of these consolidated financial statements, together with forecast subsidiary balances to reflect the consolidated group balance. On this basis, the Group is forecast to operate within its available committed facilities, with forecast headroom no lower than £7.2m throughout the going concern period. Management carefully monitors the impact of Covid-19 on its financial position regularly. Senior management have considered various scenarios in assessing the impact of Covid-19 on future financial performance and cashflows. The ability to deliver on-line teaching mitigates risk in this respect against any further government enforced restrictions, with the expectation, backed by the latest Government indicators, that students would remain in residential accommodation throughout any period of additional restrictions. From the very outset of the outbreak we maintained effective communication with our staff, students and customers; their health and wellbeing was paramount. We carefully measure the likely impact for the future and engaged with our customers and suppliers to ensure continuation of necessary services and limited the negative impact to SRUC and the wider community.

In testing the robustness of the Group's financial position, we have modelled a severe downside scenario to forecast a plausible worst-case scenario for the Group's finances. Should a severe downside scenario occur, a range of mitigating actions could be initiated by management primarily through managing discretionary spend that does not have an impact on its ability to maintain its high standards of teaching and research together with

Statement of Principal Accounting Policies



restricting non-essential and non-committed capital expenditure in the next 12-18 months.

Based on the above analysis it remains wholly appropriate to prepare the SRUC and consolidated financial statements on a going concern basis.

The financial statements of SRUC were authorised for issue by the Board of Directors on 25 November 2020. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the group and rounded to the nearest £'000.

Basis of consolidation

The group financial statements include SRUC and its subsidiary and quasi-subsidiary undertakings. Intra-group transactions are eliminated on consolidation. The activities of the Student Representative Council have not been consolidated as SRUC has no financial interest and no control or significant influence over policy decisions.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. These judgements, estimates, and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the Groups key sources of estimation uncertainty:

Pensions

The costs of defined benefit pension plans and unfunded pension benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds with at least AA rating with extrapolated maturities corresponding to the

expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. The impact on the of changes in the discount rate, life expectancy and inflation is included in note 33.

The value of SRUC's share of assets in the Lothian Pension Fund is also subject to estimation uncertainty, which has increased in 2019/20 as a result of the outbreak of Covid-19. As a result, Lothian Pension Fund has disclosed a material uncertainty around the valuation of its property assets held at 31 March 2020 (approximately 6% of total fund assets as detailed in Note 33). This uncertainty means that less certainty, and a higher degree of caution, is attached to the valuation of the Fund's investment property than would normally be the case and that the valuation of these assets is kept under more frequent review. The inclusion of the material valuation uncertainty does not mean that the valuation cannot be relied on, but rather to be clear and transparent with all parties that less certainty is attached to the stated valuations.

Goodwill and intangible assets

The group establishes a reliable estimate of the useful life of goodwill arising on business combinations by using external valuers. This estimate is based mainly on the remaining useful lives of the assets and is reassessed annually to ensure the value to the business has not been impaired.

Income recognition

Income from the sale of goods or services is credited to the Consolidated Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied. This is typically in line with work done and hence costs incurred.

Where applicable, surplus is calculated on a prudent basis to reflect the proportion of work carried out at the year end. Full provision for losses is made in the year in which the losses are first foreseen.

Project Expenditure recognised over amounts invoiced is reflected within debtors as 'Amounts Recoverable on Contracts'. The excess of Project Income received over amounts recognised as

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revenue is reflected within creditors as 'Payments Received in Advance'.

Fee income is stated gross of any expenditure which is not a discount and credited to the Consolidated Statement of Comprehensive Income over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Investment income is credited to the statement of income and expenditure on a receivable basis.

Funds SRUC receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of SRUC where SRUC is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Grant funding

Grant funding including Scottish Funding Council education and research grants, research grants from government sources are recognised as income when SRUC is entitled to the income and performance related conditions have been met.

Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Grants (including research grants) from sources are recognised in income when SRUC is entitled to the income and performance related conditions have been met.

Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor-imposed restrictions are recognised in income when SRUC is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when SRUC is entitled to the funds.

Investment income and appreciation of endowments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms other restriction applied to the individual endowment fund.

There are two main types of donations and endowments identified within reserves:

1. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.
2. Unrestricted donations.

Capital grants

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when SRUC is entitled to the funds subject to any performance related conditions being met.

Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to SRUC. Any unused benefits are accrued and measured as the additional amount SRUC expects to pay as a result of the unused entitlement.

Land and Buildings

Land and buildings are stated at cost. Freehold land is not depreciated. Freehold buildings, including any subsequent capital expenditure, are depreciated over their expected useful economic life to SRUC of up to 50 years. Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Buildings acquired on merger have been valued at depreciated replacement cost which is deemed to be fair value on acquisition. Land acquired on merger has been valued at market value.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate

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that the carrying amount of the fixed asset may not be recoverable.

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 March. They are not reclassified as Buildings or depreciated until they are brought into use.

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet.

Scottish Government (visa the SFC) maintains an interest in tangible fixed assets funded by capital grants from them.

Equipment

Equipment costing less than £5,000 per individual item or group of related items is written off in the year of acquisition. All capitalised equipment is stated at cost.

Capitalised equipment is depreciated on a straight-line basis over its useful life as follows:

Motor Vehicles	4 years
Computer and other equipment	5 – 10 years
Equipment acquired for specific research or projects	Project Life

Software- Intangible asset

Software is capitalised at cost where the software is directly involved with the creation of an asset, or is an identifiable support to the business. Capitalised software is depreciated over 5 years. Software that is not capitalised is instead treated as a consumable, and is expensed during the year of purchase.

Accounting for Business Combinations and Associated Negative Goodwill

SAC merged with Barony College, Elmwood College and Oatridge College on 1 October 2012.

The merger was accounted for by the "acquisition method of accounting" in order to comply with FRS6, Acquisitions and Mergers. Fair values are attributable to the net separable assets and liabilities. The benefit arising as a consequence of no consideration having been paid by SAC for the net value of the assets acquired is included in the consolidated balance sheet as negative goodwill as

a deduction from tangible and intangible fixed assets. The fair value of the benefit arising in relation to non-monetary assets is released to the income and expenditure account over the periods in which the non-monetary assets are recovered, whether through disposals or depreciation. The release is aligned with the corresponding depreciation charge relating to the assets.

Investments

Endowment asset investments relate to restricted endowments held in Trusts controlled by SRUC and are included in the balance sheet at valuation. Income less expenditure and net movements in the valuation are included in the Statement of Comprehensive Income and Expenditure.

Other listed investments are included at market value.

Investments in equity instruments which are not subsidiaries, associates, or joint ventures are initially measured at fair value, which is typically the transaction price. These assets are subsequently carried at fair value and changes in fair value at the reporting date are recognised in the statement of comprehensive income.

Where the investment in equity instruments are not publicly traded and where the fair value cannot be reliably measured the assets are measured at cost less impairment.

Stocks

Stocks are stated at the lower of their cost or net realisable value.

Taxation

SRUC is a charity within the meaning of Part 1, chapter 2, s7 of the Charities and Trustee Investment (Scotland) Act 2005 and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly the Institution is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA 2009 and sections 471, and 478-488 CTA 2010 (formerly s505 of ICTA 1988) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes

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SRUC receives no similar exemption in respect of Value Added Tax, the irrecoverable element of which is charged to expenditure.

SRUC's subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation. Surpluses where they arise are passed by way of gift aid to SRUC.

Cash Flows and cash equivalents

Cash flows comprise increases or decreases in cash. Cash includes cash in hand and at the bank, deposits repayable on demand and bank overdrafts but excludes any assets held as endowment asset investments. Liquid resources include term deposits held as part of SRUC's treasury management activities but exclude any assets held as endowment asset investments.

Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year-end rates. The resulting exchange differences are dealt with in the determination of income & expenditure for the financial year.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised when SRUC has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risk specific to the liability. Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than present obligation; a possible rather than a probable outflow of economic benefit; an inability to reliably measure the possible outflow. Contingent assets are disclosed by way of a note, where there is a possible, rather than a present, asset arising from a past event.

Agency Arrangements

Funds which SRUC receives and disburses as paying agent on behalf of a funding body or other body, where SRUC is exposed to minimal risk or enjoys minimal economic benefit related to the receipt and subsequent disbursement of the funds, are excluded from the income and expenditure account.

Pensions

Retirement benefits to employees of the SRUC Group are provided by seven superannuation schemes being: the Research Council Pension Scheme (RCPS), the SRUC Group Pension Plan, the Citrus Pension Plan, the Dumfries and Galloway Council Pension Fund (DGCPF), the Fife Council Pension Fund (FCPF), the Lothian Pensions Fund (LPF) and Scottish Teachers' Superannuation Scheme (STSS).

The RCPS scheme is a defined benefit scheme. Contributions to the scheme are made in accordance with an agreed funding model and recognised in the income statement.

The Group Pension Plan is a defined contribution scheme. Obligations for contributions are recognised as an expense in the income statement in the periods during which service are rendered by employees.

The Citrus Pension Plan and the local government pension schemes (DGCPF, FCPF and LPF) are defined benefit plans. Under defined benefit plans, SRUC's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by SRUC. SRUC recognises a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation results in a net asset, recognition of the asset is limited to the extent to which SRUC is able to recover the surplus either

Statement of Principal Accounting Policies



through reduced contributions in the future or through refunds from the plan.

Leases

Costs in respect of operating leases are charged on a straight line basis to the income statement over the lease term. Any lease premium or incentives are spread over the minimum lease term.

Leasing agreements which transfer to SRUC substantially all the benefits and risks of ownership of an asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability of the lease term. Any lease premium or incentives are spread over the minimum lease term.

Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to SRUC, are held as a permanently restricted fund which SRUC must hold in perpetuity. Other restricted reserves include balances where the donor has designated a specific purpose and therefore SRUC is restricted in the use of these funds.

Notes to the Financial Statements

1. Scottish Government Grants

	2020 Group £000	2019 Group £000	2020 Company £000	2019 Company £000
Recurrent grant				
Research and development	5,734	6,366	5,733	6,366
Advisory	6,924	6,894	4,042	3,904
	<u>12,658</u>	<u>13,260</u>	<u>9,776</u>	<u>10,270</u>
Release from deferred capital grants				
Buildings (note 22)	910	2,681	910	2,681
Equipment (note 22)	1,131	1,059	1,131	1,059
	<u>14,699</u>	<u>17,000</u>	<u>11,816</u>	<u>14,010</u>

2. Scottish Funding Council

	2020 Group £000	2019 Group £000	2020 Company £000	2019 Company £000
Education teaching HE	11,660	11,268	11,660	11,268
Education provision FE	9,042	8,850	9,042	8,850
Research and innovation	5,182	4,397	5,182	4,397
Condition survey grant	1,444	541	1,444	541
Strategic funding	170	440	170	440
	<u>27,498</u>	<u>25,496</u>	<u>27,498</u>	<u>25,496</u>
Release from deferred capital grants				
Buildings (note 22)	383	402	383	402
Equipment (note 22)	248	340	248	340
	<u>28,129</u>	<u>26,238</u>	<u>28,129</u>	<u>26,238</u>

Notes to the Financial Statements

3. Tuition Fees and Education Contracts

	2020	2019	2020	2019
	Group	Group	Company	Company
	£000	£000	£000	£000
Home and EU higher education fees	2,166	2,111	2,166	2,110
Rest of UK	264	426	264	426
Non-EU students	58	65	58	65
UK further education students	38	59	38	59
	<u>2,526</u>	<u>2,661</u>	<u>2,526</u>	<u>2,660</u>
Education contracts	3,478	4,085	3,468	4,070
Short course fees	512	676	507	648
	<u>6,516</u>	<u>7,422</u>	<u>6,501</u>	<u>7,378</u>

4. Research Grants and Contracts

	2020	2019	2020	2019
	Group	Group	Company	Company
	£000	£000	£000	£000
European union	872	672	858	645
Research councils	1,251	1,623	1,251	1,623
UK public bodies	3,203	3,238	1,298	1,030
Other	2,030	2,548	131	329
	<u>7,356</u>	<u>8,081</u>	<u>3,538</u>	<u>3,627</u>

5. Advisory and Consultancy Contracts

	2020	2019	2020	2019
	Group	Group	Company	Company
	£000	£000	£000	£000
Consultancies and subscriptions	12,006	11,508	355	415
Analytical services	3,271	3,306	719	707
Farm financial statements scheme	920	929	-	-
Publications	41	42	-	-
	<u>16,238</u>	<u>15,785</u>	<u>1,074</u>	<u>1,122</u>

Notes to the Financial Statements

6. Other Operating Income

	2020	2019	2020	2019
	Group	Group	Company	Company
	£000	£000	£000	£000
Residences, catering and conferences	1,801	2,088	1,787	2,056
Sales of farm products	4,329	3,839	-	-
Rents	1,044	1,048	604	667
Other income	1,240	1,320	2,828	4,060
	<u>8,414</u>	<u>8,295</u>	<u>5,219</u>	<u>6,783</u>

7. Investment income

	Group and company	
	2020	2019
	£000	£000
Investment income on endowments	185	172
Other investment income	162	108
	<u>347</u>	<u>280</u>

8. Donations and Endowments

	Group and company	
	2020	2019
	£000	£000
New endowments	2	31
	<u>2</u>	<u>31</u>

9. Staff Costs

	2020	2019	2020	2019
	Group	Group	Company	Company
	£000	£000	£000	£000
Wages and salaries	37,261	37,240	35,871	35,886
Social security costs	3,756	3,718	3,632	3,594
Other pension costs	4,632	5,059	4,476	4,900
	45,649	46,017	43,979	44,380
Severance costs	2,154	1,087	2,154	1,087
	<u>47,803</u>	<u>47,104</u>	<u>46,133</u>	<u>45,467</u>

The severance costs are in respect of redundancy payments to employees whose employment has ceased or is likely to cease which has been calculated in accordance with the SRUC redundancy policy which has been agreed with the trade unions and approved by the Board.

Notes to the Financial Statements

9. Staff Costs (cont'd)

The average monthly number of persons (including Executive Directors) employed by SRUC during the period, expressed as full-time equivalent was:

	2020 Number	2019 Number
Academic teaching departments	206	207
Academic support	68	65
Research grants and contracts	240	246
Administration and central services	107	114
Premises and estates	45	50
Residencies, catering and conferences	12	15
Other including income generating operations	376	410
	<u>1,054</u>	<u>1,107</u>
Analysis of the above staff costs by activity:	£000	£000
Academic teaching departments	9,586	9,760
Academic support	2,741	2,704
Research grants and contracts	10,159	10,493
Administration and central services	5,655	5,751
Premises and estates	1,435	1,590
Residencies, catering and conferences	499	548
Other including income generating operations	15,575	15,171
	<u>45,649</u>	<u>46,017</u>
Severance costs	2,154	1,087
	<u>47,803</u>	<u>47,104</u>

The number of staff, including Executive Directors and Principal and Chief Executive, who received remuneration in the following ranges excluding employers' pension contributions was:

	Group 2020		Group 2019	
	Number Directors	Number Other Staff	Number Directors	Number Other Staff
£100,001 to £105,000	-	1	-	1
£105,001 to £110,000	-	-	-	2
£110,001 to £115,000	-	1	-	-
£115,001 to £120,000	-	1	-	3
£125,001 to £130,000	-	1	-	-
£135,001 to £140,000	-	1	-	-
£145,001 to £150,000	-	-	-	1
£150,001 to £155,000	-	-	-	1
£155,001 to £160,000	-	1	-	-
£195,001 to £200,000	-	-	1	-
£215,001 to £220,000	1	-	-	1
	<u>1</u>	<u>6</u>	<u>1</u>	<u>9</u>

Included in the numbers of other staff are two staff members (2019: five) who received severance payments.

Notes to the Financial Statements

9. Staff Costs (cont'd)

Key management personnel

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the college. The costs below represent the costs of the members of the Executive Leadership Team (ELT) for the period. Staff costs include compensation paid to key management personnel. The ELT membership is listed on page 9.

	2020	2019
	£000	£000
Key management personnel compensation	878	904
Number of staff	<u>7</u>	<u>7</u>

10. Directors' Remuneration

	2020	2019
The number of Executive Directors during the year including the Principal and Chief Executive	<u>1</u>	<u>1</u>

	2020	2019
	£000	£000
Salaries	212	204
Fees (Non-Executive Directors)	150	124
Pension contributions	41	34
	<u>403</u>	<u>362</u>

The emoluments of the Principal and Chief Executive (also the highest paid director)

	2020	2019
	£000	£000
Salary	200	197
Taxable benefits	12	7
Pension	41	34
	<u>253</u>	<u>238</u>

The remuneration of the Principal in the year ended 31 March 2020 was £253k. This was 7 times (2019 - 6.6 times) the median of the total remuneration of the workforce and 6.5 times (2019 - 6.4 times) the median salary of the workforce.

A proportion of the Non-Executive Directors fees are recharged to a subsidiary undertaking.

Notes to the Financial Statements

11. Analysis of total operating expenditure by activity

	2020	2019	2020	2019
	Group	Group	Company	Company
	£000	£000	£000	£000
Academic departments	17,699	15,299	15,829	15,269
Research grants and contracts	14,730	15,318	11,847	11,807
Administration and central services	9,598	9,938	9,528	9,845
Premises and estates	7,898	7,017	7,244	6,387
Residencies, catering and conferences	3,961	3,740	3,773	3,498
Other including income generating operations	25,765	24,946	6,505	5,949
Depreciation and impairment	5,876	7,850	5,756	7,683
Release of negative goodwill	(1,357)	(1,343)	(1,357)	(1,343)
Interest	764	681	764	681
	<u>84,934</u>	<u>83,446</u>	<u>59,889</u>	<u>59,776</u>

Other operating expenditure includes:

	Group and company	
	2020	2019
	£000	£000
Operating lease rentals	223	869
Fees charged by external auditor:		
SRUC and subsidiary companies		66
Audit fee for the company	72	
Audit fee for fellow group entities	27	
Audit-related assurance services	6	11
Fees charged by internal auditor:		
Internal audit services	45	33
Tax compliance services	8	12
Tax advisory services	7	8
Other compliance work	-	9
	<u> </u>	<u> </u>

12. Interest and other finance costs

	Group and company	
	2020	2019
	£000	£000
Loan interest	11	-
Finance lease interest	1	7
Net interest charge – pension schemes	752	674
	<u>764</u>	<u>681</u>

Notes to the Financial Statements

13. Intangible Fixed Assets

	Group and company	
	2020 £000	2019 £000
At 1 April 2019	924	1,102
Additions in year	309	8
Amortisation charge for the year	(235)	(186)
At 31 March 2020	<u>998</u>	<u>924</u>

Included in intangible fixed assets is software under development of £94k (2019: £758k).

14. Negative Goodwill

	Group and company	
	2020 £000	2019 £000
At 1 April 2019	(33,050)	(34,393)
Release of negative goodwill to income statement	1,357	1,343
At 31 March 2020	<u>(31,693)</u>	<u>(33,050)</u>

15. Tangible Fixed Assets

	Group and company					
	Freehold land and buildings £000	Leased buildings £000	Buildings under construction £000	Equipment £000	Vehicles £000	Total £000
Cost or fair value:						
1 April 2019	105,049	5,037	4,461	24,603	1,804	140,954
Additions	278	-	1,082	1,261	-	2,621
Disposals	(5,364)	-	-	(148)	-	(5,512)
Transfer to freehold land and buildings	5,543	-	(5,543)	-	-	-
31 March 2020	<u>105,506</u>	<u>5,037</u>	<u>-</u>	<u>25,716</u>	<u>1,804</u>	<u>138,063</u>
Depreciation:						
1 April 2019	35,993	1,088	-	16,361	1,561	55,003
Charge for year	2,903	136	-	2,055	92	5,186
Disposals	(5,361)	-	-	(143)	-	(5,504)
Impairment	455	-	-	-	-	455
31 March 2020	<u>33,990</u>	<u>1,224</u>	<u>-</u>	<u>18,273</u>	<u>1,653</u>	<u>55,140</u>
Net Book Value:						
31 March 2020	<u>71,516</u>	<u>3,813</u>	<u>-</u>	<u>7,443</u>	<u>151</u>	<u>82,923</u>
1 April 2019	<u>69,056</u>	<u>3,949</u>	<u>4,461</u>	<u>8,242</u>	<u>243</u>	<u>85,951</u>

Notes to the Financial Statements

15. Tangible Fixed Assets (cont'd)

A detailed review of buildings was performed during the year which identified certain assets as at the end of their useful life. The assets were impaired and the charge to the income and expenditure account was matched by a release of deferred capital grant where applicable.

Included in freehold land and buildings is land of £13.7m which is not depreciated.

Included in equipment are assets under construction amounting to £94k (2019: £514k) which are not depreciated.

16. Investments

	Group	Company	Group and company
	2020	2020	2019
	£000	£000	£000
Listed investments			
At 1 April 2019	200	200	195
Movement on valuation	(58)	(58)	5
At 31 March 2020	142	142	200
Investments in associates			
At 1 April 2019		-	-
Additions	14	-	-
At 31 March 2020	14	-	-
Endowment investments			
At 1 April 2019	5,234	5,234	5,018
Donations	2	2	30
Income	185	185	172
Disbursements	(89)	(89)	(51)
(Depreciation)/Appreciation of asset investments	(948)	(948)	65
At 31 March 2020	4,384	4,384	5,234
Total investments	4,540	4,526	5,434

17. Stocks

	Group and company	
	2020	2019
	£000	£000
Farm stocks	2,647	2,703
Goods for resale	27	39
	2,674	2,742

Notes to the Financial Statements

18. Debtors

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Trade receivables	5,017	4,456	1,169	1,378
Prepayments and other debtors	3,377	3,767	2,709	3,085
Amounts recoverable on contracts	5,999	5,298	2,609	2,109
Amounts due from fellow Group Companies	-	-	4,075	3,024
	<u>14,393</u>	<u>13,521</u>	<u>10,562</u>	<u>9,596</u>

19. Creditors: amounts falling due within one year

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Trade creditors	3,246	2,561	2,295	1,749
Other taxation and social security	1,670	1,990	1,670	1,990
Other creditors	948	2,754	822	2,742
Accruals	5,980	5,334	5,619	4,838
Payment received in advance	6,221	6,766	3,512	3,935
Loans (note 21)	617	527	617	527
Finance leases (note 32)	-	90	-	90
Deferred capital grant (note 22)	2,502	2,122	2,502	2,122
	<u>21,184</u>	<u>22,144</u>	<u>17,037</u>	<u>17,993</u>

20. Creditors: amounts falling due after more than one year

	Group and company	
	2020 £000	2019 £000
Deferred capital grants (note 22)	31,428	30,220
Loans (note 21)	5,998	4,680
	<u>37,426</u>	<u>34,900</u>

Notes to the Financial Statements

21. Loans

	Group and company	
	2020 £000	2019 £000
Due within one year	617	527
Due between one and two years	617	520
Due between two and five years	1,850	1,560
Due in five years and more	3,531	2,600
Due after more than one year (note 20)	5,998	4,680
Total loans	6,615	5,207

The loans not wholly repayable within five years are loans from The Scottish Funding Council under the University Financial Transactions Funding arrangements. They are unsecured and carry an interest rate of 0.25% per annum. £4,680k is repayable over ten years commencing 31 March 2020, £1,935k is repayable over 20 years commencing 1 April 2020.

22. Deferred Capital Grants

	Group and company			
	£000	£000	£000	£000
	1 April 2019	Receivable	Released to SOCI	31 March 2020
Buildings	24,279	3,824	(1,293)	26,810
Equipment	8,063	436	(1,379)	7,120
	<u>32,342</u>	<u>4,260</u>	<u>(2,672)</u>	<u>33,930</u>
Disclosed as:				2019
				£000
Creditors due within one year				2,502
Creditors due in more than one year				31,428
				<u>33,930</u>
Deferred capital grants receivable in the year are as follows:				Total
				£000
Scottish Government				3,840
Scottish Funding Council				420
				<u>4,260</u>

Notes to the Financial Statements

23. Provision for Liabilities

	Group and company	
	2020	2019
	£000	£000
Unfunded pension liability		
At 1 April 2019	1,145	1,160
Paid in the year	(64)	(68)
Transfer to the income and statement	(134)	53
At 31 March 2020	<u>947</u>	<u>1,145</u>

SRUC has an obligation in respect of former employees who have retired early or for whom an enhanced pension has been provided. A valuation of the unfunded liability was carried out at 31 March 2019 by Hymans Robertson LLP, an independent actuarial firm.

24. Financial Instruments

The carrying values of the Group and company's financial assets and liabilities are summarised by category below:

	Note	Group		Company	
		2020	2019	2020	2019
		£000	£000	£000	£000
Financial assets					
Measured at fair value through income and expenditure					
Investments	16	4,540	5,434	4,526	5,434
Measured at undiscounted amount receivable					
Trade receivables	18	5,017	4,456	1,169	1,378
		<u>9,557</u>	<u>9,890</u>	<u>5,695</u>	<u>6,812</u>
Financial liabilities					
Measured at amortised cost					
Loans payable	21	6,615	5,207	6,615	5,207
Measured at undiscounted amount					
Trade and other taxation and social security creditors	19	4,916	4,551	3,965	3,739
		<u>11,531</u>	<u>9,758</u>	<u>10,580</u>	<u>8,946</u>

The Group and Company's income, expense, gains and losses in respect of financial instruments are as follows:

	Note	2020		2019	
		£000	£000	£000	£000
Fair value (losses)/gains on financial assets measured at fair value through income and expenditure	16	(1,006)	70	(1,006)	70

Notes to the Financial Statements

25. Reconciliation of Group Operating Surplus to Net Cash Inflow/ (outflow) from Operating Activities

	2020	2019
	£000	£000
Operating deficit	(3,774)	(511)
Gain/ (loss) on disposal of fixed assets	(465)	267
Unrealised movements on investments	1,006	(70)
Pension costs less contributions payable	144	294
Depreciation (note 13, 15)	5,421	5,422
Impairment (note 15)	455	2,428
Goodwill release (note 14)	(1,357)	(1,343)
Deferred capital grants released to income (note 22)	(2,672)	(4,482)
Proceeds on disposal transferred to deferred grant	(3,443)	(194)
Interest received	(162)	(108)
Endowment income	(98)	(151)
Interest paid (note 12)	764	681
	<u>(4,181)</u>	<u>2,233</u>
Decrease/(increase) in stock	68	(94)
(Increase)/decrease in debtors	(975)	3,038
(Decrease)/increase in creditors	(1,433)	371
Net cash (outflow)/inflow from operating activities	<u>(6,521)</u>	<u>5,548</u>

26. Returns on Investments and Servicing of Finance

	2020	2019
	£000	£000
Bank Interest received	162	108
Interest paid on loans and finance charges (note 12)	(12)	(7)
Net cash inflow from return on investments and servicing of finance	<u>150</u>	<u>101</u>

27. Capital Expenditure and Financial Investment

	2020	2019
	£000	£000
Purchased of investments	(14)	-
Purchase of tangible fixed assets	(2,621)	(6,108)
Purchase of intangible fixed asset	(309)	(8)
Proceeds of sale of tangible fixed assets	4,197	204
Deferred capital grants received less repaid (note 22)	4,260	1,358
Net cash inflow/(outflow) from investing activities	<u>5,513</u>	<u>(4,554)</u>

Notes to the Financial Statements

28. Financing

	2020 £000	2019 £000
Repayment of bank loans	(526)	(9)
New loans	1,935	5,200
Capital element of finance leases repaid	(90)	(101)
Net cash inflow from financing activities	<u>1,319</u>	<u>5,090</u>

29. Management of Liquid Resources

	2020 £000	2019 £000
Transfer (to)/from bank investments	(5,751)	3,400
Net cash (outflow)/inflow from the management of liquid resources	<u>(5,751)</u>	<u>3,400</u>

30. Analysis of Changes in Net Funds

	At 1 April 2019 £000	Net Change £000	At 31 March 2020 £000
Cash in hand and at bank	17,698	(5,290)	12,408
Debt	(5,222)	(1,393)	(6,615)
Finance leases	(90)	90	-
Net cash	<u>12,386</u>	<u>(6,593)</u>	<u>5,793</u>

Notes to the Financial Statements

31. Endowment Reserves

Restricted net assets relating to endowments are as follows:

	Restricted Permanent £000	Restricted Expendable £000	Group and company Unrestricted £000	Total £000
At 1 April 2019				
Capital	4,509	255	470	5,234
New endowments	2	-	-	2
Investment income	159	9	17	185
Expenditure	(68)	(8)	(13)	(89)
Decrease in market value	(821)	(44)	(83)	(948)
Total comprehensive income for the year	(728)	(43)	(79)	(850)
At 31 March 2020	<u>3,781</u>	<u>212</u>	<u>391</u>	<u>4,384</u>
Analysis by asset:			2020	2019
			£000	£000
Investments			4,185	4,965
Cash and cash equivalents			199	269
			<u>4,384</u>	<u>5,234</u>

32. Obligations Under Leases and Hire Purchase Contracts

Amounts due under finance leases and hire purchase contracts:

	Group and company	
	2020	2019
	£000	£000
Amounts payable:		
Within one year	-	90
Between two and five years	-	-
	<u>-</u>	<u>-</u>

As at 31 March 2020, the annual commitment under non-cancellable operating leases was as follows:

	Land and Buildings		Equipment	
	2020	2019	2020	2019
	£000	£000	£000	£000
Operating lease which expire				
Within one year	216	165	-	-
In two to five years	53	187	267	234
In over five years	<u>378</u>	<u>124</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements

33. Pensions

As an employer, SRUC has a number of differing pension arrangements for staff and the various schemes are listed below:

- i) The Research Councils' Pension Scheme
- ii) The SRUC Group Pension Plan
- iii) The Citrus Pension Plan
- iv) The local Government Pension Funds: Dumfries and Galloway Council Pension Fund, Fife Council Pension Fund and Lothian Council Pension Fund
- v) Scottish Teachers Superannuation Scheme (STSS)

A summary of FRS102 pension liabilities is included at the end of section iv) of this note. The total recognised in the Statement of Comprehensive Income in relation to defined contribution pension schemes was £2,758k (2019: £2,738k).

i) The Research Councils' Pension Scheme ("RCPS")

The RCPS is a defined benefit scheme which is analogous scheme to the Principal Civil Service Pension Scheme (PCSPS) in which payments from the schemes are funded by current employee's and employers' pension scheme contributions with the difference between these contributions and the scheme expenditure financed by Grant-in-Aid provided from the Department for Business, Innovation and Skills. The RCPS is a multi-employer scheme and it is not possible to identify each participating institution's share of the underlying liabilities of the scheme hence contributions to the scheme are accounted for as if it were a defined contribution scheme. Employees provide 1.5% of their salary as widows or widowers benefit. Funding for the scheme comes primarily from Scottish Government with a monthly contribution from SRUC. From 1 October 1998 this scheme was closed to new employees of SRUC. The agreed contribution rates are 26% for employers and 3.0% to 8.05% for employees.

ii) The SRUC Group Pension Plan

The Group Pension Plan is a defined contribution scheme. The assets are held separately from those of the Company in an independently administered fund through Standard Life. The contributions are set at 5% for employees and 10% for SRUC. The scheme was closed to new employees of SRUC from 1 January 2001 to 31 December 2004 and reopened to new employees from 1 January 2005.

iii) The Citrus Pension Plan

The Citrus scheme is a defined benefit scheme and was offered to new entrants from 1 June 2001 until the scheme's closure to new entrants on 31 December 2004. The scheme was reopened to new members on 1 October 2015. The assets of the scheme are held in a separately administered fund. The last formal triennial valuation was performed as at 31 March 2017 by a professionally qualified actuary. The contributions are set at 9% and 9.5% for employees and 25.1% and 24.6% for the employer. Additional payments of £430k per annum were made into the plan.

The valuation used for FRS 102 disclosures has been based on the most recent triennial actuarial valuation which took place on 31 March 2017 and updated by Hymans Robertson in order to assess the assets and liabilities of the scheme at 31 March 2018. SRUC has been advised by the trustees as to the financial effects of this which need to be duly considered. Scheme assets are stated at their market values at the respective balance sheet dates. The annual charge reflects the estimated impact of the Guaranteed Minimum Pension ruling (GMP).

Notes to the Financial Statements

33. Pensions (cont'd)

iii) The Citrus Pension Plan (cont'd)

Assumptions

The financial assumptions used to calculate the scheme liabilities under FRS 102 are:

Weighted average assumptions used to determine benefit obligations	2020	2019
Price inflation (RPI)	2.70	3.40%
Price inflation (CPI)	1.80	2.40%
Rate of pension increase (RPI capped at 5%)	2.65	3.30%
Rate of pension increase (RPI capped at 2.5%)	2.00	2.25%
Rate of pension increase (CPI capped at 2.5%)	1.55	1.85%
Rate of salary increase	2.70	4.40%
Discount rate	2.30	2.45%

The most significant non-financial assumption is the assumed level of longevity. The table below shows the life expectancy assumptions used in the accounting assessments.

	2020	2019
Member Age 60 future life expectancy - male	23.4	23.3
Member Age 60 future life expectancy - female	24.6	24.5
Member Age 45 future life expectancy at age 60-male	24.6	24.4
Member Age 45 future life expectancy at age 60 - female	26.7	26.6

The assets and liabilities of the scheme at 31 March 2020 are:

	Fair value at 2020	Fair value at 2019
Assets		
Scheme assets at fair value	£000	£000
Equities	5,195	2,026
Multi asset credit funds	10,750	8,629
Diversified growth and hedge funds	7,011	9,698
Liability-driven investments	8,214	5,946
Cash	115	5,648
Insurance linked securities	3,333	-
Total	34,618	31,947
Present value of scheme liabilities	(53,814)	(56,375)
Deficit in the scheme- net pension liability	(19,196)	(24,428)

Notes to the Financial Statements

33. Pensions (cont'd)

iii) The Citrus Pension Plan (cont'd)

The Citrus deficit is sensitive to the actuarial assumptions used. The assumptions are set following advice received from a qualified actuary. The following table highlights the sensitivities regarding the principal assumptions used to measure the scheme liabilities.

	Approximate increase in scheme liabilities %	£000
0.5% decrease in real discount rate		61,079
1 year increase in member life expectancy		55,967
+0.5% change in salary increases		54,937
+0.5% change in inflation		58,762
	2020	2019
	£000	£000
Analysis of the amount charged to operating surplus		
Current service cost	1,743	1,705
Past service cost	-	170
Administration costs	85	154
	<u>1,828</u>	<u>2,029</u>
Analysis of the amount charge to other finance income		
Interest income on Plan assets	798	792
Interest charge on Plan liabilities	(1,373)	(1,311)
Net charge to other finance income	<u>(575)</u>	<u>(519)</u>
Analysis of amount recognised in Other Comprehensive Income (OCI)		
Actual return on assets excluding amounts included in net interest	643	416
Actuarial gains/(losses) on plan obligations	5,108	(3,850)
Re-measurement gain/(loss) recognised in OCI	<u>5,751</u>	<u>(3,434)</u>
Analysis of movement in the deficit		
Deficit at 1 April 2019	(24,428)	(20,407)
Contributions paid by the College	1,884	1,961
Current service cost	(1,828)	(1,859)
Past service cost	-	(170)
Other finance charge	(575)	(519)
Gain/(loss) recognised in comprehensive income	5,751	(3,434)
Deficit at 31 March 2020	<u>(19,196)</u>	<u>(24,428)</u>

Notes to the Financial Statements

33. Pensions (cont'd)

iii) The Citrus Pension Plan (cont'd)

	2020	2019
	£000	£000
Change in benefit obligation		
Opening defined benefit obligation	56,375	49,613
Current service cost	1,743	1,705
Past service cost	-	170
Administration cost	85	154
Interest cost	1,373	1,311
Scheme participants' contributions	21	18
Actuarial (gains)/losses	(5,108)	3,850
Benefits paid	(675)	(446)
Benefit obligation as at 31 March	<u>53,814</u>	<u>56,375</u>
Change in scheme assets		
Opening fair value of scheme assets	31,947	29,206
Interest income	798	792
Member contributions	21	18
Employer contributions	1,884	1,961
Actual return on assets	643	416
Benefits paid	(675)	(446)
Fair value of scheme assets as at 31 March	<u>34,618</u>	<u>31,947</u>
Net amount recognised	<u>(19,196)</u>	<u>(24,428)</u>

iv) The Local Government Pension Schemes

The valuation used for FRS 102 disclosures has been based on the most recent triennial actuarial valuation which took place on 31 March 2017 and updated by Hymans Robertson in order to assess the assets and liabilities of the scheme at 31 March 2020. SRUC has been advised by the trustees as to the financial effects of this which need to be duly considered. Scheme assets are stated at their market values at the respective balance sheet dates. The annual charge reflects the estimate impact of the Guaranteed Minimum Pension ruling (GMP) and the McCloud judgement.

The following disclosures are required under FRS 102 for the local government pension schemes. Retirement benefits are recognised when they are earned and not when they are due to be paid. Employee contributions are applied in tiers depending on the rate of pensionable pay and start from 5.5% to a maximum of 12%.

Notes to the Financial Statements

33. Pensions (cont'd)

iv) The Local Government Pension Schemes (cont'd)

Fife Council Pension Fund ("FCPF")

The FCPF is a funded defined benefit pension scheme where contributions are held in a trust separately from SRUC and was closed to new members on 1 October 2012. A formal valuation of the scheme was carried out as at 31 March 2017. The employers contribution rate is 20.2%

Dumfries and Galloway Council Pension Fund (DGCPF)

The DGCPF is a funded defined benefit pension scheme where contributions are held in a trust separately from SRUC and was closed to new entrants on 1 October 2012. A valuation was carried out as at 31 March 2017. The employers contribution rate is 27.9%.

Lothian Pension Fund (LPF)

The LPF is a funded defined benefit pension scheme where contributions are held in a trust separately from SRUC and was closed to new members on 1 October 2012. A formal valuation of the scheme was carried out as at 31 March 2017. The employers' contribution rate is 42.9%. Additional payment of £109,200 was made into the plan.

Assumptions

The financial assumptions used to calculate the scheme liabilities for all three schemes under FRS 102 are:

Weighted average assumptions used to determine benefit obligations	2020	2019
Price inflation (RPI)	2.7%	3.4%
Price inflation (CPI)	1.8%	2.4%
Rate of pension increase (CPI)	1.9%	2.5%
Discount rate	2.3%	2.4%
Rate of salary increase	2.3%	3.0%

The most significant non-financial assumption is the assumed level of longevity. The table below shows the life expectancy assumptions used in the accounting assessments.

	2020	2019
Male Member Age 65 (life expectancy at age 65)	21.2 – 21.8 years	21.2 – 21.8 years
Male Member Age 45 (life expectancy at age 65)	22.6 – 24.7 years	22.6 – 24.7 years
Female Member Age 65 (life expectancy at age 65)	23.8 – 24.3 years	23.8 – 24.3 years
Female Member Age 45 (life expectancy at age 65)	25.8 – 27.5 years	25.8 – 27.5 years

The assets and liabilities of the three schemes at 31 March 2020 are:

	2020	2019
Assets	£000	£000
Scheme assets at fair value		
Equities	16,974	18,908
Corporate Bonds	8,770	7,681
Property	1,697	2,068
Cash	849	886
Total	28,290	29,543
Present value of scheme liabilities	(33,059)	(35,749)
Deficit in the scheme- net pension liability	(4,769)	(6,206)

Notes to the Financial Statements

33. Pensions (cont'd)

iv) The Local Government Pension Schemes (cont'd)

The LGPS deficits are sensitive to the actuarial assumptions used. The assumptions are set following advice received from a qualified actuary. The following table highlights the sensitivities regarding the principal assumptions used to measure the scheme liabilities.

	Approximate increase in scheme liabilities %	£000
0.5% decrease in real discount rate	10%	3,568
0.5% increase in the salary increase rate	1%	449
0.5% increase in the pension increase rate	9%	3,081
	2020	2019
	£000	£000
Analysis of the amount charged to operating surplus		
Current service cost	833	725
Past service cost	33	138
Total charged to operating surplus	866	863
Analysis of the amount charge to other finance income		
Interest income on Plan assets	711	747
Interest charge on Plan liabilities	(888)	(902)
Net charge to other finance income	(177)	(155)
Analysis of amount recognised in Other Comprehensive Income (OCI)		
Actual return on assets excluding amounts included in net interest	(2,069)	1,075
Actuarial gains/(losses) on plan obligations	3,882	(2,363)
Re-measurement gain/(loss) recognised in OCI	1,813	(1,288)
	2020	2019
	£000	£000
Analysis of movement in the deficit		
Deficit at 1 April 2019	(6,206)	(4,537)
Contributions paid by the College	667	637
Current service cost	(833)	(725)
Past service cost	(33)	(138)
Other finance charge	(177)	(155)
(Loss)/gain recognised in comprehensive income	1,813	(1,288)
Deficit at 31 March 2020	(4,769)	(6,206)
Change in benefit obligation		
Opening defined benefit obligation	35,749	32,226
Current service cost	833	725
Past service cost	33	138
Interest cost	888	902
Scheme participants' contributions	113	118
Actuarial losses/(gains)	(3,882)	2,363
Benefits paid	(675)	(723)
Benefit obligation as at 31 March	33,059	35,749

Notes to the Financial Statements

33. Pensions (cont'd)

iv) The Local Government Pension Schemes (cont'd)

Change in scheme assets

Opening fair value of scheme assets	29,543	27,689
Interest income	711	747
Member contributions	113	118
Employer contributions	667	637
Actual return on assets	(2,069)	1,075
Benefits paid	(675)	(723)
Fair value of scheme assets as at 31 March	28,290	29,543

Summary of FRS 102 net Pension liabilities

	2020	2019
	£000	£000
Citrus Pension Plan	(19,196)	(24,428)
Local Government Pension Funds	(4,769)	(6,206)
Total net pension liability	(23,965)	(30,634)

v) Scottish Teachers Superannuation Scheme (STSS)

The STSS is an unfunded multi-employer defined benefit scheme and it is not possible to identify each institution's share of the liabilities therefore, contributions to the scheme are accounted for as if it were a defined contribution scheme. Benefits are funded through pension contributions deducted from members salaries and a contribution from their employees. Contribution rates and benefits are set by Scottish Ministers on advice from SPPA and the scheme's actuaries. The cost recognised within the results for the year is the contribution payable to the scheme for that year. The agreed contribution rates for future years are 17.2% for employers to 31 August 2019 and 23% from 1 September 2019 and range from 7.2% - 11.9% for employees.

34. Investments in subsidiaries

The group and company hold 100% of the nominal value of ordinary share capital (or exercises control over) the following entities:

Name of company	Nature of business
SAC Commercial Limited	Commercial consultancy, research and trading
Equestrian Facilities Scotland Limited	Dormant throughout the year
The SAC Foundation	Charitable Trust

The results of these entities are consolidated in the Group accounts

35. Investments in associates

The group holds a 45.6% holding in ID Mapps Ltd which is a collaborative project to fulfil a specific research grant.

Notes to the Financial Statements

36. Bursary and Other Student Support Funds

	Bursary £000	Hardship £000	EMA's £000	2020 Total £000	2019 Total £000
1 April 2019	(105)	83	5	(17)	(256)
Received during the year	2,169	327	85	2,581	2,861
Refunded to SFC	(55)	(11)	-	(66)	(154)
Virement of funds	-	(12)	-	(12)	(24)
Expenditure	(2,326)	(311)	(85)	(2,722)	(2,444)
31 March 2020	<u>(317)</u>	<u>76</u>	<u>5</u>	<u>(236)</u>	<u>(17)</u>

Bursary and other student support funds are available solely for students; SRUC acts only as paying agent. The grants and related disbursements are therefore excluded from the Statement of Comprehensive Income.

Childcare Funds

	2020 £000	2019 £000
1 April 2019	(4)	(17)
Received in year	80	54
Virement of funds	12	24
Expenditure	(95)	(65)
31 March 2020	<u>(7)</u>	<u>(4)</u>

37. Related party transactions

During the year the group and the company entered into related party transactions with wholly controlled undertakings in the ordinary course of business whose results are included in these group accounts, therefore the exemption under FRS102 on non-disclosure of those transactions has been applied.

During the year SAC Commercial Ltd, wholly owned subsidiary of SRUC, provided services of £36k (2019: £NIL) to ID Mapps, the associate company under a subcontract agreement.

No other material related party transactions have taken place.

38. Capital Commitments

Amounts contracted for but not provided in the financial statements amounted to £765k (2019 £1,933k).

39. Contingent asset

SRUC is involved in a land tribunal hearing with the expectation of receiving compensation. The case has not been concluded and the amount is not possible to reliably estimate.

Notes to the Financial Statements

40. Post Balance Sheet events

The World Health Organisation officially declared Covid-19 a global pandemic on March 11th, 2020. On the 23rd March 2020 the UK Government initiated a UK wide lockdown with immediate effect. As the balance sheet date of 31 March 2020 was subsequent to the start of the Covid-19 lockdown period, the emergence of Covid-19 is not a post balance sheet event, and the impact on the financial performance in the year and yearend balance sheet position has been accounted for in these financial statements. The potential impact from developments after the 31 March 2020 yearend have been considered accordingly for disclosure in the financial statements. From our assessment of these developments we have not identified any adjusting post balance sheet events.

There have been numerous developments in relation to the pandemic subsequent to 31 March 2020, including the return of students to the SRUC campus for teaching the 2020/21 academic year and ongoing revisions to relevant legislation and guidance which SRUC is following. SRUC continues to monitor and assess the financial impact of Covid-19 and the subsequent changes to its operating environment for 2020/21.

General information

Chairman	Mr James Cumming
Chief Executive and Principal	Professor Wayne Powell
Company Secretary	Colin Peebles
Registered Office	West Mains Road Edinburgh EH9 3JG
External Auditor	Ernst & Young LLP Atria One 144 Morrison Street Edinburgh EH3 8EX
Internal Auditor	KPMG LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Bankers	Clydesdale Bank PLC 83 George Street Edinburgh EH2 3ES
Solicitors	Morton Fraser Quartermile Two 2 Lister Square Edinburgh EH3 9GL
Actuaries	Mercer 15 Lauriston Place Edinburgh EH3 9EN
Stockbrokers	Rathbone Investment Management Ltd George House 50 George Square Glasgow G2 1EH