SRUC

ANNUAL FINANCIAL STATEMENTS

YEAR TO 31 MARCH 2013

Registered in Scotland
Registered Number: SC103046
Charity Number: SC003712
Registered Office: West Mains Road
EDINBURGH
EH9 3JG

Contents

OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review describes the main trends and factors underlying SRUC's performance during the year to 31 March 2013 ("2012/13"). It has been prepared in line with the guidance provided on the Operating and Financial Review issued by the UK Accounting Standards Board in January 2006.

The Company was formerly called The Scottish Agricultural College (SAC) and changed its name on 1 October 2012 to SRUC after merging with Barony College, Elmwood College and Oatridge College. The results reflect the operations of the former SAC for the full twelve months to 31 March 2013 and the other three Colleges from 1 October 2012 to 31 March 2013.

The format of the financial statements is in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education.

About SRUC

History

SAC was founded upon the establishment of three Colleges across Scotland. The West of Scotland Agricultural College was founded in 1899, the East of Scotland College of Agriculture in 1901 and finally the North of Scotland College of Agriculture in 1904. All three Colleges served the integrated functions of education, research and consultancy and secured strong working relationships with the Universities of Glasgow, Edinburgh and Aberdeen. The three Colleges merged as SAC in 1990. SAC had therefore now celebrated over 100 years of innovation.

On 1 October 2012, The Scottish Agricultural College merged with Barony College, Elmwood College and Oatridge College to form Scotland's Rural College – 'SRUC' by way of a Scottish Statutory Instrument.

Barony originally opened in1953 as a farm school and received college status in 1971 specialising in land-based and animal care education and training. Elmwood was established as an agricultural centre in 1956 and became a college in 1968 specialising in land-based and other traditional courses to meet the needs of the local community. Oatridge was founded in 1968 and became a college in 1973 specialising in land based courses with a strong national reputation for equine studies.

SRUC exists to deliver comprehensive skills, education and business support for Scotland's land-based industries, founded on world class and sector-leading research, education and consultancy. The integration of these three complementary 'knowledge exchange' services will be of significant value to all with an interest in land-based activities – be they learners, businesses, communities or policy-makers.

The four college partners have combined more than a century of experience in research, education and rural business consultancy to establish SRUC. We are unique in Scotland and the largest organisation of its kind in Europe.

Principal operations

SRUC is an innovative, knowledge-based organisation which supports the development of the land-based industries and communities through its specialist research and development resources, its education and learning provision and its expert advisory and consultancy services. Its work is wide ranging but there is particular emphasis on agriculture and related science, rural business development and management, food chain quality and safety and rural resource and environmental management.

The activities of SRUC are delivered through three operational Divisions: Research, Education, and Consulting and these Divisions are supported by a Finance and Corporate Affairs Division.

During the year to 31 March 2013 the main education and research activities operated from six campuses in Aberdeen, Ayr, Cupar, Dumfries, Edinburgh and Oatridge. Consultancy services are delivered through a network of 26 Farm Business Services Offices, 8 Veterinary Disease Surveillance Centres and the Central Diagnostic Laboratory. In addition, SRUC operated eight farms, four of which are used for research purposes.

Constitution, governance and regulation

SRUC is a private company limited by guarantee, registered in Scotland (103046) and with charitable status (SC003712). Its registered address is West Mains Road, Edinburgh EH9 3JG. 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"). A full statement of the Board's responsibilities is detailed on page 16 and 17, membership of the Board is detailed on page 7 and the Board's corporate governance arrangements are detailed on pages 12-15. 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.

Constitution, governance and regulation (continued)
SRUC's education activities are funded by the SFC. SRUC continues to receive a proportion of its funding for its research, veterinary and advisory activities directly from the Scottish Government.

SAC Commercial Ltd, was incorporated in 1994 (registered in Scotland, company no. SC148684) and operates a number of business activities under its trading name, 'SAC Consulting'. It forms part of the SRUC group of companies. It allows flexibility of operation and access to wider markets than would otherwise be available to SRUC. Commercial activities are carried out to enhance the transfer of research into practice. Commercial margins are all gifted to the SAC Foundation.

The SAC Foundation is a charitable trust established to support the functions of SRUC. In these financial statements the SRUC Group at 31 March 2013 is taken to include SRUC, SAC Commercial Ltd, the SAC Foundation and Equestrian Facilities Scotland Ltd. These Financial statements show the consolidated Group figures for the above companies and any quasi subsidiary or subsidiary companies in which SRUC had an interest.

Objectives and strategy
SRUC's mission is a commitment to excellence in the advancement, communication and translation of knowledge throughout the rural sector.

Our vision is ***'to be a leader of innovation and sustainable development in agriculture, land and the rural sector'***.

SRUC's Global aims are:

- To create SRUC academic resources which have local delivery, national impact and global influence.
- To be an international leader in land-based research and consultancy services.
- To be a sustainable, well-resourced organisation with exemplary credentials and real ownership amongst students, staff and stakeholders.
- To continue to build on our assets and reputation.

The aims are pursued whilst ensuring that SRUC remains in a financially sustainable position, allowing capacity for investment in the future.

With our values, we make a difference by being:

- **Professiona**l - display high levels of competency and skill
- **Impartial** – ability to look at different perspectives
- **Dynamic** – embracing and enthusiastic about new ideas
- **Client-Focussed** – understanding and anticipating customer's needs
- **Innovative** – introduce new ideas or methods of working

OPERATING AND FINANCIAL REVIEW (continued)

Performance during the year

Overview
2012/13 was a year of significant change for the organisation and the merger has involved a substantial amount of work for staff at all levels. SRUC's activities resulted in a reported operating deficit of £1,541k, prior to the release of negative goodwill of £2,837k and a gain on sale of fixed assets of £2,994k resulting in a retained surplus of £4,290k.

The income and expenditure account reflects the results of the former SAC for the twelve months to 31 March 2013 together with the results of Barony, Oatridge and Elmwood for the six months period to 31 March 2013, making a comparison with the prior year figures very difficult.

The results reflect a difficult trading period where, in common with many of our customers, our farms were affected by the adverse weather conditions resulting in significant increases in costs. In addition, there are a number of one off costs together with merger costs which have also had an impact on the result. Funding was made available for some merger costs from the Scottish Funding Council but in the year ended 31 March 2013 in excess of £530k of such costs were borne by SRUC. The gain on sale of fixed assets related to the sale of surplus land in Aberdeen.

A Voluntary Severance Scheme was available to staff and while a number have taken advantage of the scheme, the majority of the savings are expected to be realised in the following financial years.

For the year ended 31 March 2013 SAC Commercial Ltd made a retained profit, after payment of £1,226k of gift aid, of £630k (2012: £1,170k).

Following the merger SRUC has fixed assets in excess of £100m. The assets acquired as a result of the merger were included at fair value and a detailed note showing the value of assets and liabilities transferred is included at note 12 to the accounts. The transfer of the net assets of the colleges for no consideration has resulted in a benefit to SRUC of £45m. This is technically described as “negative goodwill” and has been shown on the balance sheet under fixed assets and, as explained in the accounting policies, this is released to the income and expenditure account as the assets are depreciated or realised.

Net current assets have also increased as a result of the merger, as have the funded and unfunded pension liabilities.

The net cash balance held by SRUC has significantly increased by £13m due to two main factors – the merger of the colleges resulted in a net cash inflow of £6.1m and sales of land in Ayr and Aberdeen significantly contributed to the capital cash inflow of £4.9m. The remaining factor has been the cash impact of operations.

The total pension liability increased by £4.6m. This is due to the additional three final salary schemes acquired as a result of the merger and an increase in net liabilities in all four schemes now operated by SRUC.

The value of SRUC's endowment asset investments has increased from £3.4m to £3.9m in line with improved performance of global stock markets. Performance of the fund managers continues to be monitored.

The underlying business remains sound and the results reflect a prudent provision which the Board considers appropriate to make in light of the on-going discussions with HM Customs and Revenue in relation to VAT matters. These matters may take some time to be resolved and a contingent liability note has also been included due to the nature of the uncertainty (note 33).

There are many challenges ahead for the merged institution with an enlarged estate in varying conditions spread over a wide geographic area which is required to be maintained to meet the needs of students and staff. Work will continue to focus on merger synergies and savings which can be made to ensure financial sustainability.

OPERATING AND FINANCIAL REVIEW (continued)

Divisional activities during the year

Consultancy
This was a challenging year for the Division. Significant weather related problems experienced by farmers and landowners throughout the UK reduced anticipated revenue income across the range of business activity.
Nevertheless the Division continued to drive efficiency gains and focused on the development of new products and services. A number of new initiatives were successfully launched, including a new energy service designed around negotiating competitive electricity prices for those operating in the rural business sector.

The Division has continued to facilitate, on behalf of our clients, access to Rural Development Programme funds and the scale of that contribution remains significant. Expansion of our carbon and renewable effort continues and the government supported Farming for a Better Climate environmental initiative has provided valuable data and information. A recently-won bid to provide the Agriculture and Horticulture Development Board with a Resource Use Efficiency Calculator is the culmination of a large amount of work over a number of years.

Developing partnerships has been part of the strategy for achieving business growth. To that end an agreement to supply soil analysis to a precision farming business has increased income to the Analytical Services Department within Vet Services. The Food and Drink Team bid for and successfully won the Scottish Government's Think Local initiative and marked an upsurge in interest in the development of regional food supply chains.

The merger of the four colleges has given the Division further opportunity to extend influence and activity and joint activities are underway.

Education
The main focus within the Education Division during 2012/13 has been the merger of the four colleges into SRUC. Considerable time and effort had been, and will continue to be for some time, dedicated to the merger process and the commitment to establish appropriate structures within the Education Division to meet the needs of SRUC's students, staff and stakeholders.

In terms of Education delivery, the priority has been for the service to continue without adverse effect on the quality of teaching and learning during the merger process and this has been achieved. The year saw revalidations for Agriculture and Rural Business Management, the introduction of a degree programme in Garden and Greenspace Design and MSc programmes in Countryside Management and Soils and Sustainability, the latter run in partnership with the University of Edinburgh. In addition to our existing partnerships a new arrangement with Aberdeen College has resulted in the sharing of facilities at our Craibstone campus.

In addition to achieving its academic targets, the Education Division was able to report an end of year financial result ahead of budget. Financial sustainability is a key aim for the Education Division and it will be necessary to manage costs (including additional merger related costs) very carefully over the medium term to achieve this.

Research
SRUC Research has enjoyed continuing success in 2012/13 in publication and knowledge exchange, winning grants, awards for staff and students, and several key new appointments.

The Research Division won its first three responsive-mode Biotechnology and Biological Sciences Research Council (BBSRC) grants and a Natural Environment Research Council award, since re-admission as an eligible institution for Research Council UK (RCUK) funding.

This year saw significant activity for SRUC's Carbon Management Centre (CMC), with particular success in winning new grant income and research funding, and progress in activities relating to Knowledge Transfer and Exchange. SRUC received the 2012 Green Gown Research and Development Award for the GreenCow facility, which supports our research on greenhouse gas emissions from livestock.

The Rural Policy Centre was active in producing policy briefings and organising conferences including one on CAP reform, and provided secretariat services for the Cross Party Group in the Scottish Parliament on Rural Policy. During 2012/13, the Division published the second 'Rural Scotland in Focus' report, which was well received.

OPERATING AND FINANCIAL REVIEW (continued)

Knowledge transfer and exchange (KTE)
Knowledge transfer and exchange activities are fundamental to achieving the SRUC mission to be *'committed to excellence in the advancement, communication and translation of knowledge throughout the rural sector'* and transcends all the operating Divisions of SRUC

The main delivery platforms of KTE activities included the Rural Policy Centre, Innovation programmes for new business growth, a new SRUC website, the Carbon Management Centre, and the Scottish Government RESAS supported research programme (2011-2016), including www.knowledgescotland.org . By virtue of our new and enlarged education portfolio (further and higher education), a sector-leading programme in agriculture and rural research together with an extensive consultancy service (via SAC Consulting), SRUC provides one of the most comprehensive KTE services for land-based industries in Europe. Our integrated delivery of research, education and consultancy services provides a contemporary, independent one-stop-shop for our stakeholders, students and customers in the agriculture and rural sector.

DIRECTORS' REPORT

Directors

The current directors and those who held office during the year are:

	Date of Appointment	Date of Retirement	Status of Appointment
Mr D Biggar OBE (Vice Chairman from Oct 2007)	4 Oct 2006	5 Oct 2012	Non-Executive
Mr L Borwick	8 Oct 2010	Oct 2014	Non-Executive
Professor G Bulfield CBE	4 Oct 2007	Oct 2015	Non-Executive
Mr J Cowens	11 Jan 2010	n/a	Executive
Mr J Cumming CBE	1 Apr 2011	Oct 2015	Non-Executive
Mr J Gilliland OBE	4 Oct 2007	Oct 2014	Non-Executive
Mr D Green OBE	9 Oct 2008	5 Oct 2012	Non-Executive
Mr S Houston CBE	8 Oct 2010	5 Oct 2012	Non-Executive
Mr R Howat	5 Oct 2012	Oct 2014	Non-Executive
Lord J Lindsay (Chairman from Oct 2007)	5 Oct 2005	Oct 2015	Non-Executive
Mr P Machray OBE (Vice Chairman from Oct 2012)	4 Oct 2007	Oct 2015	Non-Executive
Mr A Marshall (Vice Chairman from Oct 2012)	5 Oct 2012	Oct 2015	Non-Executive
Mr W Marshall	5 Oct 2012	Oct 2014	Non-Executive
Mr J McLaren	7 Oct 2011	Oct 2013	Non-Executive
Mr R Mercer	5 Oct 2012	14 May 2013	Non-Executive
Professor G Simm	10 Dec 2009	n/a	Executive
Professor W Stevely CBE (Vice Chairman from Oct 2007)	5 Oct 2005	Oct 2013	Non-Executive
Ms J D Swadling	2 Oct 2001	n/a	Deputy Chief Executive
Mr I Taylor	5 Oct 2012	Oct 2015	Non-Executive
Professor R Webb	1 April 2012	n/a	Chief Executive
Mr T Young	5 Oct 2012	Oct 2015	Non-Executive

Non-Executive Directors are appointed for a term of four years. They are eligible for reappointment for one further term. It has been the custom and practice of the Board to review appointments on an annual basis during the second period of office, which does not necessarily run to the full term. The Chairman can serve a maximum of eight years, the time period for which begins on his appointment as chairman.

Communication with staff
SRUC is conscious of the need to keep employees informed of the progress and future plans of the organisation and of the mutual benefit that is engendered by good internal communications. A communications and engagement strategy has been in place since the merger. It includes a monthly Core Brief, which provides staff with a summary of the key issues faced by SRUC and any actions considered necessary by the Executive Management Team (EMT) and also provides details of successes enjoyed. Line managers are asked to supplement the Core Brief with information and news relevant to their immediate reports and staff. All staff are encouraged to participate, provide feedback and raise questions with EMT via their line managers.

During the first, formative year of SRUC staff have devised and run a series of internal Knowledge Transfer and Exchange (KTE) events. These activities have involved over 400 staff across the campuses and facilities.

DIRECTORS' REPORT (continued)

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's business and livelihood depend upon its customers. 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 we 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, we understand that many people are disabled by social, attitudinal and physical barriers and as such we 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. We acknowledge that disabled people are not all the same and that each person may have different needs. We understand that disabled people and organisations which represent them are best placed to describe their individual needs and specific requirements.

Equal opportunities 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, transexualism 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.

Environmental policy
In accordance with our Environmental Policy, SRUC maintains a commitment to:

- promote the protection of the environment;
- help mitigate against climate change;
- minimise any adverse impact of our activities, at all levels, directly and through our influence on others;
- integrate good environmental management policies and practices into every level of the organisation;
- be proactive in contributing to national climate change targets.

To achieve this, SRUC has established a structure for managing our environmental footprint – a key component of SRUC's strategy. In addition a Carbon Management Plan has been developed which sets a carbon reduction target in support of the Scottish Governments Climate Change aspirations.

DIRECTORS' REPORT (continued)

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. We recognise that legal requirements define the *minimum* level of achievement. A cornerstone of our approach is to plan for continuous improvement in health and safety management systems.

It is SRUC's policy to provide and maintain an Integrated Management System (endorsed as part of our certification from BSI) that includes a programme of continual improvement incorporating good Environmental, Health & Safety and Quality professional practices into all aspects of its services.

The objectives of our management system are to:

- supply services that provide our customers with a high level of customer satisfaction.
- ensure that management and employees are committed to the requirements of all the management standards in operation across SRUC.
- develop and promote the Agricultural and Research, Education and Consultancy based competences required by our staff to respond to customers requirements.
- generate a continually improving Integrated Management System to provide a tangible demonstration of business management excellence and performance.

All staff are encouraged to take ownership of the Integrated Management System and SRUC's trained internal auditors monitor the system ensuring its continued compliance with documented standards.

SAC Consulting and SRUC Research are certified to ISO 9001:2008. SRUC as an organisation is certified to OHSAS 18001:2007. Our Environment & Design Team and Elmwood campus are certified to ISO 14001:2004 and our Veterinary Services Group (part of the Consulting Division) holds ISO 17025:2005 accreditation for our SRUC Veterinary Services Group and SAC Commercial Ltd.

Future prospects

The merger on 1 October 2012 of The Scottish Agricultural College, Barony College, Elmwood College and Oatridge College to form SRUC (Scotland's Rural College) strengthens the operating model. SRUC exists to deliver comprehensive skills, education and business support for Scotland's land-based industries, founded on world class and sector-leading research, education and consultancy. The integration of these three complementary 'knowledge exchange' services will be of significant value to all with an interest in land-based activities – be they learners, businesses, communities or policy-makers.

On 1 August 2013, SRUC transferred the teaching provision of the non land based courses at Elmwood Campus to Fife College.

As SRUC we have a combined experience of more than a century in research, education and rural business consultancy. We are unique in Scotland and the largest organisation of its kind in Europe.

Despite the general economy, and the particular pressures on public expenditure, we remain optimistic with respect to SRUC's future prospects. We operate in areas of increasing public concern – food supply, the environment and climate change are all great challenges on a global scale. We believe we are well positioned to secure additional research, and to attract more students to these areas. Furthermore, we believe our unique corporate makeup, where a very strong consulting business feeds funding back into our academic base, is, we believe an effective model for Higher Education Institutions (HEIs).

As the new organisation settles down significant work is underway to establish the way forward for key human resources, pensions and estates matters, within budgetary constraints. In addition, the use of specific merger funding from the Scottish Funding Council to support the costs associated with the merger will be closely managed.

DIRECTORS' REPORT (continued)

Financial policies

Creditors policy
SRUC has agreed to follow the Better Payment Practice Code. As a business the 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 2013 there were 42 days (2012 – 42 days) of creditors outstanding. There are no matters to disclose in respect of the Late Payment of Commercial Debts (Interest) Act 1998.

Financial risk management policy
The Group's principal financial instruments comprise cash, cash equivalents and bank 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 both a fixed and floating rate basis on bank loans. Therefore, with regard to those loans where interest is charged on a floating basis, financial liabilities, interest charges and cash flows can be affected by movements in interest rates. No hedging activity is undertaken to mitigate the risk of increases to the base rate.

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. All capital expenditure is approved by the Executive Management Team, within limits agreed by the Board.

Foreign currency risk
The Group's principal transactions in foreign currency are Single Farm Payments and EU 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.

Third party indemnity insurance
The company has granted an indemnity to one or more of 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.

Directors' statement on going concern
In line with the Financial Reporting Council's guidance on going concern issued in November 2009, the directors have undertaken an exercise to review the appropriateness of the continued use of the going concern basis.

After making suitable enquiries, the directors have a reasonable expectation that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis of accounting in preparing the annual financial statements.

Auditors
External audit services were put to competitive tender in 2010 and Ernst & Young LLP were successful in securing the contract for three years to 31 January 2013 which has been subsequently extended to 31 January 2015. During 2008/09 internal audit services were tendered and KPMG were reappointed for three years with subsequent extensions to 31 March 2015.

DIRECTORS' REPORT (continued)

Directors' statement as to disclosure of information to auditors
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 auditors, 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 auditors are 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 auditors are aware of that information.

This report was approved by the Board on 11 October 2013 and signed on its behalf by:

....	....	....
Lord J Lindsay Chairman	Professor R Webb Principal and Chief Executive	Ms J D Swadling Deputy Chief Executive and Company Secretary

CORPORATE GOVERNANCE STATEMENT

Introduction

SRUC is committed to upholding best practice in all aspects of Corporate Governance relating to the Higher Education sector.

This summary describes the manner in which the Board has applied the principles of the UK Corporate Governance Code issued by the Financial Reporting Council in 2010. In addition, due regard has been taken of the Turnbull Committee Guidance on internal control as amended by the British Universities Finance Directors Group in its 2006 Guidance, the Guide for Members of Higher Education Governing Bodies in the UK, as issued by the Committee of University Chairmen in 2009 and the Annual Financial statements Direction as issued by the Scottish Further and Higher Education Funding Council ("Scottish Funding Council"). Its purpose is to help the reader of the reports and financial statements understand how the principles have been applied.

Statement of UK Corporate Governance Code 2010 compliance

In the opinion of the Board, SRUC complies with all the provisions of the UK Corporate Governance Code 2010 in so far as they apply to the higher education sector, and it has complied throughout the year ended 31 March 2013.

Board of directors

The Board comprises Non-Executive and Executive Directors. The roles of Chairman and Vice-Chairmen 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.

Board committees
In order to be able to devote sufficient time to strategic issues, the Board delegates certain tasks to its standing committees. All of these committees are formally constituted with terms of reference and comprise mainly non-Executive Directors, one of whom is the Chair, and are attended as appropriate by members of the Executive Management Team. The decisions of these committees are reported to the Board. During the year, all committees have reviewed their terms of reference.

Up to 31 March 2013, the Board met seven times and had several standing committees including:
- Appointments and Remuneration Committee
- Audit Committee
- Education Board
- Finance & General Purposes Committee

There were two standing sub committees:
- Health & Safety Policy Committee (reports to the Audit Committee)
- Trusts Sub-Committee (reports to the Finance & General Purposes Committee)

There were two working groups:
- Human Resources (HR) Transition Group (reports to A&R Committee and is required for up to 12 months post merger, then subject to review)
- Estates Sub-Group (reports to F&GP Committee and is required for up to 12 months post merger, then subject to review)

In addition to the above, the Board held three consultative committees, each chaired by a Non-Executive Director, including key individuals within the sector and partner organisations. The consultative committees were as follows:
- Competitive Agriculture;
- Environment & Rural Landscape;
- Rural Development.

These Consultative Committees helped guide the Group's strategy by obtaining external views on its current and future activities. The members of the Consultative Committees formed part of the SAC Council prior to the merger. The constitution of the new SRUC Council is currently under review and is intended to provide the Board with guidance in strategic planning in respect of SRUC's client community and related bodies and organisations.

CORPORATE GOVERNANCE STATEMENT (continued)

Appointments and Remuneration Committee

The Appointments & Remuneration Committee considers nominations for new Directors and determines the remuneration of Executive Directors. It also considers overall pay and employment terms for the Group and makes the recommendations to the Board for the Professorial and Honorary awards. The Appointments & Remuneration Committee meets a minimum of three times each year and is chaired by a Vice Chairman of the Board.

Audit Committee

The Audit 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 and meets a minimum of three times each year, with the external and internal auditors in attendance. Its sub committee, the Health & Safety Policy Committee, comments on strategic objectives for Health and Safety as proposed by the Executive Management Team and considers related compliance matters and legislative developments, with a view to providing resolution and guidance. It reports through the Audit Committee to the Board and meets a minimum of three times annually.

Education Board

The Education Board is a senior level committee which considers the overall strategic direction of education and teaching, and makes recommendations to the Board accordingly. It comprises Non-Executive and Executive Directors as well as nominated staff, student and experienced lay members. On behalf of the Board, it ensures that the delivery of all educational and training provision is of the highest standard and initiatives are continuously developed to meet emergent needs and opportunities. The following matters are reserved for the approval of the Education Board: new full time courses; termination of areas of curricular activity; and educational marketing strategy. It meets at least four times annually and is chaired by a Non-Executive Director.

Finance and General Purposes Committee

The Finance & General Purposes 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 estates policy. The Finance & General Purposes Committee is chaired by a Vice Chairman of the Board and meets a minimum of three times annually. Its sub committee, The Trusts Committee, is primarily concerned with the investment and disbursement of funds managed by the Group. It reports through the Finance & General Purposes Committee to the Board and meets annually.

CORPORATE GOVERNANCE STATEMENT (continued)

Directors' attendance

Details of the Directors' attendance record at Board meetings and relevant Board Committee meetings in 2012/13 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	Education Board	A&R Committee	Audit Committee	F&GP Committee	Health & Safety Policy Committee	Trust
Number of meetings in period	*7*	*2*	*5*	*5*	*7*	*3*	*1*
Mr D Biggar	4 (4)		3 (3)	4 (4)			
Mr L Borwick	6 (7)				6 (7)		
Professor G Bulfield	7 (7)			5 (5)		3 (3)	
Mr J Cowens	7 (7	2 (2)					
Mr J Cumming	7 (7)				7 (7)		
Mr J Gilliland	7 (7)						
Mr D Green	2 (4)			5 (5)			
Mr S Houston	4 (4)			3 (3)			
Mr R Howat	2 (3)	2 (2)					
Lord J Lindsay	7 (7)		5 (5)				
Mr A Marshall	3 (3)	2 (2)	3 (2)*		2 (2)		
Mr W Marshall	3 (3)				2 (2)		
Mr P Machray	7 (7)		4 (2)*		7 (7)		1 (1)
Mr R Mercer	3 (3)						
Mr J McLaren	5 (7)						
Professor G Simm	6 (7)	1 (2)					
Professor B Stevely	7 (7)	2 (2)	5 (5)				
Ms J D Swadling	7 (7)	1 (2)	5 (5) π	5 (5)π	7 (7)	3 (3)	1 (1)
Mr I Taylor	3 (3)						
Professor R Webb	7 (7)	2 (2)	5 (5) π	5 (5)π	7 (7)		1 (1)
Mr T Young	2 (3)			2 (2)		2 (2)	

( ) number of meetings during their period on the Board/Committee
* As an observer – AM (A&R x1 observer), PM (A&R x2 observer)
π As an observer

CORPORATE GOVERNANCE STATEMENT (continued)

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 Executive Management Team 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 Executive Management Team 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 Committee's role in internal control is integral to managing the externally sourced internal audit function. The internal auditors 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 Committee. Management is responsible for the implementation of agreed audit recommendations and the internal auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Audit 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 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 Executive Management Team and the Audit 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 2013 and up to the date of approval of the annual report and financial statements.

Janet D Swadling
....

Ms J D Swadling
Deputy Chief Executive and Company Secretary

11 October 2013

STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF SRUC

The Board is responsible for ensuring that the affairs of the College 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.

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.

The key elements of SRUC's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, Heads of Divisions and Group Managers;
- a comprehensive planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board;
- comprehensive Financial Procedures and Regulations, detailing financial controls and procedures, approved by the Audit Committee

STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF SRUC (continued)

- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board and which provides the Board through the Audit Committee with a report on internal audit activity within SRUC and on work completed during the year-end on the adequacy and effectiveness of SRUC's system of internal control. The Board also monitors the implementation of the Internal Audit recommendations.

Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, rather than absolute assurance against material misstatement or loss.

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES AND MEMBERS OF SRUC

We have audited the Group and Charitable Company financial statements of SRUC for the year ended 31 March 2013 which comprise the Group Income and Expenditure Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of the Responsibilities of the Board of SRUC, as set out on pages 16 and 17, the trustees (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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 responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, regulations and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Charitable Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and Charitable Company's affairs as at 31 March 2013 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006.

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES AND MEMBERS OF SRUC (continued)

Opinion on other matters prescribed by applicable regulations

In our opinion:

- as prescribed by the Companies Act 2006 the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- funds from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by SRUC have, in all material respects, been applied only for the purposes for which they were received; and
- income has, in all material respects, been applied in accordance with the Further and Higher Education (Scotland) Act 1992, SRUC's policies and, where appropriate, in accordance with the Financial Memorandum between SRUC and RESAS and the Financial Memorandum between SRUC and the Scottish Funding Council.

Matters on which we are required to report by exception

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

- the charitable parent company has not kept proper and adequate accounting records 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.

Ernst & Young LLP

James Bishop (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Edinburgh

15 October 2013

SRUC

GROUP INCOME AND EXPENDITURE ACCOUNT

	Notes	2013 £000	2012 £000
Income			
Scottish Government grants	1	16,105	15,192
Scottish Funding Council	2	13,795	7,100
Tuition fees and education contracts	3	4,382	3,151
Research grants and contracts	4	9,941	9,873
Advisory and consultancy contracts	5	13,961	14,108
Other operating income	6	9,023	5,107
Interest receivable		34	9
Total income		67,241	54,540
Expenditure			
Staff costs	7	36,301	29,808
Depreciation	11	3,630	2,467
Other operating expenditure	9	26,888	22,595
Exceptional costs- merger costs		1,121	131
- staff restructuring		566	82
Interest	10	276	222
Total expenditure		68,782	55,305
Deficit on continuing operations after depreciation of tangible fixed assets and before release of negative goodwill		(1,541)	(765)
Release of negative goodwill	12	2,837	-
Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets and release of negative goodwill		1,296	(765)
Gain on disposal of fixed assets		2,994	25
Surplus/(deficit) for the year retained within reserves		4,290	(740)

All operations are continuing

SRUC

BALANCE SHEETS
At 31 March 2013

		Group		Company	
		2013	2012	2013	2012
	Notes	£000	£000	£000	£000
Fixed assets					
Tangible assets	11	106,895	54,416	106,890	54,416
Negative goodwill	12	(44,661)	-	(44,661)	-
Investments	13	142	-	142	-
Endowment asset investments	14	3,920	3,413	3,920	3,413
Current assets					
Stocks	15	2,962	2,075	2,962	2,075
Debtors	16	12,231	11,366	7,175	7,052
Investments:bank deposits		3,000	-	3,000	-
Cash in hand		9,488	1,378	8,171	1,002
Total current assets		27,681	14,819	21,308	10,129
Creditors: amounts falling due within one year	17	(27,369)	(20,040)	(22,262)	(15,936)
Net current assets/(liabilities)		312	(5,221)	(954)	(5,807)
Total assets less current liabilities		66,608	52,608	65,337	52,022
Creditors: amounts falling due after one year	18	(156)	(2,637)	(156)	(2,637)
Provisions for liabilities	20	(1,272)	(179)	(1,272)	(179)
Total net assets excluding pension liability		65,180	49,792	63,909	49,206
Pension liability	32	(9,458)	(4,869)	(9,458)	(4,869)
Net assets including pension liability		55,722	44,923	54,451	44,337
Represented by:					
Deferred capital grants	21	44,487	37,617	44,487	37,617
Reserves					
Endowment	14	3,920	3,413	3,920	3,413
Revaluation reserve	22	24	-	24	-
General reserve excluding pension liability		16,749	8,762	15,478	8,176
Pension liability	32	(9,458)	(4,869)	(9,458)	(4,869)
General reserve including pension liability	23	7,291	3,893	6,020	3,307
Total funds		55,722	44,923	54,451	44,337

The financial statements were approved on 11 October 2013 and signed on behalf of the Board by:

Lord J Lindsay
Chairman

Professor R Webb
Principal and Chief Executive

SRUC

GROUP CASH FLOW STATEMENT
For the year ended 31 March 2013

	Notes	2013 £000	2012 £000
Net cash inflow from operating activities	24	3,272	200
Return on investments and servicing of finance	25	(242)	(44)
Capital expenditure and financial Investment	26	4,656	(2,531)
Cash inflow on merger	27	6,089	-
Financing	28	(2,665)	2,413
Management of liquid resources	29	(3,000)	-
Increase in cash in the year		8,110	38

Reconciliation of net cash flow to movement in net debt			
Increase in cash in the year	30	8,110	38
Decrease/(increase) in debt and leasing finance	30	2,140	(2,413)
Increase/(decrease) in net cash		10,250	(2,375)
Net cash at 1 April	30	(1,339)	1,036
Net cash as at 31 March	30	8,911	(1,339)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2013

		2013 £000	2012 £000
Surplus/(deficit) for the year		4,290	(740)
Net additions to endowments	14	3	9
Increase in endowments	14	504	71
Revaluation of investments	13	24	-
Actuarial loss in respect of pension scheme		(892)	(2,436)
Total recognised gains and losses since last annual report		3,929	(3,096)
Reserves at 1 April		7,306	10,402
Reserves as 31 March		11,235	7,306

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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 and applicable Accounting Standards.

An income and expenditure account on a company only basis is not presented for SRUC in line with the exemption available under Section 408 of the Companies Act 2006.

Basis of consolidation

The group financial statements include SRUC and its subsidiary and quasi-subsidiary undertakings. 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.

Changes in accounting policies

There have been no material changes in SRUC's accounting policies during the year. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Income recognition

Recurrent grants from The Scottish Government and the Scottish Funding Council (SFC) are recognised in the period in which they are receivable.

Income is recognised on both research and consulting contracts as consideration is earned. 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 revenue is reflected within creditors as 'Payments Received in Advance'. All income from short-term deposits is credited to the income & expenditure account in the period in which it is earned.

Non-recurrent grants from The Scottish Government, SFC or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

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 50 years.

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.

Where land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital account and are released to the income & expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs which are directly attributable to the construction of land and buildings are capitalised as part of the cost of those assets.

Land and buildings (continued)

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

Scottish Government maintains an interest in tangible fixed assets funded by capital grant 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 – 8 years
Equipment acquired for specific research or other projects	Project Life

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to income & expenditure account over the expected useful economic life of the related equipment.

Software

It is SRUC's policy to capitalise software 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

The College 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 the College 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 Total Recognised Gains and Losses.
Other listed investments are included at market value and increases in valuation are credited to a revaluation reserve.

Stocks

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Taxation

SRUC is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, SRUC is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the 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.

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

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, via its intermediate holding company, the SAC Foundation.

Cash flows and liquid resources

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 the College receives and disburses as paying agent on behalf of a funding body or other body, where the College 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 of the College.

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 contracted out of the State Earnings Related Scheme. Contributions to the scheme are made in accordance with an agreed funding model and charged to the income and expenditure account.

The Group Pension Plan is a defined contribution scheme. Contributions are charged in the income and expenditure account as they become payable in accordance with the rules of the scheme.

Pensions (continued)

The Citrus Scheme is a defined benefit plan. The assets of these plans are held in separate trustee administered funds. The defined benefit plan's assets are measured using market values. Pension plan liabilities are measured by an actuary using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension plans expected to arise from employee service in the period is charged to operating surplus. The expected return on the plan's assets and the increase during the period in the present value of the plan's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The DGCPF, FCPF and LPF are Local Government pension schemes providing benefits based on final pensionable pay. The assets of these plans are held in separate trustee administered funds. The defined benefit plan's assets are measured using market values. Pension plan liabilities are measured by an actuary using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension plans expected to arise from employee service in the period is charged to operating surplus. The expected return on the plan's assets and the increase during the period in the present value of the plan's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses

SRUC participates in the STSS pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of SRUC. SRUC is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the period. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method and prospective benefits method. Payments to pensioners are charged against the provision. Average interest rates of 5.5% and inflation of 3.5% are assumed over the long-term future. Premature retirement compensation is financed by College funds and is not separately funded. Provision is made in the College accounts as calculated annually by an actuary using FRS 17 principals and any increase required in subsequent periods charged to Income and Expenditure Account.

The pension plan surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Leasing agreements which transfer to SRUC substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under financial leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Intra Group transactions

Gains or losses on any intra group transactions are eliminated in full upon consolidation. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Transactions with other Group undertakings which are eliminated on consolidation have not been disclosed, in line with the FRS 8 exemption.

NOTES TO THE FINANCIAL STATEMENTS

1. Scottish Government grants

	Note	2013 £000	2012 £000
Recurrent grant			
Research and development		7,765	6,402
Advisory		6,833	7,272
		14,598	13,674
Release from deferred capital grants			
Buildings	21	643	703
Equipment	21	864	815
		16,105	15,192

The following represents amounts paid by Scottish Government in respect of their liabilities which SRUC administers on their behalf. These payments are not recognised in these financial statements.

	2013	2012
Recurrent superannuation	1,725	1,725

2. Scottish Funding Council

		2013 £000	2012 £000
Education		13,477	6,929
Release from deferred capital grants			
Buildings	21	225	89
Equipment	21	93	82
		13,795	7,100

3. Tuition fees and education contracts

	2013 £000	2012 £000
UK higher education contracts	2,459	2,238
European (EU) students	-	89
Non-EU students	80	63
UK further education students	11	7
	2,550	2,397
Education contracts	811	284
Short course fees	1,021	470
	4,382	3,151

NOTES TO THE FINANCIAL STATEMENTS

4. Research grants and contracts

	2013	*2012*
	£000	*£000*
European union	2,726	2,774
Other	7,215	7,099
	9,941	9,873

5. Advisory and consultancy contracts

	2013	*2012*
	£000	*£000*
Consultancies and subscriptions	10,576	10,800
Analytical services	2,508	2,406
Farm financial statements scheme	790	772
Publications	87	130
	13,961	14,108

6. Other operating income

	2013	*2012*
	£000	*£000*
Residences, catering and conferences	1,785	713
Sales of farm products	4,058	3,351
HE joint operations	127	112
Rents	1,070	680
Other income	1,983	251
	9,023	5,107

7. Staff costs

	2013	2012
	£000	£000
Wages and salaries	30,704	25,193
Social security costs	2,550	2,221
Other pension costs	3,047	2,394
	36,301	29,808

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

	2013	2012
	No.	No.
Academic departments	356	114
Research grants and contracts	282	272
Administration and central services	115	111
Premises and estates	20	19
Residencies, catering and conferences	17	5
Other including income generating operations	307	295
	1,097	816

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 2013		Group 2012
	Number Directors	Number Other Staff	Number Directors	Number Other Staff
£50,001 to £60,000	-	37	-	36
£60,001 to £70,000	-	10	-	8
£70,001 to £80,000	-	4	-	4
£80,001 to £90,000	-	2	-	-
£90,001 to £100,000	-	-	-	-
£100,001 to £110,000	-	1	1	1
£110,001 to £120,000	1	-	1	-
£120,001 to £130,000	1	-	-	-
£130,001 to £140,000	1	-	1	-
£140,001 to £150,000	-	-	-	-
£150,001 to £160,000	-	-	-	-
£160,001 to £170,000	-	-	-	-
£180,001 to £190,000	-	-	-	-
£190,001 to £200,000	1	-	1	-
	4	54	4	49

7. Staff costs (continued)

Analysis of the above staff costs by activity

	2013 £000	2012 £000
Academic departments	10,625	4,664
Research grants and contracts	9,728	8,880
Administration and central services	4,167	3,720
Premises and estates	930	1,067
Residencies, catering and conferences	357	57
Other including income generating operations	10,494	11,502
	36,301	29,890

8. Directors' remuneration

	2013 Number	2012 Number
The number of Executive Directors during the year including the Principal and Chief Executive	4	4

	2013 £000	2012 £000
Salaries	577	558
Fees (Non-Executive Directors)	144	120
Pension contributions	33	35
	754	713
Emoluments of Principal and Chief Executive	216	195

The emoluments of the Principal and Chief Executive are shown on the same basis as for other staff. The Principal and Chief Executive's emoluments are approved by the Appointments and Remuneration Committee, as are all the Directors.

The total pension contributions in respect of the Principal and Chief Executive include employer's contributions initially to the SRUC Group Pension plan and then to the Scottish Teachers Superannuation Scheme and are paid at the same rate as for employees.

9. Analysis of other operating expenditure by activity

	2013	2012
	£000	£000
Academic departments	4,226	1,338
Research grants and contracts	6,104	8,387
Administration and central services	2,884	3,347
Premises and estates	3,209	3,369
Residencies, catering and conferences	2,167	137
Other including income generating operations	8,298	6,017
	26,888	22,595

Other operating expenditure includes:		
Operating lease rentals	131	85
(Gain)/loss on exchange	(27)	37
Fees charged by external auditors:		
Audit of these financial statements	137	98
Taxation services*	145	32
Non- audit services**	208	66

*Taxation services include fees in relation to ongoing VAT issues.
**Non-audit services includes payments for the audit of research grant audits, hardship funds and work in relation to the merger. Some of these professional fees have attracted merger funding from SFC.

10. Interest payable

	2013	2012
	£000	£000
On loans repayable in less than five years	40	53
Net interest charge – pension schemes	236	169
	276	222

11. Tangible fixed assets

Group	*Freehold land and buildings £000*	*Leased buildings £000*	*Equipment £000*	*Vehicles £000*	*Total £000*
Cost or fair value:					
1 April 2012	58,496	5,037	29,477	1,567	94,577
Additions	55,228	-	2,051	237	57,516
Disposals	(1,950)	-	-	(80)	(2,030)
31 March 2013	111,774	5,037	31,528	1,724	150,063
Depreciation:					
1 April 2012	13,526	136	25,140	1,359	40,161
Charge for year	1,959	136	1,411	124	3,630
Disposals	(543)	-	-	(80)	(623)
31 March 2013	14,942	272	26,551	1,403	43,168
Net book value:					
31 March 2013	96,832	4,765	4,977	321	106,895
1 April 2012	44,970	4,901	4,337	208	54,416

Included in the above figures are Equipment assets held in a subsidiary undertaking. The total cost is £11,000 with a net book value of £5,000.

12. Negative goodwill

	Group and company 2013 £000
At 1 April 2012	-
Negative goodwill arising in year	(47,498)
Release of negative goodwill to income	2,837
At 31 March 2013	(44,661)

The negative goodwill arising during the year relates to the merger of Scottish Agricultural College, Barony College, Elmwood College and Oatridge College. Scottish Agricultural College was the host company for the merger and under relevant accounting standards acquisition accounting has been applied. The negative goodwill represents the fair value of the assets acquired for no consideration. The fair value table is shown below. The individual components are amortised over their estimated useful lives.

12. Negative goodwill (continued)

Fair Value Table

	Net book value	Note	*Fair value adjustment*	*Fair value on acquisition*
	£000		*£000*	*£000*
Fixed assets – land and buildings	31,160	(a)	23,420	54,580
Fixed assets - equipment	1,628	(b)	(234)	1,394
Intangible asset	11		-	11
Investments	179	(c)	(61)	118
Stocks	902		-	902
Debtors	1,511	(d)	(119)	1,392
Land held for resale	-	(e)	340	340
Cash	6,089		-	6,089
Current liabilities	(4,261)	(f)	(619)	(4,880)
Non current liabilities	(551)		-	(551)
Provisions- unfunded pensions	(986)	(g)	(49)	(1,035)
Pension liability	(3,427)		-	(3,427)
Deferred capital grants	(7,435)		-	(7,435)
Net assets	24,820		22,678	47,498

Notes
- (a) increase in land and buildings since previous valuations
- (b) decrease in net book value after aligning depreciation policies
- (c) write down of investment carrying value to fair value
- (d) write down of debtors following reassessment of bad debt provision
- (e) increase in value of land held or resale to fair value
- (f) provision for unrecorded liability
- (g) reassessment of the fair value of provisions

13. Investments

	Group and company	
	2013	*2012*
	£000	*£000*
At 1 April 2012	-	-
Acquired on merger	118	-
Appreciation of asset investments	24	-
At 31 March 2013	142	-

14. Endowment assets

	Group and company	
	2013	2012
	£000	£000
At 1 April 2012	3,413	3,333
Donations	3	9
Income	129	135
Disbursements	(68)	(151)
Appreciation of asset investments	443	87
At 31 March 2013	3,920	3,413

15. Stocks

	2013	2012
	£000	£000
Farm stocks	2,927	2,058
Goods for resale	35	17
	2,962	2,075

16. Debtors

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade debtors	5,980	5,397	2,123	1,090
Prepayments and other debtors	1,746	1,280	1,286	875
Amounts recoverable on contracts	4,505	4,689	2,650	2,248
SAC Commercial Ltd	-	-	1,116	2,839
	12,231	11,366	7,175	7,052

17. Creditors: amounts falling due within one year

		Group		Company	
	Note	2013 £000	2012 £000	2013 £000	2012 £000
Trade creditors		3,204	2,599	2,559	2,083
Other taxation and social security		3,090	1,789	3,090	1,789
Other creditors		3,078	2,497	2,930	2,358
Accruals		6,889	3,403	6,536	3,319
Payment received in advance		10,598	9,672	6,637	6,307
Loans	19	483	80	483	80
Finance leases		27	-	27	-
		27,369	20,040	22,262	15,936

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

	Note	2013 £000	2012 £000	2013 £000	2012 £000
Loans	19	94	137	94	137
Credit facility	19	-	2,500	-	2,500
VAT (Lennartz) creditor		62	-	62	-
		156	2,637	156	2,637

19. Borrowings – bank loans

	Notes	Group and company 2013 £000	2012 £000
Bank loans are repayable in instalments as follows:			
In one year or less	17	483	80
Between one and two years	18	94	137
		577	217
Details of loans are as follows:			
Clydesdale Bank credit facility		-	2,500
Lloyds TSB		134	217
The Royal Bank of Scotland plc		443	
		577	2,717

The credit facility from the Clydesdale Bank is secured by a floating charge over all the Group's assets and by a fixed security over certain of the Group's assets and is repayable in February 2014.

The loan from Lloyds TSB plc is repayable over 20 years at an interest rate of base rate plus 8.9%. A first ranking standard security has been granted in favour of Lloyds TSB plc over the land and buildings related to Sutton Halls, Aberdeen.

The loans from The Royal Bank of Scotland plc are loans acquired on merger with Oatridge College and are repayable within one year.

20. Provision for liabilities

Unfunded pension liability	Group and company 2013 £000	2012 £000
At 1 April 2012	179	196
Acquired on merger	1,035	-
Transfer from/(to) Income and expenditure account	58	(17)
At 31 March 2013	1,272	179

21. Deferred Capital Grants

Group and company	*£000*
At 1 April 2012	
Buildings	34,269
Equipment	3,348
	37,617
Received during year	
On merger:	
Buildings	7,176
Equipment	259
Grants received:	
Buildings	315
Equipment	945
	8,695
Released to income and expenditure account	
Buildings	(868)
Equipment	(957)
	(1,825)
At 31 March 2013	
Buildings	40,892
Equipment	3,595
	44,487

Deferred capital grants received in the year are as follows:

	Total
	£000
Scottish Government	760
Scottish Funding Council	500
	1,260

22. Revaluation reserve

	Group and Company
	£000
At 1 April 2012	-
Revaluation of fixed asset investments in the year	24
At 31 March 2013	24

23. General reserve

	Group £000	Company £000
At 1 April 2012	3,893	3,307
Surplus for the year	4,290	3,605
Actuarial loss recognised in the statement of recognised gains and losses	(892)	(892)
At 31 March 2013	7,291	6,020

24. Reconciliation of Group operating surplus to net cash inflow from operating activities

	Notes	2013 £000	2012 £000
Operating deficit		(1,541)	(765)
Pension costs less contributions payable		(168)	(198)
Depreciation	11	3,630	2,467
Deferred capital grants released to Income	21	(1,825)	(1,689)
Interest received		(34)	(9)
Interest paid	10	276	222
		338	28
Decrease in stock		15	(245)
Decrease in debtors		177	(4,426)
Decrease in creditors		2,742	4,843
Net cash inflow from operating activities		3,272	200

25. Returns on investments and servicing of finance

	Note	2013 £000	2012 £000
Bank Interest received		34	9
Interest paid on loans not wholly repayable within five years	10	(276)	(53)
Net cash outflow from return on investments and servicing of finance		(242)	(44)

26. Capital expenditure and financial investment

	Notes	Group and company 2013 £000	2012 £000
Purchase of tangible fixed assets		(1,531)	(3,620)
Proceeds of sale of tangible fixed assets		4,927	27
Deferred capital grants received	21	1,260	1,062
Net cash inflow/(outflow) from investing activities		4,656	(2,531)

27. Acquisitions and disposals

	2013 £000	2012 £000
Net cash acquired	6,089	-
Net cash inflow upon merger	6,089	-

28. Financing

	Note	2013 £000	2012 £000
Repayment of bank loans	19	(165)	(87)
Bank credit facility drawdown	19	(2,500)	2,500
Net cash inflow from financing activities		(2,665)	2,413

29. Management of liquid resources

	2013 £000	2012 £000
Transfer to bank investments	(3,000)	-
Net cash outflow from the management of liquid resources	(3,000)	-

SRUC

30. Analysis of changes in net funds

	Note	At 1 April 2012 £000	Net Change £000	At 31 March 2013 £000
Cash in hand and at bank		1,378	8,110	9,488
Debt due after 1 year	18	(137)	43	(94)
Debt due within 1 year	17	(80)	(403)	(483)
Bank credit facility		(2,500)	2,500	-
		(2,717)	2,140	(577)
Net cash		(1,339)	10,250	8,911

31. Obligations under leases and hire purchase contract

Amounts due under finance leases and hire purchase contracts:

	Group and Company	
	2013 £000	*2012 £000*
Amounts payable:		
Within one year	19	-
Between two and five years	16	-

As at 31 March 2013, the annual commitment under non-cancellable operating leases was as follows:

	Land and buildings		Equipment	
	2013 £000	*2012 £000*	*2013 £000*	*2012 £000*
Operating lease which expire				
Within one year	15	-	34	4
In two to five years	37	-	74	36
In over five years	128	-	-	102

32. 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) Dumfries and Galloway Council Pension Fund
v) Fife Council Pension Fund
vi) Lothian Council Pension Fund
vii) Scottish Teachers Superannuation Scheme (STSS)

A summary of FRS17 pension liabilities is included at the end of section vi) of this note.

32. Pensions (continued)

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

RCPS is a defined benefit scheme. The RCPS is an analogous scheme to the Principal Civil Service Pension Scheme (PCSPS) being the main government scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The RCPS is a multi-employer scheme and it is not possible to identify each participating institution's share of the underlying assets and 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.

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. From 1 January 2001 to 31 December 2004 this scheme was closed to new employees of SRUC. This scheme was 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 assets of the scheme are held in a separately administered fund. A valuation was carried out as at 31 March 2011. The contributions are set at 6% for employees and 22.5% (including a 1.5% administration fee) for the employer. Additional payments of £207k per annum are made into the plan.

The following disclosures are required under FRS 17 for the Citrus scheme. Retirement benefits are recognised when they are earned and not when they are due to be paid.

The valuation used for FRS 17 disclosures has been based on the most recent triennial actuarial valuation which took place on 31 March 2011 and updated by Hymans Robertson in order to assess the assets and liabilities of the scheme at 31 March 2013. 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.

Change in benefit obligation	*31 Mar 2013 £000*	*31 Mar 2012 £000*
Opening defined benefit obligation	20,703	17,155
Current service cost	1,040	862
Interest cost	971	963
Scheme participants' contributions	23	24
Actuarial losses	1,401	1,852
Benefits paid	(248)	(153)
Benefit obligation as at 31 March	23,890	20,703

Change in scheme assets	*31 Mar 2013 £000*	*31 Mar 2012 £000*
Opening fair value of scheme assets	15,834	14,693
Expected return on scheme assets	755	794
Actuarial gain /(losses)	956	(584)
Employer contributions	1,049	1,060
Member contributions	23	24
Benefits paid	(248)	(153)
Fair value of scheme assets as at 31 March	18,369	15,834
Net amount recognised	(5,521)	(4,869)

32. Pensions (continued)

iii) The Citrus Pension Plan (continued)

Contributions totalling £714k are expected to be made in the year ended 31 March 2014

The components of the pension cost are as follows:

	2013 *£000*	*2012* *£000*
Current service cost	1,040	862
Interest cost	971	963
Expected return on scheme assets	(755)	(794)
Total pension cost recognised in the income and expenditure account	1,256	1,031
Actuarial loss immediately recognised	(455)	(2,436)
Total pension cost recognised in the statement of recognised gains and losses	(455)	(2,436)
Cumulative amount of actuarial gain immediately recognised	451	896

Scheme assets

The weighted average asset allocations at year-end were as follows:	*2013* *£000*	*2012* *£000*
Equities	65%	65%
Corporate bonds	28%	16%
Government bonds	7%	16%
Property	0%	0%
Cash	0%	3%
	100%	100%

To develop the expected long term rate of return on assets assumption, SRUC considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of a 4.65% assumption for the expected return on scheme assets for 2012/13

	2013 *£000*	*2012* *£000*
Actual return on scheme assets	1,709	210
Weighted average assumptions used to determine benefit obligations:		
Discount rate	4.80%	4.60%
Inflation rate	3.70%	3.30%
Rate of salary increase	4.70%	4.30%
Rate of pension increase (RPI capped at 5%)	3.45%	3.05%
Rate of pension increase (RPI capped at 2.5%)	2.30%	2.00%
Rate of pension increase (CPI capped at 2.55%)	2.30%	2.00%
Weighted average assumptions used to determine net pension cost:		
Discount rate	4.80%	4.60%
Expected long term return on scheme assets	4.73%	4.65%

32. Pensions (continued)

iii) The Citrus Pension Plan (continued)

Weighted average life expectancy for mortality tables used to determine benefit obligations:

	2013	*2012*
Member Age 65 (current life expectancy)	23.0	22.6
Member Age 50 (life expectancy at age 65)	23.5	23.5

Five year history: £000	*2013*	*2012*	*2011*	*2010*	*2009*
Benefit obligation at 31 March	(23,890)	(20,703)	(17,155)	(17,190)	(8,410)
Fair value of scheme assets at 31 March	18,369	15,834	14,693	12,656	8,861
(Deficit)/surplus	(5,521)	(4,869)	(2,462)	(4,534)	451
Experience gains and (losses) on scheme assets :					
Amount £000	956	(584)	343	2,566	(2,442)
Percentage of scheme assets	5.20%	(3.7)%	2.3%	20.3%	(27.6%)
Experience gains and (losses) on scheme liabilities:					
Amount £000	(1,401)	(1,852)	1,999	(1,991)	(33)
Percentage of scheme liabilities	(5.86)%	(8.9)%	11.7%	(11.6%)	(0.4%)

Balance sheet position

Assets	*Long term return %p.a.*	*Fund value at 2013 £000*	*Long term return %p.a.*	*Fund value at 2012 £000*	*Long term return %p.a.*	*Fund value at 2011 £000*
Equities	5.50	11,940	5.80	10,292	6.80	8,081
Corporate Bonds	4.80	5,143	4.60	2,533	5.50	1,939
Government Bonds	3.00	1,286	3.30	2,533	4.30	2,718
Property	0	-	5.80	-	6.80	735
Cash	0	-	0.50	476	0.50	1,220
Total value of assets		18,369		15,834		14,693
Actuarial value of liabilities		(23,890)		(20,703)		(17,155)
Net pension liability		(5,521)		(4,869)		(2,462)

iv) Dumfries and Galloway Council Pension Fund (DGCPF)

The DGCPF provides benefits based on final pensionable salary for all employees who are not eligible to join the STSS scheme.
A valuation was carried out as at 31 March 2011. The contributions are set at 5.5% to 7% for employees and 19.1% for the employer.

The following disclosures are required under FRS 17 for the DGCPF. Retirement benefits are recognised when they are earned and not when they are due to be paid.

32. Pensions (continued)

iv) Dumfries and Galloway Council Pension Fund (DGCPF) (continued)

The valuation used for FRS 17 disclosures has been based on the most recent triennial actuarial valuation which took place on 31 March 2011 and updated by Hymans Robertson in order to assess the assets and liabilities of the scheme at 31 March 2013. 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.

Change in benefit obligation	*31 Mar 2013 £000*
Opening defined benefit obligation	5,117
Current service cost	102
Interest cost	110
Scheme participants' contributions	29
Actuarial losses	665
Benefits paid	(53)
Benefit obligation as at 31 March	5,970
Change in scheme assets	
Opening fair value of scheme assets	4,364
Expected return on scheme assets	104
Actuarial (losses)/gains	397
Employer contributions	98
Member contributions	33
Benefits paid	(53)
Fair value of scheme assets as at 31 March	4,943
Net amount recognised	(1,027)

Contributions totalling £208k are expected to be made in the year ended 31 March 2014

The components of the pension cost are as follows:

	2013 £000
Current service cost	102
Interest cost	110
Expected return on scheme assets	(104)
Total pension cost recognised in the income and expenditure account	108
Actuarial (loss) immediately recognised	(268)
Total pension cost recognised in the statement of recognised gains and losses	(268)
Cumulative amount of actuarial gain immediately recognised	(809)

Scheme assets The weighted average asset allocations at year-end were as follows:	*2013 %*
Equities	66%
Bonds	24%
Property	8%
Cash	2%
	100%

32 Pensions (continued)

iv) Dumfries and Galloway Council Pension Fund (DGCPF) (continued)

To develop the expected long term rate of return on assets assumption, SRUC considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of an 11.4% assumption for the expected return on scheme assets for the six month period to 31 March 2013.

	2013
	£000
Actual return on scheme assets	499
Weighted average assumptions used to determine benefit obligations:	
Discount rate	4.50%
Rate of salary increase	5.10%
Rate of pension increase	2.80%
Weighted average assumptions used to determine net pension cost:	
Discount rate	4.50%
Expected long term return on scheme assets	5.00%

Weighted average life expectancy for mortality tables used to determine benefit obligations:

Male Member Age 65 (life expectancy at 65)	23.0
Male Member Age 45 (life expectancy at 65)	24.9
Female Member Age 65 (life expectancy at age 45)	25.6
Female Member Age 45 (life expectancy at age 65)	27.7

History: £000

Benefit obligation at 31 March	(5,970)
Fair value of scheme assets at 31 March	4,943
Deficit	(1,027)
Experience gains on scheme assets :	
Amount £000	397
Percentage of scheme assets	8.0%
Experience (losses) on scheme liabilities:	
Amount £000	(4)
Percentage of scheme liabilities	0.07%

32. Pensions (continued)

iv) Dumfries and Galloway Council Pension Fund (DGCPF) (continued)

Balance sheet position

Assets	*Long term return %p.a.*	*Fund value at 2013 £000*
Equities	5.80%	3,263
Bonds	3.40%	1,186
Property	3.90%	395
Cash	3.00%	99
Total value of assets		4,943
Actuarial value of liabilities		(5,970)
Net pension liability		(1,027)

v) Fife Council Pension Fund ("FCPF")

The FCPF is a funded defined benefit pension scheme where contributions are held in a trust separately from the College. A formal valuation of the scheme was carried out as at 31 March 2011. The contributions are set at 5.5% to 7% for employees and 17.4% for the employer.

The following disclosures are required under FRS 17 for the FCPF. Retirement benefits are recognised when they are earned and not when they are due to be paid.

The valuation used for FRS 17 disclosures has been based on the most recent triennial actuarial valuation which took place on 31 March 2011 and updated by Hymans Robertson in order to assess the assets and liabilities of the scheme at 31 March 2013. 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.

Change in benefit obligation	*31 Mar 2013 £000*
Opening defined benefit obligation	10,337
Current service cost	195
Interest cost	221
Scheme participants' contributions	52
Actuarial losses	833
Benefits paid	(138)
Benefit obligation as at 31 March	11,500
Change in scheme assets	
Opening fair value of scheme assets	8,495
Expected return on scheme assets	211
Actuarial gains	778
Employer contributions	158
Member contributions	52
Benefits paid	(138)
Fair value of scheme assets as at 31 March	9,556
Net amount recognised	(1,944)

Contributions totalling £310k are expected to be made in the year ended 31 March 2014

32. Pensions (continued)

v) Fife Council Pension Fund ("FCPF")

The components of the pension cost are as follows:

	2013 £000
Current service cost	195
Interest cost	221
Expected return on scheme assets	(211)
Total pension cost recognised in the income and expenditure account	205
Actuarial loss immediately recognised	(55)
Total pension cost recognised in the statement of recognised gains and losses	(55)
Cumulative amount of actuarial loss immediately recognised	(967)

Scheme assets	%
The weighted average asset allocations at year-end were as follows:	
Equities	71%
Bonds	16%
Property	8%
Cash	5%
	100%

To develop the expected long term rate of return on assets assumption, SRUC considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of an 11.6% assumption for the expected return on scheme assets for the six month period to 31 March 2013.

	£000
Actual return on scheme assets	988

Weighted average assumptions used to determine benefit obligations:	2013
Discount rate	4.50%
Rate of salary increase	5.10%
Rate of pension increase	2.80%
Weighted average assumptions used to determine net pension cost:	
Discount rate	4.50%
Expected long term return on scheme assets	5.20%

32. Pensions (continued)

v) Fife Council Pension Fund ("FCPF") (continued)

Weighted average life expectancy for mortality tables used to determine benefit obligations:	*2013*
Male Member Age 65 (life expectancy at 65)	23.0
Male Member Age 45 (life expectancy at 65)	24.9
Female Member Age 65 (life expectancy at age 45)	25.8
Female Member Age 45 (life expectancy at age 65)	27.7

History: £000

Benefit obligation at 31 March	(11,500)
Fair value of scheme assets at 31 March	9,556
(Deficit)	(1,944)

	2013 *£000*
Experience gains on scheme assets:	
Amount £000	778
Percentage of scheme assets	(8.1%)
Experience gains and (losses) on scheme liabilities:	
Amount £000	(4)
Percentage of scheme liabilities	(0.03%)

Balance sheet position

Assets	*Long term return %p.a.*	*Fund value at 2013 £000*
Equities	5.80%	6,785
Bonds	3.80%	1,529
Property	3.90%	764
Cash	3.00%	478
Total value of assets		9,556
Actuarial value of liabilities		(11,500)
Net pension liability		(1,944)

vi) Lothian Pension Fund (LPF)

The LPF is a funded defined benefit pension scheme where contributions are held in a trust separately from the College. A formal valuation of the scheme was carried out as at 31 March 2011. The contributions are set at 5.5 to 6.8% for employees and 19.9% for the employer.

The following disclosures are required under FRS 17 for the LPF. Retirement benefits are recognised when they are earned and not when they are due to be paid.

The valuation used for FRS 17 disclosures has been based on the most recent triennial actuarial valuation which took place on 31 March 2011 and updated by Hymans Robertson in order to assess the assets and liabilities of the scheme at 31 March 2013. 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.

32. Pensions (continued)

vi) Lothian Pension Fund (LPF) (continued)

Change in benefit obligation	*2013* *£000*
Opening defined benefit obligation	4,402
Current service cost	68
Interest cost	94
Scheme participants' contributions	18
Actuarial losses	492
Benefits paid	(60)
Benefit obligation as at 31 March	5,014

Change in scheme assets	
Opening fair value of scheme assets	3,570
Expected return on scheme assets	90
Actuarial gains	368
Employer contributions	62
Member contributions	18
Benefits paid	(60)
Fair value of scheme assets as at 31 March	4,048
Net amount recognised	(966)

Contributions totalling £118k are expected to be made in the year ended 31 March 2014

The components of the pension cost are as follows:

Current service cost	68
Interest cost	94
Expected return on scheme assets	(90)
Total pension cost recognised in the income and expenditure account	72

Actuarial loss immediately recognised	(124)
Total pension cost recognised in the statement of recognised gains and losses	(124)

Cumulative amount of actuarial loss immediately recognised	(824)

Scheme assets

The weighted average asset allocations at year-end were as follows:

Equities	79%
Bonds	8%
Property	9%
Cash	4%
	100%

32. Pensions (continued)

vi) Lothian Pension Fund (LPF) (continued)

To develop the expected long term rate of return on assets assumption, SRUC considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of a 12.8% assumption for the expected return on scheme assets for the six month period to 31 March 2013.

	2013 *£000*
Actual return on scheme assets	457
Weighted average assumptions used to determine benefit obligations:	
Discount rate	4.50%
Inflation rate	
Rate of salary increase	5.10%
Rate of pension increase	2.80%
Weighted average assumptions used to determine net pension cost:	
Discount rate	4.50%
Expected long term return on scheme assets	5.30%

Weighted average life expectancy for mortality tables used to determine benefit obligations:

Male Member Age 65 (life expectancy at 65)	20.4
Male Member Age 45 (life expectancy at 65)	22.6
Female Member Age 65 (life expectancy at age 65)	22.8
Female Member Age 45 (life expectancy at age 65)	25.4

History: £000

Benefit obligation at 31 March	(5,014)
Fair value of scheme assets at 31 March	4,048
Deficit	(966)
Experience gains on scheme assets :	
Amount £000	368
Percentage of scheme assets	9.09%
Experience losses on scheme liabilities:	
Amount £000	(3)
Percentage of scheme liabilities	(0.06)%

32. Pensions (continued)

vi) Lothian Pension Fund (LPF) (continued)

Balance sheet position

Assets	*Long term return %p.a.*	*Fund value at 2013 £000*
Equities	5.70%	3,198
Bonds	3.50%	324
Property	3.90%	364
Cash	3.00%	162
Total value of assets		4,048
Actuarial value of liabilities		(5,014)
Net pension liability		(966)

Summary of FRS17 Pension liabilities

	2013 £000	*2012 £000*
Citrus Pension Plan	(5,521)	(4,869)
Dumfries and Galloway Pension Fund	(1,027)	-
Fife Council Pension Fund	(1,944)	-
Lothian Council Pension Fund	(966)	-
Total net pension liability	(9,458)	(4,869)

vii) 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 notional assets and liabilities. Therefore, contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the results for the year is the contribution payable to the scheme for that year. The scheme is contracted out of the State Earnings-Related Pension scheme. The agreed contribution rates for future years are 14.9% (2012/13 14.9%) for employers and 6.4% - 11.2% (2012/13 6.4% - 8.8%) for employees.

The last actuarial valuation of the scheme for which information is available was at 31st March 2009. The results of this valuation were rolled forward to give a liability at 31 March 2012. The assumptions that have had the most significant effect on this valuation and other relevant information are as follows below.

Rate of return on investments in excess of rate of increases in earnings	0.6% per annum
Rate of return on investments in excess of rate of increases in prices	2.8% per annum

The actuarial value of the STSS scheme at 31 March 2012 showed a deficiency of £23.6billion.

The pensions charge recorded by SRUC during the accounting period was equal to the contributions payable.

As the scheme is unfunded there can be no surplus or shortfall. Pension contribution rates will be set by the schemes actuary at a level to meet the cost of pensions as they accrue.

33. Contingent liability

SRUC is currently in discussions with HM Revenue & Customs regarding the treatment of certain income streams for VAT purposes and also is negotiating a new VAT partial exemption special method. The board has engaged professional advisors to assist in these matters and is robustly defending the challenge on the VAT treatment of the income streams. *The range of potential liability is estimated at between £Nil to £4m.*

34. Bursary and other student support funds

	Bursary	*Hardship*	*EMA's*	*Other*	*2013 Total £000*	*2012 Total £000*
1 April 2012	-	15	-	-	15	6
Received during the year	528	126	125	113	892	81
Transferred on merger	675	70	32	12	789	-
Expenditure	(888)	(75)	(195)	(127)	(1,285)	(72)
31 March 2013	315	136	(38)	(2)	411	15

Bursary and other student support funds are available solely for students; the College acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

Childcare Funds

	2013 £000	*2012 £000*
1 April 2012	47	42
Received in year	128	44
Transferred on merger	187	-
Expenditure	(144)	(39)
31 March 2013	218	47

GENERAL INFORMATION

Chairman	Lord J Lindsay
Principal and Chief Executive	Professor R Webb PhD DSc
Company Secretary and Deputy Chief Executive	Ms J D Swadling BA MBA FCIS
External Auditors	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ
Internal Auditors	KPMG Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Bankers	Clydesdale Bank PLC Clydesdale Bank Plaza 50 Lothian Road Edinburgh EH3 9BT
Solicitors	Morton Fraser Quartermile Two 2 Lister Square Edinburgh EH3 9GL
Actuaries	Barnett Waddingham 163 West George Street Glasgow G2 2JJ
Stockbrokers	Speirs & Jeffrey George House 50 George Square Glasgow G2 1EH