



**SRUC**  
**(FORMERLY CALLED THE SCOTTISH AGRICULTURAL COLLEGE)**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR TO 31 MARCH 2012**

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



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## **OPERATING AND FINANCIAL REVIEW**

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The Operating and Financial Review describes the main trends and factors underlying SRUC's performance during the year to 31 March 2012 ("2011/12"). 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 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 SAC to 31 March 2012.

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

### **About SRUC**

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#### **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.

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; Learning, Research and Consulting and these Divisions are supported by a Finance and Corporate Affairs Division.

During the year to 31 March 2012 the main learning and research activities operated from three campuses in Aberdeen, Ayr and Edinburgh. Consultancy advice is delivered through a network of 27 Farm Business Services Offices and 8 Veterinary Disease Surveillance Centres. In addition, SRUC operated five 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 18, membership of the Board is detailed on page 9 and the Board's corporate governance arrangements are detailed on pages 14-17. The Chief Executive and Principal is appointed by the Board and is directly accountable to the chief executive of SFC for the institution's proper use of public funds.

SRUC's learning 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.

SRUC's commercial subsidiary, SAC Commercial Ltd, was incorporated in 1994 (registered in Scotland, company no. SC148684) and operates a number of business activities; it allows flexibility of operation and access to wider markets than would otherwise be available to SRUC. Commercial activities are carried out to

## OPERATING AND FINANCIAL REVIEW (continued)

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enhance the transfer of research into practice. Commercial margins are all gifted to the SAC Foundation (see below). Summary financial statements for SAC Commercial Ltd are shown at note 26.

The SAC Foundation is a charitable trust established to support the functions of SRUC. In these financial statements the SRUC Group at 31 March 2012 is taken to include SRUC, SAC Commercial Ltd, its relevant subsidiary undertakings and the SAC Foundation. 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 (see notes 26 and 27).

### Objectives and strategy

SRUC's mission is *'to enhance the rural economy and environment.'*

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

The five main aims of the organisation are:

- Improving the rural economy and quality of life
- Delivering an improved environment and rural landscape
- Making agriculture more competitive
- Developing the skills of the rural workforce
- Developing a high quality working environment for our staff, students and stakeholders

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

SRUC Directors and staff uphold the following Core Values:

**Making a difference** - staff aim to make a difference through focussing on work which is relevant, by being supportive and by taking a practical approach to all aspects of our work.

**Being objective** - staff are open-minded and impartial. They take a measured approach, carefully considering all aspects of any situation and the impact that their actions may have.

**Forward looking** - staff look to improving the business through developing imaginative and innovative ideas and being adaptable so as to facilitate the adoption of new ideas.

**Behaving professionally** - staff value a climate where mutual respect is shown by all. They are committed to being dependable, competent and behaving in a business like manner.

### ***Performance during the year***

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#### Overview

2011/12 was a year of significant change for the organisation. Professor Bill McKelvey retired in January after having served as Principal and Chief Executive for a period of 10 years. The Board recognised the achievements over this decade.

Several months of extensive, international executive search resulted in the Board welcoming the appointment of Professor Bob Webb to the role of Principal and Chief Executive from 1 April 2012. Professor Webb was formerly the Pro- Vice Chancellor responsible for Research, the Graduate School and the Faculty of Engineering at the University of Nottingham and brings strong research and academic management and international experience.

The merger discussions with Barony, Elmwood and Oatridge Colleges were a key activity both at Board and operational level.

A new core business and financial management system was implemented with the normal challenges presented by such a fundamental change in information technology.

A number of estates plans came to fruition including the move of the Learning Division to the new state of the art Riverside Campus in Ayr, jointly developed very successfully with the University of West of Scotland. The Research team at the Roslin Institute Building settled into the facilities which had also been developed in partnership, namely with the University of Edinburgh. The development of the surplus elements of the Auchincruive estate obtained minded to grant status for the Planning Permission in Principle application which was jointly submitted with the SRUC's development partner AWG, subject to agreement of the Section 75.

## **OPERATING AND FINANCIAL REVIEW (continued)**

In financial terms, 2011/12 was a difficult year for SRUC due a disappointing decrease of £462k (1%) in turnover to £54.5m after a period of growth combined with an increase in costs of £1,834k resulting in a deficit of £740k.

The financial performance of the Group reflects the pressure on income, particularly in relation to grant funding, the effect of some one off costs which had not been anticipated and the increase in business development expenditure. For the year ended 31 March 2012, SRUC's commercial subsidiary, SAC Commercial Ltd, made a profit of £1,170k.

An area of concern is the pensions liability and, whilst a recovery plan has been put in place, staff contributions have increased from September 2012 in order to ensure benefits can be maintained.

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 31).

### **Operating Income**

Total income decreased by 1% in the year with the main movements as follows:

- Income from funding body grants decreased by 2.5% from the prior year;
- Income from tuition fees and education contracts increased by 9.3%;
- Income from research contracts grew by 4.3%
- Advisory and consultancy income remained static
- Other operating income decreased by 1.9%

### **Operating expenditure**

Operating expenditure increased by 3% with the main movements as follows:

- Total staff costs decreased by 1.1%, mainly due to a decrease in the FRS17 pension charge and a decrease in FTEs since last year.
- Other operating expenditure increased by 12.4% due to a number of one off items which had not been anticipated.
- Travel and subsistence expenditure increased by 26.2%, which can be partly attributed to the strategic plan.
- Energy consumption reduced again this year by 5.7%.
- Depreciation has decreased by 10.7% but the prior year had an impairment provision against some buildings.
- Interest payable decreased by £55k which is primarily reflective of a lower net interest charge associated with the Citrus Pension Scheme.

### **Net funds and cashflow**

The net cash balance held by SRUC has decreased by £2.3m. This is mainly the result of capital expenditure, the largest amounts relating to the completion of the new Riverside Campus, occupied jointly with the University of the West of Scotland in Ayr and the completion of the Greencow Carbon Management facility.

### **FRS 17 – Retirement benefits**

The FRS 17 valuation of the Citrus scheme (which is more fully described in Note 30) determined that the difference between the value of assets and the value of the FRS17 liabilities has increased from a £2,462k deficit as at 31 March 2011 to a £4,869k deficit as at 31 March 2012. Although the value of plan assets increased by more than £1m, this was eliminated by the larger increase in plan obligations primarily as a result in the reduction of the discount rate from 5.5% to 4.6%.

### **Investment performance**

The value of SRUC's endowment asset investments has increased from £3.3m to £3.4m in line with improved performance of global stock markets. Performance of the fund managers continues to be monitored.

## OPERATING AND FINANCIAL REVIEW (continued)

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### Divisional activities during the year

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#### Consultancy

As a result of a division wide review a number of initiatives were established to refocus activity and streamline the delivery of our products and services. All organisations within the sector are having to address the implications and impact of reduced government funding but at the same time remain alert to the opportunities that inevitably arise during uncertain times. The division is well placed and occupies a unique position in UK Agriculture to leverage the skills that undoubtedly exist within SRUC.

#### *Farm and Rural Business Services*

Growth in subscription services continued in 2011/12 with over 7,400 subscribers in total, and the delivery of IACS services for farm and crofting businesses increased to 6,100 (+2.3%) with 95% completed on-line. A focus on new products and services in 2011/12 saw the successful development and launch of "Sheep Record Right" training courses designed to assist sheep producers remain compliant with the rules and regulations on sheep tagging. Over 600 businesses were assisted in the latter half of 2011/12 through this training. The woodlands unit was expanded with new consultants recruited to meet the demands in the Highlands and Islands and the Central Belt in particular.

#### *Veterinary Services*

Demands for products and services provided by Veterinary Services continued at a high level throughout the year and contributed to an excellent result. The Premium Cattle Health Scheme saw further expansion particularly in England and Wales with membership increasing by 37% to over 2,800. New products (tests) were introduced to support the Scheme.

#### *Environment and Design*

The Environment and Design Group continued to have a significant role in supporting on-shore and off-shore renewable energy developments for farmers and other land managers and developers. Following the work last year for Scottish Government on the feasibility of the CARES Loan Fund, the group were able to use the loan fund to support the delivery of environmental assessments and planning applications for clients. Additionally, the group's consultants provided input to Environmental Assessments for the onshore infrastructure necessary to support new off-shore windfarm developments, particularly new above and below ground electricity infrastructure.

#### *Food & Drink*

The focus for the Food & Drink team has been in the development of local and regional food and drink, working closely with Scotland Food & Drink. Specific areas include the development of Protected Food Names (PFNs) in Scotland on behalf of Scottish Government, and the on-going development of farm retail, farmers' markets. The team also delivered a programme of market support for the organic sector in Scotland.

Projects undertaken with individual food and drink businesses have looked at developing capability, undertaking feasibility studies and assisting in the development of new products and routes to market. The team have also been contracted to deliver development programmes in Added Value by Scottish Enterprise across Scotland, and have worked in Estonia and Finland in the development of food tourism initiatives.

#### *Veterinary and Advisory Services (VAS) - grant in aid programme*

This programme is designed to help the Scottish Government achieve its agenda for Scottish agriculture, to make it a competitive and dynamic industry that contributes to the long term viability of rural communities while maintaining high standards of animal health and environmental management. All of the events organised are evaluated and in the year to 1 March 2012 some 97% of respondents attending rated the events as good or excellent whilst 87% indicated at they were going to make changes on the basis of what they had learned from the event.

#### Learning

In 2011/12 Learning had another successful year in a number of areas including student recruitment and selection, quality enhancement through the revalidation of existing programmes and the development of new ones, finances, the opening of our new shared campus at Ayr and the development of the merger project with the Land-based Colleges.

Overall the number of degree registered students increased but we continue to face difficulties with student demand outstripping our capped fundable numbers as we experienced a further increase in applications. Widening access to both undergraduate and postgraduate provision, particularly through distance learning and part-time study, continue to be important and we will seek, in future, to improve our marketing effort in terms of rest of UK and international student recruitment.

## OPERATING AND FINANCIAL REVIEW (continued)

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Each year as part of our quality assurance and quality enhancement processes we review and update the education programmes we provide in line with changes in student and market demand. 2011/12 saw review and revalidation involving the undergraduate programmes in Agriculture, Rural Business Management and Poultry as well as the MSc in Organic Farming. Our internal subject review in these areas is part of the Quality Enhancement Framework, designed to support HEIs in Scotland in managing the quality of the student learning experience and to provide public confidence in the quality and standards of higher education. In addition a new degree in Garden and Green Space Design was validated and a new MSc in Soils and Sustainability was approved.

### Research

Along with other Scottish Government Main Research Providers, we reported recently on the first year of research in the major 5 year Scottish Government programme. This research is organised around two programmes on *Food, Land and People* and *Environment*. Within these programmes there are 8 research themes plus an additional programme management/knowledge transfer and exchange (KTE) theme – SRUC Research is involved in 7 of the 8 research themes, leading two of them, and has a major role in the KTE activity. The Scottish Government has also funded an associated series of 5 Strategic Partnerships and Centres of Expertise which include Higher Education Institutes as well as the Main Research Providers – SRUC Research is involved in the Strategic Partnership for Animal Science Excellence and the Centres of Expertise in Climate Change (ClimateXChange) and Animal Disease Outbreaks (EPIC), leading the latter. Highlights from this year's research include: results showing that education, knowledge and access to information are key determinants of consumers' behaviour with respect to animal welfare; results from SRUC Research's new Greencow facility on breed, feed and behavioural differences underlying greenhouse gas emissions from cattle; and production of evidence for policy makers on control options for foot and mouth disease, bovine viral diarrhoea and the recently identified Schmallenberg virus. SRUC research also contributed to a major report on climate change this year – the Climate Change Risk Assessment, co-ordinated by Defra.

Competitively won Research income continued to grow, approaching £10m in 2011/12, with the total value of new contracts increasing by 4.7% on the previous financial year. New grants were won from a range of funding bodies, including the Scottish Government, the Department for Environment, Food and Rural Affairs (Defra), the Department for International Development (DfID), the European Union, the Technology Strategy Board, UK Research Councils (NERC, ESRC and BBSRC), various industry sources, levy bodies (QMS, AHDB, DairyCo, HGCA, BPEX), the Food Standards Authority, and a number of key charities.

SRUC postgraduate research (PGR) student numbers continued to grow, reaching a new high of 77 registered students during the year. Our strategy is to double PGR numbers by 2018.

Our Rural Policy Centre continued to grow in scope and influence, with reports on 'Power in Farming', launched at the Oxford Farming Conference, and 'Vulnerability of Scottish towns' attracting particular attention in both media and political circles.

During the year there was much activity on accelerating our international engagement – which already involves research and education collaborations in over 50 countries. This included hosting many international delegations, appointing 3 new PhD students to work on multinational research projects, signing of a Memorandum of Understanding with the Brazilian agricultural research organisation EMBRAPA, and organising visits to discuss research, education and consultancy collaboration in Brazil and China. The international activity is supported by a Board sponsored Business Investment Fund which recognises that in the early years international work will not be self financing.

Preparations continued during the year for our joint submission with the University of Edinburgh to the Research Excellence Framework 2014. REF is the new mechanism used by Higher Education Funding Councils to assess the quality and impact of research in UK HEIs, and it will form the basis on which they award research funding.

### Knowledge transfer and exchange

For over a century, SRUC has been developing and disseminating knowledge and innovative practice to increase the potential of the agricultural and food production sectors to improve competitiveness and bring benefits to the economy. SRUC facilitates the transfer of practical knowledge through research, consultancy and learning. Working in partnership with Scottish Government and the Scottish Funding Council, SRUC shares the same objectives for a smarter, wealthier and fairer, greener, safer and stronger Scotland.

In 2011/12 a new knowledge transfer exchange (KTE) programme was launched from our RESAS research programme (2011-16). SRUC is working in collaboration with our main research provider (MRP) partners to deliver KTE activities and events that are targeted at Government/policy-makers, commercial, public, farming and

## **OPERATING AND FINANCIAL REVIEW (continued)**

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scientific audiences. In addition, the delivery of the SRUC KTE strategic business plan also includes internal programmes of KTE for our staff. SFC funding supported staff workshops and reviews (6) and specific KTE projects (7) that included (carbon management, organic systems, animal health planning, avian disease identification training and farm biosecurity).

Staff in our learning Division organised cross institutional events as SAC, Barony, Oatridge and Elmwood Colleges moved closer towards a merger to form SRUC. In addition, several major new KTE projects were initiated:

- A new web content management system
- Development of a programme on innovation in support of businesses
- Response to the hills KTE programme for farmers, the public and other partners.
- Public audience work illustrating the food and drink sector
- Success stories (see [www.knowledgescotland.org](http://www.knowledgescotland.org) )

In 2011/12 a greater emphasis was placed on the delivery of KTE for our public and commercial audiences. A recurrent theme for public audiences was information on the food and drink sector. In particular events included reference to ways of improving the efficiency of agriculture and the food supply chain while minimising impacts on climate change. Commercial businesses also benefited from an appreciation as to how new state of the art research equipment at SRUC can illustrate ways to reduce gaseous emissions in livestock production.

SRUC operates a programme of continuous improvement with respect to the delivery of KTE. Evaluations and market research is undertaken by SRUC and external agencies (e.g. IPSOS Mori) to assist in guiding SRUC on ways to improve the performance of our engagement with a range of audiences.



## 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 S Cumming CBE	1 Apr 2011	Oct 2015	Non-Executive
Dr J Gilliland OBE	4 Oct 2007	Oct 2015	Non-Executive
Mr H Graham	9 Oct 2003	7 Oct 2011	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 B Howat	5 Oct 2012	Oct 2016	Non-Executive
Lord Jamie 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 2016	Non-Executive
Mr W Marshall	5 Oct 2012	Oct 2016	Non-Executive
Mr J McLaren	7 Oct 2011	Oct 2015	Non-Executive
Professor W A C McKelvey OBE	1 Jun 1999	31 Jan 2012	Chief Executive
Mr R Mercer	5 Oct 2012	Oct 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
Mr T Young	5 Oct 2012	Oct 2016	Non-Executive
Mr I Taylor	5 Oct 2012	Oct 2015	Non-Executive
Ms J D Swadling	2 Oct 2001	n/a	Executive
Professor R Webb	1 April 2012	n/a	Chief Executive

## DIRECTORS' REPORT (continued)

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### Directors (continued)

Non-Executive Directors are appointed for four years. They are eligible for reappointment for a further four year 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. This is achieved through the use of 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 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.

Additionally, as part of the annual business planning process, all staff are encouraged to participate and provide feedback to their line manager.

### 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 try 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.

## DIRECTORS' REPORT (continued)

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### 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

SRUC revised its Environmental Policy in June 2011 to reinforce its commitment to:

- promoting the protection of the environment;
- helping to mitigate against climate change;
- minimising any adverse impact of our activities, at all levels, directly and through our influence on others;
- integrating good environmental management policies and practices into every level of the organisation;
- being 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.

### 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.

SRUC announced the achievement of BS OHSAS 18001:2007 internationally recognised health and safety management systems certification covering all of its activities. This is a great achievement and reflects the commitment to continually improving our processes and how we manage our business.

Also, in recognition of our success in maintaining and improving high standards of occupational health and safety, SRUC has been awarded RoSPA's Gold Award. This is a prestigious national award scheme that recognises excellence in work-related health and safety performance by private and public sector organisations.

Of course, the best-intentioned practices will fail unless managers and supervisors personally address health and safety. We expect our managers and supervisors to promote responsible leadership attitudes towards health and safety by leading responsibly on it themselves. We make sure our managers are supported through attainment of IOSH accredited learning to ensure they set the standards for the organisation.

### Quality assurance

The overall aim of the quality assurance policy is that SRUC operates quality systems that allow the aims and objectives set out in the Corporate Plan to be achieved. The nature of SRUC as a multi-functional organisation inevitably means that different quality systems operate across and within the Divisions. The quality assurance policy recognises this diversity, and as such is written in generic terms.

## Future prospects

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Despite the general economic gloom, 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, our unique corporate makeup, where a very strong consulting business feeds funding back into our academic base, is, we believe a uniquely suitable model for HEIs.

## **DIRECTORS' REPORT (continued)**

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The merger on 1 October 2012 of The Scottish Agricultural College, Barony College, Elmwood College and Oatridge College to form Scotland's Rural College – 'SRUC' 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.

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.

SRUC has received some merger funding from the Scottish Funding Council, however one of the challenges will be to maximise use of this funding in order to mitigate the impact on our future reserves.

As the new organisation settles down significant work is underway to establish the way forward for key human resources and estates matters, within budgetary constraints.

### ***Financial policies***

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#### **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 2012 there were 27 days (2011 – 46 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 financial statements. 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. No hedging activity is undertaken 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' REPORT (continued)

### 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 December 2013 which was subsequently extended to 31 January 2015. During 2008-09 internal audit services were tendered and KPMG were reappointed for three years with a subsequent extension to 31 March 2014.

### Significant post balance sheet event

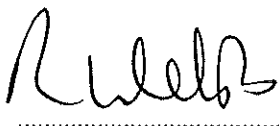
On 1 October 2012, SAC merged with Barony College, Elmwood College and Oatridge College to form Scotland's Rural College – 'SRUC' by way of a Scottish Statutory Instrument.

### Directors' statement as to disclosure of information to auditors

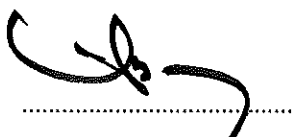
The directors who were members of the board at the time of approving the Directors' Report are listed in this report. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- 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.

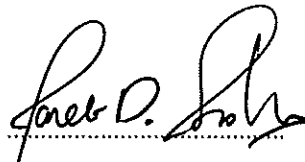
This report was approved by the Board on 13 December 2012 and signed on its behalf by



Professor R Webb  
Chief Executive & Principal



Lord Jamie Lindsay  
Board Chairman



Ms Janet D Swadling  
Company Secretary/  
Finance & Corporate Affairs Director

## CORPORATE GOVERNANCE STATEMENT

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### *Introduction*

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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*

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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 2012.

### *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 Chief Executive and Principal. 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.

Up to 30 September 2012, while still SAC, the Board met five times a year and had several committees including:

- Appointments and Remuneration Committee
- Audit Committee
- Finance & General Purposes Committee
- Learning & Skills Committee
- Academic Advisory Committee
- Consulting Advisory Committee

There were two sub committees:

- Health & Safety Policy Committee (reports to the Audit Committee)
- Trust Committee (reports to the Finance & General Purposes Committee)

All of these Committees were 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. During the year, all committees have reviewed their terms of reference.

The Academic Advisory Committee and the Consulting Advisory Committee, reported directly to the main and SAC Commercial Boards, respectively. They generally met twice a year, or as circumstances demand.

In addition to the above, the Board convened three consultative committees, each chaired by a Non-Executive Member of the Board, including key individuals within the sector and partner organisations. The Consultative Committees were as follows:

- Competitive Agriculture;
- Environment & Rural Landscape;
- Rural Development.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

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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, together with the Board and the SAC Learning and Skills Committee, made up the SAC Council.

### ***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 four times a year and is chaired by a Vice Chairman of the main Board.

### ***Audit committee***

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The Audit Committee oversees the arrangements for external and internal audit of the group's financial and management systems, and of the activities and processes related to these systems. The Committee is chaired by a non-executive Director and meets four times a year with the external and internal auditors in attendance.

### ***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. 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. The Committee meets a minimum of four times a year.

### ***Learning and skills committee***

---

The membership of the Committee is made up of students (both undergraduate and postgraduate) from each campus together with key stakeholders. The LSC receives reports from the Student Liaison Committees at each campus which allows students to have a direct input to Non-Executive Directors and to comment on relevant strategic and operational issues. Student Liaison Committees meet at least twice per annum at each campus. It is chaired by a Vice Chairman of the Board.

### ***Academic advisory committee***

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The Academic Advisory Committee makes recommendations to the Board on academic matters and considers the strategic direction of education and research. It meets twice a year and is chaired by a Non-Executive Director. Undergraduate and Postgraduate students are represented on the Committee.

### ***Consulting advisory committee***

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The Consulting Advisory Committee advises the Board on consultancy matters and considers the strategic direction of SAC's consulting activities and considers new business opportunities. It meets twice a year and is chaired by a Non-Executive Director.

## CORPORATE GOVERNANCE STATEMENT (continued)

### Directors' attendance

Details of the Directors' attendance record at Board meetings and relevant Board Committee meetings in 2011/12 is 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	A&R Committee	Audit Committee	F&GP Committee	Learning & Skills Committee	Health & Safety Policy Committee	Trust
<i>Number of meetings in period</i>	6	4	5	6	1	3	1
Mr Donald Biggar	5 (6)	3 (4)	5 (5)				
Mr Luke Borwick	5 (6)			6 (6)			
Professor Grahame Bulfield	6 (6)		5 (5)			3 (3)	
Mr Jonathan Cowens	6 (6)						
Mr Sandy Cumming	6 (6)		2 (3)	5 (5) *			
Dr John Gilliland	5 (6)		3 (3)				
Mr Henry Graham	2 (2)			3 (3)			
Mr David Green	6 (6)		3 (3) *	2 (3)			
Mr Stewart Houston	6 (6)		3 (3) *				
Lord Jamie Lindsay	6 (6)	4 (4)					0 (1)
Mr Patrick Machray	6 (6)			6 (6)			1 (1)
Mr Jim McLaren	4 (4)			2 (3)			
Professor William McKelvey	5 (5)	3 (3)	4 (4)	5 (5)			1 (1)
Professor Geoff Simm	6 (6)						
Professor Bill Stevely	6 (6)	4 (4)			1 (1)		
Ms Janet Swadling	6 (6)	4 (4)	5 (5)	6 (6)		3 (3)	1 (1)

( ) number of meetings during their period on the Board/Committee

\* As an observer – SC (F&GP x2 observer), DG & SH (Audit x1 observer)

From 1 October there is a proposed revised structure for Corporate Governance which is still to be ratified by the full Board of SRUC but the proposed structure is as follows:

The Boards are:

- Education Board
- Research Board
- Consultancy Board (SAC Commercial Ltd)

The Committees are:

- Appointments and Remuneration (A&R) Committee
- Audit Committee
- Finance and General Purposes (F&GP) Committee

The Standing Sub-Committees are:

- Health and Safety Policy Sub-Committee (reports to Audit Committee)
- Trusts Sub-Committee (reports to F&GP Committee)

The Working Groups are:

- Human Resources (HR) Transition Group (required for up to 12 months post merger and then subject to review) (reports to A&R Committee)
- Estates Working Group (required for up to 12 months post merger and then subject to review) (reports to F&GP Committee)



## CORPORATE GOVERNANCE STATEMENT (continued)

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### *Corporate strategy*

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Organisational Strategy is determined by the Board which meets on an annual basis to review the long term strategic plan, progress against which is monitored at Board meetings. Strategy is implemented by the Chief Executive and Principal, supported by the Heads of Divisions, together comprising the Executive Management Team (EMT).

### *Statement of internal control*

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The SRUC Board is ultimately responsible for SRUC's system of internal control and the Chief Executive and Principal 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 with senior managers each May 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 June Board strategic planning session. Meetings are held with each Division to discuss the specific Group plans later in the year.

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.

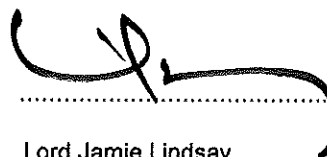
The SRUC Board receives regular reports from the Executive Management Team and the Audit Committee.

The SRUC Board is of a view that there is an ongoing process for identifying, evaluating and managing the SRUC's significant risks, and that it has been in place throughout the year ended 31 March 2012 and up to the date of approval of the annual report and financial statements.



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Professor R Webb  
Chief Executive & Principal



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Lord Jamie Lindsay  
Board Chairman

13 December 2012

## **STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF SRUC**

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The Board is responsible for the administration and management of SRUC's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements 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. The Directors are aware that the unique structure and functions of SRUC which, through "The Scottish System", integrates Education, Research and Consultancy functions, do not directly compare with other Higher Education Institutions. However on balance, the Directors believe the presentation provides the most relevant and useful information for the Financial statements user. In addition, within the terms and conditions of a Financial Memorandum agreed between SRUC and SFC, the Board, through its designated Accountable Officer (Chief Executive and Principal), 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.

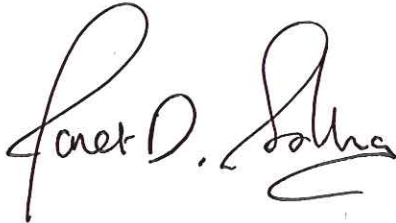
The key elements of SRUC's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- 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;
- 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.

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

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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.

A handwritten signature in black ink, appearing to read 'Janet D. Swadling', with a stylized flourish at the end.

Signed on behalf of the Board by:  
Ms Janet D Swadling  
Company Secretary  
13 December 2012

## **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 2012 which comprise the Statement of Principal Accounting Policies, 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 32. 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***

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As explained more fully in the Statement of the Responsibilities of the Board of SRUC, as set out on pages 18 and 19, 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***

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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 2012 and of the Group's deficit 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

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## *Opinion on other matters prescribed by applicable regulations*

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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*

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

14 December 2012

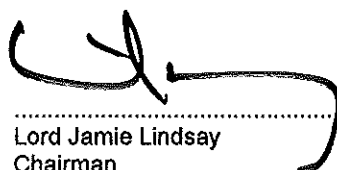
**GROUP INCOME AND EXPENDITURE ACCOUNT**

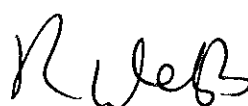
	<i>Notes</i>	<i>2012</i> £000	<i>2011</i> £000
<b><i>Income</i></b>			
Scottish government grants	1	15,192	16,423
Scottish funding council	2	7,100	6,907
Tuition fees and education contracts	3	3,151	2,881
Research grants and contracts	4	9,873	9,458
Advisory and consultancy	5	14,108	14,091
Other operating income	6	5,107	5,206
Interest receivable		9	36
Total income		<u>54,540</u>	<u>55,002</u>
<b><i>Expenditure</i></b>			
Staff costs	7	29,808	30,031
Exceptional costs – staff restructuring	7	82	190
Depreciation	12	2,467	2,763
Other operating expenditure	9	22,726	20,210
Interest	11	222	277
Total expenditure		<u>55,305</u>	<u>53,471</u>
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets		(765)	1,531
Gain/(loss) on disposal of fixed assets		25	(5)
(Deficit)/surplus for the year retained within reserves		<u>(740)</u>	<u>1,526</u>

**BALANCE SHEET**  
**At 31 March 2012**

	Notes	Group		Company	
		2012 £000	2011 £000	2012 £000	2011 £000
<b>Fixed assets</b>					
Tangible fixed assets	12	54,416	53,511	54,416	53,511
Endowment asset investments	13	3,413	3,333	3,413	3,333
<b>Current assets</b>					
Stocks	14	2,075	1,830	2,075	1,830
Debtors	15	11,366	6,694	7,052	3,287
Cash in hand		1,378	1,340	1,002	1,074
<b>Total current assets</b>		<b>14,819</b>	<b>9,864</b>	<b>10,129</b>	<b>6,191</b>
Less creditors – amounts falling due within one year	16	(20,057)	(15,169)	(15,953)	(12,061)
<b>Net current liabilities</b>		<b>(5,238)</b>	<b>(5,305)</b>	<b>(5,824)</b>	<b>(5,870)</b>
<b>Total assets less current liabilities</b>		<b>52,591</b>	<b>51,539</b>	<b>52,005</b>	<b>50,974</b>
Less creditors – amounts falling due after one year	17	(2,799)	(431)	(2,799)	(431)
<b>Total net assets excluding pension liability</b>		<b>49,792</b>	<b>51,108</b>	<b>49,206</b>	<b>50,543</b>
Pension liability	30	(4,869)	(2,462)	(4,869)	(2,462)
<b>Net assets including pension liability</b>		<b>44,923</b>	<b>48,646</b>	<b>44,337</b>	<b>48,081</b>
<b>Represented by:</b>					
Deferred capital grants	19	37,617	38,244	37,617	38,244
<b>Reserves</b>					
Endowment	13	3,413	3,333	3,413	3,333
General reserve excluding pension liability		8,762	9,531	8,176	8,966
Pension liability	30	(4,869)	(2,462)	(4,869)	(2,462)
General reserve including pension liability	20	3,893	7,069	3,307	6,504
<b>Total funds</b>		<b>44,923</b>	<b>48,646</b>	<b>44,337</b>	<b>48,081</b>

The financial statements were approved on 13 December 2012 and signed on behalf of the Board by:

  
 Lord Jamie Lindsay  
 Chairman

  
 Professor R Webb  
 Chief Executive and Principal

**GROUP CASH FLOW STATEMENT**  
**For the year ended 31 March 2012**

		2012	2011
	Notes	£000	£000
<b>Net cash inflow from operating activities</b>	21	200	1,298
Return on investments and servicing of finance	22	(44)	12
Capital expenditure and financial Investment	23	(2,531)	(5,467)
Financing	24	<u>2,413</u>	<u>(84)</u>
Increase/(decrease) in cash in the period		<u>38</u>	<u>(4,241)</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase /(decrease) in cash in the year	25	38	(4,241)
(Increase)/decrease in debt and leasing finance	25	<u>(2,413)</u>	<u>84</u>
Increase in net debt		(2,375)	(4,157)
Net cash at 1 April	25	<u>1,036</u>	<u>5,193</u>
Net cash as at 3 March	25	<u>(1,339)</u>	<u>1,036</u>

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year ended 31 March 2012**

		2012	2011
		£000	£000
(Deficit)/surplus for the year		(740)	1,526
Net additions to endowments		9	7
Increase in endowments		71	155
Actuarial (loss)/gain in respect of pension scheme		<u>(2,436)</u>	<u>2,342</u>
Total recognised gains and losses since last annual report		(3,096)	4,030
Reserves at 1 April		<u>10,402</u>	<u>6,372</u>
Reserves as 31 March		<u>7,306</u>	<u>10,402</u>



## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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### ***Basis of preparation***

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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***

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The group financial statements include SRUC and its subsidiary and quasi-sub 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***

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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.

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.

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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### *Land and buildings (continued)*

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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*

---

All equipment is capitalised 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*

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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.

### *Investments*

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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.

### *Stocks*

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

### *Taxation*

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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, RUC 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.

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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### ***Cash flows and liquid resources***

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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***

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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***

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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.

### ***Pensions***

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Retirement benefits to employees of the SRUC Group are provided by three superannuation schemes, the first being the Research Council Pension Scheme (RCPS), the second being the Group Pension Plan and the third being the Citrus Pension Plan.

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 & expenditure account as they become payable in accordance with the rules of the scheme.

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 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***

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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 & 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.

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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### *Intra group transactions*

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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**  
**At 31 March 2012**

**1. Scottish Government grants**

		2012	2011
	Note	£000	£000
Recurrent grant			
Research and development		6,402	7,102
Advisory		169	23
Advisory (VAS)		<u>7,103</u>	<u>7,180</u>
		13,674	14,305
Release from deferred capital grants			
Buildings	19	703	1,121
Equipment	19	<u>815</u>	<u>997</u>
		<u>15,192</u>	<u>16,423</u>

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.

Recurrent superannuation	1,725	1,725
--------------------------	-------	-------

**2. Scottish Funding Council**

		2012	2011
		£000	£000
Education		6,929	6,820
Release from deferred capital grants			
Buildings	19	89	-
Equipment	19	<u>82</u>	<u>87</u>
		<u>7,100</u>	<u>6,907</u>

**3. Tuition fees and education income**

		2012	2011
		£000	£000
UK higher education contracts		2,238	2,192
European (EU) students		89	75
Non-EU students		63	54
UK further education students		<u>7</u>	<u>1</u>
		2,397	2,322
Education contracts		284	187
Short course fees		<u>470</u>	<u>372</u>
		<u>3,151</u>	<u>2,881</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**4. Research contracts**

	2012	2011
	£000	£000
National list trials	122	291
European union	2,774	1,796
Other (non Scottish government)	6,977	7,371
	<u>9,873</u>	<u>9,458</u>

**5. Advisory and consultancy income**

	2012	2011
	£000	£000
Subscriptions	1,754	2,610
Analytical services	2,406	2,566
Consultancies	9,046	7,929
Farm financial statements scheme	772	763
Publications	130	223
	<u>14,108</u>	<u>14,091</u>

**6. Other operating income**

	2012	2011
	£000	£000
Residencies, catering and conferences	958	1,092
Sales of farm products	3,351	3,139
HE joint operations	112	149
Rents	435	485
Other income	251	341
	<u>5,107</u>	<u>5,206</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**7. Staff costs**

	2012	2011
	£000	£000
Wages and salaries	25,193	25,310
Social security costs	2,221	1,993
Other pension costs	2,394	2,728
Staff restructuring	82	190
	<u>29,890</u>	<u>30,221</u>

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

	2012	2011
Professional	325	331
Technical & Scientific	271	274
Administrative	162	170
Manual	58	59
	<u>816</u>	<u>834</u>

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

	<i>Number Directors</i>	<i>Group 2012 Number Other Staff</i>	<i>Number Directors</i>	<i>Group 2011 Number Other Staff</i>
£50,001 to £60,000	-	36	-	30
£60,001 to £70,000	-	8	-	6
£70,001 to £80,000	-	4	-	4
£80,001 to £90,000	-	-	-	-
£90,001 to £100,000	-	-	-	-
£100,001 to £110,000	1	1	-	1
£110,001 to £120,000	1	-	-	-
£120,001 to £130,000	-	-	2	-
£130,001 to £140,000	1	-	-	-
£140,001 to £150,000	-	-	1	-
£150,001 to £160,000	-	-	-	-
£160,001 to £170,000	-	-	-	-
£190,001 to £200,000	1	-	-	-
£210,001 to £220,000	-	-	1	-
	<u>4</u>	<u>49</u>	<u>4</u>	<u>41</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**8. Directors' remuneration**

	<i>2012</i>	<i>Group</i>
	<i>Number</i>	<i>2011</i>
		<i>Number</i>
The number of Executive Directors during the year including the Chief Executive and Principal	4	4
	<u>          </u>	<u>          </u>
	<i>£000</i>	<i>£000</i>
Salaries	558	613
Fees (Non-Executive Directors)	120	107
Pension contributions	35	29
	<u>          </u>	<u>          </u>
	<u>713</u>	<u>749</u>
Emoluments of Chief Executive and Principal	<u>          </u>	<u>          </u>
	<u>195</u>	<u>215</u>

Fees paid to Non-executive directors are for services provided to SAC Commercial Ltd.

The emoluments of the Chief Executive and Principal are shown on the same basis as for other staff.

The Chief Executive and Principal's emoluments are approved by the Appointments and Remuneration Committee, as are all the Directors.

The total pension contributions in respect of the Chief Executive and Principal include employer's contributions to the Research Councils' Pension Scheme and are paid at the same rate as for employees.



**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**9. Other operating expenditure**

	2012 £000	2011 £000
Residences, catering and conference operating expenses	1,682	1,746
Consumables and laboratory expenditure	2,810	2,496
Books and periodicals	214	208
Computing (equipment, maintenance and software)	865	873
Equipment purchases	456	484
Heat, light, water and power	1,105	1,172
Postage, phones, stationery and other communication costs	890	906
Repairs and general maintenance	701	729
Travel and subsistence (including vehicle costs)	2,208	1,750
Rents	480	377
Auditors' remuneration - external audit	98	38
Auditors' remuneration - internal audit	29	40
Other services from external auditors	67	54
Equipment operating lease rentals	85	48
Sub-contract external	6,283	6,011
Bad debts	94	133
Insurance	315	294
Irrecoverable VAT	521	448
Other expenses	3,050	1,539
Marketing	245	260
Equipment maintenance and leasing	237	198
Training	254	360
Loss on exchange	37	46
	<u>22,726</u>	<u>20,210</u>

**10. Analysis of expenditure by activity for group**

	<i>Staff costs</i> £000	<i>Other expenditure</i> £000	<i>Depreciation and amortisation</i> £000	<i>Total</i> £000
Academic departments	4,664	1,338	59	6,061
Research grants and contracts	8,880	8,387	222	17,489
Administration and central services	3,720	3,347	190	7,257
Premises and estates	1,067	3,369	1,235	5,671
Residencies, catering and conferences	57	137	-	194
Other costs	11,502	6,148	761	18,411
	<u>29,890</u>	<u>22,726</u>	<u>2,467</u>	<u>55,083</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**11. Interest payable**

	2012	2011
	£000	£000
On loans repayable in less than five years	53	24
Net interest charge – pension scheme	169	253
	<u>222</u>	<u>277</u>

**12. Tangible fixed assets**

<i>Group and company</i>	<i>Freehold land and buildings</i> £000	<i>Leased buildings</i> £000	<i>Buildings under construction</i> £000	<i>Equipment</i> £000	<i>Vehicles</i> £000	<i>Total</i> £000
Cost:						
1 April 2011	49,231	5,026	8,046	27,407	1,518	91,228
Additions	349	11	1,116	2,070	74	3,620
Disposals	-	-	-	-	(25)	(25)
Transfers	8,916	-	(8,916)	-	-	-
Transfers to projects	-	-	(246)	-	-	(246)
31 March 2012	<u>58,496</u>	<u>5,037</u>	<u>-</u>	<u>29,477</u>	<u>1,567</u>	<u>94,577</u>
Depreciation:						
1 April 2011	12,472	-	-	23,976	1,269	37,717
Charge for year	1,054	136	-	1,164	113	2,467
Disposals	-	-	-	-	(23)	(23)
31 March 2012	<u>13,526</u>	<u>136</u>	<u>-</u>	<u>25,140</u>	<u>1,359</u>	<u>40,161</u>
Net book value:						
31 March 2012	<u>44,970</u>	<u>4,901</u>	<u>-</u>	<u>4,337</u>	<u>208</u>	<u>54,416</u>
1 April 2011	<u>36,759</u>	<u>5,026</u>	<u>8,046</u>	<u>3,431</u>	<u>249</u>	<u>53,511</u>

Included in equipment is leased equipment at a cost of £1,000,000 which is fully depreciated.

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**13. Endowment assets**

	<i>Group and company</i>	
	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>
At 1 April 2011	3,333	3,171
Donations	9	7
Income	135	92
Disbursements	(151)	(82)
Appreciation of asset investments	87	145
At 31 March 2012	<u>3,413</u>	<u>3,333</u>
Represented by:		
Fixed interest stocks (listed)	1,623	1,561
Equities (listed)	1,634	1,631
Cash on deposit	26	5
	<u>3,283</u>	<u>3,197</u>
Cash balances	130	136
	<u>3,413</u>	<u>3,333</u>

**14. Stocks**

	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>
Farm stocks	2,058	1,802
Goods for resale	17	28
	<u>2,075</u>	<u>1,830</u>

**15. Debtors**

	<i>Group</i>		<i>Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	5,397	4,265	1,090	1,024
Prepayments and other debtors	1,280	1,175	875	837
Amounts recoverable on contracts	4,689	1,254	2,248	586
SAC Commercial Ltd	-	-	2,839	78
SAC Foundation	-	-	-	762
	<u>11,366</u>	<u>6,694</u>	<u>7,052</u>	<u>3,287</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**16. Creditors: amounts falling due within one year**

	Note	Group		Company	
		2012 £000	2011 £000	2012 £000	2011 £000
Trade creditors		2,599	2,526	2,083	2,526
Other taxation and social security		1,789	1,384	1,789	1,384
Other creditors		2,514	1,624	2,375	1,505
Accruals		3,403	3,400	3,319	2,899
Payment received in advance		9,672	6,152	6,307	3,664
Loans	18	80	83	80	83
SAC Commercial Ltd		-	-	-	-
		<u>20,057</u>	<u>15,169</u>	<u>15,953</u>	<u>12,061</u>

**17. Creditors: amounts falling due after more than one year**

	Note	2012 £000	2011 £000	2012 £000	2011 £000
Loans	18	137	221	137	221
Credit facility	18	2,500	-	2,500	-
Other creditors		162	210	162	210
		<u>2,799</u>	<u>431</u>	<u>2,799</u>	<u>431</u>

**18. Borrowings – bank loans**

	Notes	Group and company	
		2012 £000	2011 £000
Bank loans are repayable in instalments as follows:			
In one year or less	16	80	83
Between one and two years	17	137	83
Between two and five years	17	-	138
		<u>217</u>	<u>304</u>
Details of loans are as follows:			
Bank credit facility		2,500	-
Lloyds TSB		217	304
		<u>2,717</u>	<u>304</u>

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

The loans from Lloyds TSB are repayable over 20 years. £173k of the above balance is repayable at an interest rate of base rate plus 8.9%. The remaining £95k is repayable at an interest rate of base rate plus 1%. A first ranking standard security has been granted in favour of Lloyds TSB plc. over the land and buildings related to Sutton Halls, Aberdeen.

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**19. Deferred capital grants**

<i>Group and company</i>	<i>£000</i>
At 1 April 2011	
Buildings	35,061
Equipment	3,183
	<u>38,244</u>
Received during year	
Equipment	1,062
Released to income and expenditure account	
Buildings	792
Equipment	897
	<u>1,689</u>
At 31 March 2012	
Buildings	34,269
Equipment	3,348
	<u>37,617</u>

Deferred capital grants received in the year are as follows:

	<i>Total</i>
	<i>£000</i>
Scottish Government	472
ERDF	365
Scottish Funding Council	225
	<u>1,062</u>

**20. General reserve**

	<i>Group</i>	<i>Company</i>
	<i>£000</i>	<i>£000</i>
At 1 April 2011	7,069	6,504
(Deficit) for the year	(740)	(761)
Actuarial loss recognised in the statement of recognised gains and losses	(2,436)	(2,436)
At 31 March 2012	<u>3,893</u>	<u>3,307</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**21. Reconciliation of group operating surplus to net cash inflow from operating activities**

		<i>Group</i>	
	<i>Notes</i>	<i>2012</i>	<i>2011</i>
		<i>£000</i>	<i>£000</i>
Operating (deficit)/surplus		(765)	1,531
Pension costs less contributions payable		(198)	17
Depreciation	12	2,467	2,763
Deferred capital grants released to Income	19	(1,689)	(2,206)
Interest received		(9)	(36)
Interest paid	11	222	277
		<u>28</u>	<u>2,346</u>
Increase in stock	14	(245)	(310)
Increase in debtors	15	(4,426)	(826)
Increase in creditors	16 & 17	4,843	88
Net cash inflow from operating activities		<u>200</u>	<u>1,298</u>

**22. Returns on investments and servicing of finance**

	<i>Note</i>	<i>2012</i>	<i>2011</i>
		<i>£000</i>	<i>£000</i>
Bank Interest received		9	36
Interest paid on loans not wholly repayable within five years	11	(53)	(24)
Net cash (outflow)/inflow from return on investments and servicing of finance		<u>(44)</u>	<u>12</u>

**23. Capital expenditure and financial investment**

		<i>Group and company</i>	
	<i>Notes</i>	<i>2012</i>	<i>2011</i>
		<i>£000</i>	<i>£000</i>
Purchase of tangible fixed assets	12	(3,620)	(13,221)
Sale of tangible fixed assets		27	-
Deferred capital grants received	19	1,062	7,754
Net cash outflow from investing activities		<u>(2,531)</u>	<u>(5,467)</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**24. Financing**

	Note	2012 £000	2011 £000
Repayment of bank loans	18	(87)	(84)
Bank credit facility drawdown		2,500	–
Net cash inflow from financing activities		<u>2,413</u>	<u>(84)</u>

**25. Analysis of changes in net funds**

	Note	At 1 April 2011 £000	Net Change £000	At 31 March 2012 £000
Cash in hand and at bank		<u>1,340</u>	<u>38</u>	<u>1,378</u>
Debt due after 1 year	18	(221)	84	(137)
Debt due within 1 year	18	(83)	3	(80)
Bank credit facility		–	(2,500)	(2,500)
		<u>(304)</u>	<u>(2,413)</u>	<u>(2,717)</u>
Net cash		<u>1,036</u>	<u>(2,375)</u>	<u>(1,339)</u>

**26. Subsidiary and quasi-subsidiary companies**

The Financial statements of the SAC Foundation and SAC Commercial Ltd have been consolidated into the SRUC financial statements in accordance with financial reporting requirements (FRS 5). These comprise:

SAC Commercial Limited Profit and loss account	2012 £000	2011 £000
Turnover	19,721	23,964
<b>Expenditure</b>		
Directors' fees	125	115
Other operating expenses	18,426	21,991
Total expenditure	<u>18,551</u>	<u>22,106</u>
Profit on ordinary activities before gift aid	1,170	1,858
Gift aid	–	(1,896)
Profit for the year	<u>1,170</u>	<u>(38)</u>
<b>Balance sheet</b>		
Net current assets/(liabilities)	<u>581</u>	<u>(589)</u>
Total net assets/(liabilities)	<u>581</u>	<u>(589)</u>
<b>Represented by:</b>		
Share capital	100	100
Profit and loss account	<u>481</u>	<u>(689)</u>
	<u>581</u>	<u>(589)</u>

SAC Commercial Limited is a wholly-owned subsidiary company, registered in Scotland

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**26. Subsidiary and quasi-subsidiary companies (continued)**

SAC foundation	2012 £000	2011 £000
Income	(7)	1,896
Gift aid	(1,146)	(1,896)
Deficit for the year	<u>(1,153)</u>	<u>-</u>
Balance sheet		
Investment	100	100
Net current assets	-	1,153
	<u>100</u>	<u>1,253</u>
Represented by:		
General reserve	<u>100</u>	<u>1,253</u>

**27. Subsidiary companies**

The following non-trading companies are wholly owned subsidiaries of SRUC and are registered in Scotland:

	<i>Nature of Business</i>
SAC Corporate Trustee Limited	Trustee Company
The East of Scotland College of Agriculture	Dormant
The North of Scotland College of Agriculture	Dormant
The West of Scotland College	Dormant
The Scottish Agricultural College Limited	Dormant
SAC Limited	Dormant
SAC Consulting Limited	Dormant

**28. Capital commitments**

The anticipated capital expenditure on capital works authorised and contracted at the year end amount to:

	<i>Group and Company</i>	
	2012 £000	2011 £000
Buildings	<u>-</u>	<u>1,747</u>

SRUC had not entered into any capital commitments at the year end.

**29. Operating lease commitments**

As at 31 March 2012, the annual commitment under non-cancellable operating leases was as follows:

	<i>Plant and machinery</i>	
	2012 £000	2011 £000
Operating lease which expire::		
Within one year	4	24
In two to five years	36	15
In over five years	102	102
	<u>142</u>	<u>141</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**30. Pensions**

The Research Councils' Pension Scheme ("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.

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.

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 18% (including a 1.5% administration fee) for the employer. Additional payments of £146k 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 2012. 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.

	<i>31 Mar 2012</i>	<i>31 Mar 2011</i>
	<i>£000</i>	<i>£000</i>
<b>Change in benefit obligation</b>		
Opening defined benefit obligation	17,155	17,190
Current service cost	862	1,156
Interest cost	963	938
Scheme participants' contributions	24	15
Actuarial losses/(gains)	1,852	(1,999)
Benefits paid	(153)	(145)
<b>Benefit obligation as at 31 March</b>	<u>20,703</u>	<u>17,155</u>
<b>Change in scheme assets</b>		
Opening fair value of scheme assets	14,693	12,656
Expected return on scheme assets	794	685
Actuarial (losses)/gains	(584)	343
Employer contributions	1,060	1,139
Member contributions	24	15
Benefits paid	(153)	(145)
<b>Fair value of scheme assets as at 31 March</b>	<u>15,834</u>	<u>14,693</u>
<b>Net amount recognised</b>	<u>(4,869)</u>	<u>(2,462)</u>

With effect from 1 July 2012, employer contributions were 13.7% of pensionable salaries. Contributions totalling £1,073k are expected to be made in the year ended 31 March 2013.

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**30. Pensions (continued)**

The components of the pension cost are as follows:

	2012 £000	2011 £000
Current service cost	862	1,156
Interest cost	963	938
Expected return on scheme assets	(794)	(685)
<b>Total pension cost recognised in the income and expenditure account</b>	<b>1,031</b>	<b>1,409</b>
Actuarial (loss)/gain immediately recognised	(2,436)	2,342
<b>Total pension cost recognised in the statement of recognised gains and losses</b>	<b>(2,436)</b>	<b>2,342</b>
<b>Cumulative amount of actuarial gain immediately recognised</b>	<b>896</b>	<b>3,332</b>
<b>Scheme assets</b>	<b>2012</b>	<b>2011</b>
The weighted average asset allocations at year-end were as follows:	£000	£000
Equities	65%	55%
Corporate bonds	16%	13%
Government bonds	16%	19%
Property	-	5%
Cash	3%	8%
	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 4.1% assumption for the expected return on scheme assets for 2011/12.

	2012 £000	2011 £000
<b>Actual return on scheme assets</b>	<b>210</b>	<b>1,028</b>
<b>Weighted average assumptions used to determine benefit obligations:</b>		
Discount rate	4.60%	5.50%
Inflation rate	3.30%	3.60%
Rate of salary increase	4.30%	4.60%
Rate of pension increase	3.05%	3.35%
<b>Weighted average assumptions used to determine net pension cost:</b>		
Discount rate	4.60%	5.50%
Expected long term return on scheme assets	4.65%	5.24%

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

**30. Pensions (continued)**

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

	2012	2011
Member Age 65 (current life expectancy)	22.6	21.9
Member Age 50 (life expectancy at age 65)	23.5	23.0

Five year history: £000	2012	2011	2010	2009	2008
Benefit obligation at 31 March	(20,703)	(17,155)	(17,190)	(8,410)	(7,813)
Fair value of scheme assets at 31 March	15,834	14,693	12,656	8,861	9,578
(Deficit)/surplus	<u>(4,869)</u>	<u>(2,462)</u>	<u>(4,534)</u>	<u>451</u>	<u>1,765</u>
<b>Experience gains and (losses) on scheme assets :</b>					
Amount £000	(584)	343	2,566	(2,442)	(1,533)
Percentage of scheme assets	(3.7)%	2.3%	20.3%	(27.6%)	(16.0%)
<b>Experience gains and (losses) on scheme liabilities:</b>					
Amount £000	(1,852)	1,999	(1,991)	(33)	(22)
Percentage of scheme assets	(8.9)%	11.7%	(11.6)%	(0.4%)	(0.3%)

**Balance sheet position**

Assets	<i>Long term return %p.a.</i>	<i>Fund value at 2012 £000</i>	<i>Long term return %p.a.</i>	<i>Fund value at 2011 £000</i>	<i>Long term return %p.a.</i>	<i>Fund value at 2010 £000</i>
Equities	5.80	10,292	6.80	8,081	7.00	6,154
Corporate Bonds	4.60	2,533	5.50	1,939	5.50	1,982
Government Bonds	3.30	2,533	4.30	2,718	4.50	2,767
Property	5.80	-	6.80	735	7.00	564
Cash	0.50	476	0.50	1,220	0.50	1,189
<b>Total value of assets</b>		<u>15,834</u>		<u>14,693</u>		<u>12,656</u>
Actuarial value of liabilities		<u>(20,703)</u>		<u>(17,155)</u>		<u>(17,190)</u>
<b>Net pension liability</b>		<u><u>(4,869)</u></u>		<u><u>(2,462)</u></u>		<u><u>(4,534)</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**At 31 March 2012**

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**31. 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.

**32. Significant post balance sheet event**

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

**GENERAL INFORMATION**  
**At 31 March 2012**

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Chairman	Lord Jamie Lindsay
Chief Executive and Principal	Professor Robert Webb PhD DSc
Company Secretary and Finance and Corporate Affairs Director	Janet 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 36 Renfield Street Glasgow G2 1NA