

SRUC

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2018

**COMPANIES HOUSE
EDINBURGH**

17 DEC 2018

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

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Principal's Report



It is a great privilege to serve as Principal and Chief Executive of Scotland's Rural College and to acknowledge the hard work and achievements of all our staff and students over the past 12 months.

Alongside our commitment to educational excellence, one of SRUC's core strengths is making scientific discoveries and translating them into meaningful improvements, not only for the rural communities of Scotland but also for the entire world.

We were honoured to be awarded a Queen's Anniversary Prize in November 2017, which cements our reputation as a centre for innovation, through first-class education.

Our new Strategic Plan, which provides clarity of purpose and direction, will further enhance and accelerate our standing and reputation.

It is our collective vision for Scotland's Rural College to become a global leader in research and innovation, a fully integrated partner with industry and a driver of growth for Scotland's rural economy.

To make this vision a reality, I pledge to be at the forefront of our college becoming Scotland's rural university, a new model that brings skills and industry closer together, one that will greatly benefit education and the economy.

As we advance our ambitious and bold transformation, it is important that we do so on the basis of being financially sustainable. SRUC's operating result for the year ended 31 March 2018 was an operating surplus of £2.1m, which represents 2.8% of our turnover and is a very encouraging and positive result.

Although a number of challenges lie ahead, the robustness of SRUC's financial management and acumen is an important step in generating confidence and enabling us to deliver on our vision. A key part of our journey to becoming a university is introducing our new Faculty structure. This structure will help bring education, research and consultancy together, delivering an attractive, integrated and sustainable model for growth.

Caroline Argo has been appointed as the new Dean of our North Faculty – focused on Agri-Food and Business; David Hopkins is the new Dean of our Central Faculty – focused on Rural Science and

Policy; while Nick Sparks is Dean of our South & West Faculty – focused on Pasture-based Agriculture, Biorefining and Forestry. Professor Sarah Skerratt has been appointed to the ELT to lead on Policy engagement and has stepped down as staff member to our Board. Hugh Anderson, a highly experienced finance professional with experience of both the commercial and public sectors, joined the ELT as Director of Finance in February 2018 and we were also delighted to welcome Caroline Bysh to the ELT in August 2018 as Director of Marketing, Digital and Communications. Caroline brings with her a wealth of experience, including the University sector, so is ideally suited to the unique nature of SRUC.

The SRUC leadership team together with our Board will be a crucial factor in our future success. As we give our thanks to departing members of the Board, we are delighted to welcome new faces. Gemma Jones, former SRUCSA President and student member, made a significant and professional contribution during her time on the Board, and we now look forward to working with Stuart MacKenzie, her successor, over the coming year.

Nigel Miller played a significant and important role on the Board for the past three years and we thank Nigel for his contribution and look forward to his support as we deliver on our ambitious strategy.

I also wish to thank the current Board members for their support, encouragement, advice and objectivity which together with their combined expertise and knowledge will continue to assist us in meeting the challenges which lie ahead.

Our aim is to create an environment where ideas can flourish, we inspire all our students and stakeholders by communicating new concepts, technology, approaches, developments and innovation, embracing change and converting challenges into new opportunities.

At SRUC, we pride ourselves on providing our students with an inspirational learning experience and I was very proud to hear of some of the success stories of our recent graduates.

Joanne King, who graduated a degree in Countryside Management, has taken up a post as a surveyor with a leading environmental

Principal's Report



consultancy, and will be working alongside companies such as Network Rail to protect species such as bats, otters and birds. Another of our Countryside Management graduates, Ailidh Reid, has been named Visitor Centre Manager for the Islay Natural History Trust. Agriculture graduate Ian Carlisle, meanwhile, worked hard to earn a wonderful opportunity to represent the Galloway Cattle Society at the Galloway World Congress in Melbourne, Australia.

These are just a few of our success stories and I would like to take this opportunity to thank all our students, as well as our staff and our stakeholders, for all their hard work and support over the last year.

The successful delivery of our vision will depend on everyone working together to fulfil their own potential and that of SRUC. We are relishing the opportunity and committed to leading the way in the creation of a dynamic rural economy, where a close connection between communities, government and business is more important than ever.

A handwritten signature in black ink, appearing to read 'Wayne Powell', is written over a horizontal dotted line.

Professor Wayne Powell

The directors present the Strategic Report of SRUC for the year ended 31 March 2018. The aim of the Strategic Report is to provide stakeholders with the ability to assess how the directors have performed their duty to promote the success of SRUC.

The format of the financial statements is in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and in accordance with Financial Reporting Standards (FRS 102). SRUC is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102.

Principal Operations

SRUC, is unique, founded on world class and sector-leading research, that demonstrates the greatest research power (volume x quality) of any specialist institution offering land-based subjects in the UK. SRUC delivers comprehensive skills, education, business support and consultancy services for Scotland's rural industries, and associated food and drink sector. The integration of these three complementary 'knowledge exchange' services is of significant value to all with an interest in land-based activities – be they students, businesses, communities or policy-makers.

The activities of SRUC were delivered through three operational divisions: Research, Education and Consulting and these divisions were supported by a Finance and Professional Services Division. In the year to 31 March 2019 the three faculty model as outlined in the SRUC strategy will be implemented.

During the year to 31 March 2018 the main education and research activities operated from six campuses in Aberdeen, Ayr, Broxburn, Cupar, Dumfries and Edinburgh. Consultancy services are delivered through a network of 24 Farm and Rural Business Services offices, eight Veterinary Disease Surveillance Centres and the Central Diagnostic Laboratory. In addition, SRUC operated six farms.

Constitution, Governance and Regulation

SRUC is a private company limited by guarantee, registered in Scotland and has charitable status. The SRUC Board of Directors is responsible for the management and regulation of the financial affairs of the organisation, ensuring compliance with the Financial Memorandum and associated guidance of the Scottish Further and Higher Education Funding Council ("SFC").

The primary purpose activities of SRUC the charity are transacted through that company with the trading activities of the divisions transacted through SAC Commercial Limited. The Consulting division accounts for 63% of the turnover of SAC Commercial Limited. The profits of SAC Commercial are surrendered by way of gift aid.

A full statement of the Board's responsibilities is detailed on page 17, membership of the Board is detailed on page 8 and the Board's corporate governance arrangements are detailed on pages 14-16. The directors are also trustees and are referred to throughout this document as directors.

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

SRUC's educational activities are funded by SFC. SRUC continues to receive a proportion of its funding for its research, veterinary and advisory activities directly from the Scottish Government.

In these financial statements SRUC, at 31 March 2018, is taken to include SRUC and SAC Commercial Limited and the SAC Foundation.

SRUC Strategic Aims 2018-2023

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

Vision

To be a unique, market led and mission diverse 21st Century university.

Mission

To drive the needs of a dynamic, innovative and competitive rural sector in Scotland and to solve the biggest global agri-food challenges.

Values

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

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

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

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

Financial Highlights

Results for the year

Reconciliation of total comprehensive income to operating result.

	2018 £m	2017 £m
Total unrestricted comprehensive income (page 21)	7.5	(8.1)
Actuarial (gain)/loss	(5.1)	11.8
Gains on fixed asset disposals	(0.3)	(2.9)
Other non-recurring items	-	0.1
Operational surplus	<u>2.1</u>	<u>0.9</u>

The Statement of Comprehensive Income reports a total surplus of unrestricted income of £7.5m for the year, however, the underlying operating position was a surplus of £2.1m as shown in the table above. This compares with an operating surplus of £0.9m in the prior year and a budget of £1.5m. This positive result was achieved by careful cost control as work progressed on the development of the new strategy.

While the Statement of Comprehensive Income shows a gain on the disposal of fixed assets of £0.14m, the above reconciliation shows a surplus on disposal of £0.3m as it reflects the release of the related capital grants on these assets.

The Statement of Comprehensive Income shows an increase in turnover of £1.8m from 2017. When the figures are adjusted for the deferred grants released in respect of fixed assets, turnover has increased by £3m. While there were increases in the Scottish Funding Council grants, tuition fees other education income, the Research Excellence grant, advisory and consultancy income and other income, there were decreases in Scottish Government grants, and other research contracts.

For the year ended 31 March 2018 SAC Commercial Ltd made a profit of £5.42m and after payment of £5.44m of gift aid, had a retained loss of £17k.

The performance against the financial KPIs as set by the 2013-2018 strategic plan was as follows:

As a % of turnover	Target	Actual
Underlying operating surplus	3%	2.8%
Operating cash flow	4.5%	4.4%
Staff costs	<57%	56.8%

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

While all targets were not met, it is a significant improvement on prior years. The development of the detailed operational plans to deliver the strategy are underway to ensure SRUC achieves the longer term aims of improved margins to ensure future financial sustainability.

Balance Sheet

	2018 £m	2017 £m
Net assets	<u>12.2</u>	<u>4.6</u>

The main reasons for the significant increase in net assets is the decrease in the pension liability, the increase in fixed assets and the surplus for the year.

Fixed assets

The net book value of fixed assets at 31 March 2018 was £87.9m. Additions in the year amounted to £6.4m and related to buildings under construction, building additions and equipment. Disposals include assets for sale with a net book value of £2.5m.

Investments and Endowments

The value of investments and endowments increased by £0.1m to £5.2m.

Cash & Treasury Management

The cash balance held by SRUC at 31 March 2018 was £13.8m, an increase of £0.8m, which reflects the cash generated from operations and the use of cash on fixed asset expenditure.

Pension Liability

The total pension liability at 31 March 2018 was £24.9m. This was a decrease of £3.5m from 2017 and relates to the four final salary pension schemes operated by SRUC. Deficit recovery plans are in place for each of the four schemes.

Principal Risks and Uncertainties

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

Significant Risks

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

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

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

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

Credit risk

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

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

Liquidity risk

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

Foreign currency risk

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

Future Developments and Factors Influencing Performance

SRUC's strategic plan is focused on creating a unique 21st Century university that is sustainable, underpinned by an efficient and effective operating model.

It is our vision for SRUC to become a global leader in research and innovation in the rural sector, delivering translational impact via a fully integrated model that partners with industry, helping to drive the growth of Scotland's rural economy.

We aim to create a research-driven centre of knowledge that matches the scale of opportunity in the rural economy within Scotland, the UK and internationally.

In order to do this, SRUC needs to become a fully-fledged university for the 21st century that is regional, accessible, market-focused and responsive to a diverse range of rural challenges.

It is a new model that brings skills and industry closer together, and it is one that will greatly benefit our economy.

The external environment is not without challenge, particularly with the potential of Brexit looming, but there is also opportunity. The UK Industrial Strategy "Grand Challenge" of 'clean growth' is just one part of a broad policy framework that will be catalytic in the creation of a rural revolution.

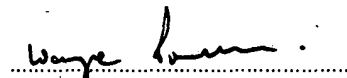
In its role as anchor institution, SRUC is fully engaged with initiatives such as the Scottish Government's National Council of Rural Advisors, the Islands Bill and the consultation in relation to the new UK Agriculture Bill.

We have recruited an Executive Leadership Team of respected experts in their fields who are driving the growth and interconnections of our education, research and commercial activities. All of this activity is firmly rooted in our distinctive ethos of a Scotland-wide presence through regional centres of global excellence. Our target is to achieve a turnover of £100m by 2023 with a sustainable margin of 5% to allow reinvestment.

In the forthcoming year, SRUC will witness changes across the country as it implements the new Faculty model. The changes will maintain our regional presence whilst enhancing the integration of our education, research and consultancy expertise.

We will continue to support student progression from entry level right through the learner journey to PhD. At the same time, we will drive value in the sector by enhancing our commercial proposition across a number of key growth areas.

Our over-riding task is to deliver the kind of integrated, modern, research-led organisation our staff, students and partners deserve in order to fulfil higher, world-leading goals.



Wayne Powell
Principal and Chief Executive
23 August 2018

Directors' Report

Registered No: SC103046



The directors present their report for the year ended 31 March 2018

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

	Date of Appointment	Date of Retirement	Status of Appointment
Mr J Bamkin (student elected)	30 Sep 2016	30 Jun 2017	Non-Executive
Mr L Borwick	8 Oct 2010	5 Oct 2017	Non-Executive
Mr J Cumming CBE (Chairman from 1 August 2017)	1 Apr 2011	31 July 2020	Non-Executive
Mr R Dinning	11 Dec 2014	Oct 2020	Non-Executive
Mr J Hume	6 Oct 2017	Oct 2020	Non-Executive
Ms G Jones (student elected)	6 Oct 2017	30 Jun 2018	Non-Executive
Mr P Machray OBE (Chairman from 9 October 2015)	4 Oct 2007	31 Jul 2017	Non-Executive
Mr A Marshall (Vice Chairman from October 2012)	5 Oct 2012	Oct 2019	Non-Executive
Mr W Marshall	5 Oct 2012	5 Oct 2017	Non-Executive
Professor S McDaid CBE (Vice Chairman from October 2015)	11 Oct 2013	Oct 2019	Non-Executive
Ms C Millar	6 Oct 2017	Oct 2020	Non-Executive
Mr N Miller	1 May 2015	20 Apr 2018	Non-Executive
Professor W Powell	1 Jul 2016	n/a	Chief Executive
Dr K Richards	11 Oct 2013	Oct 2019	Non-Executive
Mr W Ross OBE	6 Oct 2017	Oct 2020	Non-Executive
Professor S Skerratt (staff elected)	7 Dec 2015	7 Jun 2018	Non-Executive
Ms J D Swadling	2 Oct 2001	8 Jun 2017	Deputy Chief Executive
Professor C Williams	9 Oct 2015	Oct 2021	Non-Executive
Mr B Wood CVO	6 Oct 2017	Oct 2020	Non-Executive

Non-Executive Directors are appointed for a term of up to three years. They are eligible for reappointment for one further term. The Board reviews appointments on an annual basis and appointments do not necessarily run to the full term. The Chairman can serve a maximum of five years (previously eight years), the time period for which begins on his appointment as Chairman.

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

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

Directors' Report



Directors' attendance

Details of the Directors' attendance record at Board meetings and relevant Board Committee meetings in the period 1 April 2017 to 31 March 2018 are set out below. The number in brackets represents the number of meetings that the Director was eligible, as a member of the Board or Committee, to attend during the year.

	Board	SAC Commercial	Appointments & Remuneration Committee	Audit & Risk Committee	F&GP Committee
Number of meetings in period	4	4	4	4	4
Non-Executives SRUC					
Mr J Bamkin (Student elected) ~	1(1)	1(1)***			
Mr L Borwick ~	1(1)	1(1)			2(2)
Mr J Cumming CBE +	4(4)	3(3)	4(4)		1(1)
Mr R Dinning	4(4)	2(2)***		4(4)	
Mr J Hume	3(3)	1(1)***			2(2)
Ms G Jones (student elected)	1(1)*** 2(3)	1(2)***			
Mr P Machray OBE	1(1)	1(1)	1(1)		
Mr A Marshall	4(4)	4(4)	4(4)	4(4)	
Mr W Marshall	1(1)	1(1)			2(2)
Professor S McDaid CBE	4(4)	2(2)***	4(4)		3(4)
Ms C Millar	3(3)	3(3)			
Mr N Miller	4(4)	3(4)			
Dr K Richards	2(4)	3(4)			
Mr W Ross OBE	2(3)	1(1)***			1(2)
Professor Sarah Skerratt (Staff elected)	4(4)	1(2)***			
Professor C Williams	4(4)	0(2)***	2(2)	1(2)	
Mr B Wood CVO	3(3)	3(3)		1(2)	
Executives					
Prof W Powell	4(4)	4(4)	4(4)**	3(4)**	4(4)**
Ms J D Swadling	1(1)	1(1)	1(1)**	1(1)**	1(1)**
Mr M Wijnberg	4(4)**	4(4)			2(2)***
Non-Executives SAC Commercial only					
Mr J Cross	2(2)***	3(4)		2(4)	
Mr J McLean	1(2)***	4(4)			4(4)

* SAC Commercial Board member only

**In attendance as an Executive

*** By invitation as a Non-Executive

+ Chair from 1 August 2017

Communication with Staff

SRUC is conscious of the value of keeping employees informed of the progress and future plans of the organisation and of the mutual benefit that is engendered by good internal communications. Following the "Challenge for Change" conference in September 2017, a wider leadership group was established to provide a forum for cross-college discussion, communication and resolution of key issues and developments relevant to the future of SRUC through the implementation of its Transformation Programme. This group provides feedback to the ELT and assists in cascading important messages and providing feedback from the staff. The Chief Executive has continued to provide regular blogs and these have been supplemented by blogs from other ELT members which address pertinent matters at the time. In addition the new "Engage" site was launched on the intranet in March this year to enhance the level of communication with staff and encourage feedback.

Corporate Social Responsibility Policy

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

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

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

SRUC values its staff. Our employment policies are directed at creating an environment that will attract, develop, motivate and reward employees

of high calibre. Alongside its financial success as a business, SRUC recognises its responsibility to work in ways that add value to the lives of stakeholders and improve the world in which they live.

Disability Policy

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

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

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

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

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

Equalities Policy

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

Equalities Policy (cont'd)

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

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

Union representation

During the year ended 31 March 2018 SRUC employed 5 staff who were relevant union officials which equated to 3.9 full time employees. They all spent between one and fifty percent of their hours on facility time. The cost of this facility time was £30,131 which equalled 18.7% of the total relevant pay bill.

Modern Slavery Act 2015

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

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

Within the current financial year we have undertaken a review of our procurement policies and contract terms and conditions to ensure that all persons within our supply chain are compliant with the provisions of the Act and all other applicable laws.

In addition, we have enhanced our due diligence for new suppliers. For all tenders where the total contract value exceeds £50,000 we ask tenderers to accept our Supply Chain Code of Conduct and complete a European Single Procurement Document (ESPD). Completion of the ESPD is a mandatory requirement and includes specific

disclosure requirements in relation to modern slavery and people trafficking.

During Financial Year 2018/19 we will be undertaking a review of existing supply chains with particular emphasis on those recognised to be most at risk in terms of slavery and human trafficking. We will work in partnership with our suppliers to ensure that there are no issues at present and that where possible, preventative measures are developed and put in place.

SRUC encourages all of our employees to report in 'good faith' any issues or concerns about potential breaches of the Act. Any employee that raises an issue is fully protected by our Whistle Blowing Policy.

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

Environmental Policy

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

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

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

Directors' Report



Health and Safety Policy

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

It is SRUC's policy to provide and maintain a programme of continual improvement incorporating good Health & Safety practices into all aspects of its services.

The Health and Safety Leadership Policy document was issued in February 2017 reinforcing the need for Health and Safety to be embedded into the culture of SRUC. This emphasises the leadership responsibility of managers whilst empowering staff to raise issues to ensure a safety conscious environment.

Quality Assurance

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

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

Creditors Policy

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

As at 31 March 2018 there were 33 days (2017 – 42 days) of creditors outstanding. Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 amounted to nil (2017 nil).

Third Party Indemnity Insurance

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

Directors' Statement on Going Concern

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

Whilst the directors recognise and have considered the challenges facing the organisation as outlined in the Strategic Report and determine that a focus on financial sustainability must be at the forefront of the strategy, the directors are satisfied 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 2015 and Ernst & Young LLP were successful in securing the contract for three years to 31 January 2019. Internal audit services were also tendered and KPMG were reappointed for three years to 31 March 2019.

Directors' Report



Directors' Statement as to Disclosure of Information to External Auditor

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

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's external 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 external auditors are aware of that information.

This report was approved by the Board on 23 August 2018 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'James Cumming', written over a horizontal dotted line.

James Cumming
Chairman

A handwritten signature in black ink, appearing to read 'Wayne Powell', written over a horizontal dotted line.

Wayne Powell
Principal and Chief Executive

Introduction

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

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

Statement of Compliance with the Scottish Code of Good HE Governance

A revised Scottish Code of Good Higher Education Governance was published in 2017 which replaced the 2013 Scottish Code of Good Higher Education Governance. Academic year 2017-18 is considered a transitional year for compliance with the 2017 code.

In the opinion of the Board, SRUC complies in all material respects with the principles and provisions in the 2013 Scottish Code of Good Higher Education Governance and is working to ensure compliance with the 2017 Code.

During the year ended 31 March 2018, a full governance review was carried out by an independent third party to identify areas of strengths and areas for improvement and a significant amount of work has been undertaken to enhance the corporate governance of SRUC. There are areas where SRUC was not fully compliant with the 2017 Code at 31 March 2018 but work is ongoing to progress to full compliance.

The key areas of the 2017 Code where there remains further work to be completed to ensure compliance include the finalisation of the scheme of delegation, new KPIs which link to the strategy, further appointments to the Board as outlined in the code, a slight enhancement of Board induction and training, increased Board review of some policies and increased publication of documents. SRUC has set the target of gender equality at Board level by 2020.

It is the intention of the Board to be fully compliant as soon as practicable (as changes to the Articles of Association will be required) and before the deadlines set out in the Higher Education Governance (Scotland) Act 2016.

Board of Directors

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

The size of the Board is regulated by the Articles of Association with a maximum of 25 directors of which 19 can be non-executive directors. SRUC has a skills matrix which is used for the recruitment of non-executive directors and succession planning to ensure our diverse needs are adequately reflected in the skills of the Board.

Board Committees

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

Academic Board

The Academic Board has delegated authority from the SRUC Board to be responsible for the overall planning, development, co-ordination and supervision of the academic work of SRUC. Membership is drawn from across SRUC and includes elected representatives. The Academic Board meets at least once a term and is chaired by the Principal and Chief Executive.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee considers nominations for new directors from the Nominations Committee which includes staff and student representatives and makes recommendations on appointment to the Board. The Appointments and Remuneration Committee 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 Professorial and Honorary awards. The Appointments and Remuneration Committee meets a minimum of three times each year and is chaired by a Non – Executive Director.

Audit and Risk Committee

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

Finance and General Purposes Committee

The Finance and 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 the Infrastructure Strategy. The Finance and General Purposes Committee is chaired by a Vice Chairman of the Board and meets a minimum of three times annually. The Finance and General Purposes Committee discharges the Trustee responsibilities with regard to the investment and disbursement of trust funds and reviews these on an annual basis.

SRUC Council Consultative Committees

The SRUC Council Consultative Committees provide consultation and input to the external scan of SRUC's strategic business plan and as a source of consultation for the Group Board in respect of SRUC's client community and related bodies and organisations.

The Council is composed of two Consultative Committees - Agriculture and the Environment, and Rural Development. Each of the Consultative Committees, which are chaired by non-executive directors, bring together Group Board representatives, members of staff and external individuals and representatives with each meeting up to two times per year.

Statement of Internal Control

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

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

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

The Audit and Risk Committee's role in internal control is integral to managing the externally sourced internal audit function. The internal 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 and Risk 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 and Risk Committee considers summarised reports together with recommendations for the improvement of the SRUC's systems of internal control and management's responses and implementation plans.

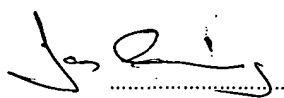
Statement of Internal Control (cont'd)

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

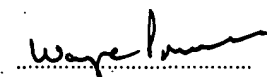
Whilst senior executives attend meetings of the Audit and Risk Committee as necessary, they are not members of the Committee and the Committee meets the internal and external auditors, at least once a year, on their own for independent discussions.

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

The SRUC Board is of a view that there is an 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 2018 and up to the date of approval of the annual report and financial statements.



James Cumming
Chairman



Wayne Powell
Principal and Chief Executive

23 August 2018

Statement of the Responsibilities of the Board of SRUC



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

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

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;

applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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

The Board has taken reasonable steps to:

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND TRUSTEES OF SRUC

Opinion

We have audited the financial statements of SRUC for the year ended 31 March 2018 which comprise the Group and Company Statement of Comprehensive Income, the Group and Company Statement of Changes in Reserves, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Statement of Principal Accounting Policies and the related notes¹ to 34. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the Group's and of the Charitable Company's affairs as at 31 March 2018 and of the Group's surplus and the Charitable Company's deficit and the Group's cash flows for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK";
- ▶ have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditors Report to the Trustees and Members of SRUC (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

Opinion on other matters prescribed by the terms of our engagement

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

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

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

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

- we have not received all the information and explanations we require for our audit

Responsibilities of the directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

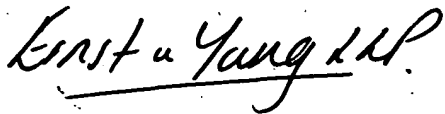
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

Independent Auditors Report to the Trustees and Members of SRUC (continued)

Use of our report

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



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

29 August 2018

Notes:

1. The maintenance and integrity of SRUC's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group and Company Statement of Comprehensive Income



Year ended 31 March 2018

	Note	2018 Group £000	2017 Group £000	2018 Company £000	2017 Company £000
Income					
Scottish Government grants	1	14,695	15,932	11,650	13,720
Scottish Funding Council	2	25,265	23,958	25,242	23,930
Tuition fees and education contracts	3	6,942	5,615	6,928	5,585
Research grants and contracts	4	6,991	7,427	3,061	3,131
Advisory and consultancy contracts	5	15,215	14,643	2,012	1,807
Other operating income	6	8,897	8,613	9,360	10,008
Investment income	7	209	190	209	190
Total income before endowments and donations		78,214	76,378	58,462	58,371
Endowments and donations	8	-	736	-	736
Total Income		78,214	77,114	58,462	59,107
Expenditure					
Staff costs	9	44,576	42,482	43,110	41,137
Other operating expenditure		25,630	25,469	7,426	8,862
Depreciation and impairment	13-15	4,855	5,685	4,721	5,542
Interest and other finance costs	12	777	610	777	610
Total expenditure	11	75,838	74,246	56,034	56,151
Surplus before other gains and losses		2,376	2,868	2,428	2,956
Gain on disposal of fixed assets		140	1,597	102	1,552
Movement in value of investments		2	627	2	627
Surplus for the year		2,518	5,092	2,532	5,135
Actuarial gain/(loss) in respect of pension schemes		5,058	(11,806)	5,058	(11,806)
Total comprehensive income for the year		7,576	(6,714)	7,590	(6,671)
Represented by:					
Endowment comprehensive income for the year		80	1,412	80	1,412
Unrestricted comprehensive income for the year		7,496	(8,126)	7,510	(8,083)
		7,576	(6,714)	7,590	(6,671)

All items of income and expenditure relate to continuing activities.

Statement of Changes in Reserves

Year ended 31 March 2018



	Endowment	Unrestricted	TOTAL
Group	£'000	£'000	£'000
Balance at 1 April 2016	3,526	7,826	11,352
Surplus from the income and expenditure statement	1,412	3,680	5,092
Other comprehensive income	-	(11,806)	(11,806)
Total comprehensive income for the year	1,412	(8,126)	(6,714)
Balance at 1 April 2017	4,938	(300)	4,638
Surplus from the income and expenditure statement	80	2,438	2,518
Other comprehensive income	-	5,058	5,058
Total Comprehensive income for the year	80	7,496	7,576
Balance at 31 March 2018	5,018	7,196	12,214
Company			
Balance at 1 April 2016	3,526	7,654	11,180
Surplus from the income and expenditure statement	1,412	3,723	5,135
Other comprehensive income	-	(11,806)	(11,806)
Total Comprehensive income for the year	1,412	(8,083)	(6,671)
Balance at 1 April 2017	4,938	(429)	4,509
Surplus from the income and expenditure statement	80	2,452	2,532
Other comprehensive income	-	5,058	5,058
Total Comprehensive income for the year	80	7,510	7,590
Balance at 31 March 2018	5,018	7,081	12,099

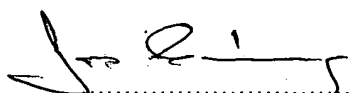
Balance Sheet


At 31 March 2018



		Group		Company	
	Note	2018 £000	2017 £000	2018 £000	2017 £000
Non-current assets					
Intangible assets	13	1,102	801	1,102	801
Negative goodwill arising from College merger	14	(34,393)	(35,563)	(34,393)	(35,563)
Fixed assets	15	85,617	87,084	85,617	87,084
Investments	16	5,213	5,125	5,213	5,125
		<u>57,539</u>	<u>57,447</u>	<u>57,539</u>	<u>57,447</u>
Current assets					
Stocks	17	2,648	2,590	2,648	2,590
Debtors	18	16,528	12,223	12,899	8,006
Assets held for resale		2,451	420	2,451	420
Cash and cash equivalents		13,813	13,002	13,707	12,799
Total current assets		<u>35,440</u>	<u>28,235</u>	<u>31,705</u>	<u>23,815</u>
Creditors: amounts falling due within one year	19	<u>(21,325)</u>	<u>(21,411)</u>	<u>(17,705)</u>	<u>(17,120)</u>
Net current assets		<u>14,115</u>	<u>6,824</u>	<u>14,000</u>	<u>6,695</u>
Total assets less current liabilities		<u>71,654</u>	<u>64,271</u>	<u>71,539</u>	<u>64,142</u>
 Creditors: amounts falling due after one year	20	 (33,336)	 (29,949)	 (33,336)	 (29,949)
 Provisions					
Other provisions	22	(1,160)	(1,193)	(1,160)	(1,193)
Pension provisions	31	(24,944)	(28,491)	(24,944)	(28,491)
Total Net Assets		<u>12,214</u>	<u>4,638</u>	<u>12,099</u>	<u>4,509</u>
 Reserves					
Restricted reserve					
Endowment reserve	29	5,018	4,938	5,018	4,938
Unrestricted reserves					
Income and expenditure reserve		7,196	(300)	7,081	(429)
Total Reserves		<u>12,214</u>	<u>4,638</u>	<u>12,099</u>	<u>4,509</u>

The financial statements were approved on 23 August 2018 and signed on behalf of the Board by:


James Cumming
Chairman


Wayne Powell
Principal and Chief Executive

Group Cash Flow Statement

For the Year Ended 31 March 2018



		2018	2017
	Note	£000	£000
Net cash inflow from operating activities	24	2,950	5,649
Return on investments and servicing of finance	25	49	38
Capital expenditure and financial Investment	26	(2,084)	(232)
Financing	27	(104)	(105)
Increase in cash in the year		811	5,350
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the year	28	811	5,350
Decrease in debt and leasing finance	28	105	105
Increase in net cash		916	5,455
Net cash at 1 April	28	12,693	7,238
Net cash as at 31 March	28	13,609	12,693

Statement of Principal Accounting Policies



Statement of compliance

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

The group's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Group for the year ended 31 March 2018.

Basis of preparation

These financial statements have been prepared under the historic cost convention, modified to include listed investments at their market value, and have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. The College is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102.

The financial statements of SRUC were authorised for issue by the Board of Directors on 23 August 2018. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the group and rounded to the nearest £'000.

Basis of consolidation

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

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. It is the view of the directors that there are no significant or material accounting judgements.

The following are the Groups key sources of estimation uncertainty:

Pensions

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

In determining the appropriate discount rate, management considers the interest rates of corporate bonds with at least AA rating with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. The impact on the of changes in the discount rate, life expectancy and inflation is included in note 31.

Goodwill and intangible assets

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

Income recognition

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

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

Project Expenditure recognised over amounts invoiced is reflected within debtors as 'Amounts Recoverable on Contracts'. The excess of Project Income received over amounts recognised as revenue is reflected within creditors as 'Payments Received in Advance'

Statement of Principal Accounting Policies



Income recognition (cont'd)

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

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

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

Grant funding

Grant funding including Scottish Funding Council education and research grants, research grants from government sources are recognised as income when SRUC is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

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

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

Donations and endowments

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

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

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

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

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

2. Unrestricted donations.

Capital grants

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

Employment benefits

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

Land and Buildings

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

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

Statement of Principal Accounting Policies



Land and Buildings (cont'd)

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

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.

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

Scottish Government maintains an interest in tangible fixed assets funded by capital grants from them.

Equipment

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

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

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

Software- Intangible asset

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

Accounting for Business Combinations and Associated Negative Goodwill

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

The merger was accounted for by the "acquisition method of accounting" in order to comply with FRS6, Acquisitions and Mergers. Fair values are attributable to the net separable assets and liabilities. The benefit arising as a consequence of no consideration having been paid by SAC for the net value of the assets acquired is included in the consolidated balance sheet as negative goodwill as a deduction from tangible and intangible fixed assets. The fair value of the benefit arising in relation to non-monetary assets is released to the income and expenditure account over the periods in which the non-monetary assets are recovered, whether through disposals or depreciation. The release is aligned with the corresponding depreciation charge relating to the assets.

Investments

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

Other listed investments are included at market value.

Stocks

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

Taxation

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

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

Statement of Principal Accounting Policies



Taxation (cont'd)

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

Cash Flows and cash equivalents

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

Foreign Currencies

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

Provisions, Contingent Liabilities and Contingent Assets

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

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

Agency Arrangements

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

Pensions

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

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

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

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

Statement of Principal Accounting Policies



Pensions (cont'd)

Where the calculation results in a net asset, recognition of the asset is limited to the extent to which SRUC is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Leases

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

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

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

Reserves

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

Notes to the Financial Statements



1. Scottish Government Grants

	2018 Group £000	2017 Group £000	2018 Company £000	2017 Company £000
Recurrent grant				
Research and development	6,112	6,286	6,112	6,286
Advisory	7,043	7,284	3,998	5,072
	<u>13,155</u>	<u>13,570</u>	<u>10,110</u>	<u>11,358</u>
Release from deferred capital grants				
Buildings (note 21)	727	1,737	727	1,737
Equipment (note 21)	813	625	813	625
	<u>14,695</u>	<u>15,932</u>	<u>11,650</u>	<u>13,720</u>

2. Scottish Funding Council

	2018 Group £000	2017 Group £000	2018 Company £000	2017 Company £000
Education	21,048	20,591	21,048	20,563
Research	3,154	1,934	3,131	1,934
	<u>24,202</u>	<u>22,525</u>	<u>24,179</u>	<u>22,497</u>
Release from deferred capital grants				
Buildings (note 21)	907	1,110	907	1,110
Equipment (note 21)	156	323	156	323
	<u>25,265</u>	<u>23,958</u>	<u>25,242</u>	<u>23,930</u>

3. Tuition Fees and Education Contracts

	2018 Group £000	2017 Group £000	2018 Company £000	2017 Company £000
Home and EU higher education fees	2,194	2,324	2,194	2,324
Rest of UK	343	365	343	365
Non-EU students	53	63	53	63
UK further education students	54	82	54	82
	<u>2,644</u>	<u>2,834</u>	<u>2,644</u>	<u>2,834</u>
Education contracts	3,639	2,280	3,652	2,268
Short course fees	659	501	632	483
	<u>6,942</u>	<u>5,615</u>	<u>6,928</u>	<u>5,585</u>

Notes to the Financial Statements



4. Research Grants and Contracts

	2018	2017	2016	2017
	Group	Group	Company	Company
	£000	£000	£000	£000
European union	472	377	462	367
Research councils	1,407	1,727	1,407	1,727
UK public bodies	2,940	2,942	1,013	860
Other	2,172	2,381	179	177
	<u>6,991</u>	<u>7,427</u>	<u>3,061</u>	<u>3,131</u>

5. Advisory and Consultancy Contracts

	2018	2017	2018	2017
	Group	Group	Company	Company
	£000	£000	£000	£000
Consultancies and subscriptions	10,809	10,413	305	228
Analytical services	3,405	3,266	1,707	1,579
Farm financial statements scheme	955	914	-	-
Publications	46	50	-	-
	<u>15,215</u>	<u>14,643</u>	<u>2,012</u>	<u>1,807</u>

6. Other Operating Income

	2018	2017	2018	2017
	Group	Group	Company	Company
	£000	£000	£000	£000
Residences, catering and conferences	2,034	2,108	2,022	2,093
Sales of farm products	4,302	3,549	-	-
Rents	902	1,273	477	839
Other income	1,659	1,683	6,861	7,076
	<u>8,897</u>	<u>8,613</u>	<u>9,360</u>	<u>10,008</u>

7. Investment income

	Group and company	
	2018	2017
	£000	£000
Investment income on endowments	147	134
Other investment income	62	56
	<u>209</u>	<u>190</u>

Notes to the Financial Statements



8. Donations and Endowments

	Group and company	
	2018	2017
	£000	£000
New endowments	-	730
Donations with restrictions	-	6
	<u>-</u>	<u>736</u>

9. Staff Costs

	2018	2017	2018	2017
	Group	Group	Company	Company
	£000	£000	£000	£000
Wages and salaries	35,926	34,536	34,712	33,400
Social security costs	3,714	3,288	3,596	3,193
Other pension costs	4,936	4,240	4,802	4,126
Severance costs	-	418	-	418
	<u>44,576</u>	<u>42,482</u>	<u>43,110</u>	<u>41,137</u>

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

	2018	2017
	Number	Number
Academic departments	271	292
Research grants and contracts	261	247
Administration and central services	118	113
Premises and estates	53	61
Residencies, catering and conferences	13	14
Other including income generating operations	423	399
	<u>1,139</u>	<u>1,126</u>

Analysis of the above staff costs by activity

	£000	£000
Academic departments	11,284	10,913
Research grants and contracts	10,687	9,995
Administration and central services	5,335	4,869
Premises and estates	1,617	1,681
Residencies, catering and conferences	443	455
Other including income generating operations	15,210	14,569
	<u>44,576</u>	<u>42,482</u>

The allocation across categories has been restated for last year to be comparable.

Notes to the Financial Statements



9. Staff Costs (cont'd)

The allocation across categories has been restated for last year to be comparable.

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

	Group 2018		Group 2017	
	Number Directors	Number Other Staff	Number Directors	Number Other Staff
£100,001 to £110,000	-	2	-	-
£120,001 to £130,000	-	-	-	1
£130,001 to £140,000	-	1	-	1
£150,001 to £160,000	-	-	2	-
£160,001 to £170,000	-	-	1	-
£200,001 to £210,000	1	-	-	-
	<u>1</u>	<u>3</u>	<u>3</u>	<u>2</u>

Key management personnel

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the college. The costs below represent the costs of the members of the Executive Leadership Team (ELT) for the period. Staff costs include compensation paid to key management personnel. The ELT membership is listed on page 8.

	2018 £000	2017 £000
Key management personnel compensation	945	983
Number of staff	<u>8</u>	<u>6</u>

10. Directors' Remuneration

	2018	2017
The number of Executive Directors during the year including the Principal and Chief Executive	<u>2</u>	<u>3</u>
	2018 £000	2017 £000
Salaries	233	387
Fees (Non-Executive Directors)	141	123
Pension contributions	38	74
	<u>412</u>	<u>584</u>

Notes to the Financial Statements



10. Directors' Remuneration (continued)

The emoluments of the Principal and Chief Executive

	2018	2017
	£000	£000
Salary	195	144
Taxable benefits	9	8
Non taxable benefits	-	8
Pension	33	25
	<u>237</u>	<u>*185</u>

The emoluments of the Acting Principal and Chief Executive to 30 June 2016

Remuneration	-	48
Pension	-	9
	<u>-</u>	<u>57</u>

The emoluments of the highest paid director

Remuneration	204	168
Pension	33	32
	<u>237</u>	<u>200</u>

The remuneration of the Principal in the year ended 31 March 2018 was £237,000. This was 7.3 times (2017- 7.4 times) the medium of the total remuneration of the workforce and 7.3 times (2017- 6.9times) the median salary of the workforce.

*The prior year figures reflect the appointment of the Principal on 1 July 2016.

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

11. Analysis of total operating expenditure by activity

	2018	2017	2018	2017
	Group	Group	Company	Company
	£000	£000	£000	£000
Academic departments	14,172	13,760	14,013	13,682
Research grants and contracts	15,265	14,438	11,819	11,410
Administration and central services	8,227	8,679	8,199	7,912
Premises and estates	6,487	6,596	5,703	5,926
Residencies, catering and conferences	3,274	3,249	3,039	2,999
Other including income generating operations	23,952	23,392	8,933	10,233
Depreciation	4,854	5,685	4,721	5,542
Release of negative goodwill	(1,170)	(2,163)	(1,170)	(2,163)
Interest	777	610	777	610
	<u>75,838</u>	<u>74,246</u>	<u>56,034</u>	<u>56,151</u>

Notes to the Financial Statements



11. Analysis of total operating expenditure by activity (continued)

Other operating expenditure includes:

	Group and company	
	2018	2017
	£000	£000
Operating lease rentals	929	856
Fees charged by external auditors:		
SRUC and subsidiary companies		
Audit fee	65	63
Audit-related assurance services	14	13
Financial advisory in respect of FRS102	-	3
Tax compliance services	7	4
Fees charged by internal auditors:		
Internal audit services	59	39
Tax compliance services	11	21
Tax advisory services	12	10
Other compliance work	26	-

12. Interest and other finance costs

	Group and company	
	2018	2017
	£000	£000
Finance lease interest	13	18
Net interest charge – pension schemes	764	592
	<u>777</u>	<u>610</u>

13. Intangible Fixed Assets

	Group and company	
	2018	2017
	£000	£000
At 1 April 2017	801	720
Additions in year	465	243
Amortisation charge for the year	(164)	(162)
At 31 March 2018	<u>1,102</u>	<u>801</u>

Included in intangible fixed assets is software under development of £918k (2017: £177k).

Notes to the Financial Statements



14. Negative Goodwill

	Group and company	
	2018	2017
	£000	£000
At 1 April 2017	(35,563)	(37,726)
Release of negative goodwill to income statement	1,170	2,163
At 31 March 2018	<u>(34,393)</u>	<u>(35,563)</u>

15. Tangible Fixed Assets

	Group and company					
	Freehold land and buildings £000	Leased buildings £000	Buildings under construction £000	Equipment £000	Vehicles £000	Total £000
Cost or fair value:						
1 April 2017	104,985	5,037	424	20,090	1,720	132,256
Additions	984	-	1,652	2,698	166	5,500
Disposals	(2,239)	-	-	(1)	(133)	(2,373)
Asset for sale	(5,701)	-	-	(65)	-	(5,766)
31 March 2018	<u>98,029</u>	<u>5,037</u>	<u>2,076</u>	<u>22,722</u>	<u>1,753</u>	<u>129,617</u>
Depreciation:						
1 April 2017	30,336	816	-	12,498	1,522	45,172
Charge for year	2,617	136	-	1,764	89	4,606
Disposals	(2,129)	-	-	(1)	(133)	(2,263)
Impairment	85	-	-	-	-	85
Asset for sale	(3,574)	-	-	(26)	-	(3,600)
31 March 2018	<u>27,335</u>	<u>952</u>	<u>-</u>	<u>14,235</u>	<u>1,478</u>	<u>44,000</u>
Net Book Value:						
31 March 2018	<u>71,118</u>	<u>4,085</u>	<u>2,076</u>	<u>8,487</u>	<u>275</u>	<u>85,617</u>
1 April 2017	<u>75,073</u>	<u>4,221</u>	<u>-</u>	<u>7,592</u>	<u>198</u>	<u>87,084</u>

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

Included in freehold land and buildings is land of £13.8m which is not depreciated.

Included in equipment are assets under construction amounting to £124k (2017: £846k) which are not depreciated.

Notes to the Financial Statements



16. Investments

	Group and company	
	2018	2017
	£000	£000
Listed investments		
At 1 April 2017	187	154
Movement on valuation	8	33
At 31 March 2018	<u>195</u>	<u>187</u>
Endowment investments		
At 1 April 2017	4,938	3,526
Donations	6	736
Income	141	134
Disbursements	(61)	(52)
(Depreciation)/ appreciation of asset investments	(6)	594
At 31 March 2018	<u>5,018</u>	<u>4,938</u>
Total investments	<u>5,213</u>	<u>5,125</u>

17. Stocks

	Group and company	
	2018	2017
	£000	£000
Farm stocks	2,609	2,550
Goods for resale	39	40
	<u>2,648</u>	<u>2,590</u>

18. Debtors

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade receivables	6,655	5,637	2,823	2,835
Prepayments and other debtors	6,077	3,182	5,465	2,385
Amounts recoverable on contracts	3,796	3,404	1,549	1,279
Amounts due from fellow Group Companies	-	-	3,062	1,507
	<u>16,528</u>	<u>12,223</u>	<u>12,899</u>	<u>8,006</u>

Notes to the Financial Statements



19. Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade creditors	3,927	4,336	3,415	3,607
Other taxation and social security	2,477	2,242	2,477	2,242
Other creditors	1,845	2,040	1,803	1,522
Accruals	5,190	4,907	4,720	4,506
Payment received in advance	5,549	5,119	2,953	2,476
Loans (note 20)	9	8	9	8
Finance leases (note 30)	101	95	101	95
Deferred capital grant (note 21)	2,227	2,664	2,227	2,664
	<u>21,325</u>	<u>21,411</u>	<u>17,705</u>	<u>17,120</u>

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

	Group and company	
	2018	2017
	£000	£000
Deferred capital grants (note 21)	33,239	29,742
Loans	7	16
Obligations under finance leases (note 30)	90	191
	<u>33,336</u>	<u>29,949</u>

The loan is from the energy Savings Trust and is wholly repayable within 5 years.

21. Deferred Capital Grants

	Group and company			
	£000	£000	£000	£000
	1 April 2017	Receivable	Released to SOCI	31 March 2018
Buildings	25,752	2,530	(1,634)	26,648
Equipment	6,654	3,133	(969)	8,818
	<u>32,406</u>	<u>5,663</u>	<u>(2,603)</u>	<u>35,466</u>

Notes to the Financial Statements



21. Deferred Capital Grants (cont'd)

Disclosed as:	2018
	£000
Creditors due within one year	2,227
Creditors due in more than one year	33,239
	<u>35,466</u>

Deferred capital grants receivable in the year are as follows:

	Total
	£000
Scottish Government	1,545
Scottish Funding Council	1,166
UK Government Body	2,952
	<u>5,663</u>

22. Provision for Liabilities

	Group and company	
	2018	2017
	£000	£000
Unfunded pension liability		
At 1 April 2017	1,193	1,105
Paid in the year	(67)	(68)
Transfer to the income and statement	34	156
At 31 March 2018	<u>1,160</u>	<u>1,193</u>

SRUC has an obligation in respect of former employees who have retired early or for whom an enhanced pension has been provided. A valuation of the unfunded liability was carried out at 31 March 2018 by Hymans Robertson LLP, an independent actuarial firm.

Notes to the Financial Statements



23. Financial Instruments

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

	Note	Group		Company	
		2018	2017	2018	2017
		£000	£000	£000	£000
Financial assets					
Measured at fair value through income and expenditure					
Investments	16	5,213	5,125	5,213	5,125
Measured at undiscounted amount receivable					
Trade receivables	18	6,655	5,637	2,823	2,835
		<u>11,868</u>	<u>10,762</u>	<u>8,036</u>	<u>7,960</u>
Financial liabilities					
Measured at amortised cost					
Loans payable	19,20	16	24	16	24
Measured at undiscounted amount					
Trade and other taxation and social security creditors	19	6,404	6,578	5,892	5,849
		<u>6,420</u>	<u>6,602</u>	<u>5,908</u>	<u>5,873</u>

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

	Note	2018	2017	2018	2017
		£000	£000	£000	£000
Fair value gains on financial assets measured at fair value through income and expenditure	16	2	627	2	627

Notes to the Financial Statements



24. Reconciliation of Group Operating Surplus to Net Cash Inflow/ (Outflow) from Operating Activities

	2018 £000	2017 £000
Operating surplus	2,518	5,092
(Gain) on disposal of fixed assets	(140)	(1,597)
Unrealised movements on investments	(2)	(627)
Pension costs less contributions payable	747	(109)
Depreciation (note 13, 15)	4,770	4,735
Impairment (note 15)	85	950
Goodwill release (note 14)	(1,170)	(2,163)
Deferred capital grants released to income (note 21)	(2,603)	(3,795)
Proceeds on disposal transferred to deferred grant	(648)	-
Interest received	(62)	(56)
Endowment income	(86)	(818)
Interest paid (note 12)	777	610
	<u>4,186</u>	<u>2,222</u>
(Increase) in stock	(58)	(89)
(increase)/decrease in debtors	(1,489)	2,283
Increase in creditors	313	1,233
Net cash inflow from operating activities	<u>2,950</u>	<u>5,649</u>

25. Returns on Investments and Servicing of Finance

	2018 £000	2017 £000
Bank Interest received	62	56
Interest paid on loans and finance charges (note 12)	(13)	(18)
Net cash inflow from return on investments and servicing of finance	<u>49</u>	<u>38</u>

26. Capital Expenditure and Financial Investment

	2018 £000	2017 £000
Purchase of tangible fixed assets	(5,500)	(5,332)
Purchase of intangible fixed asset	(465)	(243)
Proceeds of sale of tangible fixed assets	94	2,861
Deferred capital grants received less repaid (note 21)	3,787	2,482
Net cash (outflow) from investing activities	<u>(2,084)</u>	<u>(232)</u>

Notes to the Financial Statements



27. Financing

	2018 £000	2017 £000
Repayment of bank loans	(9)	(10)
Capital element of finance leases repaid	(95)	(95)
Net cash (outflow) from financing activities	<u>(104)</u>	<u>(105)</u>

28. Analysis of Changes in Net Funds

	At 1 April 2017 £000	Net Change £000	At 31 March 2018 £000
Cash in hand and at bank	13,002	811	13,813
Debt	(24)	10	(14)
Finance leases	(285)	95	(190)
Net cash	<u>12,693</u>	<u>916</u>	<u>13,609</u>

29. Endowment Reserves

Restricted net assets relating to endowments are as follows:

	Group and company			
	Restricted Permanent £000	Restricted Expendable £000	Unrestricted £000	Total £000
At 1 April 2017				
Capital	4,212	252	474	4,938
New endowments			6	6
Investment income	121	7	13	141
Expenditure	(37)	(8)	(16)	(61)
Increase/(decrease) in market value	7	-	(13)	(6)
Total comprehensive income for the year	<u>91</u>	<u>(1)</u>	<u>(10)</u>	<u>80</u>
At 31 March 2018	<u>4,303</u>	<u>251</u>	<u>464</u>	<u>5,018</u>

Analysis by asset:

	2018 £000	2017 £000
Investments	4,894	4,109
Cash and cash equivalents	124	829
	<u>5,018</u>	<u>4,938</u>

Notes to the Financial Statements



30. Obligations Under Leases and Hire Purchase Contracts

Amounts due under finance leases and hire purchase contracts:

	Group and company	
	2018	2017
	£000	£000
Amounts payable:		
Within one year	101	95
Between two and five years	90	191

As at 31 March 2018, the annual commitment under non-cancellable operating leases was as follows:

	Land and Buildings		Equipment	
	2018	2017	2018	2017
	£000	£000	£000	£000
Operating lease which expire				
Within one year	196	175	22	25
In two to five years	239	256	220	85
In over five years	124	112	-	-

31. Pensions

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

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

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

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

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

31. Pensions (Cont'd)

ii) The SRUC Group Pension Plan

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

iii) The Citrus Pension Plan

The Citrus scheme is a defined benefit scheme and was offered to new entrants from 1 June 2001 until the scheme's closure to new entrants on 31 December 2004. The scheme was reopened to new members on 1 October 2015. The assets of the scheme are held in a separately administered fund. The last formal triennial valuation was performed as at 31 March 2017 by a professionally qualified actuary. The contributions are set at 9 and 9.5% for employees and 25 and 24.5% for the employer. Additional payments of £265k per annum are made into the plan.

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

Assumptions

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

Weighted average assumptions used to determine benefit obligations	2018	2017
Price inflation (RPI)	3.30%	3.40%
Price inflation (CPI)	2.30%	2.40%
Rate of pension increase (RPI capped at 5%)	3.20%	3.30%
Rate of pension increase (RPI capped at 2.5%)	2.20%	2.25%
Rate of pension increase (CPI capped at 2.5%)	1.80%	1.85%
Rate of salary increase	4.30%	4.40%
Discount rate	2.65%	2.65%

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

	2018	2017
Member Age 65 future life expectancy - male	23.2	24.5
Member Age 65 future life expectancy - female	24.3	24.5
Member Age 45 future life expectancy at age 65-male	24.3	25.8
Member Age 45 future life expectancy at age 65 - female	26.5	26.0

Notes to the Financial Statements



31. Pensions (cont'd)

iii) The Citrus Pension Plan (cont'd)

The assets and liabilities of the scheme at 31 March 2018 are:

	Fair value at 2018
Assets	£000
Scheme assets at fair value	£000
Equities	3,487
Multi asset credit funds	4,461
Diversified growth and hedge funds	7,254
Corporate Bonds	10,103
Liability-driven investments	3,673
Cash	228
Total	29,206
Present value of scheme liabilities	(49,613)
Deficit in the scheme- net pension liability	(20,407)

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

	Approximate increase in scheme liabilities %	£000
0.5% decrease in real discount rate	14.4%	7,160
1 year increase in member life expectancy	4.0%	1,984
+0.5% change in salary increases	2.7%	1,351
+0.5% change in inflation	9.4%	4,639

	2018 £000	2017 £000
Analysis of the amount charged to operating surplus		
Current service cost	2,006	1,465
Past service costs	-	212
Administration costs	90	59
	<u>2,096</u>	<u>1,736</u>

Analysis of the amount charge to other finance income

Interest income on Plan assets	754	866
Interest charge on Plan liabilities	(1,256)	(1,227)
Net charge to other finance income	<u>(502)</u>	<u>(361)</u>

Notes to the Financial Statements



31. Pensions (cont'd)

iii) The Citrus Pension Plan (cont'd)

Analysis of amount recognised in Other Comprehensive Income (OCI)

	2018	2017
	£000	£000
Actual return on assets excluding amounts included in net interest	(426)	2,778
Actuarial gains /(losses) on plan obligations	788	(11,373)
Re-measurement gain/ (loss) recognised in OCI	362	(8,595)

Analysis of movement in the deficit

Deficit at 1 April 2017	(19,642)	(10,672)
Contributions paid by the College	1,471	1,510
Current service cost	(2,096)	(1,524)
Other finance charge	(502)	(361)
Gain/(loss) recognised in comprehensive income	362	(8,595)
Deficit at 31 March 2018	(20,407)	(19,642)

Change in benefit obligation

Opening defined benefit obligation	47,852	34,162
Current service cost	2,006	1,465
Administration cost	90	59
Interest cost	1,256	1,227
Scheme participants' contributions	23	16
Actuarial (gains)/losses	(788)	11,373
Past service costs	-	212
Benefits paid	(826)	(662)
Benefit obligation as at 31 March	49,613	47,852

Change in scheme assets

Opening fair value of scheme assets	28,210	23,490
Interest income	754	866
Member contributions	23	16
Employer contributions	1,471	1,722
Actual return on assets	(426)	2,778
Benefits paid	(826)	(662)
Fair value of scheme assets as at 31 March	29,206	28,210
Net amount recognised	(20,407)	(19,642)

31. Pensions (cont'd)

iv) The Local Government Pension Schemes

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

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

Fife Council Pension Fund ("FCPF")

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

Dumfries and Galloway Council Pension Fund (DGCPF)

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

Lothian Pension Fund (LPF)

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

Assumptions

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

Weighted average assumptions used to determine benefit obligations	2018	2017
Price inflation (RPI)	*3.4%	3.4%
Price inflation (CPI)	**2.4%	2.4%
Rate of pension increase	2.4%	2.4%
Discount rate	2.7%	2.6%
Rate of salary increase- Dumfries	3.2%	4.4%
Rate of salary increase- Fife	2.9%	3.6%
Rate of salary increase- Lothian	4.1%	4.4%

* Lothian pension fund is 3.5%

**Lothian pension fund is 2.5%

Notes to the Financial Statements



31. Pensions (cont'd)

iv) The Local Government Pension Schemes

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

	Fife Council Pension fund		Dumfries and Galloway Pension fund		Lothian Council Pension fund	
	2018	2017	2018	2017	2018	2017
Male Member Age 65 (life expectancy at age 65)	21.2	22.0	21.8	22.7	21.7	22.1
Male Member Age 45 (life expectancy at age 65)	22.6	24.1	23.0	24.5	24.7	24.2
Female Member Age 65 (life expectancy at age 65)	23.8	23.7	24.3	24.0	24.3	23.7
Female Member Age 45 (life expectancy at age 65)	25.8	26.3	26.2	26.7	27.5	26.3

The assets and liabilities of the three schemes at 31 March 2018 are:

	2018 £000
Assets	
Scheme assets at fair value	
Equities	20,377
Corporate Bonds	3,744
Property	2,430
Cash	1,138
Total	27,689
Present value of scheme liabilities	(32,226)
Deficit in the scheme- net pension liability	(4,537)

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

	Approximate increase in scheme liabilities %	£000
0.5% decrease in real discount rate	10%	3,381
1 year increase in member life expectancy	9%	2,880
0.5% increase in the pension increase rate	1%	458

Notes to the Financial Statements



31. Pensions (cont'd)

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

	2018 £000	2017 £000
Analysis of the amount charged to operating surplus		
Current service cost	700	421
Analysis of the amount charge to other finance income		
Interest income on Plan assets	711	785
Interest charge on Plan liabilities	(973)	(1,016)
Net charge to other finance income	<u>(262)</u>	<u>(231)</u>
Analysis of amount recognised in Other Comprehensive Income (OCI)		
Actual return on assets excluding amounts included in net interest	(342)	4,125
Actuarial gains/gains on plan obligations	5,041	(7,336)
Re-measurement gain/(loss) recognised in OCI	<u>4,699</u>	<u>(3,211)</u>
	2018 £000	2017 £000
Analysis of movement in the deficit		
Deficit at 1 April 2017	(8,849)	(5,530)
Contributions paid by the College	575	544
Current service cost	(700)	(421)
Other finance charge	(262)	(231)
Gain/(loss) recognised in comprehensive income	4,699	(3,211)
Deficit at 31 March 2018	<u>(4,537)</u>	<u>(8,849)</u>
Change in benefit obligation		
Opening defined benefit obligation	36,233	27,943
Current service cost	700	421
Interest cost	973	1,016
Scheme participants' contributions	112	126
Actuarial (gains)/losses	(5,041)	7,336
Benefits paid	(751)	(609)
Benefit obligation as at 31 March	<u>32,226</u>	<u>36,233</u>
Change in scheme assets		
Opening fair value of scheme assets	27,384	22,413
Interest income	711	785
Member contributions	112	126
Employer contributions	575	544
Actual return on assets	(342)	4,125
Benefits paid	(751)	(609)
Fair value of scheme assets as at 31 March	<u>27,689</u>	<u>27,384</u>

Notes to the Financial Statements



31. Pensions (cont'd)

Summary of FRS 102 net Pension liabilities

	2018 £000	2017 £000
Citrus Pension Plan	(20,407)	(19,642)
Dumfries and Galloway Pension Fund	(1,750)	(3,493)
Fife Council Pension Fund	(1,539)	(3,271)
Lothian Council Pension Fund	(1,248)	(2,085)
Total net pension liability	(24,944)	(28,491)

v) Scottish Teachers Superannuation Scheme (STSS)

The STSS is an unfunded multi-employer defined benefit scheme and it is not possible to identify each institution's share of the liabilities therefore, contributions to the scheme are accounted for as if it were a defined contribution scheme. Benefits are funded through pension contributions deducted from members salaries and a contribution from their employees. Contribution rates and benefits are set by Scottish Ministers on advice from SPPA and the scheme's actuaries. The cost recognised within the results for the year is the contribution payable to the scheme for that year. The agreed contribution rates for future years are 17.2% for employers and range from 6.4% - 12.4% for employees.

32. Investments in subsidiaries

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

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

The results of these entities are consolidated in the Group accounts

33. Bursary and Other Student Support Funds

	Bursary £000	Hardship £000	EMA's £000	Other £000	2018 Total £000	2017 Total £000
1 April 2017	(147)	68	6	1	(72)	139
Received during the year	1,882	197	172	-	2,251	2,247
Refunded to SFC	-	(9)	-	-	(9)	-
Virement of funds	46	(24)	-	-	22	(37)
Expenditure	(1,993)	(290)	(165)	-	(2,448)	(2,241)
31 March 2018	<u>(212)</u>	<u>(58)</u>	<u>13</u>	<u>1</u>	<u>(256)</u>	<u>(72)</u>

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

Notes to the Financial Statements



33. Bursary and Other Student Support Funds (cont'd)

Childcare Funds

	2018 £000	2017 £000
1 April, 2017	28	(28)
Received in year	26	64
Refunded to SFC	-	-
Variant of funds	(22)	37
Expenditure	(49)	(45)
31 March 2018	(17)	28

34. Related party transactions

During the year the group and the company entered into related party transactions with wholly controlled undertakings in the ordinary course of business whose results are included in these group accounts, therefore the exemption under FRS102 on non disclosure of those transactions has been applied. In addition income from joint research work with NIAB amounted to £122k, where the chief Executive is the spouse of the Principal of SRUC. No other material related party transactions have taken place.

35. Capital Commitments

Amounts contracted for but not provided in the financial statements amounted to £3,747k.

General information



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