



**SRUC**

**REPORT AND FINANCIAL  
STATEMENTS**

**31 MARCH 2017**

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

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The past year since I joined SRUC, has been marked by considerable change. Responding positively to the challenge of change at SRUC has been fast-paced, exciting and most of all enjoyable. This process culminated in April with the publication of our [strategy discussion document](#) a new strategy and subsequent consultation with all staff and stakeholders. In response to that document I have been impressed by the dedication of SRUC colleagues and their willingness to become actively involved in the change process. Such feedback is vital as without positive engagement our future direction, positioning and structure will not have the firm foundations required to succeed.

As we advance our ambitious and bold change programme it is important that we do so on the basis of being financially sustainable. SRUC's finances for the year ended 31 March 2017 have shown improvement and the underlying operating position has resulted in an £0.9m surplus compared with a £0.3m deficit for the prior year. While this is encouraging, it is a key tenet of our change programme that we achieve a consistently higher level of surplus in the future to ensure financial sustainability and be in a position to invest in our future growth.

The SRUC leadership team will also be a crucial factor in our success. Our Chairman Pat Machray who decided to step down on 31 July, has made a tremendous contribution to SRUC over the past 10 years on the Board and I'm grateful for the support he has given me since I joined SRUC. Following an external recruitment exercise, Sandy Cumming, previously chair of F&GP, who has been a director since 2011, has taken over as Chairman and will help lead our transformational strategy. I very much look forward to working with Sandy over the coming years.

Janet Swadling, who had been a director for 16 years, left SRUC in August 2017. Janet made a significant contribution to SRUC over that period including two periods as Acting Principal and CEO and then latterly as my Deputy. Her extensive knowledge of SRUC was invaluable to me in my first year, and I wish to thank Janet for her contribution to SRUC over the past two decades.

In addition I wish to thank Luke Borwick, Wilson Marshall and James Bamkin for the very useful contribution they have made as non-executive directors.

We also welcome four new SRUC and SAC Commercial Board members who will join us in October, bringing considerable knowledge and experience: Jim Hume, farmer, former MSP and Convenor of the recently launched National Rural Mental Health Forum; Caroline Millar, Director of Go Rural and Chair of the Oxford Farming Conference; Ian Ross OBE, forester, chair of the Forestry Advisory Group and former chair of SNH; and Bruce Wood, a senior consultant with legal firm Morton Fraser who holds the personal appointment as Solicitor to The Queen in Scotland.

We have made a number of new appointments to the SRUC senior team. This includes Gavin MacGregor, HR Director who joined us in January from North Ayrshire Council who brings excellent skills and experience of operational and culture change. Colin MacEwan as Director of Commercialisation and Innovation. Colin comes to us from the Norwich-based British Beet Research Organisation (BBRO). He will be responsible for leading the development and implementation of a growth-focused commercialisation strategy. Professor Jamie Newbold has been appointed as our new Academic Director. He was Professor of Animal Science at Aberystwyth University's Institute of Biological and Rural Sciences in Wales, a position he has held since 2003. He joined us on 1 September 2017 and has responsibility for SRUC's research and education portfolio.

Finally our success lies in our people, students, staff and stakeholders all fulfilling their potential. I wish to thank everyone who contributed to our consultations on the strategic discussion document. Your enthusiasm and willingness to be an active part of our future is vital to our future success.

Our aim is to inspire all our stakeholders by communicating new ideas, developments and innovation, embracing change and thereby converting challenges into new opportunities.

Professor Wayne Powell

The directors present the Strategic Report of SRUC for the year ended 31 March 2017. 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 are currently delivered through three operational divisions: Research, Education and Consulting and these divisions are supported by a Finance and Professional Services Division.

During the year to 31 March 2017 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 25 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").

A full statement of the Board's responsibilities is detailed on page 15, membership of the Board is detailed on page 8 and the Board's corporate governance arrangements are detailed on pages 13-14. 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 2017, is taken to include SRUC, SAC Commercial Ltd, the SAC Foundation and Equestrian Facilities Scotland Ltd.

## Vision, Aims and Mission

SRUC's overarching vision is focused on:

"Being a bold world leader providing innovative and sustainable solutions to solve agri-food challenges in agriculture, land and the rural sector".

It will achieve this vision through the following global aim:

"To provide world-leading education, training, innovation, research, and consulting, in support of global food and environmental security, sustainable rural development, and animal and human wellbeing".

SRUC's mission is:

"To provide an integrated hub of world leading teaching, research and advice, practically focused, industry facing and with a clear remit to stimulate growth and innovation in Scotland's rural economy and beyond".

## Financial Highlights

### Results for the year

#### Reconciliation of total comprehensive income to operating result.

	2017 £m	2016 £m
Total unrestricted comprehensive income (page 18)	(8.1)	4.8
Actuarial loss/(gain)	11.8	(2.9)
Gains on fixed asset disposals	(2.9)	(0.9)
Research tax credit	-	(1.4)
Other non-recurring items	<u>0.1</u>	<u>0.1</u>
Operational surplus/(loss)	<u>0.9</u>	<u>(0.3)</u>

Although the Statement of Comprehensive Income reports a total deficit of unrestricted income of £8m for the year, the underlying operating position was a surplus of £0.9m as shown in the table above. This compares with an operating loss of £0.3m in the prior year and a deficit budget of £0.5m. 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 £1.5m, the above reconciliation shows a surplus on disposal of £2.9m as it reflects the release of the related capital grants and negative goodwill on these assets. The other items relate to provisions no longer required and severance costs funded by SRUC of £0.4m in the year.

The Statement of Comprehensive Income shows a decrease in turnover of £2.4m from 2016. However after taking account of a decrease in grants released in respect of fixed assets disposals, turnover has reduced by £700k. A decrease in Scottish Government grants, tuition fees, education and research contracts and other income has been countered by increases in Scottish Funding Council grants, the Research Excellence grant and advisory and consultancy income.

For the year ended 31 March 2017 SAC Commercial Ltd made a profit of £5.6m and after payment of £5.6m of gift aid, had a retained loss of £38k.

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	2.3%	1.3%
Operating cash flow	4.5%	8.9%
Staff costs	<57%	57.9%

Note: The Turnover figure used to calculate the operating surplus and staff cost percentages excludes non-recurring income, merger funding and the release of deferred capital grants.

Whilst not all the targets have been achieved, the cash flow target has been exceeded. The future financial plans are being compiled alongside the development of the strategy to achieve the longer term aims of improved margins to ensure future financial sustainability.

### Balance Sheet

	2017 £m	2016 £m
Net assets	<u>4.6</u>	<u>11.3</u>

The main reason for the significant decrease in net assets is the increase in the pension liability which was expected as noted in last year's financial statements following the Brexit vote and the impact on bond yields.

### Fixed assets

The net book value of fixed assets at 31 March 2017 was £87.8m. Additions in the year amounted to £5.3m and consisted of a number of smaller additions to buildings and equipment.

## Investments and Endowments

The value of SRUC's endowment asset investments has increased by £1.4m to £4.9m at 31 March 2017 as a result of a new endowment and an increase in the value of the underlying investments.

The value of SRUC's listed investment increased by £33k to £187k at 31 March 2017.

## Cash & Treasury Management

The cash balance held by SRUC at 31 March 2017 was £13m, an increase of £5.3m, which can be attributed in the main to the movement in working capital.

## Pension Liability

The total pension liability at 31 March 2017 was £28.5m. This was an increase of £12.3m from 2016 and relates to the four final salary pension schemes operated by SRUC. Deficit recovery plans are in place.

## 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.

### 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.

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 Management Team (EMT), the Audit and Risk Committee and the Board. SRUC has developed Risk Registers for each of the operating divisions.

## Future Developments and Factors Influencing Performance

In order to address the risks set out above, the development of SRUC's ambitious future strategy is also focused on future sustainability and an efficient and effective operating model.

SRUC has a vision to be the best land and rural based institution in Scotland and the UK, leading the way internationally in its world leading research and education programmes and consultancy. To do this SRUC requires to undergo a significant transformational process that effectively reinvents the organisation and ensures its business model is fully sustainable, meeting the future requirements of our students, research and consulting clients and the key industries that we serve.

In this radical transformation plan it is our intention to further integrate our expertise across education, research and consultancy to provide interdisciplinary teams that absorb and transform new science and technology to deliver systems based solutions to local, national and global environmental challenges. By integrating we will put innovation at the heart of everything we do. Being innovative will enable us to shorten the time lag between discovery and practical application and hence better support a resilient and dynamic agri-rural economy. Our focus is on being Industry facing, fully utilising our advisory arm, SAC Consulting, to support farmers, crofters, land managers, veterinary practices and food businesses throughout Scotland. In so doing we will ensure we meet industry needs and help create economic growth. Challenges in Scotland are reflected across the world. As such we wish to grow our international collaborations providing multidisciplinary solutions to global challenges and capacity building, while being open and learning lessons to help clients and stakeholders in Scotland.

SRUC will establish strong regional programmes of education and research tailored to local needs but be outward facing to ensure national and international impact. We will establish a clear progression for students in refreshed courses based on excellence, innovation, industry focus and being entrepreneurial. In addition our current world leading research programmes, will be further progressed to continue to be best in class in the UK and have world impact. The focus of SRUC research will be designed to have application in mind, providing clear routes to commercialisation stimulating and contributing to the future prosperity and the sustainability of Scotland. Crucially, in order to achieve its mission,

the translation and transfer of research outputs through our leading knowledge exchange activities is essential and provides full linkage to our consulting services.

The senior leadership team will be critical to the successful implementation of our strategy. New appointments are highlighted in the Principal's report.

In the UK and Internationally the Agri-food industries face substantial challenges to feed a world population of up to 9bn by 2035. These challenges are not just scientific, but cultural, economic and social. Solutions must be grounded in multidisciplinary, multifaceted approaches. Working together in a smart connected way in collaboration with others is essential to address these "grand" challenges. Patterns of R&D investment are changing dramatically, the gap between high and low income countries is widening, in addition, private sector investment is catching up with public sector spending and these dynamics will shape the future of global food production.

Key technologies could, if harnessed in a thoughtful connected way, help achieve these grand challenges. Such key technologies are: plant and animal genomics and related technologies; human, animal and soil microbiota; digital technologies; new technologies for food processing; transformation in the food value chain system. These need to be connected to social and cultural factors including healthy living and lifestyles, consumer preference and choice; increasing affluence as well as environmental sciences addressing sustainable intensification; achieving carbon neutrality; tackling climate change. Many of these technologies will generate and use vast quantities of data. Data storage, use, acquisition will be key to achieving the step changes required. Infrastructures will need to be created, they will only achieve results if information and data are shared, the culture will need to change in a similar way to the change achieved by the advent of social media in the first decade of the 21st century. They will drive change, and promote the advent of knowledge intensive services, providing new sources of revenue, leading also to collaborative farming, leasing, processing of biomass and organic waste, forestry, paper, food retail, food science and domestic consumption. A wide range of products will result, biofuels, green chemicals, composts, animal feeds, food additives, high value molecules, as a few examples.

The development of a smart farming ecosystem, which is both complex and interacted will have a range of players both in public and private sectors, and requires effective partnering and collaboration to fully understand the complexity of the landscape and how to integrate new knowledge and data. To achieve sustainable intensification will also require formulation of new science led policies and to address regulatory issues in a new way. In addition end user acceptance will be required; it will not be enough to assume it will be adopted without question.

Therefore work from the social sciences, integrating with science and technology push to help demand led pull will be required. The social sciences will have a key role to play by being integrated into design, development and implementation of new technologies to achieve new industry and societal needs. What is clear is that sustainable intensification is not yet a reality, realising an increase in food productivity without competition with natural habitats will need new science, new technology, new tools for farmers and processors as well as investment in research. This will mean a collaborative approach, farmers, advisers, researchers and other stakeholders such as consumers and environmental organisations working together, nationally and internationally. In addition there is an important role for policy to encourage farmer adoption of new knowledge and emerging technologies. SRUC with its multifunctional approach coupled with strong Knowledge Exchange capability is well positioned to help achieve this transformation.

Making a key and meaningful significant contribution to these grand challenges is at the heart of our transformational strategy in the coming decades.

Wayne Powell  
Principal and Chief Executive  
6 October 2017



# Directors' Report



Registered No: SC103046

The directors present their report for the year ended 31 March 2017

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	Oct 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	Jun 2018	Non-Executive
Mr P Machray OBE (Chairman from 9 Oct 2015)	4 Oct 2007	31 Jul 2017	Non-Executive
Mr A Marshall (Vice Chairman from Oct 2012)	5 Oct 2012	Oct 2018	Non-Executive
Mr W Marshall	5 Oct 2012	5 Oct 2017	Non-Executive
Ms C Millar	6 Oct 2017	Oct 2020	Non-Executive
Mr N Miller	1 May 2015	Oct 2018	Non-Executive
Professor S McDaid, CBE (Vice Chairman from October 2015)	11 Oct 2013	Oct 2019	Non-Executive
Professor W Powell	1 Jul 2016	n/a	Chief Executive
Dr K Richards	11 Oct 2013	Oct 2019	Non-Executive
Mr A Robb (student elected)	10 Jul 2015	30 Jun 2016	Non-Executive
Mr W Ross OBE	6 Oct 2017	Oct 2020	Non-Executive
Professor G Simm	10 Dec 2009	29 Jun 2016	Executive
Professor S Skerratt (staff elected)	7 Dec 2015	Oct 2018	Non-Executive
Ms J Swadling	2 Oct 2001	8 Jun 2017	Deputy Chief Executive*
Professor C Williams	9 Oct 2015	Oct 2018	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.

\* Acting Chief Executive from 1 December 2013 to 30 June 2016

## Directors' attendance

Details of the Directors' attendance record at Board meetings and relevant Board Committee meetings in the period 1 April 2016 to 31 March 2017 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	A&R Committee	Audit & Risk Committee	F&GP Committee
<b>Number of meetings in period</b>	<b>6</b>	<b>5</b>	<b>6</b>	<b>3</b>	<b>5</b>
Mr J Bamkin (Student elected) ++	1(1) <sup>***</sup> 3(3)	3(3) <sup>***</sup>			
Mr L Borwick	6(6)	5(5)			3(6)
Mr J Cross *	4(4) <sup>***</sup>	5(5)		2(2)	
Mr J Cumming CBE	6(6)	4(4) <sup>***</sup>	8(8)	1(1) <sup>***</sup>	6(6)
Mr R Dinning	5(6)	2(2) <sup>***</sup>		4(4)	
Mr D Green *	2(2) <sup>***</sup>	2(2)		1(2)	
Mr P Machray OBE +	6(6)	5(5)	8(8)		
Mr A Marshall	6(6)	5(5)	5(5)	4(4)	
Mr W Marshall	6(6)	5(5)			4(6)
Professor S McDaid CBE	6(6)	4(4) <sup>***</sup>	7(8)		5(6)
Mr J McLean *	4(5) <sup>***</sup>	4(5)			4(6)
Mr N Miller	5(6)	4(5)			
Prof W Powell	2(2) <sup>***</sup> 3(3)	1(1) <sup>***</sup> 3(3)	7(7) <sup>**</sup>	3(3) <sup>**</sup>	4(4) <sup>**</sup>
Dr K Richards	6(6)	5(5)			
Mr Alex Robb (Student elected) ~	2(3)				
Professor G Simm ~~	2(2)	1(1)			2(2) <sup>***</sup>
Professor Sarah Skerratt (Staff elected)	5(6)	2(2) <sup>***</sup>			
Ms J D Swadling	6(6)	5(5)	8(8) <sup>**</sup>	4(4) <sup>**</sup>	6(6) <sup>**</sup>
Mr M Wijnberg *	5(5) <sup>**</sup>	5(5)			2(2) <sup>***</sup>
Professor C Williams	5(6)	2(2) <sup>***</sup>		3(4)	

\*SAC Commercial Board member only

\*\* In attendance

\*\*\* By invitation

+ Chair from 8 October 2015

++ Appointed from 30 September 2016

~ Left office on 30 June 2016

~~ Left office on 29 June 2016

## 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. A communications and engagement strategy has been in place since the merger. It includes a monthly Core Brief, which provides staff with a summary of the key issues faced by SRUC and any actions considered necessary by the Executive Management Team (EMT) and also provides details of successes enjoyed. This is supported by regular Blogs by the Chief Executive which address pertinent matters at the time. In addition line managers are asked to supplement the Core Brief with information and news relevant to their immediate reports and staff. All staff are encouraged to participate, provide feedback and raise questions with EMT via their line managers.

## 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.

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.

## Modern Slavery Act 2015

SRUC is committed to maintaining and improving our systems and processes to avoid any complicity in human rights violations, both in relation to our own operations and those of our supply chain.

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.

SRUC has a zero tolerance policy towards slavery and human trafficking.

Within the current financial year we are undertaking a review of our procurement policies to ensure that all persons within our supply chain are compliant with the provisions of the Modern Slavery Act 2015 (the "Act").

Our supplier selection process has been reviewed and future invitations to tender will include an assessment of our suppliers understanding and commitment to the Act, both in their own employment practices and those within their supply chain partners.

We would encourage any employee to report in 'good faith' any issues or concerns about potential breaches of the Act.

## 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.

SRUC have publicly declared our intention to address the challenges of climate change and

reduce our carbon footprint by signing the Universities and Colleges Climate Commitment for Scotland (UCCCFs). The UCCCFs agreement coordinates the education sector's response to the Scottish Government's Climate Change (Scotland) Act 2009, which sets long-term carbon reduction targets of 42% and 80% by 2020 and 2050 respectively. We are committed to improve Scotland's natural and built environment through our primary role as an educator, skill trainer and researcher; as an owner of a large and complex estate; and as the focus of many local communities. As a signatory we have to produce and publish a Carbon Management Plan to be incorporated into established improvement processes, with the aim to achieve a significant reduction in emissions; this is currently being drafted.

## 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.

## 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 2017 there were 42 days (2016 – 40 days) of creditors outstanding. Interest paid under the Late Payment of Commercial Debts (Interest) Act 1998 amounted to nil (2014 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' Statement as to Disclosure of Information to External Auditors

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

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's 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 6 October 2017 and signed on its behalf by:

James Cumming  
Chairman

Wayne Powell  
Principal and Chief Executive

## Introduction

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

This summary describes the manner in which the Board has applied the principles of the UK Corporate Governance Code issued by the Financial Reporting Council in 2016 and the main principles of the Scottish Code of Good HE Governance. In addition, due regard has been taken of the Turnbull Committee Guidance on internal control as amended by the British Universities Finance Directors Group and 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

In terms of the Financial Memorandum agreed with the Scottish Funding Council, all Higher Education Institutions are required to comply with the principles of good governance set out in the Scottish Code of Good HE Governance. In the opinion of the Board, SRUC complies in all material respects with the principles set out in the Code.

## Board of Directors

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

## Board Committees

In order to be able to devote sufficient time to strategic issues, the Board delegates certain tasks to its standing committees 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 EMT. 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 Vice Chairman of the Board.

## 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 EMT 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 EMT 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. 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 EMT and the Audit and Risk Committee.

The SRUC Board is of a view that there is an on-going process for identifying, evaluating and managing the SRUC's significant risks, and that it has been in place throughout the year ended 31 March 2017 and up to the date of approval of the annual report and financial statements.

James Cumming  
Chairman

Wayne Powell  
Principal and Chief Executive

6 October 2017

# 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.

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Institution will continue in operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board has taken reasonable steps to:

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



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

We have audited the financial statements of SRUC for the year ended 31 March 2017 which comprise the Group and Company Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statement of Changes in Reserves, the Group Cash Flow Statement, the Statement of Principal Accounting Policies and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Charitable Company's trustees and members, as a body, in accordance with our appointment under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Charitable Company's trustees and members those matters we are required to state to them in an 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 the Charitable Company and the Charitable Company's trustees and members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditor

As explained more fully in the Statement of the Responsibilities of the Board of SRUC, as set out on page 15, the trustees (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, regulations and International Standards on Auditing (UK and Ireland).

Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

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

## Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and Charitable Company's affairs as at 31 March 2017 and of the Group's and the Charitable Company's incoming resources and application of resources, including its income and expenditure, 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 and Republic of Ireland' and 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.

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

## Opinion on other matter 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;
- the Strategic Report and the Directors' Report has been prepared in accordance with applicable legal requirements.

## Opinion on other matters prescribed by the terms of our engagement

In our opinion:

- 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 light of our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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

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

Stephen Reid (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP (Statutory Auditor)

Ernst & Young LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

Edinburgh  
9 October 2017

The maintenance and integrity of SRUC web site is the responsibility of the Board of Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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 2017

		2017	2016	2017	2016
	Note	Group £000	Group £000	Company £000	Company £000
<b>Income</b>					
Scottish Government grants	1	15,932	19,281	13,720	19,143
Scottish Funding Council	2	23,958	21,359	23,930	21,252
Tuition fees and education contracts	3	5,615	6,315	5,585	6,302
Research grants and contracts	4	7,427	8,509	3,131	3,629
Advisory and consultancy contracts	5	14,643	13,445	1,807	1,433
Other operating income	6	8,613	10,415	10,008	11,949
Investment income	7	190	174	190	174
<b>Total income before endowments and donations</b>		<b>76,378</b>	<b>79,498</b>	<b>58,371</b>	<b>63,882</b>
Endowments and donations	8	736	10	736	10
<b>Total Income</b>		<b>77,114</b>	<b>79,508</b>	<b>59,107</b>	<b>63,892</b>
<b>Expenditure</b>					
Staff costs	9	42,482	42,856	41,137	41,555
Other operating expenditure		25,469	24,404	8,862	7,695
Depreciation and impairment	13,15	5,685	6,572	5,542	6,415
Interest and other finance costs	12	610	639	610	639
<b>Total expenditure</b>	11	<b>74,246</b>	<b>74,471</b>	<b>56,151</b>	<b>56,304</b>
<b>Surplus before other gains and losses</b>		<b>2,868</b>	<b>5,037</b>	<b>2,956</b>	<b>7,588</b>
Gain/(loss) on disposal of fixed assets		1,597	(3,087)	1,552	(3,091)
Movement in value of investments		627	(406)	627	(406)
<b>Surplus/(deficit) for the year</b>		<b>5,092</b>	<b>1,544</b>	<b>5,135</b>	<b>4,091</b>
Actuarial (loss)/gain in respect of pension schemes		(11,806)	2,879	(11,806)	2,879
<b>Total comprehensive income for the year</b>		<b>(6,714)</b>	<b>4,423</b>	<b>(6,671)</b>	<b>6,970</b>
Represented by:					
Endowment comprehensive income for the year		1,412	(343)	1,412	(343)
Unrestricted comprehensive income for the year		(8,126)	4,766	(8,083)	7,313
		<b>(6,714)</b>	<b>4,423</b>	<b>(6,671)</b>	<b>6,970</b>

All items of income and expenditure relate to continuing activities.

# Statement of Changes in Reserves

Year ended 31 March 2017



	Endowment	Unrestricted	TOTAL
Group	£'000	£'000	£'000
<b>Balance at 1 April 2015</b>	3,869	3,060	6,929
Surplus from the income and expenditure statement	(343)	1,905	1,562
Other comprehensive income	-	2,861	2,861
Total comprehensive income for the year	(343)	4,766	4,423
<b>Balance at 1 April 2016</b>	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)
<b>Balance at 31 March 2017</b>	4,938	(300)	4,638
<b>Company</b>			
<b>Balance at 1 April 2015</b>	3,869	341	4,210
Surplus from the income and expenditure statement	(343)	4,452	4,497
Other comprehensive income	-	2,861	2,861
Total Comprehensive income for the year	(343)	7,313	6,970
<b>Balance at 1 April 2016</b>	3,526	7,654	11,180
Surplus /(deficit) 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)
<b>Balance at 31 March 2017</b>	4,938	(429)	4,509

# Balance Sheet

## At 31 March 2017



	Note	Group		Company	
		2017 £000	2016 £000	2017 £000	2016 £000
<b>Non-current assets</b>					
Intangible assets	13	801	720	801	720
Negative goodwill arising from College merger	14	(35,563)	(37,726)	(35,563)	(37,726)
Fixed assets	15	87,084	87,806	87,084	87,806
Investments	16	5,125	3,680	5,125	3,680
		<u>57,447</u>	<u>54,480</u>	<u>57,447</u>	<u>54,480</u>
<b>Current assets</b>					
Stocks	17	2,590	2,501	2,590	2,501
Debtors	18	12,223	13,175	8,006	10,213
Assets held for resale		420	1,155	420	1,155
Cash and cash equivalents		13,002	7,652	12,799	6,266
<b>Total current assets</b>		<u>28,235</u>	<u>24,483</u>	<u>23,815</u>	<u>20,135</u>
<b>Creditors: amounts falling due within one year</b>	19	<u>(21,411)</u>	<u>(18,968)</u>	<u>(17,120)</u>	<u>(14,792)</u>
<b>Net current assets</b>		<u>6,824</u>	<u>5,515</u>	<u>6,695</u>	<u>5,343</u>
<b>Total assets less current liabilities</b>		<u>64,271</u>	<u>59,995</u>	<u>64,142</u>	<u>59,823</u>
<b>Creditors: amounts falling due after one year</b>	20	(29,949)	(31,336)	(29,949)	(31,336)
<b>Provisions</b>					
Other provisions	22	(1,193)	(1,105)	(1,193)	(1,105)
Pension provisions	31	(28,491)	(16,202)	(28,491)	(16,202)
<b>Total Net Assets /(Liabilities)</b>		<u>4,638</u>	<u>11,352</u>	<u>4,509</u>	<u>11,180</u>
<b>Reserves</b>					
<b>Restricted reserve</b>					
Endowment reserve	29	4,938	3,526	4,938	3,526
<b>Unrestricted reserves</b>					
Income and expenditure reserve		(300)	7,826	(429)	7,654
<b>Total Reserves</b>		<u>4,638</u>	<u>11,352</u>	<u>4,509</u>	<u>11,180</u>

The financial statements were approved on 6 October 2017 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 2017



		2017	2016
	Note	£000	£000
<b>Net cash inflow/(outflow) from operating activities</b>	24	6,241	(1,920)
Return on investments and servicing of finance	25	(554)	15
Capital expenditure and financial Investment	26	(232)	(121)
Financing	27	(105)	(189)
Increase/(decrease) in cash in the year		<u>5,350</u>	<u>(2,215)</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase/(decrease) in cash in the year	28	5,350	(2,215)
Decrease/(increase) in debt and leasing finance	28	<u>105</u>	<u>(61)</u>
Increase/(decrease) in net cash		5,455	(2,276)
Net cash at 1 April	28	<u>7,238</u>	<u>9,514</u>
Net cash as at 31 March	28	<u>12,693</u>	<u>7,238</u>

# Statement of Principal Accounting Policies



## Statement of compliance

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

The group's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Group for the year ended 31 March 2017.

## 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 6 October 2017. 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-subsiary 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'

## 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 – 8 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.

## 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 contracted out of the State Earnings Related 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.

## 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

	2017 Group £000	2016 Group £000	2017 Company £000	2016 Company £000
Recurrent grant				
Research and development	6,286	6,682	6,286	6,551
Advisory	7,284	7,312	5,072	7,305
	<u>13,570</u>	<u>13,994</u>	<u>11,358</u>	<u>13,856</u>
Release from deferred capital grants				
Buildings (note 21)	1,737	3,183	1,737	3,183
Equipment (note 21)	625	2,104	625	2,104
	<u>15,932</u>	<u>19,281</u>	<u>13,720</u>	<u>19,143</u>

## 2. Scottish Funding Council

	2017 Group £000	2016 Group £000	2017 Company £000	2016 Company £000
Education	20,591	19,781	20,563	19,674
Research	1,934	699	1,934	699
	<u>22,525</u>	<u>20,480</u>	<u>22,497</u>	<u>20,373</u>
Release from deferred capital grants				
Buildings (note 21)	1,110	196	1,110	196
Equipment (note 21)	323	683	323	683
	<u>23,958</u>	<u>21,359</u>	<u>23,930</u>	<u>21,252</u>

## 3. Tuition Fees and Education Contracts

	2017 Group £000	2016 Group £000	2017 Company £000	2016 Company £000
Home and EU higher education fees	2,324	2,788	2,324	2,788
Rest of UK	365	335	365	335
Non-EU students	63	68	63	68
UK further education students	82	50	82	50
	<u>2,834</u>	<u>3,241</u>	<u>2,834</u>	<u>3,241</u>
Education contracts	2,280	2,378	2,268	2,364
Short course fees	501	696	483	697
	<u>5,615</u>	<u>6,315</u>	<u>5,585</u>	<u>6,302</u>

# Notes to the Financial Statements



## 4. Research Grants and Contracts

	2017	2016	2017	2016
	Group	Group	Company	Company
	£000	£000	£000	£000
European union	377	751	367	755
Research councils	1,727	1,308	1,727	1,308
UK public bodies	2,942	2,786	860	1,069
Other	2,381	3,664	177	497
	<u>7,427</u>	<u>8,509</u>	<u>3,131</u>	<u>3,629</u>

## 5. Advisory and Consultancy Contracts

	2017	2016	2017	2016
	Group	Group	Company	Company
	£000	£000	£000	£000
Consultancies and subscriptions	10,413	9,485	228	34
Analytical services	3,266	3,011	1,579	1,380
Farm financial statements scheme	914	888	-	19
Publications	50	61	-	-
	<u>14,643</u>	<u>13,445</u>	<u>1,807</u>	<u>1,433</u>

## 6. Other Operating Income

	2017	2016	2017	2016
	Group	Group	Company	Company
	£000	£000	£000	£000
Residences, catering and conferences	2,108	2,328	2,093	2,270
Sales of farm products	3,549	3,537	-	-
Rents	1,273	1,076	839	858
Other income	1,683	3,474	7,076	8,821
	<u>8,613</u>	<u>10,415</u>	<u>10,008</u>	<u>11,949</u>

## 7. Investment income

	Group and company	
	2017	2016
	£000	£000
Investment income on endowments	134	133
Other investment income	56	41
	<u>190</u>	<u>174</u>

## 8. Donations and Endowments

	Group and company	
	2017	2016
	£000	£000
New endowments	730	-
Donations with restrictions	6	10
	<u>736</u>	<u>10</u>

## 9. Staff Costs

	2017	2016	2017	2016
	Group	Group	Company	Company
	£000	£000	£000	£000
Wages and salaries	34,536	34,952	33,400	34,465
Social security costs	3,288	2,913	3,193	2,831
Other pension costs	4,240	4,375	4,126	3,643
Severance costs	418	616	418	616
	<u>42,482</u>	<u>42,856</u>	<u>41,137</u>	<u>41,555</u>

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

	2017	2016
	Number	Number
Academic departments	292	292
Research grants and contracts	247	239
Administration and central services	113	109
Premises and estates	61	59
Residencies, catering and conferences	14	14
Other including income generating operations	399	396
	<u>1,126</u>	<u>1,109</u>

Analysis of the above staff costs by activity

	£000	£000
Academic departments	10,913	11,012
Research grants and contracts	9,995	9,817
Administration and central services	4,869	4,461
Premises and estates	1,681	1,694
Residencies, catering and conferences	455	479
Other including income generating operations	14,569	15,393
	<u>42,482</u>	<u>42,856</u>

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

## 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 2017		Group 2016	
	Number Directors	Number Other Staff	Number Directors	Number Other Staff
£100,001 to £110,000	-	-	-	1
£120,001 to £130,001	-	1	-	-
£130,001 to £140,000	-	1	1	-
£150,001 to £160,000	2	-	-	-
£160,001 to £170,000	1	-	-	-
£180,001 to £190,000	-	-	1	-
	<u>3</u>	<u>2</u>	<u>2</u>	<u>1</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 Management Team (EMT) for the period. Staff costs include compensation paid to key management personnel. The EMT consists of the Principal and Chief Executive, the Deputy Principal and Chief Executive, the head of Research, the Head of Education, the Managing Director of Consulting, the Head of Finance and the HR Director.

	2017 £000	2016 £000
Key management personnel compensation	983	865
Number of staff	<u>6</u>	<u>6</u>

## 10. Directors' Remuneration

	2017	2016
The number of Executive Directors during the year including the Principal and Chief Executive	<u>3</u>	<u>3</u>
	2017 £000	2016 £000
Salaries	387	370
Fees (Non-Executive Directors)	123	118
Pension contributions	74	74
	<u>584</u>	<u>562</u>

## 10. Directors' Remuneration (continued)

The emoluments of the Principal and Chief Executive from 1 July 2016

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Remuneration	152	-
Pension	25	-
	<u>177</u>	<u>-</u>

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

Remuneration	48	190
Pension	9	34
	<u>57</u>	<u>224</u>

The emoluments of the highest paid director

Remuneration	168	190
Pension	32	34
	<u>200</u>	<u>224</u>

The highest paid director would normally be the Principal and Chief Executive but that is not the case this year as he did not take up the post until part way through the financial year.

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

## 11. Analysis of total operating expenditure by activity

	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Academic departments	13,760	13,816	13,682	13,761
Research grants and contracts	14,438	15,283	11,410	11,939
Administration and central services	8,679	8,146	7,912	6,526
Premises and estates	5,072	6,027	4,459	6,422
Residencies, catering and conferences	3,629	2,830	3,368	2,345
Other including income generating operations	24,536	24,892	11,331	11,991
Depreciation	5,685	6,572	5,542	6,415
Release of negative goodwill	(2,163)	(3,734)	(2,163)	(3,734)
Interest	610	639	610	639
	<u>74,246</u>	<u>74,471</u>	<u>56,151</u>	<u>56,304</u>



# Notes to the Financial Statements



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

Other operating expenditure includes:

	Group and company	
	2017	2016
	£000	£000
Operating lease rentals	856	948
Fees charged by external auditors:		
SRUC and subsidiary companies		
Audit fee	63	86
Audit-related assurance services	13	25
Financial advisory in respect of FRS102	3	44
Tax compliance services	4	29
Tax advisory services	-	120
Fees charged by internal auditors:		
Internal audit services	39	57
Tax compliance services	21	20
Tax advisory services	10	-

## 12. Interest and other finance costs

	Group and company	
	2017	2016
	£000	£000
Loan interest	-	2
Finance lease interest	18	24
Net interest charge – pension schemes	592	613
	<u>610</u>	<u>639</u>

## 13. Intangible Fixed Assets

	Group and company
	2017
	£000
At 1 April 2016	720
Additions in year	243
Amortisation charge for the year	(162)
At 31 March 2017	<u>801</u>

## 14. Negative Goodwill

	Group and company	
	2017 £000	2016 £000
At 1 April 2016	(37,726)	(41,264)
Release of negative goodwill to income	2,163	3,734
Transfer from deferred capital grants	-	(196)
At 31 March 2017	<u>(35,563)</u>	<u>(37,726)</u>

## 15. Tangible Fixed Assets

	Group and company				
	Freehold land and buildings £000	Leased buildings £000	Equipment £000	Vehicles £000	Total £000
Cost or fair value:					
1 April 2016	104,708	5,037	16,797	1,630	128,172
Additions	1,848	-	3,379	104	5,331
Disposals	(447)	-	(40)	(14)	(501)
Asset for sale	(700)	-	(46)	-	(746)
31 March 2017	<u>105,409</u>	<u>5,037</u>	<u>20,090</u>	<u>1,720</u>	<u>132,256</u>
Depreciation:					
1 April 2016	27,178	680	11,070	1,438	40,366
Charge for year	2,843	136	1,496	98	4,573
Disposals	(338)	-	(40)	(14)	(392)
Impairment	950	-	-	-	950
Asset for sale	(297)	-	(28)	-	(325)
31 March 2017	<u>30,336</u>	<u>816</u>	<u>12,498</u>	<u>1,522</u>	<u>45,172</u>
Net Book Value:					
31 March 2017	<u>75,073</u>	<u>4,221</u>	<u>7,592</u>	<u>198</u>	<u>87,084</u>
1 April 2016	<u>77,530</u>	<u>4,357</u>	<u>5,727</u>	<u>192</u>	<u>87,806</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 £13.9m which is not depreciated.

Included in buildings and equipment are assets under construction amounting to £563k and £1,477k which are not depreciated.

## 16. Investments

	Group and company	
	2017	2016
	£000	£000
Listed investments		
At 1 April 2016	154	172
Movement on valuation	33	(18)
At 31 March 2017	<u>187</u>	<u>154</u>
Endowment investments		
At 1 April 2016	3,526	3,869
Donations	736	10
Income	134	134
Disbursements	(52)	(99)
Appreciation/(depreciation) of asset investments	594	(388)
At 31 March 2017	<u>4,938</u>	<u>3,526</u>
	<u>5,125</u>	<u>3,680</u>

## 17. Stocks

	Group and company	
	2017	2016
	£000	£000
Farm stocks	2,550	2,462
Goods for resale	40	39
	<u>2,590</u>	<u>2,501</u>

## 18. Debtors

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade receivables	5,637	5,719	2,835	2,161
Prepayments and other debtors	3,182	4,304	2,385	3,560
Amounts recoverable on contracts	3,404	3,152	1,279	1,408
Amounts due from fellow Group Companies	-	-	1,507	3,084
	<u>12,223</u>	<u>13,175</u>	<u>8,006</u>	<u>10,213</u>

## 19. Creditors: amounts falling due within one year

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade creditors	4,336	3,157	3,607	2,387
Other taxation and social security	2,242	2,081	2,242	2,081
Other creditors	2,040	908	1,522	879
Accruals	4,907	5,837	4,506	5,675
Payment received in advance	5,119	5,516	2,476	2,301
Loans (note 20)	8	24	8	24
Finance leases (note 30)	95	94	95	94
Deferred capital grant (note 21)	2,664	1,351	2,664	1,351
	<u>21,411</u>	<u>18,968</u>	<u>17,120</u>	<u>14,792</u>

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

	Group and company	
	2017	2016
	£000	£000
Deferred capital grants (note 21)	29,742	31,039
Loans	16	10
Obligations under finance leases (note 30)	191	287
	<u>29,949</u>	<u>31,336</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 2016	Receivable	Released to SOCI	31 March 2017
Buildings	27,791	808	(2,847)	25,752
Equipment	4,599	3,003	(948)	6,654
	<u>32,390</u>	<u>3,811</u>	<u>(3,795)</u>	<u>32,406</u>

## 21. Deferred Capital Grants (cont'd)

Disclosed as:	<b>2017</b>
	<b>£000</b>
Creditors due within one year	2,664
Creditors due in more than one year	29,742
	<u>32,406</u>

Deferred capital grants receivable in the year are as follows:	<b>Total</b>
	<b>£000</b>
Scottish Government	894
Scottish Funding Council	886
UK Government Body	2,031
	<u>3,811</u>

## 22. Provision for Liabilities

	<b>Group and company</b>	
	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Unfunded pension liability		
At 1 April 2016	1,105	1,226
Paid in the year	(68)	(116)
Transfer to/(from) income and expenditure account	156	(5)
At 31 March 2017	<u>1,193</u>	<u>1,105</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 2017 by Hymans Robertson LLP, an independent actuarial firm.

## 23. Financial Instruments

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

	<b>Note</b>	<b>Group</b>		<b>Company</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial assets</b>					
Measured at fair value through income and expenditure					
Investments	16	5,125	3,680	5,125	3,680
Measured at undiscounted amount receivable					
Trade receivables	18	5,637	5,719	2,835	2,161
		<u>10,762</u>	<u>9,399</u>	<u>7,960</u>	<u>5,841</u>
<b>Financial liabilities</b>					
Measured at amortised cost					
Loans payable	19,20	24	34	24	34
Measured at undiscounted amount					
Trade and other taxation and social security creditors	19	6,578	5,238	5,849	4,468
		<u>6,602</u>	<u>5,272</u>	<u>5,873</u>	<u>4,502</u>

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

	<b>Note</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fair value gains/(losses) on financial assets measured at fair value through income and expenditure	16	627	(406)	627	(406)
		<u>627</u>	<u>(406)</u>	<u>627</u>	<u>(406)</u>

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

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Operating surplus	5,092	1,544
(Gain)/loss on disposal of fixed assets	(1,597)	3,087
Unrealised movements on investments	(627)	406
Pension costs less contributions payable	483	1,036
Depreciation (note 13, 15)	4,735	4,466
Impairment (note 15)	950	2,106
Goodwill release (note 14)	(2,163)	(3,734)
Deferred capital grants released to income (note 21)	(3,795)	(6,166)
Interest received	(56)	(41)
Endowment income	(818)	(45)
Interest paid (note 12)	610	26
	<u>2,814</u>	<u>2,685</u>
(Increase)/decrease in stock	(89)	148
Decrease/(increase) in debtors	2,283	(3,453)
Increase/(decrease) in creditors	1,233	(1,300)
Net cash inflow/(outflow) from operating activities	<u>6,241</u>	<u>(1,920)</u>

## 25. Returns on Investments and Servicing of Finance

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Bank Interest received	56	41
Interest paid on loans and finance charges (note 12)	(610)	(26)
Net cash (outflow)/inflow from return on investments and servicing of finance	<u>(554)</u>	<u>15</u>

## 26. Capital Expenditure and Financial Investment

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Purchase of tangible fixed assets	(5,332)	(2,786)
Purchase of intangible fixed asset	(243)	(188)
Proceeds of sale of tangible fixed assets	2,861	1,174
Deferred capital grants received less repaid (note 21)	2,482	1,679
Net cash (outflow) from investing activities	<u>(232)</u>	<u>(121)</u>

# Notes to the Financial Statements



## 27. Financing

	2017 £000	2016 £000
Repayment of bank loans	(10)	(51)
Capital element of finance leases repaid	(95)	(138)
Net cash (outflow) from financing activities	<u>(105)</u>	<u>(189)</u>

## 28. Analysis of Changes in Net Funds

	At 1 April 2016 £000	Net Change £000	At 31 March 2017 £000
Cash in hand and at bank	7,652	5,350	13,002
Debt	(34)	10	(24)
Finance leases	(380)	95	(285)
Net cash	<u>7,238</u>	<u>5,455</u>	<u>12,693</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 2016				
Capital	2,897	216	413	3,526
New endowments	730	-	6	736
Investment income	111	8	15	134
Expenditure	(20)	(7)	(25)	(52)
Increase in market value	494	35	65	594
Total comprehensive income for the year	<u>1,315</u>	<u>36</u>	<u>61</u>	<u>1,412</u>
At 31 March 2017	<u>4,212</u>	<u>252</u>	<u>474</u>	<u>4,938</u>

Analysis by asset:

	2017 £000	2016 £000
Investments	4,109	3,441
Cash and cash equivalents	829	85
	<u>4,938</u>	<u>3,526</u>



## 30. Obligations Under Leases and Hire Purchase Contracts

Amounts due under finance leases and hire purchase contracts:

	Group and company	
	2017	2016
	£000	£000
Amounts payable:		
Within one year	95	94
Between two and five years	191	287

As at 31 March 2017, the annual commitment under non-cancellable operating leases was as follows:

	Land and Buildings		Equipment	
	2017	2016	2017	2016
	£000	£000	£000	£000
Operating lease which expire				
Within one year	175	269	25	3
In two to five years	256	410	85	-
In over five years	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 £2,495k.

### 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 2014 by a professionally qualified actuary. The contributions are set at 9 and 9.5% for employees and 15 and 14.5% 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 2014 and updated by Hymans Robertson in order to assess the assets and liabilities of the scheme at 31 March 2017. 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:

<b>Weighted average assumptions used to determine benefit obligations</b>	<b>2017</b>	<b>2016</b>
Price inflation (RPI)	3.40%	3.20%
Price inflation (CPI)	2.40%	2.20%
Rate of pension increase (RPI capped at 5%)	3.30%	3.10%
Rate of pension increase (RPI capped at 2.5%)	2.25%	2.20%
Rate of pension increase (CPI capped at 2.5%)	1.85%	1.80%
Rate of salary increase	4.40%	4.20%
Discount rate	2.65%	3.60%

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.

	<b>2017</b>	<b>2016</b>
Member Age 65 future life expectancy - male	24.5	24.3
Member Age 65 future life expectancy - female	24.5	24.4
Member Age 45 future life expectancy at age 65-male	25.8	25.6
Member Age 45 future life expectancy at age 65 - female	26.0	25.9

## 31. Pensions (cont'd)

### iii) The Citrus Pension Plan (cont'd)

The assets and liabilities of the scheme at 31 March 2017 are:

	<b>Fair value at 2017</b>
<b>Assets</b>	<b>£000</b>
Scheme assets at fair value	£000
Equities	7,509
Multi asset credit funds	4,481
Diversified growth and hedge funds	10,112
Corporate Bonds	2,648
Liability-driven investments	3,655
Cash	(195)
<b>Total</b>	<u>28,210</u>
<b>Present value of scheme liabilities</b>	<u>(47,852)</u>
<b>Deficit in the scheme- net pension liability</b>	<u>(19,642)</u>

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.

	<b>Approximate increase in scheme liabilities %</b>	<b>£000</b>
0.5% decrease in real discount rate	14%	6,857
1 year increase in member life expectancy	4%	1,831
0.5% increase in the pension increase rate	9%	4,178

	<b>2017 £000</b>	<b>2016 £000</b>
<b>Analysis of the amount charged to operating surplus</b>		
Current service cost	1,465	1,407
Past service costs	212	
Administration costs	59	73
	<u>1,736</u>	<u>1,480</u>

### Analysis of the amount charge to other finance income

Interest income on Plan assets	866	796
Interest charge on Plan liabilities	(1,227)	(1,133)
<b>Net charge to other finance income</b>	<u>(361)</u>	<u>(337)</u>

## 31. Pensions (cont'd)

### iii) The Citrus Pension Plan (cont'd)

#### Analysis of amount recognised in Other Comprehensive Income (OCI)

	2017	2016
	£000	£000
Actual return on assets excluding amounts included in net interest	2,778	(1,482)
Actuarial (losses)/gains on plan obligations	(11,373)	2,035
<b>Re-measurement (loss)/gain recognised in OCI</b>	<u>(8,595)</u>	<u>553</u>

#### Analysis of movement in the deficit

Deficit at 1 April 2016	(10,672)	(10,665)
Contributions paid by the College	1,510	1,257
Current service cost	(1,524)	(1,480)
Other finance charge	(361)	(337)
(Loss)/gain recognised in comprehensive income	(8,595)	553
Deficit at 31 March 2017	<u>(19,642)</u>	<u>(10,672)</u>

#### Change in benefit obligation

Opening defined benefit obligation	34,162	33,984
Current service cost	1,465	1,407
Administration cost	59	73
Interest cost	1,227	1,133
Scheme participants' contributions	16	22
Actuarial losses/(gains)	11,373	(2,035)
Past service costs	212	-
Benefits paid	(662)	(422)
<b>Benefit obligation as at 31 March</b>	<u>47,852</u>	<u>34,162</u>

#### Change in scheme assets

Opening fair value of scheme assets	23,490	23,319
Interest income	866	796
Member contributions	16	22
Employer contributions	1,722	1,257
Actual return on assets	2,778	(1,482)
Benefits paid	(662)	(422)
<b>Fair value of scheme assets as at 31 March</b>	<u>28,210</u>	<u>23,490</u>
<b>Net amount recognised</b>	<u>(19,642)</u>	<u>(10,672)</u>

## 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 2014 and updated by Hymans Robertson in order to assess the assets and liabilities of the scheme at 31 March 2017. 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 2014. 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 2014. The employers contribution rate is 22.3%.

#### 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 2014. The employers contribution rate is 25.1%.

#### Assumptions

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

<b>Weighted average assumptions used to determine benefit obligations</b>	<b>2017</b>	<b>2016</b>
Price inflation (RPI)	3.4%	3.20%
Price inflation (CPI)	2.4%	2.20%
Rate of pension increase	2.4%	2.20%
Rate of salary increase	*4.4%	4.20%
Discount rate	2.6%	3.50%

\*Fife Council scheme was 3.60%

## 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	
	2017	2016	2017	2016	2017	2016
Male Member Age 65 (life expectancy at age 65)	22.0	22.0	22.7	22.7	22.1	22.1
Male Member Age 45 (life expectancy at age 65)	24.1	24.1	24.5	24.5	24.2	24.2
Female Member Age 65 (life expectancy at age 65)	23.7	23.7	24.0	24.0	23.7	23.7
Female Member Age 45 (life expectancy at age 65)	26.3	26.4	26.7	26.7	26.3	26.3

The assets and liabilities of the three schemes at 31 March 2017 are:

	2017 £000
<b>Assets</b>	
<b>Scheme assets at fair value</b>	
Equities	19,670
Corporate Bonds	4,664
Property	2,197
Cash	853
<b>Total</b>	<u>27,384</u>
<b>Present value of scheme liabilities</b>	<u>(36,233)</u>
<b>Deficit in the scheme- net pension liability</b>	<u>(8,849)</u>

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	12%	4,314
1 year increase in member life expectancy	3%	1,257
0.5% increase in the pension increase rate	8%	2,949

## 31. Pensions (cont'd)

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

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of the amount charged to operating surplus</b>		
Current service cost	421	794
<b>Analysis of the amount charge to other finance income</b>		
Interest income on Plan assets	785	711
Interest charge on Plan liabilities	(1,016)	(987)
<b>Net charge to other finance income</b>	<b>(231)</b>	<b>(276)</b>
<b>Analysis of amount recognised in Other Comprehensive Income (OCI)</b>		
Actual return on assets excluding amounts included in net interest	4,125	(491)
Actuarial (losses)/gains on plan obligations	(7,336)	2,817
<b>Remeasurement (loss)/gain recognised in OCI</b>	<b>(3,211)</b>	<b>2,326</b>
	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of movement in the deficit</b>		
Deficit at 1 April 2016	(5,530)	(7,380)
Contributions paid by the College	544	525
Current service cost	(421)	(725)
Other finance charge	(231)	(276)
(Loss)/gain recognised in comprehensive income	(3,211)	2,326
Deficit at 31 March 2017	<b>(8,849)</b>	<b>(5,530)</b>
<b>Change in benefit obligation</b>		
Opening defined benefit obligation	27,943	29,635
Current service cost	421	725
Interest cost	1,016	987
Scheme participants' contributions	126	130
Actuarial losses/(gains)	7,336	(2,817)
Benefits paid	(609)	(717)
<b>Benefit obligation as at 31 March</b>	<b>(36,233)</b>	<b>27,943</b>
<b>Change in scheme assets</b>		
Opening fair value of scheme assets	22,413	22,255
Interest income	785	711
Member contributions	126	130
Employer contributions	544	525
Actual return on assets	4,125	(491)
Benefits paid	(609)	(717)
<b>Fair value of scheme assets as at 31 March</b>	<b>27,384</b>	<b>22,413</b>

## 31. Pensions (cont'd)

### Summary of FRS 102 net Pension liabilities

	2017 £000	2016 £000
Citrus Pension Plan	(19,642)	(10,672)
Dumfries and Galloway Pension Fund	(3,493)	(1,930)
Fife Council Pension Fund	(3,271)	(2,316)
Lothian Council Pension Fund	(2,085)	(1,284)
<b>Total net pension liability</b>	<u>(28,491)</u>	<u>(16,202)</u>

### 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	2017 Total £000	2016 Total £000
1 April 2016	84	121	(67)	1	139	72
Received during the year	1,727	270	250	-	2,247	1,859
Refunded to SFC	-	-	-	-	-	(112)
Virement	18	(55)	-	-	(37)	-
Expenditure	(1,976)	(268)	(177)	-	(2,241)	(1,680)
31 March 2017	<u>(147)</u>	<u>68</u>	<u>6</u>	<u>1</u>	<u>(72)</u>	<u>139</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.



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

### Childcare Funds

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
1 April 2016	(28)	269
Received in year	64	71
Refunded to SFC	-	(289)
Variant	37	-
Expenditure	(45)	(79)
31 March 2017	<u>28</u>	<u>(28)</u>

## 34. Related party transactions

During the year the group and the company entered into related party transactions with the wholly owned subsidiaries in the ordinary course of business. No other material related party transactions have taken place.

## General information



Chairman	Mr James Cumming
Chief Executive and Principal	Professor Wayne Powell
Company Secretary	Morton Fraser Secretaries Limited
Registered Office	West Mains Road Edinburgh EH9 3JG
External Auditor	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ
Internal Auditors	KPMG LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Bankers	Clydesdale Bank PLC Clydesdale Bank Plaza 50 Lothian Road Edinburgh EH3 9BT
Solicitors	Morton Fraser Quartermile Two 2 Lister Square Edinburgh EH3 9GL
Actuaries	Barnett Waddingham 163 West George Street Glasgow G2 2JJ
Stockbrokers	Speirs & Jeffrey George House 50 George Square Glasgow G2 1EH