



# **THE SCOTTISH AGRICULTURAL COLLEGE**

**Company Number: SC103046**

**ANNUAL ACCOUNTS**

**YEAR TO 31 MARCH 2009**

**Registered in Scotland  
Registered Number: 103046  
Charity Number: SC003712  
Registered Office: West Mains Road  
EDINBURGH  
EH9 3JG**



# ANNUAL ACCOUNTS YEAR TO 31 MARCH 2009

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## **OPERATING AND FINANCIAL REVIEW**

The Operating and Financial Review describes the main trends and factors underlying the Scottish Agricultural College's ("SAC's") performance during the year to 31 March 2009 ("2008-09"). It has been prepared in line with the guidance provided on the Operating and Financial Review issued by the UK Accounting Standards Board in January 2006.

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

### ***About the Scottish Agricultural College (SAC)***

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#### **History**

SAC is founded upon the establishment of three Colleges across Scotland. The West of Scotland Agricultural College was founded in 1899, the East of Scotland College of Agriculture in 1901 and finally the North of Scotland College of Agriculture in 1904. All three Colleges served the integrated functions of education, research and consultancy and secured strong working relationships with the Universities of Glasgow, Edinburgh and Aberdeen. The three Colleges merged as SAC in 1990. SAC has therefore now celebrated over 100 years of innovation, from a knowledge-based organisation supporting the development of the land-based industries and communities through its specialist research and development resources, its education and training provision and its expert advisory and consultancy services.

#### **Principal Operations**

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

SAC's activities are delivered through three operational Divisions:

- SAC Learning
- SAC Research
- SAC Consulting

These Divisions are supported by a Finance and Corporate Affairs Division.

SAC operates its main learning and research activities from three campuses in Aberdeen, Ayr and Edinburgh. Consultancy advice is delivered through a network of 24 Farm Business Services Offices and 8 Veterinary Disease Surveillance Centres. In addition, SAC runs five farms, three of which are used for research purposes.

#### **Constitution, governance and regulation**

SAC has its origins in the three regional agricultural colleges, East, North and West which formally merged their activities into a single institution in 1990. The centenary of the Scottish Agricultural College was celebrated in 2004.

SAC was, until recently, in the unusual position of being the last remaining Central Institution that provided tertiary education in Scotland, and was directly funded, for education, by the Scottish Government, via the Rural Affairs Department. Two years ago SAC took the decision, in conjunction with the Scottish Government, that SAC should change. SAC aspired to become a Higher Education Institution (HEI) in its own right, to become a Fundable Body and to join the other Scottish HEIs under the umbrella of the Scottish Further & Higher Education Funding Council (the SFC). On 1 August 2008, SAC became a Higher Education Institution, as well as a full member of Universities Scotland, the organisation which represents the interests of HEIs in Scotland. From that date SAC's Learning activities have

been funded by the SFC. SAC continues to receive a proportion of its funding for its research, veterinary and advisory activities directly from two of the Scottish Government's Rural Affairs Directorates (the Rural Directorate and the Rural Environment Research and Analysis Directorate).

SAC is a private company limited by guarantee, registered in Scotland (103046) and with charitable status (SC003712). Its registered address is West Mains Road, Edinburgh EH9 3JG. The SAC Board of Directors is responsible for the management and regulation of the financial affairs of the organisation, ensuring compliance with the Financial Memorandum and associated guidance of the Scottish Further and Higher Education Funding Council ("SFC"). A full statement of the Board's responsibilities is detailed on page 16, membership of the Board is detailed on page 18 and the Board's corporate governance arrangements are detailed on pages 11-15. The Chief Executive and Principal is appointed by the Board and is directly accountable to the chief executive of SFC for the institution's proper use of public funds.

SAC's commercial subsidiary, SAC Commercial Ltd, was incorporated in 1994 and operates a number of business activities; it allows flexibility of operation and access to wider markets than would otherwise be available to SAC. Commercial activities are carried out to enhance the transfer of research into practice. Commercial margins are all gifted to the SAC Foundation (see below). Summary accounts for SAC Commercial Ltd are shown at note 31.

The SAC Foundation is a charitable trust established to support the functions of SAC. In these accounts the SAC Group is taken to include SAC, SAC Commercial Ltd, its relevant subsidiary undertakings and the SAC Foundation. These Accounts show the consolidated Group figures for the above companies and any quasi subsidiary or subsidiary companies in which SAC has an interest (see notes 31, 32).

### **Objectives and Strategy**

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

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

The five main aims of the organisation are:

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

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

SAC Directors and staff uphold the following Core Values:

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

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

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

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

## **Performance during the year**

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### **Overview**

In financial terms, 2008/09 was another year of steady progress for SAC with an increase of £2.5m (5.6%) in turnover to £47.4m and an increase of almost £200k (26%) in operating margin to £927k. Loans have been largely paid off. Endowment funds have fallen in line with general investment trends.

Particular successes have been achieved in the increase of external (non Scottish Government) research funding and increasing student numbers. The increased interest in agricultural sciences amongst research funders, and amongst learners, is very encouraging. The real concerns that have developed in our society with regard to our future food supplies, the impact of climate change and the sustainability of our environment, have led to a renaissance in a number of areas of science which had become neglected for some years. This all bodes well for SAC's future as a generator of ideas and a solver of problems in rural areas.

We continue to benefit from a close relationship with our main sponsor, the Scottish Government, and with a wide range of partners across Scotland and beyond. To them we extend our thanks for their continued support.

### **Future Prospects**

The credit crunch, and the consequent severe pressures on public finances, will undoubtedly herald real reductions in the government's ability to support Higher Education Institutions in the coming five years. All institutions in our sector will require to tighten their financial belts in a way which will be alien to many. Demand for services will increase against a reducing public sector spend. And the growing pensions liabilities that have been another consequence of the economic downturn will further add to the problem.

For SAC these issues will all be pertinent; we will not be immune to them. However we have a business model which is built on a very diversified funding base, and we have thrived in a sector (the rural/landbased sector) of the market which has itself been under very significant financial pressures for some years. It is therefore our view that we are structured in a way, and governed by an ethos, which will stand us in good stead to deal with funding shifts efficiently and effectively in the years ahead.

### **SAC Estates Strategy**

SAC's Estates Strategy is in the process of being developed. The original Business Transformation Plan ("the BTP") which was developed and approved by the SAC Board and subsequently endorsed by the Minister for the Environment and Rural Development in September 2004 continues to form a key part of the strategy. The BTP set out the disposal of non-core assets to allow SAC to reinvest in state-of-the-art educational facilities, in conjunction with key partners in Ayr and Aberdeen. The BTP also allows for improvement in facilities at SAC's Edinburgh sites and at the organisation's offices and laboratories at several locations across Scotland. There were several major developments during the year:

- SAC, as a partner in the Easter Bush Research Consortium (EBRC), agreed to move a significant number of its Edinburgh based research staff to a new world class bioscience centre that is being created. A major new institute building is to be built within the Veterinary Sciences precinct at Easter Bush, integrated with teaching and clinical care of the Royal (Dick) School of Veterinary Studies (R(D)SVS).
- Significant RERAD funding was made available to upgrade SAC's research farms' infrastructure and carry out refurbishment of several of its VSD facilities
- SAC continues to work in partnership with the University of West of Scotland to jointly develop a new campus at Ayr and has applied for planning permission to develop its Auchincruive campus.
- SAC is working with UHI Millennium Institute (UHI) to relocate its Inverness-based activities within a new UHI Inverness campus

### **Learning Activities**

As already stated, during 2008/09 SAC gained Higher Education Institution designation and became an SFC Fundable Body. This new status is beginning to show positive benefits for

SAC and will enable it to take a more proactive role in partnership developments with other colleges and universities.

Where possible the SAC benchmarks its achievements against sector performance indicators. Student numbers have grown year on year with a 4% increase between 2007/08 and 2008/09 to 904 FTEs, around 10% of whom study part-time, and we take an active role in ensuring quality assurance and quality enhancement processes are in line with sector standards. Our staff are committed to providing a first class education experience and this has been recognised by the introduction of new awards for teaching excellence.

The introduction of a new programme in Green Technology, an increase in the use of 'blended' learning (for example delivery by video-conference) and the development of a new programme in Sustainable Building Technology have all been features of the past year.

### **Research Activities**

With support from Scottish Government there has been major investment in new facilities for research with beef cattle (at the Bush Estate) and a significant upgrade of facilities for research with dairy cattle (at the Dairy Research Centre, Crichton). These developments are part of an ongoing programme of investment in our research facilities.

The Mid Programme Review of Scottish Government Rural and Environment Research and Analysis Division's (RERAD) commissioned programmes in the Main Research Providers reflected very well on the quality of SAC's contribution to those programmes. Competitively won research income was 16% higher than in the previous financial year. This included success in winning a range of significant new research grants from Defra, including strategically important work on climate change and agriculture.

Success in winning additional grant funding has attracted new researchers to SAC and the number of Postgraduate Research Students is at an all time high (51 in total).

### **Consultancy Activities**

This has been a successful year for SAC Consulting on a number of levels from new market and service development, through internal process developments, QA achievements, and key project successes.

Market and service analysis along with marketing planning and customer satisfaction meetings have further improved service development, delivery and client management. Improvements in business development processes have been achieved through marketing training and an increasing focus on market opportunities. New marketing materials have been produced including internal marketing and business development tools.

Organic growth has continued in the north of England with the award of RDPE funded work, tender success with key projects for RDAs such as ONE and NWDA and the delivery of a range of technical consultancy. There have also been significant project successes across Scotland including: the Scottish Enterprise Planning to Succeed programme, work with WRAP, securing the Planet Scotland project, grant aid from QMS, Added Value Food Marketing contracts, a contract with Hamilton Rugby Club to build new facilities and many others. The launch of the SRDP also resulted in a surge of requests to offices from clients looking for consultancy services to assist with the preparation of applications.

The Scottish Governments' Veterinary and Advisory service has been successfully delivered producing a range of key outputs. Key achievements included the development and the launch of the CcELIS website to assist land managers meet current regulatory requirements, and the launch of Scottish Animal Health Planning software at the Royal Highland Show.

Quality Assured processes were further developed across SAC Consulting and the business is on track for being fully accredited under ISO9001 and ISO17025.

Finally, new staff have been recruited across the business to address opportunities presented by client demand and developing markets. A new recruitment folder was developed and has been successfully utilised to encourage consultants to consider a career within SAC.

## Knowledge Transfer Activities

For over a century, SAC has been developing and disseminating knowledge and innovative practice to increase the potential of those involved in the agricultural and food production sectors to improve competitiveness. SAC facilitates the transfer of practical knowledge through research, consultancy and learning. Working in partnership with Scottish Government, SAC shares the same objectives for a smarter, wealthier and fairer, greener, safer and stronger Scotland. For example, the SAC knowledge transfer campaign *Success through Knowledge* is well-established to ensure knowledge transfer and exchange reaches public, scientific, farming, commercial and Government audiences across Scotland.

## Financial Performance

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SAC has shown a sustained improvement in operating performance over the last five years. The Consolidated Income and Expenditure Account for the five years to 31 March 2009, can be summarised as follows:

	2009	2008	2007	2006	2005
	£000's	£000's	£000's	£000's	£000's
Income	47,424	44,878	44,096	43,659	43,099
Expenditure	46,497	44,143	43,791	43,486	42,935
Reported Surplus for the year	<b>927</b>	<b>735</b>	<b>305</b>	<b>173</b>	<b>164</b>

The financial performance of the Group is considered to be satisfactory with overall operating budgets having been exceeded and operating costs successfully contained. The strong financial performance and cash flow of the group allowed the opportunity to repay bank loans during the year of £2.9m. For the year ended 31 March 2009, SAC's commercial subsidiary, SAC Commercial Ltd, made a small profit of £18k for the year (2008: £54k loss) after a significant gift aid contribution of £1,319k (2008: £968k) to the SAC Foundation.

## Operating Income

Total income grew by 5.6% in the year, with highlights as follows:

	Year on Year % Growth	
Funding Body Grants	+2.3%	RERAD Grant-in-Aid has reduced from the previous year, however, with SAC becoming a designated Higher Education Institution and SFC Fundable Body in August 2008 SAC became eligible for SFC funding which compensated for the reduction in RERAD funding.
Tuition Fees and Education Contracts	-17.1%	The reduction in Tuition Fees and Education contracts is primarily the result of European Social Fund (ESF) matched funding coming to an end; core student numbers increased from 870 in 2007/08 to 904 in 2008/09.
Research Grants and Contracts	+22.9%	There was strong growth in this area. Flexible Fund and National List Trials income from RERAD has decreased by 61.5%; however, EU funding has increased by 5.5%, and funding from other Public Bodies (outside Scottish Government) by 46.2%.
Other Income	+17.1%	Sales of farm products increased by 26.3%, while HE Joint Operations has increased by 14.7% and Residencies & Refectory catering income has increased by 7.3%. Rental income has decreased by 2.2%.

### **Operating expenditure**

Staff costs increased by 2.4%, due to wage increases and there was a slight (1.4%) increase in FTEs since last year. Other operating expenditure increased by 11.7%, after adjustment for the internal gift-aid contribution. Travel and Subsistence expenditure increased by 8.1%, and SAC is currently implementing a Climate Change Awareness project which will hopefully reduce T&S through methods such as Video-Conferencing in place of travel. SAC reduced energy consumption during the year by 6.9% (target: 5%) this helped to mitigate an increase in prices; energy costs increased by 6.5%. Depreciation has decreased by 1.7%; an impairment write off for buildings of £903k has been matched off against the release of a deferred capital grant and has had no impact on the bottom-line result. Interest payable has reduced by 28.1%, which reflects the repayment of loans during the year and favourable interest rates on those loans still outstanding.

### **Net funds and cashflow**

The cash balance held by SAC has decreased by £2.9m (2008: increase of £1.5m); however, this is mainly the result of repayment of bank loans to the value of £2.9m. The main cash inflows during the year were within operating activities (+ £0.5m).

### **FRS 17 – Retirement Benefits**

The FRS 17 valuation of the Citrus scheme (which is more fully described in Note 35) determined that the difference between the value of assets and the value of the FRS17 liabilities has decreased from a £1,765k surplus as at 31 March 2008 to a £451k surplus as at 31 March 2009. The regular pension cost charged through the Income & Expenditure Account has decreased from £565k to £215k, however the regular pension cost is expected to increase again in the year to 31 March 2010.

### **Investment Performance**

The value of SAC's endowment asset investments has decreased from £3.2m to £2.5m following a challenging financial environment for global stock markets. Performance of the fund managers continues to be monitored.

### **Creditors Policy**

SAC agreed to follow the Better Payment Practice Code. As a business SAC's policy is:

- 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;
- tell suppliers without delay when an invoice is contested, and settle disputes quickly.

As at 31 March 2009 there were 42 days (2008: 38 days) of creditors outstanding shown in the Balance Sheet.

### **Treasury management**

The Finance and General Purposes Committee (F&GP) and the Executive Management Team oversee the financial processes of SAC, including the long term rolling cash forecasts. These allow SAC to plan for any future borrowing requirements, taking into account any capital investments for the future.

## **Policies**

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### **Accounting policies**

The SAC Financial Statements have been prepared in accordance with the Statement of Principal Accounting Policies as set out on pages 21 to 24. The format of the financial statements reflects the format as required by the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education. The notes to the financial statements reflect the best practice guidance given by British Universities Finance Directors' Group and also any requirements issued by the Scottish Funding Council in its annual accounts instructions. Where a prior year restatement is required, this is disclosed within the Statement of Principal Accounting Policies.

### **Third Party Indemnity Insurance**

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

### **Communication with staff**

SAC is conscious of the need to keep employees informed of the progress and future plans of the organisation and of the mutual benefit that is engendered by good internal communications. This is achieved through the use of a monthly Core Brief, which provides staff with a summary of the key issues faced by SAC and any actions considered necessary by the Executive Management Team and also provides details of successes enjoyed. Line managers are asked to supplement the Core Brief with information and news relevant to their immediate reports and staff.

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

SAC is proud to be an Investor in People approved organisation.

### **Corporate Social Responsibility policy**

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

SAC's mission to enhance the sustainability of the land-based industries is at the heart of its CSR policy. SAC aims to improve the competitiveness of the land-based sector and thereby enhance livelihoods.

SAC's business is widely located across Scotland. SAC works to provide support into communities in a range of ways including partnership with other businesses and community organisations, via charitable activities. Wherever practical, SAC encourages sharing the use of its buildings and estates.

SAC is committed to improving environmental management. SAC will aim at reducing its greenhouse gas emissions by introducing energy efficiency measures and adopting procurement policies that favour sustainably-produced goods. Whenever feasible, SAC will use our influence to promote the adoption of modern and cleaner technologies by actively assisting its clients in minimising the environmental impacts of their operations.

SAC is committed to ensuring that its business is carried out in all respects according to rigorous ethical, professional and legal standards. SAC's business and livelihood depend upon its customers. Every employee is responsible for ensuring that any contact with customers and the public at large reflects professionalism, efficiency and honesty. SAC strives constantly to provide high quality service and products and good value for money.

SAC values its staff. SAC have developed employment policies that are directed at creating an environment that will attract, develop, motivate and reward employees of high calibre. The work environment is enhanced by lifestyle-friendly policies that support human rights, citizenship, health and safety, disability, personal and career development and high standards of ethical and professional conduct. SAC core values guide our working practices.

Alongside its financial success as a business SAC recognises its responsibility to work in ways that add value to the lives of stakeholders and improve the world in which we live.

### **Disability policy**

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

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

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

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

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

### **Equal Opportunities**

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

The aim of SAC’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.

SAC 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 SAC.

### **Environmental Policy**

SAC revised its Environmental Policy in October 2008 to reinforce its commitment to:

- Promoting the protection of the environment and minimising any adverse impacts of its activities at all levels, directly and through its influence on others;
- integrating good environmental management policies and practices into every level of the organisation, to at least ensure compliance with environmental legislation;
- providing a safe working environment for its employees, students and clients;
- contributing to national targets for mitigation of climate change.

To achieve this, SAC is in the process of establishing an Environmental Management System, based on ISO 14001, which will provide a framework for establishing targets and taking action to improve our environmental footprint - an important component of SAC’s strategy.

### **Health and Safety Policy**

The SAC Board of Directors provides and promotes responsible leadership attitudes towards health and safety.

The Board regards its staff as a key resource, recognises its statutory obligations, and fully accepts the responsibilities it has for the health and safety of all employees, students, contractors and visitors. It has a Health and Safety Policy Sub Committee which reports to the Audit Committee and is chaired by a Non-Executive Director.

A cornerstone of our approach is to plan for continuous improvement in health and safety management systems and to confirm on-going compliance while re-evaluating performance in focus areas, such as Health and Safety Executive (HSE) National Priorities. The Board also ensures management systems provide for effective monitoring and reporting of SAC’s health and safety performance.

SAC submitted the existing health and safety management system to the RoSPA Quality Safety Audit (QSA) process during April 2008. The QSA tested SAC's performance for each of the key elements of a safety management systems model, examined the culture and commitment of SAC, and sought to gain evidence of continuous improvement in our business operations. The result of the surveillance audit was a QSA Level 2 Award that indicates a progressive and significant improvement in the development of our health and safety management system (Level 5 being the highest award). SAC has previously undertaken this type of audit in 2006 and then again in 2007, when we received Level 0 and Level 1 safety awards, respectively.

SAC believes that excellence in the management of health and safety is an essential element of its overall business plan and we plan for more continuous improvement.

### **Quality Assurance**

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

### **Financial Risk Management Policy**

The company'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 company's financial assets and liabilities are set out below.

#### *Interest rate risk*

Interest is charged on both a fixed and floating rate basis on bank loans (Note 17). Therefore, with regard to those loans where interest is charged on a floating basis, financial liabilities, interest charges and cash flows can be affected by movements in interest rates. No hedging activity is undertaken to mitigate the risk of increases to the base rate.

#### *Credit risk*

A significant percentage of the Group's income is derived from UK government departments in the form of grant-in-aid and other project funding. SAC'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 company aims to mitigate liquidity risk by managing cash generated by its operations. Flexibility is maintained by retaining surplus cash in readily accessible bank deposit accounts. All Capital expenditure is approved by the Executive Management Team, within limits agreed by the Board..

#### *Foreign currency risk*

The company's principal transactions in foreign currency are Single Farm Payments and EU funded Research projects. As a result, the group's income can be affected by movements in the Euro exchange rate. No hedging activity is undertaken to mitigate this risk.

### **Auditors**

Every four years SAC tenders for external audit services. The most recent tender process was completed in June 2005 and Ernst & Young LLP were subsequently reappointed as auditors at the Annual General Meeting in October 2005 for a further four year term. During the year internal audit services were tendered and KPMG were reappointed for a further three years with a possibility of two one year extensions.

**Directors' Statement as to Disclosure of Information to Auditors**

The directors who were members of the board at the time of approving the directors' report are listed on page 14. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

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

This Report was approved by the Board on 27 August 2009 and signed on its behalf by

Professor Bill McKelvey  
Chief Executive & Principal

Lord Jamie Lindsay  
Board Chairman

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

# CORPORATE GOVERNANCE STATEMENT

## ***Introduction***

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SAC is committed to upholding best practice in all aspects of Corporate Governance. In June 2005, the Board approved revised Corporate Governance policies and procedures to ensure that it continues to develop best practice. These were reviewed in 2007 by KPMG as part of the process to become a fundable body. The corporate governance approach was found to be sound and the only recommendations were around the move to the new funding status.

## ***Statement of combined code compliance***

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In the opinion of the Board, SAC complies with all the provisions of the combined code in so far as they apply to the higher education sector, and it has complied throughout the year ended 31 March 2009.

## ***Board of Directors***

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

The Board meets five times a year and has several committees including:

- Appointments & Remuneration Committee
- Audit Committee
- Finance & General Purposes Committee
- Education & Skills Committee

There are two sub committees:

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

All of these Committees are formally constituted with terms of reference and comprise mainly non-Executive Directors, one of whom is the Chair, and are attended as appropriate by members of the Executive Management Team. During the year, all committees have reviewed their terms of reference.

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

- Competitive Agriculture;
- Environment and Rural Landscapes;
- Rural Development.

These Consultative Committees help guide SAC's strategy by obtaining external views on its current and future activities. The members of the Consultative Committees, together with the SAC Board and the SAC Education and Skills Committee, make up the SAC Council.

## **Appointments & Remuneration Committee**

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The Appointments & Remuneration Committee considers nominations for new Directors and determines the remuneration of Executive Directors. It also considers overall pay and employment terms for SAC and makes the recommendations to the Board for the Professorial and Honorary awards.

The Appointments & Remuneration Committee meets four times a year and has the following remit:

- to consider and to make recommendations to the SAC Board covering:
  - appointment and removal of SAC Board members and the Chairman;
  - appointment and removal of representatives of SAC on Boards of external organisations;
  - professorial appointments, honours and fellowships of SAC; and
  - terms and conditions, including remuneration, of all Executive and Non-Executive Board members.
- to act as a search and, with the Chairman and Vice-Chairman of the Board, a short-listing Committee for candidates for the post of Chief Executive and Principal, should that post fall vacant.
- to provide advice to the Board and to the Chief Executive and Principal as Negotiator, on matters related to salaries and changes in terms and conditions of SAC staff.

## **Audit Committee**

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The Audit Committee meets to discuss audit findings and to consider detailed internal audit reports and recommendations for the improvement of SAC's systems of internal control, together with management's response and implementation plans. It monitors adherence to regulatory requirements and reviews the annual accounts together with accounting policies. The Committee has the opportunity to meet annually with the external auditors for independent discussions with no Executive Directors present. Both External and Internal Auditors have access to the committee for independent discussion at any time. Following a tender process, KPMG was re-appointed to undertake the internal audit process from 1 April 2009 for a period of three years. Ernst & Young LLP were reappointed as external auditors in October 2005 for a period of three years, extended for a further two years.

The Audit Committee meets four times a year and has the following remit:

- To consider and to make recommendations to the SAC Board covering:
  - the effectiveness of internal control systems established to ensure that the aims, objectives;
  - and key performance targets are achieved in the most economic and effective manner;
  - the development of internal control systems which help promote the highest standards of accountability and of propriety in the use of funds, in compliance with statutory and sponsor body requirements;
  - internal and external financial statements and reports with a view to ensuring that best practice is identified and followed;
  - the nature and scope of the external audit and the appointment and removal of the external auditors. Discussions with the external auditors on matters arising from their audit and management's response to the auditor's recommendations;
  - the nature and scope of the internal audit function, programme of internal audit work to be undertaken and if appropriate the appointment and removal of an organisation to undertake the internal audit programme. Discussions with internal auditors on matters arising from their reports and management's response to the auditor's recommendations;
  - the co-ordination of external and internal audit activities to ensure maximum externally accredited quality programmes.
- to monitor risk management policies.
- to advise and comment on the strategy in relation to statutory environmental matters.
- to monitor the implementation of SAC ethical and environmental policies.

- implementation of SAC health and safety policies.

### ***Finance & General Purposes Committee***

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The Finance & General Purposes Committee is responsible for overseeing the financial affairs of SAC and advising the Board on financial policy and planning. It also provides strategic direction in terms of estates and farming policy. The Trusts Committee is primarily concerned with the investment and disbursement of funds managed by SAC. It reports through the Finance & General Purposes Committee to the Board.

The Finance & General Purposes Committee meets four times a year and has the following remit:

- to oversee, on behalf of the Board, all matters relating to financial affairs of SAC and its related companies;
- to advise the Board on financial policy, and planning;
- to review the annual budget and financial forecasts of SAC (revenue and capital);
- to oversee the budget monitoring against actual income and expenditure including the levels of borrowing;
- to consider the annual financial accounts of SAC after recommendations by the Audit Committee and to submit such accounts to the Board;
- to consider the Estates strategies and provide an overview of the use of SAC's real estate;
- to encourage appropriate management of the scale and diversity of SAC's properties for the purposes of research, consultancy and educational activities;
- to consider the appropriate level of financial return which should be achievable from SAC's properties, in comparison with commercial returns being achieved from similar land holdings and activities.

### ***Learning & Skills Committee***

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As a result of recommendations received in SAC's Enhancement-led Institutional Review, a Learning & Skills Committee ("LSC") was established in 2006/07. The membership is made up of students (both undergraduate and postgraduate) from each campus together with key stakeholders. The LSC receives reports from the Student Liaison Committees at each SAC campus which allows students to have a direct input to Non-Executive Directors and to comment on relevant strategic and operational issues. Student Liaison Committees meet at least twice per annum at each campus.

The Learning & Skills Committee meets once a year and has the following remit:

- to ensure that the student body at SAC can participate in the strategic development of SAC's learning and training services;
- to bring together representatives of the principal stakeholders involved in learning and training in the land-based sector;
- to provide a source of advice on the strategic development and delivery of learning and training programmes to meet the needs of the markets we aim to serve;
- to receive reports from the three campus Student Liaison Committees and provide recommendations to the SAC Board;
- to provide feedback to SAC on the effectiveness of its Knowledge Transfer (KT) activities in respect of learning and training programmes.

### ***Directors' attendance***

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Details of the Directors' attendance record at Board meetings and relevant Board Committee meetings in 2008/09 is set out below. The number in brackets represents the number of meetings that the Director was eligible as a member of the Board or Committee to attend during the year.

	Board	A&R Committee	Audit Committee	F&GP Committee	Education & Skills Committee	Safety Policy Committee	Trust
<b>Number of meetings in period</b>	5	4	4	4	1	2	1
Mr Donald Biggar	5 (5)	2 (2)	4 (4)			1 (1)	
Professor Grahame Bulfield	5 (5)		2 (2)				
Professor Roger Crofts	4 (5)		4 (4)		1 (1)		
Dr Stewart Gemmell	5 (5)						
Dr John Gilliland	5 (5)						
Mr Henry Graham	5 (5)			4 (4)			
Mr David Green	3 (3)			2 (2)			
Mr John Henderson	2 (2)			2 (2)			1 (1)
Lord Jamie Lindsay	5 (5)	4 (4)					
Mr Patrick Machray	5 (5)			4 (4)			1 (1)
Professor William McKelvey	5 (5)	4 (4)	4 (4)	4 (4)	1 (1)		1 (1)
Professor Bill Stevely	5 (5)	4 (4)			1 (1)		
Ms Janet Swadling	5 (5)	4 (4)	4 (4)	4 (4)		2 (2)	1 (1)
Professor Colin Whittemore	2 (2)	2 (2)	2 (2)			1 (1)	

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

### **Corporate Strategy**

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

The EMT meets on a monthly basis and assists the Chief Executive and Principal in the performance of his duties, this includes:

- leadership and management of the organisation;
- the development and implementation of strategy, operational plans, policies, procedures and budgets;
- the monitoring of operating and financial performance;
- the assessment and control of risk;
- the prioritisation and allocation of resources;
- monitoring competitive forces in each area of operation.

### **Statement of Internal Control**

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

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

The strategic planning process acts as a key control. The Executive Management Team meets with senior managers each May to consider progress over the last financial year and key drivers for the planning process for the forthcoming planning cycle. This informs the

discussion with the SAC Board at an annual June Board strategic planning session. Meetings are held with each Division to discuss the specific Group plans later in the year.

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

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

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

The SAC Board is of a view that there is an ongoing process for identifying, evaluating and managing the SAC's significant risks, and that it has been in place throughout the year ended 31 March 2009 and up to the date of approval of the annual report and financial statements.

### ***Going Concern***

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The Board of Directors considers that SAC has adequate resources to continue in operational existence for the foreseeable future.

Professor Bill McKelvey  
Chief Executive & Principal

Lord Jamie Lindsay  
Board Chairman

27 August 2009

## STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF SAC

The Board is responsible for the administration and management of SAC's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of SAC, and ensure that the financial statements are prepared in accordance with the Companies Acts, the Statement of Recommended Practice on Accounting in Higher Education Institutions, and other relevant accounting standards. The Directors are aware that the unique structure and functions of SAC which, through "The Scottish System", integrates Education, Research and Consultancy functions, do not directly compare with other Higher Education Institutions. However on balance, the Directors believe the presentation provides the most relevant and useful information for the Accounts user. In addition, within the terms and conditions of a Financial Memorandum agreed between SAC and SFC, the Board, through its designated Accountable Officer (Chief Executive and Principal), is required to prepare Accounts for each financial year which give a true and fair view of SAC's state of affairs and of the surplus or deficit and cash flows for that year.

In causing the Accounts 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 Accounts;
- 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 Accounts.

The Board has taken reasonable steps to:

- ensure that funds from RERAD 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 SAC and prevent and detect fraud;
- secure the economical, efficient and effective management of SAC's resources and expenditure.

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

- clear definitions of the responsibilities of, and the authority delegated to, Heads of Divisions and Group Managers;
- a comprehensive planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board;
- comprehensive Financial Procedures and Regulations, detailing financial controls and procedures, approved by the Audit Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board and which provides the Board through the Audit Committee with a report on internal audit activity within SAC and on work completed during the year-end on the adequacy and effectiveness of SAC's system of internal control. The Board also monitors the implementation of the Internal Audit recommendations.

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

Signed on behalf of the Board by:

Janet D Swadling  
Company Secretary  
27 August 2009

## BOARD OF DIRECTORS

The following Directors held office during the year

	<b>Date of Appointment</b>	<b>Date of Retirement</b>	<b>Status of Appointment</b>	<b>Committee Membership</b>
Mr D Biggar	4 Oct 2006	Oct 2010	Non-Executive (Vice Chairman from Oct '07)	Audit, Appointments & Remuneration
Professor G Bulfield	4 Oct 2007	Oct 2011	Non-Executive	Audit, Health & Safety Policy
Professor R Crofts	9 Oct 2002	Oct 2010	Non-Executive	Audit, Finance & General Purposes, Education & Skills, Student Liaison
Dr S Gemmell	13 Aug 2002	n/a	Executive	
Dr J Gilliland	4 Oct 2007	Oct 2011	Non-Executive	
Mr H Graham	9 Oct 2003	Oct 2011	Non-Executive	Finance & General Purposes
Mr D Green	9 Oct 2008	Oct 2012	Non-Executive	Finance & General Purposes
Mr J Henderson	9 Oct 2002	Oct 2008	Non-Executive	Finance & General Purposes, Trusts
Lord Jamie Lindsay	5 Oct 2005	Oct 2013	Non-Executive (Chairman from Oct 2007)	Appointments & Remuneration, Trusts
Mr P Machray	4 Oct 2007	Oct 2011	Non-Executive	Finance & General Purposes, Trusts
Professor W A C McKelvey	1 Jun 1999	n/a	Chief Executive (2002)	
Professor W Stevely	5 Oct 2005	Oct 2013	Non-Executive (Vice Chairman from Oct '07)	Education & Skills, Appointments & Remuneration
Ms J D Swadling	2 Oct 2001	n/a	Executive	
Professor C T Whittemore	1 Aug 2000	Oct 2008	Non-Executive	Appointments & Remuneration, Audit, Health & Safety Policy

Note: Non-Executive Directors are appointed for four years. Their appointment may be extended for one further four year period. It is the practice of the Board to extend these appointments on an annual basis.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SAC**

We have audited the Group and Company financial statements (the "financial statements") of SAC for the year ended 31 March 2009 which comprise the Statement of Accounting Policies, the Group Income and Expenditure Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### ***Respective responsibilities of directors and auditors***

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), the Statement of Recommended Practice: Accounting for Further and Higher Education and United Kingdom Law as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with accounting principles generally accepted in the United Kingdom, are properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice: Accounting for Further and Higher Education.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We are also required to report to you whether, in our opinion, funds from whatever source, administered by the College for specific purposes have, in all material respects, been properly applied to those purposes and managed in accordance with the terms and conditions attached to them and whether income has, in all material respects, been applied in accordance with the relevant legislation and, where appropriate, the Financial Memorandum between SAC and RERAD and the Financial Memorandum between SAC and the Scottish Funding Council.

We read other information contained in the Financial Statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Directors Report, Chief Executive's Review, The Statement on Corporate Governance and Statement of Directors Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## ***Basis of audit opinion***

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We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## ***Opinion***

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In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Group and Company as at 31 March 2009 and of the surplus of the Group's income over expenditure and the Group's cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education
- the information given in the directors' report is consistent with the financial statements;
- income tax has, in all material respects, been applied in accordance with the Further and Higher Education (Scotland) Act 1992, SAC's policies and, where appropriate, in accordance with the Financial Memorandum between SAC and RERAD and the Financial Memorandum between SAC and the Scottish Funding Council.

Ernst & Young LLP  
Registered Auditor  
Edinburgh  
27 August 2009

## **STATEMENT OF PRINCIPAL ACCOUNTING POLICIES**

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

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These Accounts have been prepared under the historic cost convention, modified to include listed investments at their market value, and have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and applicable Accounting Standards.

An Income & Expenditure Account on a company only basis is not presented for SAC in line with the exemption available under Section 230 of the Companies Act 1985.

### ***Basis of consolidation***

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The consolidated Accounts include SAC and its subsidiary and quasi-subsiary undertakings. The activities of the Student Representative Council have not been consolidated as SAC has no financial interest and no control or significant influence over policy decisions.

### ***Changes in accounting policies***

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

### ***Income recognition***

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Recurrent grants from The Scottish Government Rural and Environment Research and Analysis Directorate (RERAD) and the Scottish Funding Council (SFC) are recognised in the period in which they are receivable.

Income is recognised on both research and consulting contracts as consideration is earned. This is typically in line with work done and hence costs incurred. Where applicable, profit is calculated on a prudent basis to reflect the proportion of work carried out at the year end. Full provision for losses is made in the year in which the losses are first foreseen. Project Expenditure recognised over amounts invoiced is reflected within debtors as 'Amounts recoverable on contracts'. The excess of Project Income received over amounts recognised as revenue is reflected within creditors as 'Payments Received in Advance'. All income from short-term deposits is credited to the income & expenditure account in the period in which it is earned.

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

### ***Land and Buildings***

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SAC's land and buildings are stated at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to SAC of 50 years.

The freehold land and buildings shown in the accounts have, in the opinion of the directors, a market value in excess of the book value.

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

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

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 depreciated until they are brought into use.

RERAD maintain an interest in tangible fixed assets funded by capital grant from them.

## ***Equipment***

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All equipment is capitalised at cost. Capitalised equipment is depreciated over its useful life as follows.

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

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

## ***Software***

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

## ***Investments***

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Endowment asset investments are included in the balance sheet at valuation. Income less expenditure and net movements in the valuation are included in the Statement of Total Recognised Gains and Losses.

## ***Stocks***

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

## ***Taxation***

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SAC is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, SAC is potentially exempt from taxation in respect of income

or capital gains received within categories covered by Section 505 of the ICTA 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

SAC's subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation. Surpluses where they arise are covenanted to SAC, via its intermediate holding company, the SAC Foundation.

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

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

### ***Foreign currencies***

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

### ***Provisions, contingent liabilities and contingent assets***

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

### ***Pensions***

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The requirements of FRS 17, setting out the accounting treatment for retirement benefits, have been fully applied in these Accounts. The increased FRS 17 disclosure requirements for periods commencing on or after 6 April 2007, as set out by Accounting Standards Board in December 2006, have been fully complied with for the first time in these Accounts. The main requirements of FRS 17 that are applicable to SAC are:

1. Pension scheme assets are measured using market values
2. Pension scheme liabilities are measured using a projected unit method and discounted at an AA corporate bond rate
3. The pension scheme surplus or deficit is recognised on the face of the balance sheet
4. The movement in the scheme surplus/(deficit) is analysed into:
  - a) The current service cost and past service costs; these are recognised in operating profit
  - b) The interest cost and expected return on assets; these are recognised as other finance costs
  - c) Actuarial gains and losses; these are recognised in the statement of total gains and losses

Retirement benefits to employees of the SAC Group are provided by three superannuation schemes, the first being the RCPS scheme, the second being the Group Pension Plan and the third being the Citrus (Local Authorities Waste Disposal Companies) Scheme.

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.

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

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

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

## ***Leases***

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

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

## ***Intra group transactions***

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

## GROUP INCOME & EXPENDITURE ACCOUNT

Year to 31 March 2009

	Note	Year Ended 31 Mar 2009 £000's	Year Ended 31 Mar 2008 £000's
<b>Income</b>			
Scottish Government Grants	1	10,996	21,199
Scottish Government Rural Directorate Grant-in-Aid	2	7,057	-
Scottish Funding Council	3	3,627	-
Tuition Fees and Education Contracts	4	2,217	2,675
Research Grants and Contracts	5	7,680	6,251
Advisory and Consultancy	6	10,692	10,284
Other Operating Income	7	4,911	4,195
Interest Receivable		244	274
Total Income		<u>47,424</u>	<u>44,878</u>
<b>Expenditure</b>			
Staff Costs	8	26,787	26,405
Exceptional Costs – Staff Restructuring	8	239	-
Depreciation & Amortisation	16 & 17	2,110	2,148
Other Operating Expenditure	10	17,261	15,451
Interest	12	100	139
Total Expenditure		<u>46,497</u>	<u>44,143</u>
<b>Surplus on continuing operations after depreciation of Tangible Fixed Assets</b>		927	735
Gain on Disposal of Fixed Assets		33	41
<b>Surplus for the Year Retained within Reserves</b>		<u>960</u>	<u>776</u>

**BALANCE SHEET**  
At 31 March 2009

	Note	Group		Company	
		2009 £000's	2008 £000's	2009 £000's	2008 £000's
<b>Fixed Assets</b>					
Tangible Fixed Assets	16	40,368	41,634	40,368	41,634
Intangible Fixed Assets	17	-	13	-	13
		<u>40,368</u>	<u>41,647</u>	<u>40,368</u>	<u>41,647</u>
<b>Endowment Asset Investments</b>	24	<u>2,423</u>	<u>3,168</u>	<u>2,423</u>	<u>3,168</u>
<b>Current Assets</b>					
Stocks	22	1,366	1,160	1,366	1,160
Debtors	18	5,422	4,917	2,975	3,078
Cash in Hand		<u>2,660</u>	<u>5,605</u>	<u>2,465</u>	<u>5,394</u>
<b>Total Current Assets</b>		9,448	11,682	6,806	9,632
<b>Less Creditors – amounts falling due within one year</b>	19	<u>(11,997)</u>	<u>(11,722)</u>	<u>(10,098)</u>	<u>(10,398)</u>
<b>Net Current Liabilities</b>		<u>(2,549)</u>	<u>(40)</u>	<u>(3,292)</u>	<u>(766)</u>
<b>Total Assets Less Current Liabilities</b>		40,242	44,775	39,499	44,049
<b>Less Creditors – amounts falling due after one year</b>	20	<u>(638)</u>	<u>(3,314)</u>	<u>(638)</u>	<u>(3,314)</u>
<b>Total Net Assets excluding Pension Asset</b>		39,604	41,461	38,861	40,735
<b>Pension Asset</b>		<u>451</u>	<u>1,765</u>	<u>451</u>	<u>1,765</u>
<b>Net Assets including Pension Asset</b>		<u>40,055</u>	<u>43,226</u>	<u>39,312</u>	<u>42,500</u>
<b>Represented by:</b>					
<b>Deferred Capital Grants</b>	23	30,223	31,696	30,223	31,696
<b>Reserves</b>					
Endowment	24	2,532	3,224	2,532	3,224
General Reserve Including Pension Asset	25	<u>7,300</u>	<u>8,306</u>	<u>6,557</u>	<u>7,580</u>
<b>Total Funds</b>		<u>40,055</u>	<u>43,226</u>	<u>39,312</u>	<u>42,500</u>

The accounts were approved on 27 August 2009 and signed on behalf of the Board by:

Lord Jamie Lindsay  
Chairman

Professor W A C McKelvey  
Chief Executive & Principal

**GROUP CASH FLOW STATEMENT**  
**For the year ended 31 March 2009**

		<b>2009</b>	<b>2008</b>
	Note	£000's	£000's
<b>Net Cash Inflow from Operating Activities</b>	26	549	2,479
Return on Investments and Servicing of Finance	27	73	26
Capital Expenditure and Financial Investment	28	(673)	(658)
Financing	29	<u>(2,894)</u>	<u>(350)</u>
Increase in Cash in the Period		<u>(2,945)</u>	<u>1,497</u>
 <b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>			
Increase in Cash in the Period	30	(2,945)	1,497
Decrease in Debt and Leasing Finance	30	<u>2,894</u>	<u>350</u>
Decrease in Net Debt		(51)	1,847
Net Cash at start of year	30	<u>2,236</u>	<u>388</u>
Net Cash as at 31 March	30	<u>2,185</u>	<u>2,236</u>

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year ended 31 March 2009**

Surplus for Year	960	776
Net additions to endowments	54	7
(Depreciation)/Appreciation of endowments	(746)	(214)
Actuarial (loss) / gain in respect of pension scheme	(1,966)	1,278
Total recognised gains and losses since last annual report	<u>(1,698)</u>	<u>1,847</u>
Reserves at 1 April 2008	11,530	9,683
Reserves as 31 March 2009	<u>9,832</u>	<u>11,530</u>

## NOTES TO THE 2008-2009 ACCOUNTS

		<b>2009</b>	<b>2008</b>
	Note	£000's	£000's
<b>1. Rural and Environment Research and Analysis Directorate (RERAD) Grants</b>			
Recurrent Grant			
- Education		2,407	5,947
- Research and Development		7,102	6,951
- Advisory		-	6,639
	13	<u>9,509</u>	<u>19,537</u>
Release from Deferred Capital Grants			
- Buildings	23	719	719
- Equipment	23	<u>768</u>	<u>943</u>
		<u>10,996</u>	<u>21,199</u>
<b>2. Rural Directorate Grant-in-Aid</b>			
Advisory (VAS)	14	6,992	-
Release from Deferred Capital Grants			
- Equipment	23	<u>65</u>	<u>-</u>
		<u>7,057</u>	<u>-</u>
<b>3. Scottish Funding Council</b>			
- Education	15	3,581	-
- Release from Deferred Capital Grants			
- Equipment		<u>46</u>	<u>-</u>
		<u>3,627</u>	<u>-</u>
<b>4. Tuition Fees &amp; Education Income</b>			
UK Higher Education Contracts		1,286	1,317
European (EU) Students		51	37
Non-EU Students		48	59
UK Further Education Students		<u>44</u>	<u>40</u>
		1,429	1,453
Education Contracts		176	124
Short Course Fees		<u>612</u>	<u>1,098</u>
		<u>2,217</u>	<u>2,675</u>

## NOTES TO THE 2008-2009 ACCOUNTS

	<b>2009</b>	<b>2008</b>
	£000's	£000's
<b>5. Research Contracts</b>		
Scottish Government Rural Directorate		
- Farm Accounts Scheme	717	711
- Flexible Funds	275	656
- National List Trials	336	348
European Union	729	691
Other (non Scottish Government)	<u>5,623</u>	<u>3,845</u>
Research Grants	<u>7,680</u>	<u>6,251</u>
<b>6. Advisory &amp; Consultancy Income</b>		
Subscriptions	2,327	2,385
Analytical Services	2,133	2,157
Consultancies	6,041	5,572
Publications	<u>191</u>	<u>170</u>
	<u>10,692</u>	<u>10,284</u>
<b>7. Other Operating Income</b>		
Residencies, Catering & Conferences	1,240	1,156
Sales of Farm Products	2,883	2,282
HE Joint Operations	130	113
Other Trading	-	-
Rents	507	519
Other Income	<u>150</u>	<u>125</u>
	<u>4,911</u>	<u>4,195</u>
<b>8. Staff Costs</b>		
Wages & Salaries	23,808	22,957
Social Security Costs	1,937	1,868
Other Pension Costs	<u>1,281</u>	<u>1,580</u>
	<u>27,026</u>	<u>26,405</u>

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

	<b>2009</b>	<b>2008</b>
Professional	313	315
Technical & Scientific	274	261
Administrative	165	164
Manual	<u>55</u>	<u>56</u>
	<u>807</u>	<u>796</u>

## NOTES TO THE 2008-2009 ACCOUNTS

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

	Group 2009		Group 2008	
	Number Directors	Number Other Staff	Number Directors	Number Other Staff
£50,001 to £60,000	-	27	-	26
£60,001 to £65,000	-	5	-	4
£70,001 to £80,000	-	2	-	3
£80,001 to £90,000	-	1	-	2
£90,001 to £100,000	-	2	-	-
£100,001 to £110,000	-	-	-	-
£110,001 to £120,000	-	-	1	-
£120,001 to £130,000	1	-	1	-
£130,001 to £140,000	-	-	-	-
£140,001 to £150,000	1	-	-	-
£150,001 to £160,000	-	-	-	-
£160,001 to £170,000	-	-	-	-
£170,001 to £180,000	-	-	-	-
£180,001 to £190,000	-	-	-	-
£190,001 to £200,000	-	-	1	-
£200,001 to £210,000	1	-	-	-
	<u>3</u>	<u>37</u>	<u>3</u>	<u>35</u>

### 9. Directors' Remuneration

	Group	
	2009	2008
	Number	Number
The number of Executive Directors during the year including the Chief Executive & Principal	3	3
	<u>          </u>	<u>          </u>
	£000's	£000's
Salaries	470	440
Fees (Non-Executive Directors)	103	97
Pension Contributions	39	34
	<u>612</u>	<u>571</u>
Emoluments of Chief Executive & Principal	<u>205</u>	<u>194</u>

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

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

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

The total pension contributions in respect of the Chief Executive & Principal include employer's contributions to the Research Councils' Pension Scheme and are paid at the same rate as for employees and amounted to £10,239 (2007/08 £8,707).

## NOTES TO THE 2008-2009 ACCOUNTS

<b>10. Other Operating Expenditure</b>	<b>2009</b>	<b>2008</b>
	£000's	£000's
Residences, Catering and Conference Operating Expenses	1,704	1,662
Consumables and Laboratory Expenditure	2,171	1,746
Books and Periodicals	233	216
Computing (equipment, maintenance and software)	772	764
Equipment Purchases	324	282
Heat, Light, Water and Power	1,178	1,106
Postage, Phones, Stationery and other communication costs	824	910
Repairs and General Maintenance	577	478
Rents	366	335
Travel and Subsistence (including Vehicle Costs)	1,792	1,658
Auditors Remuneration		
- External Audit	37	30
- Internal Audit	28	40
- Other Services from External Auditors	30	25
Equipment Operating Lease Rentals	63	26
Sub-Contract External and Consultants	3,398	3,059
Bad Debts	29	39
Insurance	218	295
Irrecoverable VAT	313	377
Other Expenses	2,694	1,920
Marketing	350	315
Equipment Maintenance and Leasing	160	168
	<u>17,261</u>	<u>15,451</u>

### 11. Analysis of 2008-2009 Expenditure by Activity for Group

	Staff Costs	Other Expenditure	Depreciation & Amortisation	Total
	£000's	£000's	£000's	£000's
Academic Departments	3,721	1,528	-	5,249
Research Grants and Contracts	7,723	6,279	129	14,131
Administration and Central Services	3,634	2,332	70	6,036
Premises and Estates	650	3,301	957	4,908
Residencies, Catering & Conferences	134	258	-	392
Other Costs	11,164	3,563	954	15,681
	<u>27,026</u>	<u>17,261</u>	<u>2,110</u>	<u>46,397</u>

## NOTES TO THE 2008-2009 ACCOUNTS

<b>12. Interest Payable</b>	<b>2009</b>	<b>2008</b>
	£000's	£000's
On Loans repayable in less than five years	132	199
On Loans repayable in more than five years	38	47
On Financial Leases	1	2
Net Interest Charge – Pension Scheme	(71)	(109)
	<u>100</u>	<u>139</u>
<b>13. Scottish Government Rural and Environment Research and Analysis Directorate (RERAD)</b>		
Grant Income	9,509	19,537
Capital Funding	400	2,779
	<u>9,909</u>	<u>22,316</u>
The following represents amounts paid by RERAD in respect of their liabilities which SAC administers on their behalf. These payments are not recognised in these Accounts		
Recurrent Superannuation	1,507	2,610
Non Recurrent Superannuation	1,291	843
Early Retirement Costs	19	448
	<u>2,817</u>	<u>3,901</u>
<b>14. Scottish Government Rural Directorate (SGRD)</b>		
Grant-in-Aid	6,992	-
Capital Funding	325	-
	<u>7,317</u>	<u>-</u>
<b>15. Scottish Funding Council (SFC)</b>		
Grant-in-Aid	3,581	-
Capital Funding	303	-
	<u>3,884</u>	<u>-</u>
The following represents amounts paid by SFC in respect of their liabilities which SAC administers on their behalf. These payments are not recognised in these Accounts		
Recurrent Superannuation	400	-
	<u>400</u>	<u>-</u>

## NOTES TO THE 2008-2009 ACCOUNTS

### 16. Tangible Fixed Assets – Group & Company

	Freehold Land £000's	Freehold Buildings £000's	Equipment £000's	Leased Equipment £000's	Vehicles £000's	Total £000's
<b>Cost</b>						
At 1 April 2008	143	49,266	21,474	1,000	1,167	73,050
Additions	-	509	1,108	-	117	1,734
Disposals	-	-	-	-	(27)	(27)
At 31 March 2009	143	49,775	22,582	1,000	1,257	74,757
<b>Depreciation</b>						
At 1 April 2008	-	9,671	19,804	1,000	941	31,416
Charge for year	-	1,013	968	-	116	2,097
Impairment	-	903	-	-	-	903
Disposals	-	-	-	-	(27)	(27)
As at 31 March 2009	-	11,587	20,772	1,000	1,030	34,389
<b>Net Book Value</b>						
At 31 March 2009	143	38,188	1,810	-	227	40,368
<b>Net Book Value</b>						
At 1 April 2008	143	39,595	1,670	-	226	41,634

Net book value of vehicles above includes an amount of £NIL (2008 £77,525) in respect of assets held under Finance leases and Hire Purchase agreements. Depreciation charge for vehicles above in the year includes an amount of £11,631 (2008 £19,381) in respect of assets held under Finance leases and hire purchase agreements.

As a result of SAC's ongoing estate rationalisation project, several buildings held by the College were subject to decommissioning and withdrawal from active use during the year. As a result of this process, an impairment of £903,016 has been charged to the carrying value of Buildings. This has not impacted upon the surplus for the year, as the impairment has been matched with a release of deferred capital grants.

## NOTES TO THE 2008-2009 ACCOUNTS

17. Intangible Assets	Group & Company			
	2009		2008	
	£000's		£000's	
<b>Milk and Other Quotas</b>				
<b>Cost</b>				
At 1 April 2008		79		79
Addition during year		-		-
At 31 March 2009		<u>79</u>		<u>79</u>
<b>Amortisation</b>				
At 1 April 2008		66		51
Charge for year		<u>13</u>		<u>15</u>
As at 31 March 2009		<u>79</u>		<u>66</u>
<b>Net Book Value</b>		<u>-</u>		<u>13</u>
18. Debtors	Group		Company	
	2009	2008	2009	2008
	£000's	£000's	£000's	£000's
Trade Debtors	4,302	3,796	728	1,132
Prepayments	360	375	354	375
Amounts recoverable on Contracts	759	746	458	539
SAC Commercial Ltd	-	-	-	1,032
SAC Foundation	-	-	1,435	-
	<u>5,422</u>	<u>4,917</u>	<u>2,975</u>	<u>3,078</u>
19. Creditors due within one year				
Trade Creditors	2,247	3,493	2,136	3,518
Other Taxation and Social Security	1,586	1,002	1,586	1,002
Other Creditors	374	79	374	79
Accruals	3,003	2,654	2,594	2,355
Payment Received in Advance	4,720	4,160	3,341	2,945
Loans 21a	60	324	60	324
Finance Leases 21b	7	10	7	10
SAC Foundation	-	-	-	165
	<u>11,997</u>	<u>11,722</u>	<u>10,098</u>	<u>10,398</u>

## NOTES TO THE 2008-2009 ACCOUNTS

### 20. Creditors due after more than one year.

Loans	21a	408	3,028	408	3,028
Finance Leases	21b	-	7	-	7
Deferred Pension Costs		229	279	229	279
		<u>638</u>	<u>3,314</u>	<u>638</u>	<u>3,314</u>

### 21. Borrowings

#### a. Bank Loans

	Note	Group & Company	
		2009	2008
		£000's	£000's
Bank loans are repayable in instalments as follows:			
In one year or less	19	60	324
Between one and two years	20	60	2,610
Between two and five years	20	180	180
Five years or more	20	168	238
		<u>468</u>	<u>3,352</u>

Details of loans are as follows:

Bank of Scotland	-	2,814
Lloyds TSB	468	538
	<u>468</u>	<u>3,352</u>

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

#### b. Finance Leases

	2009	2008
	£000's	£000's
The net finance leases to which the Group is committed are repayable:		
In one year or less	7	10
Between one and five years	-	7
	<u>7</u>	<u>17</u>

### 22. Stocks

Farm Stocks	1,345	1,140
Goods for Resale	21	20
Total Stocks	<u>1,366</u>	<u>1,160</u>

## NOTES TO THE 2008-2009 ACCOUNTS

### 23. Deferred Capital Grants – Group and Company

#### At 1 April 2008

- Buildings	29,550
- Equipment	2,146
	<u>31,696</u>

#### Received during year

- Buildings	-
- Equipment	1,028
	<u>1,028</u>

#### Released to Income & Expenditure Account

- Buildings	(719)
- To write down disused buildings	(903)
- Equipment	(879)
	<u>(2,501)</u>

#### At 31 March 2009

- Buildings	27,929
- Equipment	2,295
<b>Total at 31 March 2009</b>	<u><u>30,223</u></u>

Deferred Capital Grants received in the year are as follows:

	Buildings £000's	Equipment £000's	Total £000's
RERAD	-	400	400
SGRD	-	325	325
Scottish Funding Council	-	303	303
	<u>-</u>	<u>1,028</u>	<u>1,028</u>

## NOTES TO THE 2008-2009 ACCOUNTS

		<b>Group &amp; Company</b>	
		<b>2009</b>	<b>2008</b>
		£000's	£000's
<b>24.</b>	<b>Endowment Assets</b>		
	At 1 April 2008	3,224	3,431
	Donations	10	1
	Income	145	138
	Disbursements	(101)	(132)
	(Depreciation)/Appreciation of asset investments	(746)	(214)
	At 31 March 2009	2,532	3,224
	Represented by:		
	Fixed Interest Stocks (Listed)	858	808
	Equities (Listed)	1,472	2,187
	Cash on Deposit	93	173
		2,423	3,168
	Cash Balances	109	56
		2,532	3,224
		<b>Group</b>	<b>Company</b>
		£000's	£000's
<b>25.</b>	<b>General Reserve</b>		
	At 1 April 2008	8,306	7,580
	Surplus/(deficit) for the year	960	(377)
	Actuarial loss recognised in STRGL	(1,966)	(1,966)
	At 31 March 2009	7,300	5,237
<b>26.</b>	<b>Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities</b>	<b>2009</b>	<b>2008</b>
		£000's	£000's
	Operating Surplus	927	735
	Pension Costs less contributions payable	(582)	(159)
	Depreciation and Amortisation	3,013	2,148
	Deferred Capital Grants released to Income	(2,501)	(1,662)
	Interest Received	(244)	(274)
	Interest Paid	100	139
		713	927
	(Increase)/Decrease in Stock	(206)	(209)
	(Increase)/Decrease in Debtors	(505)	(327)
	Increase/(Decrease) in Creditors	494	2,080
	Movement in Endowment Cash Balances	53	8
	<b>Net Cash Inflow from Operating Activities</b>	549	2,479

## NOTES TO THE 2008-2009 ACCOUNTS

		<b>Group &amp; Company</b>		
27. <b>Returns on Investments and Servicing of Finance</b>	Note	<b>2009</b>	<b>2008</b>	
		£000's	£000's	
Bank Interest Received		244	274	
Bank Interest paid	12	(132)	(199)	
Interest paid on Loans not wholly repayable within five years	12	(38)	(47)	
Interest paid on Finance Leases	12	(1)	(2)	
Net Cash Inflow/(Outflow) from return on Investments and Servicing of Finance		<u>73</u>	<u>26</u>	
28. <b>Capital Expenditure and Financial Investment</b>				
Purchase of tangible fixed assets	16	(1,734)	(3,478)	
Sale of tangible fixed assets		33	41	
Deferred capital grants received	23	1,028	2,779	
Net cash inflow/(outflow) from investing activities		<u>(673)</u>	<u>(658)</u>	
29. <b>Financing</b>				
Repayment of Bank Loans	21 a	(2,884)	(331)	
Repayment of Finance Leases	21 b	(10)	(19)	
Net cash outflow from financing activities		<u>(2,894)</u>	<u>(350)</u>	
30. <b>Analysis of Changes in Net Funds</b>	Note	At 1 April 2008 £000's	Net Change £000's	At 31 March 2009 £000's
Cash in Hand and at Bank		<u>5,605</u>	<u>(2,945)</u>	<u>2,660</u>
Debt due after 1 year	16	(3,028)	2,620	(408)
Debt due within 1 year	17a	(324)	264	(60)
Finance Leases	17b	(17)	10	(7)
		<u>(3,369)</u>	<u>2,894</u>	<u>(475)</u>
Net Cash		<u>2,236</u>	<u>(51)</u>	<u>2,185</u>

## NOTES TO THE 2008-2009 ACCOUNTS

### 31. Subsidiary and Quasi-subsiary Companies

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

	<b>2009</b>	<b>2008</b>
	£000's	£000's
<b>Profit &amp; Loss Account</b>		
<b>Turnover</b>	17,060	15,109
<b>Expenditure</b>		
Directors Fees	103	97
Other Operating Expenses	15,620	14,123
Total Expenditure	<u>15,723</u>	<u>14,220</u>
<b>Profit on Ordinary Activities before gift aid</b>	1,337	914
<b>Gift aid – SAC</b>	(1,319)	(968)
<b>Profit / (Loss) for the Year</b>	<u><u>18</u></u>	<u><u>(54)</u></u>
<b>Balance Sheet</b>		
Tangible Assets	100	100
Net Current Assets	<u>744</u>	<u>726</u>
Total Net Assets	<u><u>844</u></u>	<u><u>826</u></u>
<b>Represented by:</b>		
Deferred Capital Grants	-	-
Share Capital	100	100
Profit & Loss Account	<u>744</u>	<u>726</u>
<b>Reserves</b>	<u><u>744</u></u>	<u><u>826</u></u>

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

### 32. Subsidiary Companies

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

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

The SAC Group also uses the following trade names: Edinburgh Genetics, Capital Diagnostics, Greens of Scotland and SAC International.

## NOTES TO THE 2008-2009 ACCOUNTS

### 33. Capital Commitments

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

	Group and Company	
	2009	2008
	£000's	£000's
Buildings	-	1,500

Further to the year end, it should be noted that the Scottish Funding Council (SFC) has approved the Craigie Campus project which means that SAC will enter into a financial commitment of £8.9m (£6.1m SFC grant). Also SAC has signed a Heads of Terms Agreement with the University Edinburgh in relation to the Easter Bush Research Centre (EBRC) for a long term lease of premises which represents a capital commitment of £5m (£2.5m Scottish Government Rural Environment Research and Analysis Directorate).

### 34. Operating Lease Commitments

As at 31 March 2009, the annual commitment under non-cancellable operating leases was as follows:

	Plant and Machinery	
	2009	2008
	£000's	£000's
Leases expiring within one year	63	26
	63	26

### 35. Pensions

The Research Councils' Pension Scheme ("RCPS") is a defined benefit scheme. The RCPS is an analogous scheme to the Principal Civil Service Pension Scheme (PCSPS) being the main government scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The RCPS is a multi-employer scheme and it is not possible to identify each participating institution's share of the underlying assets and liabilities of the scheme hence contributions to the scheme are accounted for as if it were a defined contribution scheme. Employees provide 1.5% of their salary as widows or widowers benefit. Funding for the scheme comes primarily from RERAD with a monthly contribution from SAC. From 1 October 1998 this scheme was closed to new employees of SAC.

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 SAC. From 1 January 2001 to 31 December 2004 this scheme was closed to new employees of SAC. This scheme was reopened to new employees from 1 January 2005.

The Citrus scheme is a defined benefit scheme and was offered to new entrants from 1 June 2001 until the scheme's closure to new entrants on 31 December 2004. The assets of the scheme are held in a separately administered fund. A valuation was carried out as at 31 March 2009. The contributions are set at 6% for employees and 17.7% for pensionable salaries (less a 1.5% administration cost, 16.2%) for SAC. Additional payments of £48,000 per annum are made into the plan.

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

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2006 and updated by Hymans Robertson to take account of FRS 17 in order to assess the liabilities of the scheme at 31 March 2009. The triennial actuarial valuation as at 31 March 2009 has taken place, but SAC 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.

## NOTES TO THE 2008-2009 ACCOUNTS

	<b>31 Mar 2009</b>	<b>31 Mar 2008</b>
	<b>£000</b>	<b>£000</b>
<b>Change in Benefit Obligation</b>		
Opening Defined Benefit Obligation	7,813	9,046
Current Service Cost	286	676
Interest Cost	557	516
Scheme Participants' Contributions	313	311
Actuarial (Gains) / Losses	(476)	(2,757)
Benefits (Paid)	(83)	21
<b>Benefit Obligation as at 31 March 2009</b>	<b>8,410</b>	<b>7,813</b>
<b>Change in Scheme Assets</b>		
Opening fair value of scheme assets	9,578	9,265
Expected Return on Scheme Assets	628	627
Actuarial (Losses) / Gains	(2,442)	(1,533)
Employer Contributions	867	887
Member Contributions	313	311
Benefits Paid	(83)	21
<b>Fair Value of Scheme Assets as at 31 March 2009</b>	<b>8,861</b>	<b>9,578</b>
<b>Net Amount Recognised</b>	<b>451</b>	<b>1,765</b>

With effect from 1 April 2008, employer contributions were 17.7% of pensionable salaries (less members' contributions, which includes 1.5% as an administration cost).

The components of the pension cost are as follows:

	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
Current Service Cost	286	676
Interest Cost	557	516
Expected Return on Scheme Assets	(628)	(627)
<b>Total Pension Cost Recognised in the Income &amp; Expenditure Account</b>	<b>215</b>	<b>565</b>
Actuarial Losses Immediately Recognised	(1,966)	1,224
<b>Total Pension Cost Recognised in the Statement of Recognised Gains &amp; Losses</b>	<b>(1,966)</b>	<b>1,224</b>
<b>Cumulative Amount of Actuarial Losses / (Gains) Immediately Recognised</b>	<b>(363)</b>	<b>(2,329)</b>
<b>Scheme Assets</b>	<b>2009</b>	<b>2008</b>
The weighted average asset allocations at year-end were as follows:	<b>£000</b>	<b>£000</b>
Equities	57%	75%
Corporate Bonds	15%	8%
Government Bonds	21%	12%
Cash	7%	5%
	<b>100%</b>	<b>100%</b>

## NOTES TO THE 2008-2009 ACCOUNTS

To develop the expected long term rate of return on assets assumption, SAC considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of a 5.34% assumption for the expected return on Scheme Assets for 2009/10.

	<b>2009</b>	<b>2008</b>			
	<b>£000</b>	<b>£000</b>			
<b>Actual Return on Scheme Assets</b>	(1,814)	(906)			
<b>Weighted Average Assumptions Used to Determine Benefit Obligations:</b>					
Discount Rate	7.20%	6.90%			
Inflation Rate	3.70%	3.60%			
Rate of Salary Increase	4.70%	4.60%			
Rate of Pension Increase	3.45%	3.35%			
<b>Weighted Average Assumptions Used to Determine Net Pension Cost:</b>					
Discount Rate	7.20%	6.90%			
<b>Expected Long Term Return on Scheme Assets</b>	5.34%	6.20%			
Rate of Salary Increase	4.70%	4.60%			
Rate of Pension Increase	3.45%	3.35%			
<b>Weighted Average Life Expectancy for Mortality Tables Used to Determine Benefit Obligations:</b>					
	<b>2009</b>	<b>2008</b>			
Member Age 65 (current life expectancy)	20.4	20.4			
Member Age 50 (life expectancy at age 65)	21.2	21.2			
<b>Five Year History: £000</b>					
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Benefit Obligation at End of Year	(8,410)	(7,813)	(9,046)	(11,325)	(6,618)
Fair Value of Scheme Assets at End of Year	8,861	9,578	9,265	7,608	4,895
<b>Deficit / (Surplus)</b>	<u>451</u>	<u>1,765</u>	<u>219</u>	<u>(3,717)</u>	<u>(1,723)</u>
<b>Difference Between Actual and Expected Return on Scheme Assets:</b>					
<b>Amount £000</b>	(2,442)	(1,533)	33	1,117	143
<b>Percentage of Scheme Assets</b>	(27.6%)	(16.0%)	0.4%	14.7%	2.9%
<b>Experience Gains and (Losses) on Scheme Liabilities:</b>					
Amount £000	(33)	(22)	3,094	(364)	(639)
Percentage of Scheme Assets	(0.4%)	(0.3%)	34.2%	(3.2%)	(9.7%)

Figures for the year ended 31 March 2009 have been restated from mid-market to bid prices; however, previous years' figures have not been restated as the difference arising is deemed to be immaterial.

## NOTES TO THE 2008-2009 ACCOUNTS

### Balance Sheet Position

	Long Term Return %p.a.	Fund Value at 2009 £000's	Long Term Return %p.a.	Fund Value at 2008 £000's	Long Term Return %p.a.	Fund Value At 2007 £000's
<b>Assets</b>						
Equities	6.3	5,082	7.00	7,184	7.00	8,106
Corporate Bonds	6.3	1,310	6.90	766	5.40	316
Government Bonds	3.8	1,830	4.50	1,149	4.50	491
Cash	0.1	639	5.25	479	5.25	352
<b>Total Value of Assets</b>		<u>8,861</u>		<u>9,578</u>		<u>9,265</u>
Actuarial Value of Liabilities		<u>(8,410)</u>		<u>(7,813)</u>		<u>(9,046)</u>
<b>Net Pension Asset/(Deficit)</b>		<u>451</u>		<u>1,765</u>		<u>219</u>

## GENERAL INFORMATION

Chairman	Lord Jamie Lindsay
Chief Executive and Principal	Professor William A C McKelvey BVMS PhD MRCVS CBiol FIBiol FRAGS
Company Secretary and Finance & Corporate Affairs Director	Janet D Swadling BA MBA FCIS
External Auditors	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ
Internal Auditors	KPMG Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Bankers	Bank of Scotland New Uberior House 11 Earl Grey Street Edinburgh EH3 9BN
Solicitors	Morton Fraser 30-31 Queen Street Edinburgh EH2 1JX
Actuaries	Hymans Robertson 221 West George Street Glasgow G2 2ND
Stockbrokers	Speirs & Jeffrey 36 Renfield Street Glasgow G2 1NA