THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

Financial Statements

Year ended
31 March 2018

Co-operative and Community Benefit Societies Act 2014: Registered number 17107R
Regulator of Social Housing: Registered number LH0170

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Members of the Board of Management of the Society who have served during the year 31 March 2018 were as follows:

BOARD OF MANAGEMENT

Ms Brigid Sutcliffe (Chair)
Mr Nick Whitaker (Honorary Treasurer)
Ms Zohra Chiheb
Mr Jon Fitzmaurice (resigned 25 September 2017)
Mr Craig Glasper (resigned 11 January 2018)
Mr Dave Holmes (resigned 25 September 2017)
Mr Guillermo Justel (co-opted 1 July 2017)
Mr David King
Mr Andrew Pakes
Ms Rafia Patel
Ms Martha Slade
Ms Rebecca Southern (co-opted 1 July 2017)
Mr Tony Watt
Mr Ed Wallace
Mr Lawrence Zollner (appointed 25 September 2017)

The following members have been appointed since 31 March 2018:
Mr Nigel Woods (co-opted 21 May 2018)

The following members have resigned since 31 March 2018:
Mr Guillermo Justel (resigned 3 August 2018)

Each member of the Board of Management, or in the case of the representative members, their sponsoring Society, holds one fully paid share of £5 each in the Society. Co-opted members are not required to hold shares in the Society.

SENIOR MANAGEMENT TEAM (SMT)

Permanent members of the SMT during the year to 31 March 2018 were:

Linda Wallace	Chief Executive
Stephen Brown	Corporate Services Director
Christina Friedenthal	Operations Director (appointed 12 July 2017)
Anne Hauxwell	Finance Director (appointed 10 July 2017)

During the year, vacant SMT posts were covered by interim appointments.

The Board presents its report and the audited financial statements of The Co-operative Development Society Limited (CDS) for the year ended 31 March 2018.

Principal Activities

CDS is a co-operative society (Co-op) and a social landlord established in 1975 to provide, promote and support co-operative and community led housing. We are regulated by the Regulator of Social Housing (RSH) and registered with the Financial Conduct Authority (FCA). We also act as a co-op service agency providing landlord and business management services to a wide range of housing co-ops in London and the South East.

At March 2018, we owned 690 rented homes and 251 leasehold properties and provided services to more than 40 housing co-ops and their c.2,000 homes.

Our work aims to be of benefit to the wider community with a commitment to the long term stewardship and protection of assets and to maintaining affordability in our housing stock. We are a social business and the way we do things is as important to us as the things we do. We strive to build trust with customers and partners by being reliable, fair and acting with integrity. As a co-op society, we believe we can achieve more by working with others, listening for understanding and showing kindness in our work to build effective collaboration.

The Year Under Review

Our corporate plan was agreed in 2017 and sets out three strategic goals, one for each of our business streams

- As a landlord (the Provider stream) we will deliver consistently great landlord services for CDS residents.
- As a service agency (the Supporter stream) we will deliver reliable and efficient landlord and business services for clients.
- And we will promote mainstream growth in co-op and community led housing (the Promoter stream).

During the year under review we continued to measure our progress against these goals.

Delivering consistently great landlord services

This goal is about being good at the things that matter most to our tenants and leaseholders. It focuses on both service and consistency as we know this is central to building trust with our customers.

We measure our improvement through a combination of key performance indicators and independently assessed customer satisfaction. We made good progress in improving landlord services during the year with measurable improvement or consistently good performance in most key areas, particularly in the delivery of repairs and void management and in complaints responsiveness. We were disappointed with a dip in leaseholder satisfaction for repairs which ran against the general trend but were pleased to see this improve in our most recent survey.

The year was marked by extensive focus on safety following the tragic Grenfell Tower fire. This has led to significant investment in fire prevention and detection measures which have sometimes had a negative impact on customer satisfaction, particularly where the work or service leads to higher service charges. We have worked carefully to explain the requirements to customers and have invested heavily in this area. This trend will continue in the 18/19 year.

Delivering reliable and efficient landlord and business support services for clients

This goal is about delivering consistently good contract services for clients and ensuring that our service provides good value for money.

For some years, our clients service has been in deficit and 2017/18 began the implementation of our strategy for moving this business stream into profit by March 2021. We have benchmarked costs against national data to develop a pricing strategy which demonstrably offers good value and we have devised a gradual application of increases to ensure that no client would be unable to meet the new charges. Nevertheless, this essential price adjustment is likely to lead to some initial contraction in our client business stream although we believe it will provide a more stable and resilient platform for future growth.

Our service performance in this business stream was stable with particular improvements in the business and finance support.

Promote mainstream growth in co-op and community led housing

This goal is about enabling mainstream growth in our sector. We have chosen an enabling approach as we believe that this fits with our business mission and maximises the impact of our investment, helping more homes to be built through others. We focus on supporting initiatives, projects or products which can help the sector learn quickly so that it can scale up to provide 1,000's of homes in each year.

Our progress this year is set out below:

Target	Activity
Employ a member of staff to carry out Promoter work	Work in this year has been largely carried out by the Chief Executive and through our service level agreement with the national CLT Network
Community Led Housing Learning & Growth Platform Launched	We encouraged CCH to take our place in the national partnership as this made more logical sense of the bid to government for the Community Housing Fund. We have then focused on supporting the London / GLA Hub and work in the south east.
London Plan for CLH resourced	We have worked with the GLA to establish the London Community Led Housing Hub. We have agreed a business plan and recruited a Project Director who started work in April
Mortgage Brokerage launched	We have funded an expert report on the availability of retail mortgage products for Community led Housing which launched in March The report will be used to foster relationships with funders and to try to expand the range of retail mortgage lending available for community led housing home ownership products.
National Community Led Housing Conference	We contributed to the delivery of the first national community led housing conference. This included announcement of the continuation of the £60m per annum Community Housing Fund.
Training Offer	We are working with CCH to develop the accredited or certificated training offer for CLH. CCH will deliver this as part of the national infrastructure.

Our Forward Plans

In 2018/19, we want to continue to focus on building stability and resilience with consistent improvement rather than radical change. We have set out plans to invest in 'doing the basics brilliantly' and see this as the priority for investment alongside our promoter work. In future, we see opportunities for growth in services to small landlords and other housing associations as well as co-ops and community led housing groups. This requires the development of a strong core infrastructure and investment in the skills and talents of our staff team.

Alongside this focus on 'basics brilliantly' we propose to continue to build our reputation as an enabler. This theme unites the three business streams and starts to develop a brand for CDS that distinguishes us from others.

Proposed high level objectives for each business stream are set out below.

Provider business stream - delivering consistently great landlord services

Goal	Objectives
Maximise income	• Prepare for Universal Credit and minimise negative effects • Maximise income from non residential property • Ensure full recovery of service charge costs • Let properties quickly
Improve core services to tenants and leaseholders	• Achieve improvements in repairs, voids, arrears in line with plan • Improve estate services through contracts and supervision • Clarify and improve service offer to leaseholders • Improve responsiveness to complaints / enquiries • Manage rent and service charge increase process effectively • Document core processes and improve audit outcomes
Improve asset & project management	• Complete stock condition survey • Consider opportunities to involve customers in prioritizing work • Agree asset management strategy • Create and follow project management processes
Implement new Housing Management System	• Maximise the benefits of the new system for culture change

Supporter business stream - deliver reliable and efficient landlord and business services

Goal	Objectives
Maximise Income	• Implement the client fee increase • Manage notice / handover periods effectively • Respond to opportunities for new client work in core areas • Proactively manage client debt
Improve core services to clients	• Complete the roll out of the new contract • Offer improved reporting and monitoring including benchmarking • Provide regular and effective updates on sector/regulatory issues • Provide effective services with improving direction of travel

Promoter business stream - Promote mainstream growth in co-op and community led housing

Goal	
Recruit a project officer for promotion and enabling work	
Support the London Community Led Housing Hub	• Recruit staff team • Support project director • Consider complementary funding for initiatives
Promote innovation in Co-op housing	• Launch Maureen Stables Award for Innovation • Work with CCH to encourage growth in existing co-ops
Build capacity for growth in CLH	• Work with CCH to launch training certification • Build community leadership capacity in London with London Hub • Support the RUSS community led housing training programme • Develop enablers in our core team

Risk and Uncertainty

All organisations face risk and uncertainty, but effective organisations have an awareness of these risks and manage and mitigate them well. At CDS we have embedded risk management throughout our business with employees at every level taking responsibility for identifying and managing risks.

Our risk map details those risks that could prevent us from achieving our strategic objectives and the controls in place for mitigating those risks. It is prepared by the Senior Management Team, approved by the Board annually, reviewed by the Finance & Audit Committee at every meeting (quarterly) and discussed regularly by SMT and Operational Managers. The risk map has been improved to focus on 'live' risks and active risk management.

The Board considers risks under three headings:

Impact Mitigation Risks – these are ongoing or environmental risks where there is limited opportunity for active risk management to prevent the risk from crystallising, but where we have plans in place to respond to and mitigate the impact of that occurrence.

Actively Managed Risks – These are key day to day risks within the business where there is a control framework in place to ensure that the risk is actively managed.

Current Live Risks – These are the currently most significant issues within the business where we have a specific short-term action plan to reduce that risk and move it back down into the managed active risk section.

The Board considers the risks below to be those which are most likely to affect our future performance and ability to meet our strategic goals.

Risk	Consequence	Controls
Staff Lone Working	• Risk of Injury/Loss of Life • Reputational • Breach of law/regulation	• Lone Worker Safety System • Monitoring • Staff Training • Remote office safety reviews
Landlord Gas Safety Breach	• Risk to property / Life • Reputational • Breach of Law or Regulation	• Gas Safety Management Process • Annual Audit of Programme Completeness • Regular external audit
Estate Safety Risk (Lifts, Fire, Asbestos, Legionella)	• Risk to property / life • Reputational • Breach of Law or Regulation	• Regular compliance reporting to Board • Weekly monitoring of compliance • Formal H&S management system • Regular block inspections and estate inspections (at least quarterly) • Oversight by H&S committee including board rep • Weekly SMT catch up on key H&S issues
Failure to balance costs with income in respect of managed services	• Financial Loss • Reputational Risk • Use of income from landlord operations to subsidise client activity	• Client fee Increase Strategy • Managed Notice period for outgoing clients • Management plan to reduce costs to match any loss of income for departing clients

Financial Results - Highlights

Overview

The organisation delivered a financial surplus of £892k before tax in 2017/18 (2016/17: £1,404k) which equated to a net margin of 15.5% on turnover (2016/17: 24.2%). This surplus enables us to continue to invest in and improve the services we provide to our customers and ensures that we meet our interest cover requirements in line with our lenders' covenants.

Our operating margin on social housing lettings (excluding property sales and exceptional items) remained at 30%, despite a reduction in turnover and our overall operating margin (excluding sales) increased from 10% to 15% primarily driven by a reduction in management costs. This was achieved despite the need to invest more in estate services, particularly on fire and other safety costs.

Our Value for Money Statement for 2017/18 (included as part of this document) reviews our financial performance in more detail including our relative performance and plans for improving our profitability in future years.

2017/18 Surplus before Taxation

Our 2017/18 surplus before taxation was £892k (2016/17: £1,404k), a £512k decrease. The main reason for this was a reduction of £785k in our Property Sales surplus year on year.

There was a net increase in the operating surplus of £242k to £837k. Excluding exceptional costs, the year on year increase in surplus is £15k.

There were a number of contributing factors, but the main ones were:

- a reduction in client fee income of £35k due to movement of clients
- a reduction of £33k in Social Housing lettings income due to government policy
- an increase in leasehold income of £23k

Operating costs were £288k less than last year including £227k of exceptional costs relating to business restructuring. There are no exceptional costs in 2017/18. Within operating costs, we spent less on management (£149k) but more on estate services, primarily increased costs of fire and other safety works (£174k). We also spent more (£14k) on reactive and planned repairs and maintenance but less (£36k) on the impact of early component renewals.

Allocation of Overheads (Notes 3 & 4)

Our allocation of direct costs between different business activities is based on a detailed review carried out with Housemark in 2015/16. Where possible the allocation uses an assessment of actual levels of activity and is updated for changes since the prior year.

We have more carefully reflected the split of costs and income between leasehold and shared ownership units to present a more accurate report on these activities. This is also supported by work we have done to more clearly analyse service charge costs to ensure recharges are fair and transparent.

Overheads have been apportioned in relation to either staff costs, units under ownership/management or turnover depending on the nature of the cost.

Statement of Financial Position

Our Statement of Financial Position demonstrates that we are financially strong with a significant property asset base of £33.2m at cost and reserves of £11.8m at the year end.

We have outstanding loan balances of £5.3m, producing a very low gearing of only 11.7%. Our overall liquidity, including quick access to considerable cash reserves, provides us with confidence that we can meet our foreseeable commitments.

Value for Money

At CDS, value for money (VfM) means achieving our vision in the most efficient, effective and economic way, whilst always working in line with our values. VfM is embedded in our values, with reliability, fairness and acting with integrity being central to how we work. Our goal of making co-op and community led housing a mainstream option is all about using the value of people's own efforts to give more people the chance to have a home that they enjoy and can afford.

Our business streams

Each of our three business streams makes a unique and important contribution to achieving our goals.

Provider

As a collaborative social landlord, we drive efficiency and improve service so that our surpluses grow and can be invested in delivering our vision of mainstream growth for the co-op and community led housing sector. We seek to model the benefits of effective collaboration by working closely with our customers.

Supporter

As a service agency, we make it easier for co-ops and other community led landlords to remain independent by providing reliable landlord and business services at a reasonable price. In this

work we strive to embody our values, enabling clients to achieve their own goals through reliable core service and support for effective, well informed decision making.

Promoter

As a promoter, we are a passionate advocate for mainstream growth in the co-op and community led housing market, facilitating collaboration, encouraging creativity, removing barriers and investing in the design of sustainable building, planning, legal and financial approaches that can be used by anyone.

We recognise the we are custodians of historic public grant. By using our resources in this way, we believe we are making the most effective use of our assets, getting more homes built in line with our core purpose.

Value for Money Strategy

Our key strategic goals are:

- Deliver consistently great landlord services for CDS residents
- Deliver reliable and efficient landlord and business services for clients
- Promote mainstream growth in co-op and community led housing

Value for money for us means achieving these goals with the right balance of quality, value and reliability and in line with our business values. We have put these things at the heart of measuring business success and have redrawn our mission to make sure that there is a direct relationship between every part of our work and achieving our overall goal. The connection of every employee to our purpose makes it easier for everyone to seek out efficiency and effectiveness.

Our overall approach to improving value for money is to deliver consistent and measurable improvement over time in core services and on focusing our limited resources where we believe we can get the most benefit. This inevitably means choosing what not to do as well as what we do. For example, managing the risk of current tenants falling into arrears as they move onto the Universal Credit system, will be a key focus for 2018/19 and an area where we are investing new resource. This contrasts with devoting limited resources to pursuing former tenant debt beyond the early stages, based on the historic evidence of limited returns.

Our internal reporting will focus on "controllable surplus" (excluding items such as interest or sales receipts) to encourage an active understanding of how decisions can impact on our results. We will also use this as one of our selected VfM measures for external reporting.

Measuring Value for Money

The new Value for Money standard, effective April 2018, introduced seven standard measures of VfM in our core landlord business, which are outlined below. In addition, it requires Providers to select their own measures which best reflect their strategic aims and overall approach to VfM. With this in mind, we have selected a small number of targets for each of our business streams.

We are primarily a service organisation and a key element of delivering value for money is that our customers know what they can expect from us, can rely on getting it and are happy with both quality and price.

We monitor VfM primarily through:

- Monitoring our business plan, operational plan and performance against targets.
- Benchmarking our performance and costs relative to our peers
- Reviewing feedback from customers, clients, employees and other stakeholders

In our Provider workstream we will target consistent improvement in the following

- Tenant satisfaction with overall service – currently 83%
- Leaseholder satisfaction with overall service and value for money – currently 69%
- Core Service performance, measured by improvements in arrears, complaints handling and repairs performance.
- Employee engagement – currently 73%
- Controllable surplus against budget and improvement from year to year – based on agreed budget.
- Improving our safety compliance and culture

In our **Supporter** stream we will measure progress towards profitability, with the goal of generating a 5% surplus by 2020/21

In our **Promoter** stream we will measure value for money by the extent to which we are able to deliver agreed outcomes using the promoter fund.

Value for Money Self-Assessment 2017/18

Measured against the standard metrics

Our performance for the year against the standard metrics is as follows. We have given comparatives for 2016/17 and the sector scorecard values from 2017.

Value for Money Metrics	Actual 17/18	Prior year 16/17	Sector scorecard 16/17
Metric 1 – Reinvestment %	1.3%	0.8%	5.7%
Metric 2 – New supply delivered %	0%	0%	1.1%
Metric 3 – Gearing %	11.7%	13.1%	45%
Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %	5.17	3.22	2.28
Metric 5 – Headline social housing cost per unit	3,281	3,705	3,306
Metric 6 – Operating Margin %			
Social housing lettings only	30.3%	25.1%	31.6%
Overall	14.6%	10.3%	
Metric 7 – Return on capital employed (ROCE) %	3.1%	4.6%	4.0%

The Sector scorecard comparisons are from the Housemark report where these offer a direct comparison or from the global accounts data.

Reinvestment

Our business plan forecasts and allows for the projected investment needed to keep our homes in good repair. As part of our annual budget we allocate funds to spend on specific projects and on 'at fail' requirements, recognising that homes respond to use and environment as well as age. We are updating our stock condition information to identify any opportunities for economies of scale in procurement, but this remains challenging given the size and geographical spread of our stock. We will continue to reserve funds for 'at fail' or 'just in time' replacements which we believe offer the best balance of service and value in most cases.

New Supply Delivered

The Board has considered how CDS can best use its assets to meet the challenge of providing more homes, taking account of our capacity and our specific purpose. We believe we can best achieve this by enabling the design and delivery of mainstream co-op and community housing solutions, in collaboration with others, measuring our success by the number of homes built overall, rather than simply additions to our own stock.

The Board recognises that we will sometimes be the developer of choice, particularly where sites are adjacent to our own or where existing relationships offer advantageous deals. In these cases, we will consider each scheme on its merits, seeking to use our borrowing capacity to deliver more affordable and community led homes in line with our overall vision.

Gearing

CDS has relatively low gearing reflecting the age of the stock and low investment. This indicates lower risk but also potential unused borrowing capacity for development. This ratio will reduce further as we repay existing debt.

Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %

This measure is also an indication of risk and of borrowing capacity. We expect this to steadily increase as we improve Provider surpluses and reduce deficit on our Supporter workstream.

Headline social housing cost per unit

This is the cost measured across our rented (690) and shared ownership (98) homes. Compared to the prior year Social Housing costs (including exceptionals) have reduced by 11% overall. Compared to the 2017 sector scorecard global benchmark, costs are 1% below the national median but we believe our costs are good value when compared with organisations of similar size and geography.

Operating Margin

Our operating margin on Social Housing lettings is below the sector average, primarily as a result of lower than average turnover per home.

Our overall margin is lower due to the inclusion of our Client Services (Supporter) business which is in deficit. We will steadily eradicate this deficit by March 2021. This more sustainable business will be the basis for growth in support of the emerging community led housing market and other smaller landlords.

Return on Capital Employed

This measure has reduced year on year, despite an increase in operating surplus. This particular measure includes any surplus generated on sale of properties, which was significantly higher in the prior year. We do not plan or budget for sales.

Measured against our chosen metrics

In addition to the standard metrics we also measure performance against our specific metrics which we have chosen to align with our strategic goals.

CDS Specific Value for Money Metrics	Target	Actual 17/18	Prior year 16/17
Provider Stream			
Tenant satisfaction with overall service (April 18 vs April 17)	Improving	83%	82%
Leaseholder satisfaction with overall service (April 18 vs April 17)	Improving	69%	48%
Core Service Performance:			
Complaints Resolved in Target	95.0%	82.5%	65.4%
Average days to complete a repair	Less than 7.5	7.2	6.6
Current tenant arrears as % rent debit	Less than 3.0%	2.6%	2.8%
Employee engagement	Improving	73%	67%
Controllable Surplus on Social Housing (excluding exceptional items)	Improving	£1,314k	£1,321k
Legal Compliance/ Outstanding safety actions	Improving		
Supporter Stream			
Operating surplus	Improving to 5% by March 2021	-24%	-36%

Customer Satisfaction – Tenants and Leaseholders

Our 2018 customer satisfaction survey for social housing activity showed a further increase in tenant satisfaction. Leaseholder satisfaction showed a more significant increase (from 48% to 69%) but remains lower, as with most providers.

Almost all underlying indicators show improvement in satisfaction with Value for Money particularly high at 96% for both Tenants and Leaseholders. Nevertheless, there are areas in which we still need to make improvements particularly in satisfaction with our repairs service.

A key part of our value for money strategy is to increase satisfaction with services without increasing our cost base. We consider that this is possible as the main areas of dissatisfaction for customers are around communication and reliability. Alongside this, we are committed to

investing in our infrastructure to establish a modern and reliable platform for growth and efficiency. We will be undertaking regular customer satisfaction surveys to ensure that progress is being made.

Controllable Surplus – Provider Stream

Our surplus on Social Housing Lettings increased by 20% year on year (from £1,094k to £1,311k) although once exceptional costs in 2016/17 are taken into account there was a small (1%) fall. Income increased year on year due to higher service charges, although these were reflected in higher service costs. Cyclical maintenance was lower (by 10%) than the previous year and management costs (excluding exceptional costs) were lower by 20%.

Our strategic aim is for this measure to increase year on year and for us to meet our controllable surplus. In 2017/18 we underperformed due to significantly increased costs for fire and other safety issues but did finish ahead of our mid-year reforecast.

Operating Surplus – Supporter Stream

Our strategic aim is for the Client Services business to break even and generate a small (5%) margin to cover risk by March 2021. In 2017/18 we have made progress towards this goal, reducing the deficit (from £470k to £309k) mainly as a result of lower overall spend on staffing and non-direct costs and some increases in fee income.

We recognise that some clients may leave due to the fee increases and have made a commitment to reduce costs to balance this without prejudice to the overall target.

Client Debt

Our level of Client debt has remained stable year on year but is still above target at 3.7%. Keeping Client debt at a reasonable level and ensuring we do not have to write anything off remains a focus for us.

How Will We Improve Value for Money?

The Board approved a revised approach to Value for Money at their meeting in May 2018 rooted in consistent improvement over time and focusing our limited resources where we believe we can get the most benefit whilst working in line with our values.

Within this overall goal we have identified a number of supporting strategies, which focus on value for money.

To maximise income (and surplus) in the Provider stream we will:

- Ensure full recovery of service charge costs.
- Minimise the impact of the move to Universal Credit
- Improve the documentation of core processes
- Agree an asset management strategy

To ensure that the Supporter stream makes a small surplus, we will

- Continue to review the pricing strategy in line with benchmarked costs
- Balance income losses with cost reductions
- Improve our consistency and reliability in delivering contract services
- Proactively manage client debt.

To drive value for money in the overall business, we will:

- Decide whether to pursue conversion to charitable status, to generate tax savings.
- Reduce interest costs by repaying debt which is surplus to requirements.
- Continue to measure and prioritise employee engagement.
- Improve our ICT for core housing services and our ICT infrastructure

Compliance

HCA Governance and Financial Viability Standard

The Board annually reviews and confirms compliance with the HCA Regulatory Code, particularly the Governance and Financial Viability standard. The report as at 30 June 2018, which confirmed that CDS is able to demonstrate full compliance with this standard, was approved by the Board in July.

NHF Code of Governance 2015

We have adopted the National Housing Federation Code of Governance. The NHF Code was updated in early 2015 and the Board conducted a thorough review of compliance with the updated code. There is one area of the code where the Board specifically decided not to comply.

- The Board has set a maximum Board size of 12 elected plus 3 co-opted members which is larger than the maximum specified in the code.

NHF Voluntary Code on Mergers, Group Structures and Partnerships

In January 2016, the Board agreed to adopt the above code.

The Board has agreed that there is no immediate need or benefit to be obtained from pursuing a merger. Partnerships to share services or central costs are of interest and any approach would receive appropriate consideration as to its value in increasing the pace or scale of movement towards the business mission.

No proposals for merger were made in the year and no representations were received from any third party with any proposals for merger. Post year end we accepted a transfer of engagements from a smaller organisation and will remain open to similar opportunities.

Statement of Board's Responsibilities

As a Registered Provider of Social Housing, the Board is responsible for preparing the report and financial statements for each financial year in accordance with applicable law and regulations, Co-operative and Community Benefit Societies Act 2014 and registered social landlord legislation. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under the Co-operative and Community Benefit Societies Act 2014, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the Society for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that CDS will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of CDS and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006 and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2014.

The Board has general responsibility for safeguarding the assets of CDS and hence for the prevention and detection of fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information on CDS's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Statement on Internal Controls

The Board has overall responsibility for establishing and maintaining the whole system of internal control and reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk and that the system of internal control is designed to manage and to mitigate risk and to provide reasonable assurance that key business objectives and expected outcomes will be achieved.

It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of our assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which is embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Society is exposed. The Board ensures that there is a long term business plan which shows how our goals will be achieved and which ensures that our financial capacity is sufficient and can withstand risk. The plan is robustly tested against a range of scenarios. Our risk assessment framework is directly related to ensuring that we manage and mitigate those risks that might undermine our ability to meet our business plan goals.

The process adopted by the Board in reviewing the effectiveness of the system of internal controls, together with some of the key elements of the control framework includes:

- Identification and evaluation of key risks

The Board and senior managers work together to agree the key areas of risk in the business at the start of each year and these are reviewed as the year progresses so that any emerging risks are evaluated and reflected in the control environment. These risks are brought together in the risk map which is regularly reviewed by the senior management team who report to the Finance & Audit Committee and to the Board. The Corporate Services Director takes overall responsibility for highlighting risks and changes in risks to the Board informed by managers and Directors in their own areas.

- Monitoring and corrective action

A process of control self-assessment and regular management reporting on control issues provides hierarchical assurance to management and to the Board. This includes an agreed programme of full and interim internal audit reviews designed to provide assurance on key internal controls. There is in place an appropriate procedure for ensuring that corrective action is identified in relation to any significant control issues, particularly those with a material impact on the financial statements and that any follow up is specifically monitored by the Board or a delegated committee.

- Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategic, operational, and financial and compliance issues including new investment projects. The Board has adopted and disseminated to all employees a code of conduct for board members and staff based upon the NHF code of governance. This sets out the Society's policies with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, asset protection and fraud prevention and protection.

- Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead and forecasts for the subsequent four years, as well as regular and detailed cash flow forecasts. These are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes.

- Arrangements for managing the risk of fraud

The Board has an anti-fraud policy which sets out the arrangements for preventing, detection and reporting of fraud. As part of the internal fraud review, the Board has reviewed the fraud register.

- Current key risks

The Board considers that the key risks that are most likely to influence future performance and our ability to deliver our business objectives are economic and political, business capacity, information and communications technology, internal controls and health and safety.

- Internal audit

The internal control framework and risk management process are subject to regular review by the Internal Auditors who are responsible for providing independent assurance to the Board via its Finance & Audit Committee. The Finance & Audit Committee considers internal controls and risk at each of its meetings.

- Annual review of the effectiveness of internal controls

The Board confirms that it has received the annual report of the senior management team on the effectiveness of internal controls and has conducted its annual review of the effectiveness of the system of internal control and has taken account of any changes needed to maintain the effectiveness of the risk management and control process.

The Board confirms that there is an on-going process for identifying, evaluating and managing significant risks faced by the Society. This process has been in place throughout the year under review and up to the date of the approval of these statements and is regularly reviewed by the Board. The Board confirms that no weaknesses in internal controls have resulted in any material losses, contingencies or uncertainties which would require disclosure in the financial statements.

Equality and diversity

CDS is committed to operating fairly and openly and without discrimination. All decisions relating to employment practices will be objective, free from bias and based solely on work criteria and individual merit. We are responsive to the needs of our employees, residents and the community at large.

Health and safety

The Board receives an annual health and safety report with regular updates on safety for employees, residents, partners and other parties. The health and safety of CDS's employees, residents and partners is paramount to the Board and we are constantly seeking to develop a safety aware and safety confident culture.

We strive for safe and healthy working conditions, housing, equipment and systems of work for all those connected with the Society and to provide such information, training and supervision as is needed for this purpose. We have also taken steps to improve assurance in respect of contractor safety performance providing additional training to partners on key risks.

There have been no material health and safety breaches in the year.

Disclosure of information to auditors

At the date of making this report each of CDS's Board members, as set out on page 2, confirm the following:

- so far as each Board member is aware there is no relevant information needed by CDS's auditors in connection with preparing their report of which CDS's auditors are unaware; and
- each Board member has taken all the steps that they ought to have taken as a Board member to make themselves aware of any relevant information needed by CDS's auditors in connection with preparing their report and to establish that CDS's auditors are aware of that information

Going concern

CDS has a significant property asset base of £33.2m at cost and reserves of £11.8m at the year end. CDS has relatively low gearing and quick access to considerable cash reserves. Based on the Board's projections, including the long-term business plan, The Board has a reasonable expectation that CDS will continue to deliver adequate surpluses and meet its financial covenants and that CDS has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

By order of the Board of Management

S. BROWN
Secretary

Date: 17 SEPTEMBER 2018.

Independent Auditor's Report to The Co-operative Development Society

Opinion

We have audited the financial statements of The Co-operative Development Society (the society) for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Statement of Financial Position, the Statement of Cashflows and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the society's affairs as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with regulations made under that Act. We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the society's members, as a body, in accordance with regulations made under Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Other information

The board is responsible for the other information. The other information comprises the information included in the Annual Report, set out on pages 3 to 22 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

Responsibilities of the board for the financial statements

As explained more fully in the Statement of Board's Responsibilities set out on page 19, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Date: 19 SEPTEMBER 2018

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2018

	Note	2018 £	2017 £
TURNOVER	3	5,751,387	5,796,547
Operating costs – normal	3	(4,914,241)	(4,974,573)
– exceptional	4	-	(227,300)
OPERATING SURPLUS	3	837,146	594,674
Surplus on sale of housing properties	5	263,075	1,047,573
Investment and other income	6	3,967	8,693
Interest payable and similar charges	7	(211,983)	(247,123)
SURPLUS AFTER EXTRAORDINARY ACTIVITIES AND BEFORE TAXATION		892,205	1,403,817
Tax on surplus on ordinary activities	11	(243,153)	(293,677)
SURPLUS FOR THE FINANCIAL YEAR		649,052	1,110,140
Total Comprehensive Income for the Year		649,052	1,110,140

All amounts relate to continuing activities.

These financial statements were approved by the Board of Management and signed on its behalf by:

B. A. Sutcliffe

B. SUTCLIFFE	**N. WHITAKER**	**S. BROWN**
Chair	Hon Treasurer	Secretary

Date of approval: 17 September 2018

The notes on pages 29 to 53 form part of these financial statements.

STATEMENT OF CHANGES IN RESERVES
At 31 March 2018

	Revenue Reserve £
At 1 April 2016	10,010,040
Surplus for the year	1,110,140
At 31 March 2017	11,120,180
Surplus for the year	649,052
At 31 March 2018	11,769,232

The notes on pages 29 to 53 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
At 31 March 2018

	Note	2018 £	2017 £
Tangible fixed assets			
Housing properties	12	32,969,867	33,125,576
Other	13	246,397	149,320
		33,216,264	33,274,896
Current assets			
Debtors	14	574,095	1,159,598
Cash at bank and in hand		5,451,614	4,731,506
		6,025,709	5,891,104
Creditors: amounts falling due within one year	15	(3,691,877)	(3,128,246)
Net current assets		2,333,832	2,762,858
Total assets less current liabilities		35,550,096	36,037,754
Creditors: amounts falling due after one year	16	(23,780,579)	(24,917,279)
Total net assets		11,769,517	11,120,475
Capital and Reserves			
Share capital	21	285	295
Revenue reserve		11,769,232	11,120,180
Total Capital and Reserves		11,769,517	11,120,475

In view of the constitution of the Society all shareholdings relate to non-equity interests, as disclosed in note 21.

These financial statements were approved by the Board of Management and signed on its behalf by:

B.A. Sutcliffe

B. SUTCLIFFE	**N. WHITAKER**	**S. BROWN**
Chair	Hon. Treasurer	Secretary

Date of approval: 17 SEPTEMBER 2018

The notes on pages 29 to 53 form part of these financial statements.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

STATEMENT OF CASHFLOWS
For the year ended 31 March 2018

	Note	2018 £	2017 £
Cash from operations	22	2,298,292	(844,324)
Corporation tax paid		(301,709)	(254,348)
Net cash (outflow)/inflow from operating activities		1,996,583	(1,098,672)
Cash flow from investing activities			
Purchase of fixed assets – housing properties		(591,988)	(338,709)
– other		(174,563)	(19,322)
Net proceeds from sales of housing properties		277,689	1,122,981
Social Housing Grant repaid		(31,492)	(51,532)
Interest received		3,967	8,693
Net cash used in investing activities		(516,387)	722,111
Cash flow from financing activities			
Repayment of borrowings		(564,784)	(417,348)
Interest paid		(195,294)	(167,726)
Shares redeemed		(10)	(35)
Net cash used in financing activities		(760,088)	(585,109)
Net (decrease)/ increase in cash and cash equivalents		720,108	(961,670)
Cash and cash equivalents at the beginning of the year		4,731,506	5,693,176
Cash and cash equivalents at the end of the year		5,451,614	4,731,506
Cash and cash equivalents consist of:			
Cash at bank in hand		5,451,614	4,731,506
Bank overdraft		-	-
Cash and cash equivalents		5,451,614	4,731,506

The notes on pages 29 to 53 form part of these financial statements.

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently from one financial year to another and in dealing with items which are considered to be material in relation to the financial statements of The Co-operative Development Society Limited (The Society).

Basis of preparation

The Society is registered under the Co-operative and Community Benefit Societies Act 2014 and is a registered housing association.

The financial statements have been prepared under the historical cost convention and in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), and the Housing SORP 2014 Statement of Recommended Practice for registered social housing providers (Housing SORP 2014) and comply with the Accounting Requirements for Private Registered Providers of Social Housing from April 2015 (the Accounting Direction).

The functional currency is GBP sterling. The preparation of the financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires the Society's management to exercise judgement in applying its accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Going concern

The Society's activities, its current financial position and factors likely to affect its future development are set out within the Report of the Board. The Society has in place long term debt facilities as well as considerable cash reserves which provide adequate resources to finance committed reinvestment programmes along with day to day operations. The Society also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the Board has a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Turnover

Turnover represents rental income (receivable net of rent losses from voids), leaseholder service charges, first tranche sales of shared ownership properties and proceeds from sale of housing properties developed for sale, other services included at the invoiced value (excluding VAT) of goods and services supplied in the year, revenue grants receivable in the year and amortisation of deferred capital grants.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition

Rental income is recognised from the point when the properties under development reach practical completion or otherwise become available for letting. Revenue grants are recognised when the conditions for receipt of grant funding have been met. Income from deferred capital grants is recognised in turnover in a systematic basis over the useful economic life of the asset (usually the properties fabric) for which it was received.

Value Added Tax

The Society is VAT registered but a large proportion of its income, comprising rents, is exempt for VAT purposes. Accordingly, expenditure relating to rental income is shown inclusive of VAT in these accounts. VAT on expenditure relating to taxable supplies is reclaimable in full and, accordingly, this expenditure is shown net of VAT in these accounts. For expenditure of a general nature (i.e. certain overheads) which cannot be directly attributed to exempt or taxable supplies the partial exemption provisions apply. This expenditure is accounted for net and irrecoverable VAT is charged to other expenditure.

Interest payable

The arrangement fees and legal costs incurred in connection with loan facilities have been capitalised as part of loan issue costs and will be amortised over the term of the facilities or until there is a significant event that would require immediate expensing.

Housing properties

Housing properties are properties available for rent and properties subject to shared ownership leases. Housing properties are stated at cost less depreciation. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of improvements which have resulted in an economic benefit to the Society as well as directly incremental overhead costs and staff time associated with new developments, improvements and component-works.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Depreciation of housing properties

The Society accounts for its expenditure on housing properties using component accounting. A housing property is divided into those major components which are considered to have substantially different useful economic lives. These components are then depreciated over their individual useful economic lives.

The components identified by the Society and their respective useful economic lives are as follows:

Component	Useful Economic Life
Structure	100 Years
Structure (Sylhet)	59 Years
Kitchens	20 Years
Boilers	15 Years
Wiring	25 Years
Bathrooms	25 Years
Heating	30 Years
Roof	60 Years
Windows	30 Years
Lifts	30 Years

Where a separate identified and depreciated component of an existing property is replaced, the carrying value of the component is expensed and the cost of the replacement component capitalised.

Expenditure on items not separately identified as components are capitalised if they result in an increase in the net rental stream over the life of the property, over the standard originally assessed when the property was first acquired or constructed.

Freehold land is not depreciated. Properties held on leases are amortised over the life of the lease or their estimated useful economic lives in the business, if shorter.

Other fixed assets and depreciation

Other fixed assets are stated at cost less accumulated depreciation. Depreciation is charged for a full year in the year of acquisition on a straight line basis with no charge in the year of disposal. The principal annual rates used for other assets are:

Improvements to leasehold offices	-	over the term of the lease
Office furniture and equipment	-	20%
Computer equipment and software	-	20%
Tenant service equipment	-	25%
Community buildings	-	2%

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of tangible fixed assets

Tangible fixed assets (mainly housing properties) are assessed for indicators of impairment at each reporting date. Where indicators are identified a detailed assessment is then undertaken to determine the assets or cash generating units (CGUs) recoverable amount. The recoverable amount will be the higher of fair value less costs to sell, or Existing Use Valuation for Social Housing (EUV-SH), or Value in Use (in respect of assets held for their service potential) (VIU-SP). As allowed by Housing SORP 2014 the Society uses Depreciated Replacement Cost (DRC) as a reasonable estimate of VIU-SP.

Where the carrying amount of an asset or CGU is deemed to exceed its recoverable amount, the excess will be recognised in the Profit and Loss Account.

Financial assets

Basic financial assets, including tenant debtors and other receivables, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

Social Housing Grant (SHG) and other capital grants

SHG is receivable from the Homes and Communities Agency (HCA), and other capital grants are receivable from local authorities and other organisations.

SHG and other capital grants (Grant) are accounted for using the accrual model. Grant is recognised as deferred income in the Balance Sheet and released to the Income and Expenditure Account on a systematic basis over the useful economic life of the asset for which it was received, usually a housing property's fabric.

Upon the sale of a Grant funded property, any attributable Grant becomes recyclable and is transferred to a recycled capital grant fund (RCGF) or disposal proceeds fund (DPF for right to acquire units) until it is reinvested in a replacement property. The related Grant amortisation is charged to the Income and Expenditure Account.

Recycled capital grant fund

The Grant element on the net sale receipts of Grant funded properties, typically right to buy or shared ownership staircasing but not right to acquire, are required to be credited to a recycled capital grant fund under the terms of the SHG originally paid on such properties. Within the terms defined by the Homes and Communities Agency (HCA) the fund is to be used to provide replacement properties for rent, land acquisition and works to existing stocks or if unused within three years, is repayable to the HCA.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Pension costs

The Society participates in the Social Housing Pension Scheme (SHPS). Whilst this is a defined benefit scheme, the fund managers of the scheme are not able to identify the Society's share of the underlying assets and liabilities. The scheme is therefore accounted for as a defined contribution scheme.

SHPS is currently in deficit and agreement has been reached to fund the deficit. The future payments are discounted using the market yields of high quality corporate bonds at the reporting date and are disclosed as a liability. Payments are offset against the liability, and the unwinding of the discount is recognised as a finance cost in the Income and Expenditure Account.

Provisions

The Society only makes provision for any contractual and constructive liabilities existing at the balance sheet date.

Leased assets

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis over the respective lease terms.

Taxation

The charge for taxation is based upon the surplus for the year and includes current tax and deferred tax.

Deferred tax

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Society anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Any assets and liabilities recognised have not been discounted.

Deferred tax is measured at the tax rates expected to apply in the periods when the timing differences are expected to reverse, based on tax rate and law enacted or substantially enacted at the balance sheet date.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINITY

The preparation of financial statements in conformity with FRS 102 requires that management exercise its judgement in the process of applying the Society's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Determining whether an impairment review is required

Annually housing properties are assessed for impairment indicators. Where indicators are identified, an assessment for impairment is undertaken comparing the asset's carrying amount to its recoverable amount. Where the carrying amount of an asset is deemed to exceed its recoverable amount, the asset is written down to its recoverable amount. This is likely to be the value in use of the asset based on its service potential. The resulting impairment loss is recognised as expenditure in income and expenditure. Where an asset is currently deemed not to be providing service potential to the association, its recoverable amount is its fair value less costs to sell.

(b) Key accounting estimates and assumptions

Preparation of the financial statements requires management to make significant judgement and estimates. The areas in the financial statements where these have been made include impairment, capitalisation and any areas where there is estimation or uncertainty.

(i) Useful economic lives of tangible fixed assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets; however, by their nature, component life cannot be determined with absolute certainty.

(ii) Impairment of debtors

The Society makes an estimate of the recoverable value of tenant and other debtors. When assessing impairment of tenant and other debtors, management considers factors including the ageing profile of debtors and historical experience. We make a provision of 35% against current tenant arrears and 100% against former tenant arrears.

(iii) Discount factor used to calculate SHPS pension liability

The Society uses the yields proposed by SHPS to discount the future payments.

3. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS BEFORE TAX

	Turnover £	Operating costs £	2018 Operating surplus / (deficit) £	Turnover £	Operating costs £	2017 Operating surplus / (deficit) £
Income and expenditure from social housing lettings (note 4)						
General needs accommodation	4,031,532	(2,764,546)	1,266,986	4,006,084	(2,971,224)	1,034,860
Shared ownership accommodation	297,010	(253,016)	43,994	356,265	(296,937)	59,328
	4,328,542	(3,017,562)	1,310,980	4,362,349	(3,268,161)	1,094,188
Income and expenditure from other social housing activities						
Fees from managed associations	1,259,434	(1,568,458)	(309,024)	1,293,621	(1,763,586)	(469,965)
Tenant participation / training	-	(12,486)	(12,486)	1,188	(9,294)	(8,106)
Development costs		-	-	-	-	-
Leasehold services	121,079	(189,060)	(67,981)	97,542	(83,324)	14,218
Promoter activities	-	(49,189)	(49,189)	-	-	-
Other	15,099	(27,638)	(12,539)	15,380	(28,487)	(13,107)
	1,395,612	(1,846,831)	(451,219)	1,407,731	(1,884,691)	(476,960)
Non-social housing activities						
Commercial letting	27,233	(49,848)	(22,615)	26,467	(49,021)	(22,554)
Total	5,751,387	(4,914,241)	837,146	5,796,547	(5,201,873)	594,674

4. INCOME AND EXPENDITURE FROM LETTINGS

	General needs properties £	Shared ownership properties £	2018 Total £	General needs properties £	Shared ownership properties £	2017 Total £
Income from lettings						
Rents receivable net of identifiable service charges	3,607,038	245,413	3,852,451	3,648,324	250,195	3,898,519
Service charges receivable	152,744	38,657	191,401	86,010	110,488	196,498
Amortisation of deferred capital grants	271,750	12,940	284,690	271,750	(4,418)	267,332
Total income from social housing lettings	4,031,532	297,010	4,328,542	4,006,084	356,265	4,362,349
Expenditure on lettings						
Estate services	(377,159)	(60,518)	(437,677)	(196,184)	(67,491)	(263,675)
Management – normal	(525,658)	(119,301)	(644,959)	(685,543)	(107,931)	(793,474)
– exceptional	-	-	-	(227,300)	--	(227,300)
Routine maintenance	(722,144)	(39,744)	(761,888)	(643,160)	(63,358)	(706,518)
Cyclical repairs	(395,656)	(3,973)	(399,632)	(404,551)	(35,690)	(440,241)
Rent losses from bad debts	(12,902)	(2,241)	(15,143)	(45,733)	670	(45,063)
Major repairs expenditure	(20,779)	(4,401)	(25,180)	(29,535)	(1,641)	(31,176)
Component disposals	(22,677)	-	(22,677)	(58,815)	--	(58,815)
Property depreciation	(687,571)	(22,835)	(710,406)	(680,403)	(21,496)	(701,899)
Total expenditure on social housing lettings	(2,764,546)	(253,016)	(3,017,562)	(2,971,224)	(296,937)	(3,268,161)
Operational surplus / (deficit) on social housing lettings	1,266,986	43,994	1,310,980	1,034,860	59,327	1,094,188
Rent losses from voids	(13,325)	(2,242)	(15,567)	(15,670)	--	(15,670)

The 2016/17 exceptional costs all relate to business restructuring and the additional costs of covering senior posts on an interim basis.

5. SURPLUS ON SALE OF HOUSING PROPERTIES

	2018	2017
	£	£
Sale proceeds	289,310	1,129,289
Costs of sale transferred from fixed assets (note 12)	(14,614)	(75,408)
Incidentals	(11,621)	6,307
Surplus for the year	263,075	1,047,573

6. INTEREST RECEIVABLE

	2018	2017
	£	£
Other	3,967	8,693
	3,967	8,693

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2018	2017
	£	£
On loans	190,365	216,498
On Recycled Capital Grant Fund	618	625
Loan fee amortisation	5,000	5,000
Unwinding of the Social Housing Pension Scheme accrual discount	16,000	25,000
	211,983	247,123

8. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAX

Is stated after charging / (crediting):	2018 £	2017 £
Depreciation	787,892	779,407
Surplus on sale of fixed assets	(263,075)	(1,047,573)
Operating lease rentals: land and buildings	171,500	186,000
Auditors' remuneration (excluding VAT):		
• for their audit of the financial statements	23,500	23,000
• in respect of other services	5,200	4,700

9. DIRECTORS' REMUNERATION

For the purpose of this disclosure the directors are defined as the members of the Board of Management, the Chief Executive and permanent appointments to the Senior Management Team. The cost of interim appointments is not included.

Payments to members of the Board of Management

	2018 £	2017 £
Z Chiheb	1,338	623
P Farrow	-	600
J Fitzmaurice	578	1,200
C Glasper	1,262	1,704
C D Holmes	578	520
M Jeanes	-	600
G Justel	900	-
D King	1,200	623
T R Lyons	-	875
A Pakes	1,200	623
R Patel	1,200	1,200
M Slade	1,750	1,429
R Southern	900	-
B A Sutcliffe	7,000	7,835
E Wallace	1,200	623
K Watson	-	900
A Watt	1,200	1,200
N Whitaker	3,000	1,342
L F Zollner	623	-
	23,930	21,897

	2018 £	2017 £
Aggregate emoluments payable to directors (including pension contributions and benefits in kind)	305,477	260,912
Emoluments payable to the highest paid director (excluding pension contributions but including benefits in kind)	108,777	102,464
Total expenses reimbursed to the directors not chargeable to United Kingdom income tax	-	-

The number of staff, including directors, who received emoluments greater than £60,000;

	2018 Number	2017 Number
£60,001 - £70,000	2	0
£80,001 - £90,000	0	1
£100,001 - £115,000	1	1

10. EMPLOYEE INFORMATION

	2018 Number	2017 Number
Average number of employees		
The average monthly number of employees (including the Chief Executive) expressed in full time equivalents during the year	34	32

	2018 £	2017 £
Staff costs were as follows:		
Wages and salaries	1,357,243	1,198,109
Social security costs	122,108	122,108
Other pension costs	237,718	221,991
	1,717,069	1,542,208

The above costs are for payrolled staff only and exclude the costs of covering posts on an interim basis.

11. TAXATION

	2018 £	2017 £
UK corporation tax	206,385	278,230
Adjustment in respect of previous year	23,929	(13,542)
Total current tax	230,314	264,688
Origination and reversal of timing differences	12,839	28,989
Tax on profit on ordinary activities	243,153	293,677

The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2018 £	2017 £
Surplus on ordinary activities before tax	892,205	1,403,817
Surplus on ordinary activities at the standard rate of corporation tax in the UK of 19% (2017: 20%)	169,519	280,763
Effect of:		
Non-qualifying depreciation and amortisation on properties	120,240	108,986
Income not chargeable for tax purposes	(54,091)	(53,466)
Expenses not deductible for tax purposes	3,158	2,276
Adjust closing deferred tax to average	(813)	8,134
Adjustment in respect of previous year	5,140	(13,542)
Indexation allowances on capital disposals	-	(38,457)
	243,153	293,677

12. TANGIBLE FIXED ASSETS – Housing properties

	Housing properties held for letting £	Shared ownership housing properties £	Total £
Cost			
At 1 April 2017	42,011,611	3,110,442	45,122,053
Additions	448,774	143,214	591,988
Disposals - properties	-	(20,046)	(20,046)
Disposals - components	(83,720)	-	(83,720)
At 31 March 2018	42,376,665	3,233,610	45,610,275
Accumulated depreciation			
At 1 April 2017	11,358,831	637,646	11,996,477
Charge for the year	687,571	22,835	710,406
Disposals - properties	-	(5,432)	(5,432)
Disposals - components	(61,043)	-	(61,043)
At 31 March 2018	11,985,359	655,049	12,640,408
Net Book Value			
At 31 March 2018	30,391,306	2,578,561	32,969,867
At 31 March 2017	30,652,780	2,472,796	33,125,576

Loans are secured against a number of these properties.

Improvements to properties

	2018 £	2017 £
Replacement of components	265,513	338,709
Improvements expensed	25,180	23,394
	290,693	362,104

13. TANGIBLE FIXED ASSETS – Other

	Community buildings £	Office furniture and equipment £	Computer equipment and software £	Tenant services equipment £	Total £
Cost					
At 1 April 2017	-	41,229	575,577	72,725	689,531
Additions	155,417	3,655	15,491	-	174,563
At 31 March 2018	155,417	44,884	591,068	72,725	864,094
Depreciation					
At 1 April 2017	-	17,122	450,364	72,725	540,211
Charge for year	2,590	8,977	65,919	-	77,486
At 31 March 2018	2,590	26,099	516,283	72,725	617,697
Net book value					
At 31 March 2018	152,827	18,785	74,785	-	246,397
At 1 April 2017	-	24,107	125,213	-	149,320

14. DEBTORS

	2018 £	2017 £
Rent and service charge arrears	176,455	171,434
Less: provision for bad debts	(106,683)	(93,577)
	69,772	77,857
Amounts due from clients for monies paid on their behalf	194,547	746,299
Loans to staff	11,821	21,876
Other debtors and prepayments	297,955	313,566
	574,095	1,159,598

15. CREDITORS: amounts falling due within one year

	2018	2017
	£	£
Housing loans (note 17)	484,976	445,445
Recycled capital grant fund (RCGF) (note 18)	106,158	59,629
Trade Creditors	21,311	104,908
Loan Interest accrued	18,840	18,769
Capital expenditure on housing properties	15,603	31,380
Other taxation and social security payable	41,828	26,046
Rent and service charges received in advance	229,318	208,052
Corporation tax net of deferred tax	45,906	104,462
Amounts due to clients for monies received on their behalf	1,160,269	903,564
Leaseholder sinking funds	445,910	388,472
Other creditors and accruals	661,019	382,548
Deferred social housing grant (note 19)	288,765	288,970
SHPS Accrual (note 23)	171,974	166,000
	3,691,877	3,128,246

16. CREDITORS: amounts due after one year

	2018	2017
	£	£
Housing loans (note 17)	4,837,043	5,441,358
Recycled capital grant fund (RCGF) (note 18)	189,728	252,659
Deferred social housing grant (note 19)	17,706,677	18,005,633
Deferred other capital grants (note 20)	150,954	150,954
SHPS Accrual (note 23)	896,177	1,066,675
	23,780,579	24,917,279

17. HOUSING LOANS

Housing loans are secured by specific charges on the Society's housing properties.

Financial liabilities measured at amortised cost			2018 £	2017 £
Fixed Rate Instruments	**Rate**	**Maturity**		
Bilateral bank loan	4.54%	2034	2,529,320	2,600,000
Bilateral bank loan	11.11%	2029	296,332	387,389
			2,825,652	2,987,389
Variable Rate Instruments	**Margin over LIBOR**	**Maturity**		
Bilateral bank loans		2030	1,945,630	2,000,000
Mortgage	1.40%	2021	506,160	714,461
Mortgage	1.50%	2019	113,460	258,836
			2,565,250	2,973,297
Amortised loan issue costs			(68,881)	(73,883)
Total			5,322,019	5,886,803

Repayment profile of financial liabilities

All repayable by instalments		
Repayable in one year	484,976	445,445
Repayable in two to five years	1,219,414	1,468,218
Repayable in more than five years	3,617,629	3,973,140
	5,322,019	5,886,803

18. RECYCLED CAPITAL GRANT FUND

	2018 £	2017 £
At 1 April	312,288	287,195
Grants recycled (note 12)	14,472	76,000
Simple interest	566	554
Interest accrued	51	71
Withdrawals	(31,492)	(51,532)
At 31 March 2018	295,885	312,288

During the year £14,472 (2017: £76,000) of SHG was recycled including simple interest on disposal of a property that was staircasing.

The notional interest charged to the fund was £618 (2017: £625).

19. DEFERRED SOCIAL HOUSING GRANT

	Housing properties held for letting £	Shared ownership housing properties £	Total £
Social housing grant			
At 1 April 2017	24,362,144	1,724,386	26,086,530
Transferred to recycled capital grant fund	-	(14,472)	(14,472)
At 31 March 2018	24,362,144	1,709,914	26,072,058
Amortisation			
At 1 April 2017	7,362,527	429,400	7,791,927
Amortisation credit for the year	271,750	17,064	288,814
Released on disposals	-	(4,125)	(4,125)
`At 31 March 2018	7,634,277	442,339	8,076,616
Net Book Value			
At 31 March 2018	16,727,867	1,267,575	17,995,442
At 31 March 2017	16,999,617	1,294,986	18,294,603

	2018	2017
	£	£
Amount to be amortised within one year	288,765	288,970
Amount to be amortised after one year	17,706,677	18,005,633
	17,995,442	18,294,603

20. DEFERRED OTHER CAPITAL GRANTS

	Housing properties held for letting
	£
Other capital grants	
At 1 April 2017 and 31 March 2018	150,954
Amortisation	
At 1 April 2017 and 31 March 2018	-
Net Book Value	
At 31 March 2018	150,954
At 31 March 2017	150,954

	2018	2017
	£	£
Amount to be amortised after one year	150,954	150,954
	150,954	150,954

21. NON-EQUITY SHARE CAPITAL

Ordinary shares of £5 each issued and fully paid	2018	2017
	£	£
At 1 April	295	330
Issued during the year	-	30
Cancelled during the year	(10)	(65)
At 31 March	285	295

Each member of the Board of Management either holds one £5 share in the Society or is the representative member of a corporate member of the Society that owns one £5 share in the Society.

22. NOTES TO THE CASH FLOW STATEMENT

	2018 £	2017 £
Profit for the financial year	649,052	1,110,140
Taxation for the year	243,153	293,677
Profit for the financial year before taxation	892,205	1,403,817
Surplus on sale of housing properties	(263,075)	(1,047,573)
Interest receivable and similar income	(3,967)	(8,693)
Interest payable and similar charges	211,983	247,123
Operating Surplus	837,146	594,673
Depreciation	787,891	779,407
Grant amortisation	(288,814)	(267,331)
Other capital adjustments	26,803	58,814
Pension deficit payment	(165,524)	(159,326)
Pension contribution amendment	(15,000)	-
Debtors	585,503	(82,826)
Creditors	530,287	(1,767,736)
Net cash inflow (outflow) from operating activities	2,298,292	(844,324)

23. PENSION COSTS

The Society participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Society to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore, it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore, the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contributions

Tier 1 From 1 April 2016 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 2 From 1 April 2016 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 3 From 1 April 2016 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)
Tier 4 From 1 April 2016 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)

The scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the Society has agreed to a deficit funding arrangement, the Society recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

23. PENSION COSTS (continued)

Present values of provision

	31 March 2018 (£000s)	31 March 2017 (£000s)	31 March 2016 (£000)
Present value of provision	1,069	1,234	1,333

Reconciliation of opening and closing provisions

	2017 (£000s)	2016 (£000s)
Provision at start of period	1,234	1,333
Unwinding of the discount factor (interest expense)	16	25
Deficit contribution paid	(166)	(159)
Remeasurements - impact of any change in assumptions	(15)	35
Remeasurements - amendments to the contribution schedule	-	-
Provision at end of period	1,069	1,234

Income and expenditure impact

	2017 (£000s)	2016 (£000s)
Interest expense	16	25
Remeasurements – impact of any change in assumptions	(15)	35
Remeasurements – amendments to the contribution schedule	-	-
Contributions paid in respect of future service*	72	58
Costs recognised in income and expenditure account	73	118

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes.

Assumptions

	2018	2017	2016
Rate of discount	1.72%	1.33%	2.06%

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

The following schedule details the deficit contributions agreed between the Society and the scheme at each year end period:

Deficit contributions schedule

Year ending	31 March 2018 (£000s)	31 March 2017 (£000s)	31 March 2016 (£000s)
Year 1	172	166	159
Year 2	179	172	166
Year 3	156	179	172
Year 4	131	156	179
Year 5	136	131	156
Year 6	117	136	131
Year 7	96	117	136
Year 8	99	96	117
Year 9	51	99	96
Year 10		51	99
Year 11		-	51
Year 12		-	159

The Society must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises. It is these contributions that have been used to derive the Society's balance sheet liability.

24. CAPITAL COMMITMENTS

	2018 £	2017 £
Expenditure that has been contracted for but has not been provided for in the financial statements	346,325	-
Expenditure that has been authorised by the Board of Management but has not yet been contracted for	-	-

25. OPERATING LEASES

The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 £	2017 £
Not later than 1 year	-	-
In 2 years	99,547	95,218
In 2 – 5 years	5,696	6,984
Total	105,243	102,202

26. CONTINGENT LIABILITIES

There were no contingent liabilities (2017: nil).

27. UNITS AND BED SPACES IN MANAGEMENT

	2018 Number	2017 Number
Units in management owned		
Units for rent	690	689
Shared ownership units	94	95
Leasehold	157	157
Total Owned	941	941
Units managed on behalf of others		
Units for rent	1,689	1,820
Shared ownership units	41	42
Leasehold	59	66
Total managed on behalf of others	1,789	1,928
Total owned and managed units	2,730	2,869

28. ACCUMULATED SOCIAL HOUSING GRANT

	Treated as a capital grant (see note 19) £	Treated as revenue income £	Total 2018 £	Total 2017 £
At 1 April	26,086,530	1,947,427	28,033,957	28,084,564
Recycled in year	(14,472)	-	(14,472)	(76,000)
reallocations	-	-	-	25,393
At 31 March	26,072,058	1,947,427	28,019,485	28,033,957

29. RELATED PARTY TRANSACTIONS

Certain members of the Society's Board of Management are also committee members of some independent primary and founder member co-operatives with whom the Society has had dealings during the year. All transactions between the Society, the primary and the founder member co-operatives were conducted on an arm's length basis on normal trading terms.
The total value of fees receivable from founder member co-operatives was £319,408 (2017: £190,058) and the net balance due from founder member co-operatives at 31 March 2018 was £nil. (2017: £3,431).

30. LEGISLATIVE PROVISIONS

The Society is incorporated under the Co-operative and Community Benefit Societies Act 2014 with registration number 17107R and is a Registered Provider registered with the Regulator of Social Housing, with number LH0170 under the Housing Act 1996.