

HAWTHORN HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

HAWTHORN HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

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HAWTHORN HOUSING CO-OPERATIVE LIMITED

ADVISERS AND REGISTERED OFFICE

FOR THE YEAR ENDED 31ST MARCH 2019

Auditors

Armstrongs,
Chartered Accountants
142 West Nile Street
Glasgow
G1 2RQ

Bankers

The Royal Bank of Scotland
Kirkintilloch Branch
116 Cowgate
Kirkintilloch
G66 1JX

Legal advisers

T C Young
Solicitors
7 West George Street
Glasgow
G2 1BA

Registered Office

23A Finlas Street
Possilpark
Glasgow
G22 5DB

Registration information

Scottish Housing Regulator: C3735

Financial Conduct Authority: 2195 R (S)

HAWTHORN HOUSING CO-OPERATIVE LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

FOR THE YEAR ENDED 31ST MARCH 2019

The Committee of Management present their report and the audited financial statements for the year ended 31st March 2019.

Principal activities

The principal activities of the Co-operative are the provision, construction, improvement and management of rented and shared-ownership accommodation.

Review of business

The results for the year are as shown in the attached Statement of Comprehensive Income. The deficit for the year was £215,355 (2018 - £106,569 surplus).

Changes in fixed assets

Details of changes in fixed assets are set out in Note 12.

Defined benefit accounting - Scottish Housing Associations' Pension Scheme (the Scheme)

The company participates in the Scheme, a multi-employer scheme which provides benefits to over 150 non-associated employers. The Scheme is a defined benefit scheme in the UK. In previous years it was not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme and has accounted for it as a defined contribution scheme.

With effect from 1st April 2018 information to use the defined benefit method of accounting has become available from TPT Retirement Solutions and has been applied for the year ended 31st March 2019. Under the new accounting treatment the liability at 1st April 2018 has been increased by £182,000 and the change has been accounted for as a change in accounting estimate. These figures have placed reliance on the actuarial assumptions of qualified actuaries which are considered reasonable and appropriate.

The Committee of Management and executive officers

The Committee of Management and executive officers of the Co-operative are as follows:-

Executive officers

. C. Turnbull

Committee of Management

. H. Graham	(Chair)	. B. O'Donnell
. M. McGeouch	(Vice Chair)	. L. Iku
. C. Ritchie	(Secretary)	. L. Harrison
. G. Spence	(Treasurer)	. O. Belgore
. E. Anderson	(Deceased 10.12.18)	. A. Ademosu
. E. Todd		. R. Stewart
. R. Bowman		. E. Wallace

At the Annual General Meeting one third of all serving members of the Committee (if eligible as per the model rules) will retire from office and may stand for re-election if eligible.

Each member of the Committee of Management, with the exception of co-opted members, holds one fully paid share of £1 in the Co-operative. The executive officer of the Co-operative holds no interest in the Co-operative's share capital and, although not having the legal status of a director, acts as an executive within the authority delegated by the Committee.

HAWTHORN HOUSING CO-OPERATIVE LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

FOR THE YEAR ENDED 31ST MARCH 2019

Statement of Committee's responsibilities

The Co-operative and Community Benefit Societies Act 2014 requires the Committee to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Co-operative and of the income and expenditure of the Co-operative for the year ended on that date. In preparing these financial statements, the Committee is required to:-

- . Select suitable accounting policies and then apply them consistently;
- . Make judgements 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 a going concern basis unless it is inappropriate to presume that the Co-operative will continue in business;
- . Prepare a statement on internal financial control.

The Committee is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Co-operative and to enable it to ensure that the financial statements comply with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2014. It is also responsible for safeguarding the assets of the Co-operative and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate governance

The Co-operative has complied throughout the accounting period with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance in 1992.

In accordance with the requirements of the Scottish Housing Regulator, the auditors have confirmed that they consider this statement appropriately reflects the Co-operative's compliance with those paragraphs of the Code of Best Practice required to be reviewed by them. The auditors have also confirmed that, in their opinion, with respect to the Statement on Internal Financial Control, the Management Committee have provided the disclosures required by Paragraph 4.5 of the Code of Best Practice as supplemented by the related guidance for Management Committee and such statement is not inconsistent with the information of which they are aware from their audit work on the Financial Statements.

Statement as to disclosure of information to auditors

So far as the Committee are aware, there is no relevant audit information of which the Co-operative's auditors are unaware, and each Committee Member has taken all the steps that he or she ought to have taken as a Committee Member in order to make himself or herself aware of any relevant audit information and to establish that the Co-operative's auditors are aware of that information.

Auditors

A resolution to appoint a new external auditor will be put to the members at the annual general meeting.

By order of the Committee

Secretary *C R Irvine*

Dated : 09/09/19

HAWTHORN HOUSING CO-OPERATIVE LIMITED
COMMITTEE STATEMENT ON THE CO-OPERATIVE'S
SYSTEM OF INTERNAL FINANCIAL CONTROL
FOR THE YEAR ENDED 31ST MARCH 2019

The Committee acknowledge their ultimate responsibility for ensuring that the Co-operative has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- . the reliability of financial information used within the Co-operative or for publication;
- . the maintenance of proper accounting records;
- . the safeguarding of assets (against unauthorised use or disposition).

It is the Committee's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. Key elements include ensuring that:

- . formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Co-operative's assets;
- . experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;
- . forecasts and budgets are prepared regularly which allow the Committee and staff to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term;
- . regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets being investigated as appropriate;
- . Regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies;
- . all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through relevant sub-committees comprising Committee members and others;
- . the Committee review reports from management, from directors, staff and from the external and internal auditors to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the Co-operative;
- . formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The Committee have reviewed the effectiveness of the system of internal financial control in existence in the Co-operative for the year ended 31st March 2019 and until the below date. No weaknesses were found in internal financial controls, which resulted in material losses, contingencies, or uncertainties, which require disclosure in the financial statements or in the Auditor's Report on the financial statements.

By order of the Committee

Secretary *C. R. M. H. O.*

Dated : 09/09/19

HAWTHORN HOUSING CO-OPERATIVE LIMITED
REPORT BY THE AUDITORS TO THE COMMITTEE
ON CORPORATE GOVERNANCE MATTERS
FOR THE YEAR ENDED 31ST MARCH 2019

Corporate Governance

In addition to our audit of the financial statements, we have reviewed the Committee's statement on page three concerning the Co-operative's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advice Notes which are issued by the Scottish Housing Regulator.

Basis of opinion

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2006/5 issued by the Financial Reporting Council. The Bulletin does not require us to review the effectiveness of the Co-operative's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reasons given for non-compliance.

Opinion

In our opinion the Statement on Internal Financial Control on page four has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advice Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the financial statements.

Through enquiry of certain Committee members and officers of the Co-operative, and examination of relevant documents, we have satisfied ourselves that the Committee's Statement on Internal Financial Control appropriately reflects the Co-operative's compliance with the information required by the Regulatory Standards contained within the publication "Our Regulatory Framework" and associated Regulatory Advice Notes issued by the Scottish Housing Regulator in respect of internal financial controls.



Adam Armstrong, LLB, CA, (Senior Statutory Auditor),
for and on behalf of Armstrongs,
Statutory Auditor,
Chartered Accountants,
Victoria Chambers,
142, West Nile Street,
Glasgow,
G1 2RQ.

Date: 17th September 2019

**REPORT OF THE INDEPENDENT AUDITORS TO
THE MEMBERS OF HAWTHORN HOUSING CO-OPERATIVE LIMITED**

Opinion

We have audited the financial statements of Hawthorn Housing Co-operative Limited for the year ended 31st March 2019 which comprise a statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Co-operative's members, as a body, in accordance with the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Co-operative'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 Co-operative and the Co-operative's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

- give a true and fair view of the state of the Co-operative's affairs as at 31st March 2019 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2014.

Basis for opinion

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

Conclusions relating to going concern

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

- the Management Committee members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Management Committee members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Co-operative'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 Management Committee is responsible for the other information. The other information comprises the information included in the Report of the Management Committee, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and 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, 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.

**REPORT OF THE INDEPENDENT AUDITORS TO
THE MEMBERS OF HAWTHORN HOUSING CO-OPERATIVE LIMITED**

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Co-operative and its environment obtained in the course of the audit, we have not identified material misstatements in the Management Committee report.

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

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

Responsibilities of the Management Committee

As explained more fully in the Statement of Committee's Responsibilities set out on page three, the Management Committee 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 Management Committee determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Committee are responsible for assessing the Co-operative'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 Management Committee members either intend to liquidate the Co-operative or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with the Acts and relevant regulations made or having effect thereunder.

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 it 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.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide the basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Co-operative's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Committee members.
- conclude on the appropriateness of the Management Committees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Co-operative to cease to continue as a going concern.

**REPORT OF THE INDEPENDENT AUDITORS TO
THE MEMBERS OF HAWTHORN HOUSING CO-OPERATIVE LIMITED**

Auditor's responsibilities for the audit of the financial statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Adam Armstrong, LLB, CA, (Senior Statutory Auditor),
for and on behalf of Armstrongs,
Statutory Auditor,
Chartered Accountants,
Victoria Chambers,
142, West Nile Street,
Glasgow,
G1 2RQ.

Dated : 17th September 2019

HAWTHORN HOUSING CO-OPERATIVE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST MARCH 2019

	Notes	2019 £	2018 £
Turnover	2	1,551,428	1,470,618
Operating costs	2	1,397,792	1,323,609
Operating surplus	2	<u>153,636</u>	<u>147,009</u>
Interest receivable and other income	8	9,825	5,034
Interest payable and similar charges	9	(104,781)	(42,282)
Other finance charges	10	(11,000)	(2,000)
Surplus/(Deficit) before tax		<u>47,680</u>	<u>107,761</u>
Taxation	11	2,035	1,192
Surplus/(Deficit) for the year		<u>45,645</u>	<u>106,569</u>
Other comprehensive income			
Initial recognition of multi-employer defined benefit scheme	21	(182,000)	-
Actuarial gain/(loss) recognised in the pension liability		(79,000)	-
Total comprehensive income/(deficit) for the year		<u>(215,355)</u>	<u>106,569</u>

The results for the year relate wholly to continuing activities.

The notes form part of these financial statements.

HAWTHORN HOUSING CO-OPERATIVE LIMITED


STATEMENT OF FINANCIAL POSITION

AS AT 31ST MARCH 2019

	Notes	2019 £	2018 £
Non-current assets			
Tangible assets - social housing	12a	13,921,234	11,076,305
Other tangible assets - plant and equipment	12b	<u>470,287</u>	<u>480,783</u>
		<u>14,391,521</u>	<u>11,557,088</u>
Current assets			
Debtors	13	87,603	94,761
Cash at bank and in hand		<u>2,184,667</u>	<u>4,885,888</u>
		<u>2,272,270</u>	<u>4,980,649</u>
Creditors : amounts falling due within one year	14	531,164	1,371,743
Net current assets		<u>1,741,106</u>	<u>3,608,906</u>
Total assets less current liabilities		16,132,627	15,165,994
Creditors : amounts falling due after more than one year	15	(3,062,347)	(3,336,036)
Deferred income			
Deferred capital grants	16	(3,773,290)	(2,773,615)
Pension scheme liability	21	(456,000)	-
Net Assets		<u>8,840,990</u>	<u>9,056,343</u>
Equity			
Share capital	17	329	327
Accumulated surplus		<u>8,840,661</u>	<u>9,056,016</u>
		<u>8,840,990</u>	<u>9,056,343</u>

These financial statements were approved by the Committee on 09/09/19 and signed on their behalf by:

Chairperson 

Committee Member 

Secretary 

The notes form part of these financial statements.

HAWTHORN HOUSING CO-OPERATIVE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST MARCH 2019

	Share Capital £	Revenue Reserve £	Total £
Balance as at 1st April 2017	327	8,949,447	8,949,774
Issue of shares	17	-	17
Cancellation of shares	(17)	-	(17)
Total comprehensive income	-	106,569	106,569
Balance as at 1st April 2018	<u>327</u>	<u>9,056,016</u>	<u>9,056,343</u>
Issue of shares	27	-	27
Cancellation of shares	(25)	-	(25)
Total comprehensive income/(deficit)	-	(215,355)	(215,355)
Balance as at 31st March 2019	<u><u>329</u></u>	<u><u>8,840,661</u></u>	<u><u>8,840,990</u></u>

HAWTHORN HOUSING CO-OPERATIVE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST MARCH 2019

	Notes	2019 £	2018 £
Net cash inflow from operating activities	1	<u>367,783</u>	<u>366,685</u>
Cash flows from investing activities			
Payments to acquire and develop housing properties		(2,979,107)	(2,481,161)
Grants received		359,100	2,962,069
Payments to acquire other fixed assets		(15,453)	(7,650)
Interest received		9,825	5,034
Net cash outflow from investing activities		<u>(2,625,635)</u>	<u>478,292</u>
Cashflow from financing activities			
Interest paid		(104,781)	(42,282)
Advance of loan		-	1,963,000
Repayments of borrowings		(88,694)	(48,585)
Issue of share capital		27	17
Net cash outflow from financing activities		<u>(193,448)</u>	<u>1,872,150</u>
Net change in cash and cash equivalents		(2,451,300)	2,717,127
Cash and cash equivalents at the beginning of the year		4,635,967	1,918,840
Cash and cash equivalents at the end of the year	2	<u><u>2,184,667</u></u>	<u><u>4,635,967</u></u>

Notes

1) Cashflow from operating activities	2019	2018
	£	£
Surplus/(Deficit) for the year	47,680	107,761
Adjustments for non cash items		
Depreciation of tangible fixed assets	343,601	311,647
Decrease/(increase) in trade and other debtors	7,158	3,979
Increase/(decrease) in trade and other creditors	(70,259)	(88,491)
Pension costs less contributions payable	(48,000)	2,000
Share capital written off	(25)	(17)
Release of deferred capital grant	(6,250)	(6,250)
Adjustments for investing or financing activities		
Interest payable	104,781	42,282
Interest receivable	(9,825)	(5,034)
Adjustment for taxation		
Tax paid	(1,078)	(1,192)
	<u><u>367,783</u></u>	<u><u>366,685</u></u>
2) Cash and cash equivalents	2019	2018
	£	£
Cash and cash equivalents	2,184,667	4,885,888
Bank overdrafts	-	(249,921)
	<u><u>2,184,667</u></u>	<u><u>4,635,967</u></u>

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

1. Principal accounting policies

Basis of accounting

The financial statements have been prepared in accordance with FRS 102 as issued by the Financial Reporting Council and comply with the requirements of the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010, the Determination of Accounting Requirements 2014 issued by the Scottish Housing Regulator and the Statement of Recommended Practice (SORP) Accounting for social housing providers issued in 2014.

To comply with the amendments to FRS 102 regarding multi-employer defined benefit plans, the accounting treatment for the membership of Scottish Housing Associations' Pension Scheme (SHAPS) has been included as a defined benefit scheme with effect from 1st April 2018. To comply with FRS 102 the impact of the transition from defined contribution accounting to defined benefit accounting has been presented as other comprehensive income and has been accounted for as a change in accounting estimate in accordance with the amendments to FRS 102, the Financial Report Standard applicable in the UK and Republic of Ireland, relating to multi-employer defined benefit plans.

Hawthorn Housing Co-operative Limited is a public benefit entity (PBE).

Turnover

Turnover represents rental and service charge income receivable, fees receivable and revenue grants receivable from the Scottish Housing Regulator, local authorities and other agencies.

Housing properties

In previous years completed housing properties were professionally valued on an existing use basis. Surpluses and deficits were reflected in the revaluation reserve. On transition to FRS 102 the Co-operative has taken the option to adopt the valuation as the deemed cost.

Improvements are capitalised where these result in an enhancement of the economic benefits of the property. Such enhancement can occur if the improvements result in an increase in rental income, a material reduction in future maintenance costs or a significant extension of the life of the property. Works to existing properties which fail to meet the above criteria are charged to the Statement of Comprehensive Income.

Depreciation - housing properties

Properties other than heritable land are depreciated at rates calculated to reduce net book value of each component of the property to its estimated residual value, on a straight line basis, over the expected remaining life of the component. Heritable land is not depreciated. The estimated useful lives of the assets and components is shown in the table below.

Structure	100 years	Radiators	30 years
Roof	40 years	Boilers	15 years
Close doors	20 years	Bathrooms	25 years
Windows	30 years	Kitchens	15 years
Electrics	30 years		

Reviews for impairment of housing properties are carried out regularly and any impairment in an income-generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of an income-generating unit exceeds the higher of its net realisable value or its value in use. Value in use represents the net present value of expected future cash flows from these units. Impairment of assets would be recognised in the Statement of Comprehensive Income.

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

1. **Principal accounting policies (continued)**

Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation. Depreciation is charged by equal instalments commencing with the year of acquisition at rates estimated to write off costs less any residual value over the expected economic useful lives at annual rates :-

Office property	- 2% per annum
Furniture and fittings	- 15% per annum
Office equipment	- 10% per annum
Caretaker equipment	- 25% per annum
Computer equipment	- 33% per annum
Motor vehicle	- 25% per annum

Social Housing Grant and other grants

Social housing grants and other capital grants are now accounted for using the accrual method as outlined in Section 24 of Financial Reporting Standard 102. Grants are treated as deferred income and recognised in income on a systematic basis over the expected useful life of the property and assets to which it relates.

Social housing grant attributed to individual components is written off to the Statement of Comprehensive Income when these components are replaced.

Social Housing Grant received in respect of revenue expenditure is credited to the Statement of Comprehensive Income in the same period as the expenditure to which it relates.

Although Social Housing Grant is treated as a grant for accounting purposes, it may nevertheless become repayable in certain circumstances, such as the disposal of certain assets. The amount repayable would be restricted to the net proceeds of sale.

Capitalisation of interest

Interest incurred on financing a development is capitalised up to the date of completion of the scheme.

Development administration costs

Development costs incremental to the other costs of the Co-operative have been capitalised.

Cyclical and planned maintenance

The costs of cyclical and planned maintenance are charged to the Statement of Comprehensive Income in the year in which they are incurred.

Operating leases

Rentals paid under operating leases are charged to the Statement of Comprehensive Income in the period to which they relate.

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

1. Principal accounting policies (continued)

Pension costs

As explained above, this is a change in the accounting treatment from the previous year when the defined contribution method of accounting was used. The transitional adjustment has been included in Other Comprehensive Income.

The Scottish Housing Associations' Pension Scheme is accounted for as a defined benefit scheme. In accordance with FRS 102, the operating and financing costs of pension and post retirement schemes (determined by a qualified actuary) are recognised separately in the Statement of Comprehensive Income. Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise.

The difference between actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in Other Comprehensive Income.

Judgements in applying policies and key sources of estimation uncertainty

The preparation of financial statements requires the use of certain accounting estimates. It also requires the Management Committee to exercise judgement in applying Hawthorn Housing Co-operative Limited's accounting policies. The areas requiring a higher degree of judgement, or complexity, and areas where assumptions or estimates are most significant to the financial statements, are disclosed below:

Rent arrears - bad debt provision

The Co-operative assesses the recoverability of rent arrears through a detailed assessment process which considers tenant payment history, arrangements in place and court action.

Life cycle of components

The Co-operative estimates the useful lives of major components of its housing property with reference to surveys carried out by external qualified surveyors.

The categorisation of housing properties

In the judgement of the Management Committee the entirety of the Co-operative's housing stock is held for social benefit and is therefore classified as property, plant and equipment in accordance with FRS 102.

Identification of cash generating units

The Co-operative considers its cash-generating units to be the schemes in which it manages its housing property for asset management purposes.

Obligations under SHAPS pension scheme

The accounting for the pension scheme and the transition from defined contribution disclosure to defined benefit has relied on the actuarial assumptions of qualified actuaries which have been reviewed and are considered reasonable and appropriate.

Financial instruments - basic

The Co-operative recognises basic financial instruments in accordance with Section 11 of Financial Reporting Standard.

The Co-operative's debt instruments are measured at amortised cost using the effective interest rate method.

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

2. Particulars of turnover, cost of sales, operating costs and operating surpluses / (deficits)

Income and expenditure from lettings	Turnover	2019 Operating costs	Operating surplus / (deficit)
	£	£	£
Social lettings	1,308,989	1,198,901	110,088
Other activities	242,439	198,891	43,548
Total	<u>1,551,428</u>	<u>1,397,792</u>	<u>153,636</u>

	Turnover	2018 Operating Costs	Operating surplus / (deficit)
	£	£	£
Social lettings	1,275,603	1,105,411	170,192
Other activities	195,015	218,198	(23,183)
Total	<u>1,470,618</u>	<u>1,323,609</u>	<u>147,009</u>

3. Particulars of income and expenditure from social letting activities

	General needs	2018 Total
	£	£
Income from letting		
Rent receivable net of identifiable service charges	1,311,627	1,279,703
Less : voids	(13,216)	(10,350)
	<u>1,298,411</u>	<u>1,269,353</u>
Revenue grants from Scottish Ministers	4,328	-
Release of deferred capital grant	6,250	6,250
Total turnover from social letting activities	<u>1,308,989</u>	<u>1,275,603</u>
Expenditure on lettings		
Management and maintenance admin costs	589,541	456,525
Reactive maintenance	114,030	107,130
Planned maintenance	154,203	224,661
Bad debts	23,475	4,086
Depreciation of social housing	317,652	313,009
Total expenditure on lettings	<u>1,198,901</u>	<u>1,105,411</u>
Operating surplus for social lettings for 2019	<u>110,088</u>	<u>170,192</u>
Operating surplus for social lettings for 2018	<u>170,192</u>	

No service charges were receivable on housing accommodation not eligible for housing benefit (2018 - £Nil).

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

4. Particulars of turnover, operating costs and surpluses from other activities

	Scottish Ministers' Grants £	Other income £	Total turnover £	Operating costs £	2019 Total £	2018 Total £
Wider role	155,567	18,796	174,363	178,792	(4,429)	(25,363)
Support activities	22,109	-	22,109	20,099	2,010	2,180
Compensation for contract delay	-	45,967	45,967	-	45,967	-
Total for other activities for 2019	<u>177,676</u>	<u>64,763</u>	<u>242,439</u>	<u>198,891</u>	<u>43,548</u>	<u>(23,183)</u>
Total for other activities for 2018	<u>185,015</u>	<u>10,000</u>	<u>195,015</u>	<u>(218,198)</u>	<u>(23,183)</u>	

5. Surplus for year

	2019 £	2018 £
Surplus is stated after charging (crediting):-		
Operating lease	1,413	565
Amortisation of grants	(6,250)	(6,250)
Depreciation/loss on disposal	343,601	335,076
Auditor's remuneration (including VAT)	6,240	6,000
Bad debts	<u>23,475</u>	<u>4,086</u>

6. Officers emoluments

The officers are defined in the Co-operative and Community Benefit Societies Act 2014 as the members of the Management Committee, managers and employees of the Co-operative.

	2019 £	2018 £
Aggregate emoluments payable to officers with emoluments greater than £60,000 (excluding pension contributions)	<u>65,904</u>	<u>62,915</u>
Pension contributions made on behalf of officers with emoluments greater than £60,000	<u>6,327</u>	<u>6,291</u>
Emoluments paid to the Chief Executives		
Emoluments excluding pension contributions	65,904	62,915
Employer's pension contributions	6,327	6,291
Total emoluments payable	<u>72,231</u>	<u>69,206</u>

The number of officers (including the highest paid officer) who received emoluments (excluding pension contributions) was in the following ranges:

	2019 No.	2018 No.
£60,001 - £70,000	<u>1</u>	<u>1</u>
	2019 £	2018 £
Total expense reimbursed to the committee in so far as not rechargeable to United Kingdom income tax	<u>1,087</u>	<u>-</u>

None of the Committee members received remuneration during the year.

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

7. Employee information

	2019 No.	2018 No.
The monthly average number of full time equivalent employees during the year was:-		
Administrative	8	6
Caretakers	<u>3</u>	<u>3</u>
	<u>11</u>	<u>9</u>

	2019 £	2018 £
Staff costs (including executive emoluments)		
Wages and salaries	328,372	290,678
Social security costs	32,483	26,782
Pension contributions	<u>31,849</u>	<u>29,399</u>
	<u>392,704</u>	<u>346,859</u>

8. Interest receivable and similar income

	2019 £	2018 £
Interest receivable	<u>9,825</u>	<u>5,034</u>

9. Interest payable and similar charges

	2019 £	2018 £
On bank loans payable by instalments	<u>104,781</u>	<u>42,282</u>

10. Other finance income / charges

	2019 £	2018 £
Defined benefit pension scheme net interest	11,000	-
Unwinding of discounted liabilities and remeasurement	<u>-</u>	<u>2,000</u>
	<u>11,000</u>	<u>2,000</u>

11. Tax on surplus on ordinary activities

The tax charge on the surplus on ordinary activities was as follows:

	2019 £	2018 £
Tax charge for year at 19% (2018 - 19%)	<u>2,035</u>	<u>1,192</u>

Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:-

	2019 £	2018 £
Surplus/(deficit) on ordinary activities before tax	<u>47,680</u>	<u>107,761</u>
Surplus/(deficit) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018 - 19%)	9,059	20,475
Non taxable (surplus)/deficit	(7,024)	(19,397)
Adjustment to previous year	<u>-</u>	<u>114</u>
	<u>2,035</u>	<u>1,192</u>

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

12. Non-current assets
a) Housing Properties

	Housing properties held for letting £	Housing Property Under construction £	Total £
Deemed Cost			
As at 01.04.18	9,720,846	2,811,258	12,532,104
Additions during year	486,781	2,675,800	3,162,581
Disposals during year	(82,765)	-	(82,765)
As at 31.03.19	<u>10,124,862</u>	<u>5,487,058</u>	<u>15,611,920</u>
Depreciation			
As at 01.04.18	1,455,799	-	1,455,799
Provided during year	307,080	-	307,080
Disposals	(72,193)	-	(72,193)
As at 31.03.19	<u>1,690,686</u>	<u>-</u>	<u>1,690,686</u>
Net book value at 31.03.19	<u>8,434,176</u>	<u>5,487,058</u>	<u>13,921,234</u>
Net book value at 31.03.18	<u>8,265,047</u>	<u>2,811,258</u>	<u>11,076,305</u>

All housing property is freehold.

No development allowances were receiving during the year.

b) Other tangible assets

	Office property £	Office equipment £	Furniture & fittings £	Computer equipment £	Caretaker equipment £	Motor £	Total £
Cost							
As at 01.04.18	556,393	11,976	23,759	28,751	21,186	7,674	649,739
Additions	-	4,335	1,318	9,800	-	-	15,453
Disposals	-	-	-	(20,369)	-	-	(20,369)
As at 31.03.19	<u>556,393</u>	<u>16,311</u>	<u>25,077</u>	<u>18,182</u>	<u>21,186</u>	<u>7,674</u>	<u>644,823</u>
Aggregate depreciation							
As at 01.04.18	100,151	6,989	23,758	23,626	10,594	3,838	168,956
Provided in year	11,128	1,631	132	5,842	5,297	1,919	25,949
Disposals	-	-	-	(20,369)	-	-	(20,369)
As at 31.03.19	<u>111,279</u>	<u>8,620</u>	<u>23,890</u>	<u>9,099</u>	<u>15,891</u>	<u>5,757</u>	<u>174,536</u>
Net book value at 31.03.19	<u>445,114</u>	<u>7,691</u>	<u>1,187</u>	<u>9,083</u>	<u>5,295</u>	<u>1,917</u>	<u>470,287</u>
Net book value at 31.03.18	<u>456,242</u>	<u>4,987</u>	<u>1</u>	<u>5,125</u>	<u>10,592</u>	<u>3,836</u>	<u>480,783</u>

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

13. Trade and other receivables

	2019 £	2018 £
Rental debtors	108,600	114,827
Less: provision for doubtful debts	<u>28,958</u>	<u>28,958</u>
	79,642	85,869
Other receivables	<u>7,961</u>	<u>8,892</u>
	<u><u>87,603</u></u>	<u><u>94,761</u></u>

Housing benefit in the sum of £25,148 is included within rent arrears.

14. Creditors - Amounts falling due within one year

	2019 £	2018 £
Bank overdraft	-	249,921
Trade payables	20,639	216,033
Rent in advance	60,247	51,768
Current instalments of housing loans	91,078	89,296
Liability for past service contributions	-	59,788
Accruals and deferred income	348,171	697,069
Taxation and social security	<u>11,029</u>	<u>7,868</u>
	<u><u>531,164</u></u>	<u><u>1,371,743</u></u>

15. Creditors - Amounts falling due after more than one year

	2019 £	2018 £
Housing Loans	3,062,347	3,152,824
Liability for past service contributions	<u>-</u>	<u>183,212</u>
	<u><u>3,062,347</u></u>	<u><u>3,336,036</u></u>

The Co-operative has loan agreements in place with Charity Bank Limited and Bank of Scotland plc. These facilities shall be repaid between 2027 and 2042 and are secured over the housing properties owned by the Co-operative at rates of 2.75% and 3.64%.

	2019 £	2018 £
Due within one year	<u>91,078</u>	<u>89,296</u>
Between one and two years	96,502	92,150
Between two and five years	306,960	294,535
In five or more years	<u>2,658,885</u>	<u>2,766,139</u>
	<u><u>3,062,347</u></u>	<u><u>3,152,824</u></u>

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

15. Creditors - Amounts falling due after more than one year (continued)

In 2018 the liability for past service contributions was accounted for in accordance with FRS 102 para 28.13A and represents the present value of the contributions payable. The cash out flows in that year have been discounted at a rate of 1.51%.

The above creditors are due as follows:

	2019 £	2018 £
Due within one year	-	59,788
Between one and two years	-	60,425
Between two and five years	-	122,787
	<u>-</u>	<u>183,212</u>

16. Deferred capital grants

	2019 £	2018 £
Social Housing Grants		
Balance as at 1 st April 2018	2,761,115	445,871
Additions in year	1,005,925	2,315,244
	<u>3,767,040</u>	<u>2,761,115</u>
Other Capital Grants		
Balance as at 1 st April 2018	12,500	18,750
Additions in year	-	-
Amortisation in year	(6,250)	(6,250)
	<u>6,250</u>	<u>12,500</u>
Balance as at 31 st March 2019	<u>3,773,290</u>	<u>2,773,615</u>
Due within one year	80,963	6,250
Due after more than one year	3,692,327	2,767,365
	<u>3,773,290</u>	<u>2,773,615</u>

17. Share capital

	2019 £	2018 £
Shares of £1 each issued and fully paid		
As at 1 st April 2018	327	327
Shares issued at par during the year	27	17
	354	344
Shares forfeited	(25)	(17)
At 31 st March 2019	<u>329</u>	<u>327</u>

Each shareholder of the Co-operative holds only one share and is entitled to vote at general meetings of the Co-operative. Shares carry no right to dividend or distribution on a winding up. When a shareholder ceases to be a member that person's share is cancelled and the amount paid thereon becomes the property of the Co-operative. Each member has a right to vote at member meetings.

18. Capital commitments

	2019 £	2018 £
Contracted but not provided for in the financial statements	<u>464,666</u>	<u>2,760,620</u>

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

19. Leasing commitments

At the year end, the total future minimum lease payments under non-cancellable operating leases were as follows:

	2019 £	2018 £
Within one year	1,131	1,131
Between one and five years	565	1,696
	<u>1,696</u>	<u>2,827</u>

20. Contingent liabilities

The Co-operative has no known contingent liabilities at 31st March 2019 (2018 - £Nil).

21. Pensions

Scottish Housing Associations' Pension Scheme

Hawthorn Housing Co-operative Limited participates in the Scottish Housing Associations' Pension Scheme, which is a statutory multi-employer defined benefit scheme providing benefits to over 150 non-associated employers. At 31st March 2019 and 31st March 2018 there were no active members of the scheme employed by the Co-operative.

Present values of defined benefit obligation, fair value of assets and defined benefit asset (liability)

	2019 (£000s)	2018 (£000)
Fair value of plan assets	1,912	1,775
Present value of defined benefit obligation	2,368	2,200
Surplus (deficit) in plan	(456)	(425)
Unrecognised surplus	-	-
Defined benefit asset (liability) to be recognised	(456)	(425)
Deferred tax	-	-
Net defined benefit asset (liability) to be recognised	(456)	(425)

Reconciliation of the impact of the asset ceiling

	2019 (£000s)
Impact of asset ceiling at start of period	-
Effect of the asset ceiling included in net interest cost	-
Actuarial losses (gains) on asset ceiling	-
Impact of asset ceiling at end of period	-

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

21. **Pensions** (continued)

Reconciliation of opening and closing balances of the defined benefit obligation

	2019 (£000s)
Defined benefit obligation at start of period	2,200
Current service cost	-
Expenses	2
Interest expense	57
Contributions by plan participants	-
Actuarial losses (gains) due to scheme experience	(31)
Actuarial losses (gains) due to changes in demographic assumptions	6
Actuarial losses (gains) due to changes in financial assumptions	166
Benefits paid and expenses	(32)
Liabilities acquired in a business combination	-
Liabilities extinguished on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Exchange rate changes	-
Defined benefit obligation at end of period	2,368

Reconciliation of opening and closing balances of the fair value of plan assets

	2019 (£000s)
Fair value of plan assets at start of period	1,775
Interest income	46
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	62
Contributions by the employer	61
Contributions by plan participants	-
Benefits paid and expenses	(32)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rate changes	-
Fair value of plan assets at end of period	1,912

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £108,000.

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

21. Pensions (continued)

Defined benefit costs recognised in Statement of Comprehensive Income (SOCl)

	2019 (£000s)
Current service cost	-
Expenses	2
Net interest expense	11
Losses (gains) on business combinations	-
Losses (gains) on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit charges	-
Defined benefit costs recognised in Statement of Comprehensive Income (SoCI)	13

Defined benefit costs recognised in Other Comprehensive Income

	2019 (£000s)
Experience on plan assets (excluding amounts included in net interest cost) - gain (loss)	62
Experience gains and losses arising on the plan liabilities - gain (loss)	31
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	(6)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	(166)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	(79)
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in other comprehensive income - gain (loss)	(79)

Assets

	2019 (£000s)	2018 (£000s)
Global Equity	308	320
Absolute Return	162	211
Distressed Opportunities	33	8
Credit Relative Value	33	-
Alternative Risk Premia	107	67
Fund of Hedge Funds	5	51
Emerging Markets Debt	61	61
Risk Sharing	55	16
Insurance-Linked Securities	50	49
Property	38	70
Infrastructure	80	32
Private Debt	25	16
Corporate Bond Fund	134	124
Long Lease Property	23	-
Secured Income	67	65
Over 15 Year Gilts	49	57
Index Linked All Stock Gilts	-	-
Liability Driven Investment	680	625
Net Current Assets	2	3
Total assets	<u>1,912</u>	<u>1,775</u>

None of the fair values of the assets shown above include any direct investments in the employer's own financial instruments or any property occupied by, or other assets used by, the employer.

HAWTHORN HOUSING CO-OPERATIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

21. Pensions (continued)

Key assumptions

	2019	2018
	% per annum	% per annum
Discount Rate	2.33	2.59
Inflation (RPI)	3.28	3.16
Inflation (CPI)	2.28	2.16
Salary Growth	3.28	3.16
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2019	21.7
Female retiring in 2019	23.4
Male retiring in 2039	23.1
Female retiring in 2039	24.7

In previous years the scheme was accounted for on a defined contribution basis. The liability included at 1st April 2018 has increased from £243,000 to £425,000.

The employees now participate in a defined contribution scheme within the Scottish Housing Associations' Pension Scheme and the costs to the Co-operative are charged to the Statement of Comprehensive Income in the year to which they are incurred. The costs to the Co-operative were £31,849 (2018 - £29,399).

22. Legislative provisions

The Co-operative is incorporated under the Co-operative and Community Benefit Societies Act 2014.

23. Related party transactions

Members of the Management Committee are related parties of the Association as defined by Financial Reporting Standard 102.

All elected members of the Management Committee are tenants of the Co-operative. Their transactions with the Co-operative are all done on standard terms as applicable to all tenants and they cannot use their position to their advantage.

The rent charge in the year in respect of these tenancies and those of their close family members was £99,902 (2018 - £73,152) with rent arrears at the year end of £4,807 (2018 - £2,985) and prepayments of £2,912 (2018 - £766).

Colin Turnbull, the Executive Officer, is a Board member of Glasgow and West of Scotland Forum of Housing Associations and the Tenant Participation Advisory Service. During the year subscriptions of £1,844 were made to those organisations and services of £3,460 were purchased.

24. Housing stock

	2019	2018
General needs - new build	125	125
- rehabilitation	191	191
	<u>316</u>	<u>316</u>