

# Drumchapel Housing Co-operative Limited

Report and Financial Statements

For the year ended 31st March 2017

Registered Housing Association No.185

FCA Reference No. 2222R(S)

Scottish Charity No. SC046239

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

## CONTENTS

	<b>Page</b>
MEMBERS OF THE MANAGEMENT BOARD EXECUTIVES AND ADVISERS	1
REPORT OF THE MANAGEMENT BOARD	2
REPORT BY THE AUDITORS ON CORPORATE GOVERNANCE MATTERS	6
REPORT OF THE AUDITORS	7
STATEMENT OF COMPREHENSIVE INCOME	9
STATEMENT OF FINANCIAL POSITION	10
STATEMENT OF CASHFLOWS	11
STATEMENT OF CHANGES IN EQUITY	12
NOTES TO THE FINANCIAL STATEMENTS	13

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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## MANAGEMENT BOARD, EXECUTIVES AND ADVISERS YEAR ENDED 31st MARCH 2017

### MANAGEMENT BOARD

Alison Kilgour	Chair
Alana Durnin	Secretary co-opted 25/04/17
John Roche	Treasurer
Helen Eakin	
Margaret Bowie	
William Wilson	Co-optee
Paul McBride	
Fiona Russell	Co-optee
Joan McFarlane	
Gail Beagan	resigned 17/03/17
Andrew Stewart	resigned 24/01/17
Lynda Crawford	resigned 24/01/17
Annmarie MacDonald	resigned 09/08/16
Elsbeth Kerr	

### EXECUTIVE OFFICERS

Caroline Shepherd	Director (appointed 14/11/16)
Pauline Burke	Deputy Director (appointed 01/04/17)
Lesley McInnes	Interim Director (resigned 17/05/16)
Mags Lightbody	Interim Director (resigned 17/11/16)

### REGISTERED OFFICE

4 Kinclaven Avenue  
Drumchapel  
Glasgow  
G15 7SP

### AUDITORS

Findlay & Co  
Chartered Accountants  
11 Dudhope Terrace  
Dundee  
DD3 6TS

### INTERNAL AUDITORS

Wylie & Bisset  
168 Bath Street  
Glasgow  
G2 4TP

### BANKERS

Bank of Scotland  
Anniesland Branch  
836 Crow Road  
Glasgow  
G1 2RQ

### SOLICITORS

MacRoberts LLP  
60 York Street  
Glasgow  
G2 8JX

### FINANCE AGENTS

FMD Financial Services  
KCEDG Commercial Centre  
29 Ladyloan Avenue  
Glasgow  
G15 8LB

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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## REPORT OF THE MANAGEMENT BOARD FOR THE YEAR ENDED 31ST MARCH 2017

The Management Board presents its report and the Financial Statements for the year ended 31st March 2017.

### Legal Status

Drumchapel Housing Co-operative (the Co-operative) is a registered non-profit making organisation under the Co-operative and Community Benefit Societies Act 2014 No.2222R(S). The Co-operative is governed under its Rule Book. The Co-operative is a registered Scottish Charity with the charity number SC046239.

### Principal Activities

The Co-operative aims to provide housing solutions to meet the needs of local communities and to serve the interests of our current and future tenants.

### Review of Business and Future Developments

#### 1. Financial / Treasury Management

In the financial year 2016/17 the Co-operative has made a surplus of £1,126,087 (2016 - £307,664). This high surplus is principally due to the impact arising from the remeasurement of the pension deficit liability which has resulted in an exceptional non-cash gain of £685,515 being recorded. The Co-operative's revenue reserves now sit at a balance of £3,131,107 (2016 - £2,005,020) being carried forward into 2017/18.

Finances are managed through the yearly budget process and ongoing development of key targets.

The Co-operative continues to invest in the existing stock and the five-year financial projections detail how resources are deployed to meet business needs, including key assumptions and trends. All financial plans are subject to scenario planning, sensitivity and stress testing to ensure robustness.

A full risk appraisal is undertaken on all large scale capital projects, which gives a detailed record of all identified risks; this review is presented to the Management Board for a full discussion before formal approval is given.

Treasury Management includes the managing of all short and medium term cash flow requirements, withdrawing funds and managing asset security. In protecting financial resources, it is ensured that investment decisions are properly assessed and that appropriate financial returns are delivered.

Despite the current economic circumstances, the Co-operative is well placed to meet the challenges ahead. Specifically, there is a robust long term financial model in place based on prudent assumptions to maintain viability and to ensure all our financial covenants with lenders are achieved with sufficient head room built in as a contingency.

#### 2. Reactive / Planned Maintenance

A key aim for the Co-operative is to ensure that properties meet or exceed national standards. The 30 year planned maintenance programme and cash projections take account of investment in modernising and repairing houses, and in improving the social and physical nature of the community to protect and enhance the assets which underpin the Co-operative's funding.

Partly due to the comprehensive organisational restructure carried out in 2016/17, the Co-operative did not progress its planned maintenance programme. The Board has, however, agreed a two year programme (completing in March 2019) that will incorporate the 2016/17 programme in addition to works planned for 2017/18 and 2018/19; therefore in this sense, we will have "caught up" by 31 March 2019.

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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## REPORT OF THE MANAGEMENT BOARD FOR THE YEAR ENDED 31ST MARCH 2017

### Review of Business and Future Developments (Contd.)

There is now a robust long term financial model in place based on prudent assumptions to maintain viability and ensure all reactive and planned maintenance works are carried out.

### 3. Asset Management

The Co-operative continues to meet the Scottish Housing Quality Standard (SHQS), save for two properties which are exempt and we have 97.5% compliance with the Energy Efficient Standard for Social Housing (EESH) at 31 March 2017.

There is a focus to ensure updated and relevant information is held on our planned maintenance database which is key to providing information as to when property components are due to be replaced.

The asset investment plan, cashflows and 30 year financial models are aligned for consistency in order to ensure that an adequate fundable plan is in place.

### 4. Future Business Growth

The Co-operative currently has 480 properties within a distinct neighbourhood in the Drumchapel area of Glasgow.

We have no current plans to acquire additional stock, either via transfer or new build development. Any change to this will be made by the Board following consideration of a full business case.

### 5. Governance Arrangements

The Co-operative has completed its review of governance arrangements to ensure compliance with best practice. We currently have "medium engagement" with the Scottish Housing Regulator (SHR) but are confident of moving to "low engagement" by 31 March 2018. The engagement level reflects ongoing work undertaken by the Co-operative to restructure and bring it onto a more resilient footing.

Currently, governance operates through the Management Board which consists of current tenants of the Co-operative and other interested individuals.

### 6. Provision of Services

The Co-operative currently employed 11 members of staff (10 members at 31 March 2017) on a full-time basis. We buy in director services from neighbouring Cernach Housing Association and finance services from external consultants.

Looking to the future, the Co-operative will ensure that the services it provides continue to meet the needs of tenants, customers and the community.

Since our formation in 1987, initially as Southdeen Co-operative and now as Drumchapel Housing Co-operative, we have built a solid tradition of driving positive change in the community through housing led regeneration and good service provision.

Our stock comprises 479 self-contained houses and one HMO (house in multiple occupancy) leased as supported accommodation to a charitable project.

Going forward, we aim to ensure we focus on providing an excellent housing management service, repairing and maintaining our properties to a high standard in line with the targets set by the Scottish Government. We will ensure the long term financial health and viability of the organisation and will drive a greater focus on efficiency and value for money.

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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## REPORT OF THE MANAGEMENT BOARD FOR THE YEAR ENDED 31ST MARCH 2017

### Management Board and Executive Officers

The members of the Management Board and the Executive Officers are listed on Page 1.

Each elected member of the Management Board holds one fully paid share of £1 in the Co-operative. The Executive Officers hold no interest in the Co-operative's share capital and, although not having the legal status of Directors, they act as Executives within the authority delegated by the Management Board.

The members of the Management Board are also Trustees of the Charity. Members of the Management Board are appointed by the members at the Co-operative's Annual General Meeting.

### Statement of Management Board's Responsibilities

The Co-operative and Community Benefit Act 2014 require the Management Board 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 surplus or deficit of the Co-operative for that period. In preparing those Financial Statements, the Management Board is required to:-

- select suitable accounting policies and then apply them consistently;
- make judgments 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 the Co-operative will continue in business;
- prepare a statement on Internal Financial Control.

The Management Board are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Co-operative and to enable them to ensure that the Financial Statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2014 and the Scottish Housing Regulator's Determination of Accounting Requirements 2014. They are also responsible for safeguarding the assets of the Co-operative and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for ensuring the Co-operative's suppliers are paid promptly.

The Management Board must in determining how amounts are presented within items in the statement of comprehensive income and statement of financial position, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting practices.

In so far as the Management Board are aware:

- there is no relevant audit information (information needed by the Housing Co-operative's auditors in connection with preparing their report) of which the Co-operative's auditors are unaware, and
- the Management Board have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Housing Co-operative's auditors are aware of that information.

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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## REPORT OF THE MANAGEMENT BOARD FOR THE YEAR ENDED 31ST MARCH 2017

### Statement on Internal Financial Control

The Management Board acknowledges its ultimate responsibility for ensuring that the Co-operative has in place a system of controls that is appropriate for the business environment 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; and
- the safeguarding of assets against unauthorised use or disposition.

It is the Management Board'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 of the Co-operative's systems include ensuring that:-

- formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority, 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 and annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the management team and the Management Board to monitor key business risks, financial objectives and the progress being made towards achieving the financial plans set for the year and for the medium term;
- quarterly financial management reports are prepared promptly, providing relevant, reliable and up to date financial and other information, with significant variances from budget 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 the Management Board;
- the Management Board receive reports from management and from the external and internal auditors to provide reasonable assurance that control procedures are in place and are being followed and that a general review of the major risks facing the Co-operative is undertaken;
- formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal or external audit reports.

The Management Board has reviewed the effectiveness of the systems of internal financial control in existence in the Co-operative for the year ended 31 March 2017. No weaknesses were found in the 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.

### Auditors

The auditors, Findlay & Company, have expressed their willingness to continue in office. A resolution to re-appoint the Auditors, Findlay & Co, Chartered Accountants, will be proposed at the Annual General Meeting.

### By order of the Management Board



**ALANA DURNIN**  
Secretary  
25 July 2017

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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## REPORT BY THE AUDITORS TO THE MEMBERS OF DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the Financial Statements, we have reviewed your statement on Page 5 concerning the Co-operative's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained in the publication "Our Regulatory Framework" and associated Regulatory Advice Notes which are issued by the Scottish Housing Regulator.

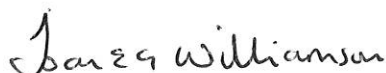
### **Basis of Opinion**

We carried out our review having regard to the requirements relating to corporate governance matters within Bulletin 2006/5 issued by the Auditing Practices Board. 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 5 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 members of the Management Board and Officers of the Co-operative, and examination of relevant documents, we have satisfied ourselves that the Management Committee's Statement on Internal Financial Control appropriately reflects the Co-operative's compliance with the information required by the relevant Regulatory Standards in respect of internal financial controls within the publication "Our Regulatory Framework" and associated Regulatory Advice Notes issued by the Scottish Housing Regulator in respect of internal financial controls.



Joan Williamson, CA (Senior Statutory Auditor)  
For and on Behalf of Findlay & Company  
Chartered Accountants and Statutory Auditor,  
11 Dudhope Terrace  
Dundee  
DD3 6TS

25 July 2017



## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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We have audited the financial statements of Drumchapel Housing Co-operative Limited for the year ended 31st March 2017 which comprise a statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and related notes. The financial reporting framework that has been applied in their preparation is applicable law, the Scottish Housing Regulator's Determination of Accounting Requirements December 2014 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Co-operative's members, as a body, in accordance with 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 Co-operative's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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.

### **Respective Responsibilities of Management Board and Auditors**

As explained more fully in the Statement of Management Board's Responsibilities the Co-operative's Management Board, are responsible for the preparation of the Financial Statements that give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FCS) Ethical Standards for Auditors.

### **Scope of the audit on the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether cause by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Co-operative's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Management Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Management Board's report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications of our report.

### **Opinion on the financial statements**

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 2017 and of its surplus 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 2014 and the Scottish Housing Regulator's Determination of Accounting Requirements 2014.

### **Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

- the information given in the Management Board's Report is inconsistent with the financial statements.
- proper books of account have not been kept by the Co-operative in accordance with the requirements of the legislation.
- a satisfactory system of control over transactions has not been maintained by the Co-operative in accordance with the requirements of the legislation.

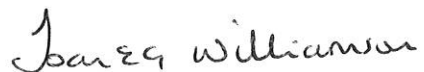
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED**

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**Matters on which we are required to report by exception (contd.)**

- the Statement of Comprehensive Income to which our report relates, and the Statement of Financial Position are not in agreement with the books of the Co-operative.
- we have not received all the information and explanations necessary for the purposes of our audit.

We have nothing to report in respect of these matters.



Joan Williamson, CA (Senior Statutory Auditor)  
For and on Behalf of Findlay & Company  
Chartered Accountants and Statutory Auditor,  
11 Dudhope Terrace  
Dundee  
DD3 6TS

25 July 2017

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st MARCH 2017

	Notes	2017	2016
		£	£
<b>REVENUE</b>	2.	2,492,396	2,476,471
Operating Costs	2.	(1,941,964)	(2,063,884)
<b>OPERATING SURPLUS</b>	9.	550,432	412,587
Gain On Sale Of Housing Stock	7.	-	-
Interest Receivable and Other Income		2,960	10,520
Interest Payable and Similar Charges	8.	(78,810)	(86,339)
Other Finance Charges	11.	(32,000)	(33,000)
		(107,850)	(108,819)
Surplus on ordinary activities before taxation		442,582	303,768
Tax on surplus on ordinary activities	10.	(2,010)	(2,104)
<b>SURPLUS FOR YEAR</b>		<b>440,572</b>	<b>301,664</b>
Actuarial Gain in respect of Pension Scheme	24.	685,515	6,000
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>1,126,087</b>	<b>307,664</b>

The notes on pages 13 to 26 form part of these financial statements.

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

## STATEMENT OF FINANCIAL POSITION AS AT 31st MARCH 2017

	Notes	2017		2016	
		£	£	£	£
<b>NON-CURRENT ASSETS</b>					
Housing Properties - Depreciated Cost	12.(a)		14,713,743		15,143,917
Other Non Current Assets	12.(b)		323,770		330,403
			<u>15,037,513</u>		<u>15,474,320</u>
<b>CURRENT ASSETS</b>					
Stock		342		358	
Receivables	14.	113,396		122,626	
Cash at bank and in hand		1,952,382		2,052,771	
		<u>2,066,120</u>		<u>2,175,755</u>	
<b>CREDITORS:</b> Amounts falling due within one year	15.	(594,981)		(851,580)	
<b>NET CURRENT ASSETS</b>			<u>1,471,139</u>		<u>1,324,175</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			16,508,652		16,798,495
<b>CREDITORS:</b> Amounts falling due after more than one year	16.		(3,491,296)		(4,474,728)
<b>DEFERRED INCOME</b>					
Social Housing Grants	18.	(9,885,778)		(10,318,279)	
			<u>(9,885,778)</u>		<u>(10,318,279)</u>
<b>NET ASSETS</b>			<u>3,131,578</u>		<u>2,005,488</u>
<b>EQUITY</b>					
Share Capital	19.		471		468
Revenue Reserves			3,131,107		2,005,020
			<u>3,131,578</u>		<u>2,005,488</u>

The Financial Statements were approved by the Management Board and authorised for issue and signed on their behalf on 25 July 2017.

Chairperson



Alison Kilgour

Treasurer



John Roche

Secretary



Alana Durnin

The notes on pages 13 to 26 form part of these financial statements.

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31st MARCH 2017

	Notes	2017	2016
		£	£
<b>Net Cash Inflow from Operating Activities</b>	17.	238,834	474,811
<b>Investing Activities</b>			
Acquisition and Construction of Properties		(218,484)	(128,526)
Purchase of Other Fixed Assets		(5,784)	(2,499)
Social Housing Grant Received		165,784	67,361
Other Grants Received		(313)	-
<b>Net Cash Outflow from Investing Activities</b>		(58,797)	(63,664)
<b>Financing Activities</b>			
Interest Received on Cash and Cash Equivalents		8,927	9,087
Interest Paid on Loans		(78,810)	(86,339)
Loan Principal Repayments		(210,574)	(232,238)
Share Capital Issued		32	29
<b>Net Cash Outflow from Financing</b>		(280,426)	(309,461)
<b>(Decrease) / Increase in Cash</b>		(100,389)	101,686
<b>Opening Cash &amp; Cash Equivalents</b>		2,052,771	1,951,085
<b>Closing Cash &amp; Cash Equivalents</b>		<u>1,952,382</u>	<u>2,052,771</u>
<b>Cash and Cash equivalents as at 31 March 2017.</b>			
Cash		1,952,382	2,052,771
		<u>1,952,382</u>	<u>2,052,771</u>

The notes on pages 13 to 26 form part of these financial statements.

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

## STATEMENT OF CHANGES IN EQUITY AS AT 31st MARCH 2017

	Share Capital £	Revenue Reserve £	Total £
<b>Balance as at 1st April 2015</b>	469	1,697,356	1,697,825
Issue of Shares	29	-	29
Cancellation of Shares	(30)	-	(30)
Tax on surplus on ordinary activities	-	(2,104)	(2,104)
Other comprehensive income - pension scheme	-	6,000	6,000
Deficit for Year	-	303,768	303,768
<b>Balance as at 31 March 2016</b>	<b>468</b>	<b>2,005,020</b>	<b>2,005,488</b>
<b>Balance as at 1st April 2016</b>	468	2,005,020	2,005,488
Issue of Shares	32	-	32
Cancellation of Shares	(29)	-	(29)
Tax on surplus on ordinary activities	-	(2,010)	(2,010)
Other comprehensive income - pension scheme	-	685,515	685,515
Deficit for Year	-	442,582	442,582
<b>Balance as at 31 March 2017</b>	<b>471</b>	<b>3,131,107</b>	<b>3,131,578</b>

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 PRINCIPAL ACCOUNTING POLICIES

##### Statement of Compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice for social housing providers 2014. The Co-operative is a Public Benefit Entity in terms of its compliance with Financial Reporting Standard 102, applicable for accounting periods on or after 1 January 2015.

##### Basis Of Accounting

The Financial Statements have been prepared in accordance with applicable Accounting Standards, the Statement of Recommended Practice - Accounting by Registered Social Landlords 2014, and on the historical cost basis. They also comply with the Scottish Housing Regulator's Determination of Accounting Requirements 2014. A summary of the more important accounting policies is set out

##### Revenue

The Co-operative recognises rent receivable net of losses from voids. Service Charge Income (net of voids) is recognised when expenditure is incurred as this is considered to be the point when the service has been performed and the revenue recognition criteria is met.

Government Grants are released to income over the expected useful life of of the asset to which it relates.

##### Retirement Benefits

The Co-operative participated in the Scottish Housing Association Defined Benefits Pension Scheme. Retirement benefits to employees of the Co-operative are funded by the contributions from all participating employers and employees in the Scheme. The Co-operative has moved from the Defined Benefit scheme to the Scottish Housing Association Defined Contribution Scheme.

The Co-operative still has a liability for past service costs contributions to the Scottish Housing Association Defined Benefit Pension Scheme. The Co-operative provides for amounts that it has agreed to pay towards the Scheme deficit in accordance with paragraph 28.11A of FRS 102. The present value of this liability has been recognised in the Statement of Financial Position. The discount rate applied to this obligation is that of a yield rate for a high quality corporate bond.

##### Valuation Of Housing Properties

Housing Properties are stated at cost less accumulated depreciation. Housing under construction and Land are not depreciated. The Co-operative depreciates housing properties by major component on a straight line basis over the estimated useful economic lives of each identified component. All components are categorised as Housing Properties within note 12. Impairment reviews are carried out if events or circumstances indicate that the carrying value of the components listed below is higher than the recoverable amount.

Component	Useful Economic Life
Building	50 Years
Roof	50 Years
Doors	25 Years
Windows	25 Years
Radiators	20 Years
Boilers	15 Years
Bathrooms	25 Years
Kitchens	15 Years
Render	30 Years
Wiring	30 Years
Close Doors	15 Years
Common Stairs	15 Years
Control Entry	20 Years

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017 NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

#### Depreciation And Impairment Of Other Non-Current Assets

Non-Current Assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the assets at the following annual rates:-

Office Premises	-2%
Furniture and Fittings	-15%
Computer & Office Equipment	-33%
Office Equipment	-15%

The carrying value of non-current assets are reviewed for impairment at the end of each reporting period.

#### Social Housing Grant And Other Grants In Advance/Arrears

Social Housing Grants and Other Capital Grants are 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.

#### Taxation (Charities)

The Co-operative is a Registered Scottish Charity and is now not liable to United Kingdom Corporation Tax on its charitable activities.

(However, the Co-operative made a payment of tax in the period in relation to non-rental income at the rate of 20% in respect of the period to 3rd December 2015 in which the Co-operative was not registered as a charity for taxation purposes).

#### Estimation Uncertainty

The preparation of financial statements requires the use of certain accounting estimates. It also requires the Management Board to exercise judgement in applying Drumchapel 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, is disclosed below:

##### a) 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.

##### b) 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.

##### c) Useful life of properties, plant and equipment

The Co-operative assesses the useful life of its properties, plant and equipment and estimates the annual charge to be depreciated based on this.



# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

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## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

##### **Leases/Leased Assets**

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term. Assets held under finance leases and hire purchase contracts are capitalised in the Statement of Financial Position and are depreciated over their useful lives.

##### **Works to Existing Properties**

The Co-operative capitalises major repairs expenditure where these works result in an enhancement of economic benefits by increasing the net rental stream over the life of the property.

##### **Capitalisation Of Development Overheads**

Directly attributable development administration costs relating to development activities are capitalised in accordance with the Statement of Recommended Practice.

##### **Development Interest**

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

##### **Key Judgements made in the application of Accounting Policies**

###### **a) *The Categorisation of Housing Properties***

In the judgement of the Management Board 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.

###### **b) *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.

###### **c) *Financial instrument break clauses***

The Co-operative has considered the break clauses attached to the financial instruments that it has in place for its loan funding. In the judgement of the Management Board these break clauses do not cause the financial instrument to be classified as a complex financial instrument, and therefore they meet the definition of a basic financial instrument.

###### **d) *Pension Liability***

In September 2016 the Co-operative received details from the Pension Trust of the certified valuation of the pension scheme at September 2015 and the Pension Trust's estimate of the Co-operative's future past service deficit contributions. The Co-operative has now used this to provide the basis of the pension past service deficit liability in the financial statements. The Management Board feel this is the best available estimate of the past service liability.

##### **Financial Instruments - Basic**

The Co-operative classes all of its loans as basic financial instruments including agreements with break clauses. The Co-operative recognises basic financial instruments in accordance with Section 11 of Financial Reporting Standard 102.

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

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 2. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM AFFORDABLE LETTING ACTIVITIES

Notes	2017			2016		
	Turnover £	Operating Costs £	Operating Surplus / (Deficit) £	Turnover £	Operating Costs £	Operating Surplus / (Deficit) £
Affordable letting activities	3. 2,477,130	1,926,127	551,003	2,442,381	2,030,348	412,033
Other Activities	4. 15,266	15,837	(571)	34,090	33,536	554
<b>Total</b>	<b>2,492,396</b>	<b>1,941,964</b>	<b>550,432</b>	<b>2,476,471</b>	<b>2,063,884</b>	<b>412,587</b>

## 3. PARTICULARS OF INCOME & EXPENDITURE FROM AFFORDABLE LETTING ACTIVITIES

	General		2017 Total £	2016 Total £
	Needs Housing £	Supported Housing £		
<b>Revenue from Lettings</b>				
Rent Receivable Net of Service Charges	1,910,220	40,365	1,950,585	1,913,797
Service Charges	58,000	1,600	59,600	58,203
<b>Gross income from rent and service charges</b>	<b>1,968,220</b>	<b>41,965</b>	<b>2,010,185</b>	<b>1,972,000</b>
Less: Rent losses from voids	3,757	-	3,757	3,428
Less: Rent losses from voids - Unlettable	-	-	-	-
<b>Net Rents Receivable</b>	<b>1,964,463</b>	<b>41,965</b>	<b>2,006,428</b>	<b>1,968,572</b>
Grants released from deferred income	457,190	11,648	468,838	473,809
Revenue grants from Scottish Ministers	1,864	-	1,864	-
Other revenue grants	-	-	-	-
<b>Total turnover from affordable letting activities</b>	<b>2,423,517</b>	<b>53,613</b>	<b>2,477,130</b>	<b>2,442,381</b>
<b>Expenditure on affordable letting activities</b>				
Management and maintenance administration costs	827,091	21,072	848,163	864,962
Service Costs	48,448	1,234	49,682	34,658
Planned and cyclical maintenance, including major repairs	197,968	5,044	203,012	256,535
Reactive maintenance costs	173,358	3,862	177,220	216,978
Bad Debts - rents and service charges	(609)	-	(609)	18,660
Depreciation of affordable let properties	632,443	16,216	648,659	638,555
<b>Operating costs of affordable letting activities</b>	<b>1,878,699</b>	<b>47,428</b>	<b>1,926,127</b>	<b>2,030,348</b>
<b>Operating surplus on affordable letting activities</b>	<b>544,818</b>	<b>6,185</b>	<b>551,003</b>	<b>412,033</b>
<b>2016</b>	<b>403,230</b>	<b>8,803</b>	<b>412,033</b>	

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 4. PARTICULARS OF REVENUE, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM OTHER ACTIVITIES

	Grants From Scottish Ministers	Other Income	Total Turnover	Operating Costs Bad Debts	Operating Costs Other	Operating Surplus / (Deficit) 2017	Operating Surplus / (Deficit) 2016
	£	£	£	£	£	£	£
Wider Role Activities	-	-	-	-	(219)	219	(3,353)
Support Activities	14,937	-	14,937	-	15,756	(819)	3,877
Agency or management services	-	300	300	-	300	-	-
Forfeited Shares	-	29	29	-	-	29	30
<b>Total From Other Activities</b>	<b>14,937</b>	<b>329</b>	<b>15,266</b>	<b>-</b>	<b>15,837</b>	<b>(571)</b>	<b>554</b>
<b>2016</b>	<b>34,060</b>	<b>30</b>	<b>34,090</b>	<b>33,536</b>	<b>-</b>	<b>554</b>	

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5. OFFICERS' EMOLUMENTS

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

	2017	2016
	£	£
Aggregate Emoluments payable to Officers with Emoluments greater than £60,000 (excluding Pension Contributions)	136,049	171,058
Compensation payable to Officers for loss of Office	83,107	35,000
Pension contributions made on behalf on Officers with emoluments greater than £60,000	1,690	18,777
Emoluments payable to Chief Executive (excluding pension contributions)	-	89,797
Total Emoluments paid to key management personnel	181,273	224,835
Consideration paid for services of key management personnel paid to third parties	79,412	31,246

The number of Officers, including the highest paid Officer, who received emoluments (excluding pension contributions) over £60,000 was in the following ranges:-

	Number	Number
£60,001 to £70,000	1	3
£70,001 to £80,000	1	-
£80,001 to £90,000	-	-

## 6. EMPLOYEE INFORMATION

	2017	2016
	No.	No.
The average monthly number of full time equivalent persons employed during the year was	11	10
The average total number of Employees employed during the year was	11	10
Staff Costs were:	£	£
Wages and Salaries	436,334	441,947
Social Security Costs	33,214	35,613
Other Pension Costs	19,952	73,962
Temporary, Agency and Seconded Staff	9,702	-
	499,202	551,522

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 7. GAIN ON SALE OF HOUSING STOCK

	2017	2016
	£	£
Sales Proceeds	-	-
Cost of Sales	-	-
Gain On Sale Of Housing Stock	-	-

## 8. INTEREST PAYABLE & SIMILAR CHARGES

	2017	2016
	£	£
On Bank Loans & Overdrafts	78,810	86,339
	78,810	86,339

## 9. SURPLUS FOR YEAR

	2017	2016
	£	£
Surplus is stated after charging:-		
Depreciation - Tangible Owned Fixed Assets	661,076	666,900
Auditors' Remuneration - Audit Services	6,120	6,000
Auditors' Remuneration - Other Services	3,000	-
Gain on sale of fixed assets	-	1,350

## 10. TAX ON SURPLUS ON ORDINARY ACTIVITIES

	2017	2016
	£	£
(i) Analysis of Charge in Year		
Current Tax:		
UK Corporation Tax on surplus on ordinary activities	-	2,104
Adjustments in respect of previous years	2,010	-
Total Current Tax (Note 10(ii))	2,010	2,104
<b>Tax on surplus on ordinary activities</b>	<b>2,010</b>	<b>2,104</b>

The Association is now a Registered Scottish Charity and is not liable to United Kingdom Corporation Tax on its charitable activities.

Tax on ordinary surplus is in respect of liabilities arising when the Co-operative was not recognised as a charity from the prior period.

## 11. OTHER FINANCE INCOME / CHARGES

	2017	2016
	£	£
Unwinding of Discounted Liabilities	32,000	33,000

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 12. NON-CURRENT ASSETS

a) Housing Properties	Housing Properties Held for Letting £	Housing Properties In course of Construction £	Total £
<b>COST</b>			
As at 1st April 2016	26,316,874	131,834	26,448,708
Additions	149,870	68,614	218,484
Disposals	(140,050)	-	(140,050)
Schemes Completed	186,708	(186,708)	-
As at 31st March 2017	<u>26,513,402</u>	<u>13,740</u>	<u>26,527,142</u>
<b>DEPRECIATION</b>			
As at 1st April 2016	11,304,791	-	11,304,791
Charge for Year	648,659	-	648,659
Disposals	(140,051)	-	(140,051)
As at 31st March 2017	<u>11,813,399</u>	<u>-</u>	<u>11,813,399</u>
<b>NET BOOK VALUE</b>			
As at 31st March 2017	<u>14,700,003</u>	<u>13,740</u>	<u>14,713,743</u>
As at 31st March 2016	<u>15,012,083</u>	<u>131,834</u>	<u>15,143,917</u>

Additions to housing properties includes capitalised development administration costs of £nil (2016 - £nil) and capitalised major repair costs to existing properties of £218,484 (2016 £386,362)

All land and housing properties are freehold.

Total expenditure on existing properties in the year amounted to £222,875. The amount capitalised is £218,484, with the balance charged to the statement of comprehensive income.

Schemes completed during the year relates to the conversion of flats - previously used as offices - back into residential use.

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 12. NON CURRENT ASSETS (Continued)

b) Other Tangible Assets	Computer Equipment £	Office Equipment £	Office Premises £	Furniture & Equipment £	Total £
<b>COST</b>					
As at 1st April 2016	90,139	19,891	427,463	12,558	550,051
Additions	2,730	3,054	-	-	5,784
Eliminated on Disposals	-	-	-	-	-
As at 31st March 2017	<u>92,869</u>	<u>22,945</u>	<u>427,463</u>	<u>12,558</u>	<u>555,835</u>
<b>AGGREGATE DEPRECIATION</b>					
As at 1st April 2016	88,141	12,033	107,859	11,615	219,648
Charge for year	1,380	2,294	8,550	193	12,417
Eliminated on disposal	-	-	-	-	-
As at 31st March 2017	<u>89,521</u>	<u>14,327</u>	<u>116,409</u>	<u>11,808</u>	<u>232,065</u>
<b>NET BOOK VALUE</b>					
As at 31st March 2017	<u>3,348</u>	<u>8,618</u>	<u>311,054</u>	<u>750</u>	<u>323,770</u>
As at 31st March 2016	<u>1,998</u>	<u>7,858</u>	<u>319,604</u>	<u>943</u>	<u>330,403</u>

## 13. CAPITAL COMMITMENTS

	2017 £	2016 £
Capital Expenditure that has been contracted for but has not been provided for in the Financial Statements	-	<u>236,036</u>

The above commitments will be financed by a mixture of public grant and the Co-operative's own resources.

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 14. RECEIVABLES AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £	2016 £
Arrears of Rent & Service Charges	76,700	107,602
Adjustment to discount arrears balances with payment plans to NPV	-	-
Less: Provision for Doubtful Debts	(42,800)	(67,700)
	<u>33,900</u>	<u>39,902</u>
Social Housing Grant Receivable	-	65,022
Other Receivables	79,496	17,702
	<u>113,396</u>	<u>122,626</u>

## 15. PAYABLES AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £	2016 £
Housing Loans	213,121	216,263
Trade Payables	117,776	272,774
Rent in Advance	97,062	84,256
Corporation Tax	-	2,104
Other Taxation and Social Security	5,743	8,502
Other Payables	442	16,957
Liability for Past Service Contributions	131,868	131,868
Accruals and Deferred Income	28,969	118,856
	<u>594,981</u>	<u>851,580</u>

## 16. PAYABLES AMOUNTS FALLING DUE AFTER ONE YEAR

	2017 £	2016 £
Liability for Past Service Contributions	538,132	1,314,132
Housing Loans	2,953,164	3,160,596
	<u>3,491,296</u>	<u>4,474,728</u>
<b>Housing Loans</b>		
Amounts due within one year	213,121	216,263
Amounts due in one year or more but less than two years	212,798	221,028
Amounts due in two years or more but less than five years	657,361	672,179
Amounts due in more than five years	2,083,005	2,267,389
	<u>3,166,285</u>	<u>3,376,859</u>
Less: Amount shown in Current Liabilities	213,121	216,263
	<u>2,953,164</u>	<u>3,160,596</u>
<b>Liability for Past Service Contributions</b>		
Amounts due within one year	131,868	131,868
Amounts due in one year or more but less than two years	134,400	123,179
Amounts due in two years or more but less than five years	403,732	375,496
Amounts due in more than five years	-	815,457
	<u>670,000</u>	<u>1,446,000</u>
Less: Amount shown in Current Liabilities	131,868	131,868
	<u>538,132</u>	<u>1,314,132</u>

The Co-operative has a number of long-term housing loans secured by specific charges on its properties. The loans are repayable with rates varying from 0.70% to 5.49% in instalments. The loans all expire between 2018 and 2042.

The liability for the past service contributions has been accounted for in accordance with FRS 102 para 28.13A and represents the present value of the contributions payable. The cash out flows have been discounted at a rate of 1.06% (2016 - 2.29%).



# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 17. STATEMENT OF CASH FLOWS

	2017 £	2016 £
<i>Reconciliation of operating surplus to balance as at 31 March 2017</i>		
Operating Surplus	550,432	412,587
Depreciation	661,076	666,900
Change in Provisions for liabilities and charges	685,515	6,000
Payment of Corporation Tax	(4,114)	(4,984)
Amortisation of Capital Grants	(468,839)	(473,809)
Change in stocks	16	435
Change in debtors	(125,870)	(7,126)
Change in creditors	(1,027,354)	(93,512)
Gain on sale of other fixed assets	-	1,350
Unwinding of Discount on Pension Liability	(32,000)	(33,000)
Share Capital Written Off	(29)	(30)
Balance as at 31 March 2017	<u>238,834</u>	<u>474,811</u>

## 18. DEFERRED INCOME

	Housing Properties Held for Letting £	Housing Properties In course of Construction £	Total £
<b>Social Housing Grants</b>			
Balance as at 1st April 2016	19,581,070	132,785	19,713,855
Additions in the year	-	36,338	36,338
Transferred	155,382	155,382	310,764
Eliminated on disposal components and property	(108,380)	-	(108,380)
Balance as at 31st March 2017	<u>19,628,072</u>	<u>13,741</u>	<u>19,641,813</u>
<b>Amortisation</b>			
Balance as at 1st April 2016	9,395,576	-	9,395,576
Amortisation in year	468,839	-	468,839
Eliminated on disposal	(108,380)	-	(108,380)
Balance as at 31st March 2017	<u>9,756,035</u>	<u>-</u>	<u>9,756,035</u>
<b>Net book value</b>			
Balance as at 31st March 2017	<u>9,872,037</u>	<u>13,741</u>	<u>9,885,778</u>
Balance as at 31st March 2016	<u>10,185,494</u>	<u>132,785</u>	<u>10,318,279</u>

This is expected to be released to the Statement of Comprehensive Income in the following years:

	2017 £	2016 £
Amounts due within one year	468,839	473,809
Amounts due in one year or more	9,416,939	9,844,470
	<u>9,885,778</u>	<u>10,318,279</u>

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 19. SHARE CAPITAL

### Shares of £1 each Issued and Fully Paid

	£
At 1st April 2016	468
Issued in year	32
Cancelled in year	(29)
At 31st March 2017	471

Each shareholder of the Co-operative holds one share of £1 in the Co-operative. These shares carry no rights to dividend or distributions 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 members' meetings.

## 20. HOUSING STOCK

The number of units of accommodation in management at the year end was:-

	2017 No.	2016 No.
General Needs - Built by the Co-operative	206	206
General Needs - Rehabilitated by the Co-operative	262	262
Supported Housing	12	12
	480	480

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 21. RELATED PARTY TRANSACTIONS

Members of the Management Board are related parties of the Co-operative as defined by Financial Reporting Standard 102

Those members who are tenants of the Co-operative have tenancies that are on the Co-operative's normal tenancy terms and they cannot use their positions to their advantage.

Governing Body Members cannot use their position to their advantage. Any transactions between the Co-operative and any entity with which a Governing Body Member has a connection with is made at arm's length and is under normal commercial terms.

Transactions with governing body members (and their close family) were as follows:

	£
Rent received from Tenants on the Committee and their close family members	37,365

At the year end total rent arrears owed by the tenant members of the Committee (and their close family ) were £9

Members of the Committee who are tenants	7
Members of the Committee who are local councillors	1

The following transactions took place during the year between the Co-operative and its other related parties:

The Co-operative's current Director, Caroline Shepherd, serves as a key management personnel in Cernach Housing Association (CHA). During the year CHA recharged costs of £42,079 to the Co-operative for a range of services.

The Co-operative's ex-interim Director, Mags Lightbody, is a key management personnel of Lightbody Consultancy Limited (LCL). During the year the Co-operative was charged £63,600 from LCL for Director services.

The Co-operative's ex-interim Director, Lesley McInnes, is a key management personnel of West Highland Association (WHA). During the year the Co-operative incurred costs of £1,436 from WHA for Director services.

## 22 DETAILS OF CO-OPERATIVE

The Co-operative is a Registered Society registered with the Financial Conduct Authority and is domiciled in Scotland.

The Co-operative's principal place of business is 4 Kinclaven Avenue, Drumchapel, Glasgow.

The Co-operative is a Registered Social Landlord and Scottish Charity that owns and manages social housing property in Drumchapel.

## 23. GOVERNING BODY MEMBER EMOLUMENTS

Management Board members received £395 in the year by way of reimbursement of expenses. (2016 - £347). No remuneration is paid to Management Board members in respect of their duties in the Association.

# DRUMCHAPEL HOUSING CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 24. RETIREMENT BENEFIT OBLIGATIONS

### General

Drumchapel Housing Co-operative Limited participated in the Scottish Housing Association Pension Scheme (the scheme).

The Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme. The Co-operative has since moved to a defined contribution scheme but has a liability for the past service deficit in the defined benefit scheme.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers as the scheme is a multi-employer arrangement where the assets are co-mingled for investment purposes, benefits are paid from the total scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the scheme rather than by reference to individual employer experience. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS102 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30th September 2015 by a professionally qualified actuary using the Projected Unit Credit method. Subsequently, an updated provisional valuation has been now been performed at 30th September 2016. The market value of the Scheme's assets at the valuation date was £810m. The valuation revealed a shortfall of assets compared with the value of liabilities of £210m (equivalent to a past service funding level of 79%).

The Scheme operates on a 'last man standing' basis, meaning that in the event of an employer withdrawing from the Scheme and being unable to pay its share of the debt on withdrawal. Then the liability of the withdrawing employer is re-apportioned amongst the remaining employers. Therefore in certain circumstances the Co-operative may become liable for the obligations of a third party.

All employer's in the scheme have entered into an agreement to make additional contributions to fund the scheme's past service deficit. This obligation has been recognised in terms of Para 28.11A of Financial Reporting Standard 102. At the statement of financial position date the present value of this obligation was £670,000 (2016 - £1,446,000). This was calculated by reference to the terms of the agreement and discounting the liability using the yield rate of a high quality corporate bond with a similar term. This discount rate used was 1.06%.

During the year the Co-operative recalculated its liability based on the 2015 Valuation following certification of the same by the Pension Trust. The ammendment to the contribution schedule (between the previous 2012 and 2015 valuations) resulted in an actuarial gain of £685,515.

Pension deficit contribution payments of £122,485 (2016: £118,918) were made during the year.

The Co-operative made payments totalling £146,528 (2016: £192,962) to the pension scheme during the year.