Annual Return (AR30) form

Section 1 – About this form

An Annual Return must be completed by all societies registered under the Co-operative and Community Benefit Societies Act 2014 ('the Act') (including any societies previously registered under the Industrial and Provident Societies Act 1965) or the Co-operative and Community Benefit Societies Act (Northern Ireland) 1969 ('the Act') (including any societies previously registered under the Industrial and Provident Societies Act 1969). The Annual Return must include:

- this form;
- a set of the society's accounts; and
- where required, an audit report or report on the accounts.

A society must submit the Annual Return within 7 months of the end of the society's financial year. Failure to submit on time is a prosecutable offence.

Please note that this form, including any details provided on the form, will be made available to the public through the Mutuals Public Register https://mutuals.fca.org.uk.

For guidance on our registration function for societies under the Co-operative and Community Benefit Societies Act 2014, which includes guidance on the requirement to submit an Annual Return, please see here: https://www.fca.org.uk/publication/finalised-guidance/fg15-12.pdf

Section 2 – About this application

Society name	Funeral Services Limited
Register number	30808R
Registered address	1 Angel Square, Manchester
Postcode	M60 0AG

2.1 What date did the financial year covered by these accounts end?

0	4	0	1	2	0	2	0

Section 3 – People

3.1 Please provide the names of the people who were directors of the society during the financial year this return covers. Some societies use the term 'committee member' or 'trustee' instead of 'director'. For ease of reference, we use 'director' throughout this form.

Name of director	Month and year of birth	
Alison Close	June	1975
Samantha Jane Tyrer	February	1970

Continue on to a separate sheet if necessary.

3.2 All directors must be 16 or older. Please confirm this is this case:

All directors are aged 16 or over ☒

3.3 Societies are within the scope of the Company Directors Disqualification Act 1986 (CDDA). Please confirm that no director is disqualified under that Act:

No director is disqualified ☒

3.4 Please state any close links which any of the directors has with any society, company or authority. 'Close links' includes any directorships or senior positions held by directors of the society in other organisations.

Please see Appendix A

3.5 Please provide the name of the person who was secretary at the end of the financial year this return covers. Societies must have a secretary.

Name of secretary	Month and year of birth	
Caroline Jane Sellers	**January**	**1972**

Section 4 – Financial information

4.1 Please confirm that:

accounts are being submitted with this form	☒
the accounts comply with relevant statutory and accounting requirements	☒
the accounts are signed by two members and the secretary (3 signatures in total)	☒

4.2 Based on the accounts, please provide the information requested below for the financial year covered by this return.

Number of members	**2**
Turnover	**£262,636,000**
Assets	**£2,053,882,000**
Number of employees (if any)	**0**
Share capital	**£3**
Highest rate of interest paid on shares (if any)	**N/A**

4.3 What Standard Industrial Classification code best describes the society's main business? Where more than one code applies, please select the code that you feel best describes the society's main business activity. You will find a full list of codes here: **http://resources.companieshouse.gov.uk/sic/**

96030

Section 5 – Audit

Societies are required to appoint an auditor to audited unless they are small or have disapplied this requirement. For further guidance see chapter 7 of our guidance: **https://www.fca.org.uk/publication/finalised-guidance/fg15-12.pdf**

5.1 Please select the audit option the society has complied with:

Full professional audit	☒
Auditor's report on the accounts	☐
Lay audit	☐
No audit	☐

5.2 Please confirm the audit option used by the society is compliant with the society's own rules and the Act

We have complied with the audit requirements ☒

5.3 Please confirm any audit report (where required) is being submitted with this Annual Return

Yes	☒
Not applicable	☐

The information below impacts the level of audit required of the society's accounts. Please provide answers to the following questions.

5.4 Is this society accepted by HM Revenue and Customs (HMRC) as a charity for tax purposes?

Yes ☐

No ☒

5.5 If the society is registered with the Office of the Scottish Charity Regulator (OSCR) please provide your OSCR registration number.

Not applicable ☒

OSCR number:	

5.6 Is the society a housing association?

No ☒ Go to **section 6**

Yes ☐ Go to question **5.7**

5.7 Please confirm which housing regulator you are registered with, and provide the registration number they have given you:

		Registration number
Homes and Communities Agency	☐	
Scottish Housing Regulator	☐	
The Welsh Ministers	☐	
Department for Communities (Northern Ireland)	☐	

Section 6 – Subsidiaries

6.1 Is the society a subsidiary of another society?

Yes ☒

No ☐

6.2 Does the society have one or more subsidiaries? (As defined in sections 100 and 101 of the Act)

Yes ☐ Continue to question 6.3

No ☒ Continue to Section 7

6.3 If the society has subsidiaries, please provide the names of them below (or attach an additional sheet)

Registration Number	Name

6.4 Please provide below (or on a separate sheet) the names of subsidiaries not dealt with in group accounts (if any) and reasons for exclusions: (the society must have written authority from us to exclude a subsidiary from group accounts)

Registration Number	Name	Reason for exclusion

Section 7– Condition for registration

All societies are registered meeting one of two conditions for registration. These are that the society is either:

- a bona fide co-operative society (‘co-operative society’); **or**
- are conducting business for the benefit of the community (‘community benefit society’).

A society must answer the questions set out in either Section 7A or Section 7B of this form, depending on which condition of registration it meets.

If you are not sure which condition for registration applies to the society please see chapters 4 and 5 of our guidance:
https://www.fca.org.uk/publication/finalised-guidance/fg15-12.pdf

Section 7A - Co-operative societies

Co-operative societies must answer the following questions in relation to the financial year covered by this return.

7A.1 What is the business of the society? For example, did you provide housing, manufacture goods, develop IT systems etc.

Funeral and related activities.

7A.2 Please describe the members' common economic, social and cultural needs and aspirations. In answering this question, please make sure it is clear what needs and aspirations members had in common.

The Society's ultimate parent is Co-operative Group Limited ('the Co-op'), which is owned and democratically controlled by its individual members and Independent Society Members. Members' common economic, social and cultural needs and aspirations include the ability to share in the profits of the Co-op, adherence to co-operative values and high ethical standards, support for local community causes, the promotion of Fair Trade, and campaigning to change society for the better.

7A.3 How did the society's business meet those needs and aspirations? You have described the society's business answer to question 7A.1, and in question 7A.2 you have described the common needs and aspirations of members. Please now describe how during the year that business met those common needs and aspirations.

Members' ability to share in the profits of the Co-op is met by receiving a payment of 5% of the value of their purchase of branded Co-op goods and services. The aspiration of support for local community causes is met by an associated payment of 1% of purchases which is paid to the Co-op Local Community Fund with members having the choice of which local cause their funds are directed to. Co-op made a long-term commitment to supporting Fair Trade as its 2015 AGM, and at the 2020 AGM, Members passed a motion on Ethical Retailing which supports the Co-op's long history of maintaining an ethical stance on consumer retailing. This is in addition to its campaigning to change society for the better, examples of which are a longstanding campaign to end Modern Slavery and the more recent 'Safer Colleagues, Safer Communities' campaign, which is committed to protecting Co-op colleagues as well as addressing the root causes of crime in society.

7A.4 How did members democratically control the society? For example, did the members elect a board at an annual general meeting; did all members collectively run the society.

The Society's ultimate parent is Co-operative Group Limited ('the Co-op'). The Co-op is owned and democratically controlled by its individual and independent Society members. Members of the Co-op exercise democratic control by voting on motions at its General Meetings and by electing Member Nominated Directors to the Board and representatives to the National Members' Council.

7A.5 What did the society do with any surplus or profit? For instance, did you pay a dividend to members (and if so, on what basis); did money get reinvested in the business; put into reserves; used for some other purpose?

The Society paid a dividend to its members on the basis of their level of participation in the Society (i.e. level of shareholding). Co-op Members derive benefit in the form of a membership award proposition that gives members 5% cash back on their own brand purchases and a 1% donation to a local cause of their choice.

Section 7B - Community benefit societies

Community benefit societies must answer the following questions in relation to the financial year covered by this return.

7B.1 What is the business of the society? For example, did you provide social housing, run an amateur sports club etc.

7B.2 Please describe the benefits to the community the society delivered? Here we are looking to see *what* the benefits to the community were. Community can be said to be the community at large. For example, did you relieve poverty or homelessness through the provision of social housing.

7B.3 Please describe how the society's business delivered these benefits? The business of the society must be conducted for the benefit of the community. Please describe *how* the society's business (as described in answer to question 7B.1) provided benefit to the community.

7B.4 Did the society work with a specific community, and if so, please describe it here? For instance, were the society's activities confined to a specific location; or to a specific group of people? Please note that in serving the needs of any defined community, the society should not inhibit the benefit to the community at large.

7B.5 What did the society do with any surplus or profit? For instance, did you donate the money; did money get reinvested in the business; put into reserves; used for some other purpose?

7B.6 Please state any significant commercial arrangements that the society has, or had, with any other organisation that could create, or be perceived as creating, a conflict of interest. Please tell us how you ensured that any such conflict of interest did not prevent the society from acting for the benefit of the community.

Section 8– Declaration

The secretary of the society must complete this section.

Name	**Caroline Jane Sellers**
My signature below confirms that the information in this form is accurate to the best of my knowledge	
Signature 	
Position	**Secretary**
Date	**15 July 2020**

Section 9 – Submitting this form

Please submit a signed, scanned version of this form along with your accounts and any auditor’s report by email to: mutualsannrtns@fca.org.uk.

Or you can post the form to:

Mutual Societies
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

This form is available on the Mutuals Society Portal:
https://societyportal.fca.org.uk

Name	**Company/Society**	**Position**
Alison Close	Funeral Services (Ireland) Limited	Director
Samantha Jane Tyrer	SWG Realisations Limited	Director

Funeral Services Limited

Financial statements

Registered number 30808R

Period ended 4 January 2020

Corporate Information

Directors
A Close
S Tyrer — Appointed 13 June 2019
M Howells — Resigned 1 May 2019

Secretary
C J Sellers

Auditors
Ernst & Young LLP, Statutory Auditor
Chartered Accountants
2 St Peter's Square
Manchester
M2 3EY

Registered Office
1 Angel Square
Manchester
M60 0AG

Contents

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Registered Society Law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Funeral Services Limited's ("the Society") financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period.

In preparing the Society's financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Funeral Services Limited

Qualified Opinion

We have audited the financial statements of Funeral Services Limited (the Society) for the 52-week period ended 4 January 2020 which comprise the Profit and loss account, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the Society's affairs as at 4 January 2020 and of its loss for the 52-week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

Basis of qualified opinion

The Society accounts for pre-need Funeral Plans under IFRS 15 'Revenue from contracts with customers'. The accounting policy adopted by the Society for these Plans, as set out in Note 2 to the Financial Statements, relies on a key judgement that fair value gains on funeral plan investment assets represent variable consideration for the performance of the funeral at a future date and are therefore deferred until recognised as revenue at the point of funeral delivery.

Having reconsidered the Society's accounting policy, we now believe that the treatment of the fair value gains on funeral plan investments represents a departure from IFRSs as adopted by the EU. The fair value gains (2019: £11m, 2018: £92m) do not represent variable consideration under IFRS 15 because they are not payments from the customer for the future provision of the funeral. Instead, the investment gains should be reflected in the profit and loss account as they arise, in accordance with IFRS 9 'Financial Instruments', rather than being taken to accrete the value of the funeral plan liability (the consideration paid by the customer for the future provision of the funeral) under the Society's current policy.

Accordingly, the Society would be required to select an accounting policy for the funeral plan liability. The Society accounts in note 2 set out an alternative approach to account for a financing element in the transaction based on the Society's incremental borrowing rate. On this basis Finance income would have increased by £11m for fair value gains on investments and Finance costs would have increased by £57m for the significant financing component charge on the consideration received in advance (2018: increased by £92m and £54m respectively). Revenue would have decreased by £2m (2018: decreased by £2m), Taxation decreased by £9m (2018: increased by £7m), Profit from continuing operations and Members' share capital and reserves would have decreased by £39m (2018: increased by £29m), and Contract Liabilities in the Balance Sheet increased by £48m (2018: decreased by £36m). Net assets at 7 January 2018, on transition to IFRS 15, would have increased by £24m with a corresponding decrease in Contract Liabilities.

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 below. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of matter - Effects of Covid-19

We draw attention to Note 2 of the financial statements, which describes the economic and social consequences the society is facing as a result of COVID-19 which is impacting supply chains, consumer demand, personnel available for work and or being able to access offices among other macroeconomic factors. Our opinion is not modified in respect of this matter.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 1 the directors are responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

This report is made solely to the Society'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 Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP

Alistair Denton
Statutory Auditor
Manchester
Date: 26 June 2020

Profit and loss account
for the period ended 4 January 2020

	Notes	**For period ended 4 January 2020**	For period ended 5 January 2019
		£'000	£'000
Revenue	2	**262,636**	275,583
Cost of sales		**(26,864)**	(26,458)
Gross profit		**235,772**	**249,125**
Administrative expenses		**(246,830)**	(235,358)
Operating (loss) / profit	3	**(11,058)**	**13,767**
Other income		**-**	856
Finance costs*	9	**(2,705)**	-
(Loss) / Profit on ordinary activities before taxation		**(13,763)**	**14,623**
Taxation	6	**(3,192)**	3,850
(Loss) / Profit for the period		**(16,955)**	**18,473**

All amounts relate to continuing activities.

Statement of comprehensive income
for the period ended 4 January 2020

The Society has no recognised income or expenses in the current or prior period other than those included in the profit and loss account shown above, therefore a separate Statement of comprehensive income has not been presented. The total comprehensive loss for the period ended 4 January 2020 was £16,955k (period ended 5 January 2019: £18,473k profit).

*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

The notes on pages 7 to 21 form an integral part of these financial statements.

Balance sheet
as at 4 January 2020

	Notes	**As at 4 January 2020 £'000**	**As at 4 January 2020 £'000**	As at 5 January 2019 £'000	As at 5 January 2019 £'000
Non-current assets					
Property, plant and equipment	8	**182,635**		205,081	
Right-of-use assets*	9	**43,754**		-	
Intangible assets	10	**36,986**		40,724	
Funeral plan investments	11	**1,270,995**		1,223,187	
Trade and other receivables	15	**111,345**		72,426	
Contract Assets	13	**53,745**		46,717	
Total non-current assets			**1,699,460**		1,588,135
Current assets					
Inventories	12	**4,241**		4,719	
Trade and other receivables	15	**262,384**		190,603	
Contract Assets	13	**4,384**		3,788	
Cash and cash equivalents		**82,852**		134,985	
Corporation tax	6	**561**		17,459	
Assets held for sale	14	**-**		3,123	
Total current assets			**354,422**		354,677
Total assets			**2,053,882**		1,942,812
Non-current liabilities					
Interest bearing loans and borrowings		**-**		(3,420)	
Lease liabilities*	9	**(42,933)**		-	
Trade and other payables	16	**(4,351)**		(4,062)	
Contract Liabilities	17	**(1,435,398)**		(1,353,272)	
Provisions	18	**(3)**		(944)	
Deferred tax liabilities	19	**(7,320)**		(4,843)	
Total non-current liabilities			**(1,490,005)**		(1,366,541)
Current liabilities					
Interest bearing loans and borrowings		**-**		(390)	
Lease liabilities*	9	**(10,888)**		-	
Trade and other payables	16	**(37,021)**		(49,738)	
Contract Liabilities	17	**(142,718)**		(130,302)	
Provisions	18	**(3,160)**		(2,630)	
Total current liabilities			**(193,787)**		(183,060)
Total liabilities			**(1,683,792)**		(1,549,601)
Equity					
Called up share capital	20	**-**		-	
Retained earnings		**(370,090)**		(393,211)	
Total equity			**(370,090)**		(393,211)
Total equity and liabilities			**(2,053,882)**		(1,942,812)

*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

The notes on pages 7 to 21 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 June 2020 and were signed on its behalf by:

A Close
Director

S Tyrer
Director

C J Sellers
Secretary

Statement of changes in equity
for the period ended 4 January 2020

	Notes	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 6 January 2018		**-**	**391,208**	**391,208**
Profit and total comprehensive income for the period		**-**	**18,473**	**18,473**
Transactions with owners in their capacity as owners:				
Dividend paid	7	**-**	**(16,470)**	**(16,470)**
Balance at 5 January 2019 (as originally reported)		**-**	**393,211**	**393,211**
Impact of adoption of IFRS 16 on opening reserves as at 6 January 2019*		**-**	**(7,442)**	**(7,442)**
Tax on impact of IFRS 16 on reserves as at 6 January 2019*		**-**	**1,276**	**1,276**
Balance at 6 January 2019 (after impact of IFRS 16)		**-**	**387,045**	**387,045**
Loss and total comprehensive income for the period		**-**	**(16,955)**	**(16,955)**
Balance at 4 January 2020		**-**	**370,090**	**370,090**

*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

The notes on pages 7 to 21 form an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 Authorisation of financial statements and statement of compliance with FRS 101

Reporting entity

Funeral Services Limited ("the Society") is a Society and is registered and domiciled in England and Wales. The address of the Society's registered office is 1 Angel Square, Manchester, M60 0AG.

Accounting date

The financial statements for the period are prepared for the 52 weeks to 4 January 2020. The Trading Group (Co-operative Group Limited, "Group" - see Note 22) subsidiaries prepare their accounts for the first Saturday of January unless 31 December is a Saturday. Comparative information is presented for the 52 weeks ended 5 January 2019.

The principal accounting policies adopted by the Society are set out in note 2.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The Society meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' and the Co-operative and Community Benefit Societies Act 2014.

The financial statements have been principally prepared on the basis of historical cost. Areas where other bases are applied are explained in the relevant accounting policy.

Where applicable, the following exemptions from the requirements of IFRS (as adopted by the EU) have been applied in the preparation of these financial statements, in accordance with FRS 101. The specific exemptions that the Society has taken advantage of are :

- IFRS 7 Financial instruments : Disclosures
- Para 91-99 of IFRS 13 Fair Value Measurements
- Para 38 of IAS 1 Presentation of Financial Statements in respect of comparative information
- Para 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements
- IAS 7 Cash flows
- Para 30-31 of IAS 8 Accounting policies, changes in accounting estimates and errors
- Para 17 and 18A of IAS 24 Related party disclosures
- IAS 24 Intra-group transactions
- The second sentence of para 110 and paras 113(a), 114, 115, 118, 119(a) - (c), 120-127 and 129 of IFRS 15 Revenue from Contracts with Customers
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134 (f) and 135(c) to 135(e) of IAS 36, Impairment of Assets
- The requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

Qualified audit report

The Directors note that our auditors have qualified their audit opinion in respect of our interpretation of IFRS 15 (Revenue from contracts with customers) as applied to our funeral plans. This relates to a highly judgemental area of IFRS 15 as to whether a sale contains a "significant financing component" and whether the amount received from the customer is "variable consideration". This issue and accounting rationale are explained in detail in our General Accounting Policies note in the key judgements section on page 8.

The Directors remain firmly of the view that the approach taken in 2018, when IFRS 15 was first adopted, and that was supported by both our auditors and the advice we took from another accountancy firm at the time remains appropriate. The Directors have considered the views of the auditors and the decision to continue with this accounting approach was made in full knowledge that it would lead to a qualified audit opinion. It is not a decision taken lightly but the Directors have carefully considered both the technical accounting interpretation as applied to the particular nature of the funeral plan arrangements and the need to present clear and understandable accounts.

The Directors believe that the treatment most fairly reflects the true underlying commercial nature of a funeral plan sale. The accounting policies note sets out the illustrative impact of the alternative approach that the auditors believe should be adopted. As noted above, as well as disagreeing with that accounting interpretation, the Director's view is that this approach would make our accounts very difficult to understand and not fairly reflect the Society's true financial performance.

New and amended standards adopted by the Society

The Society has applied the following standards and amendments for the first time for reporting periods commencing after 6 January 2019:

- IFRS 16 Leases;

The nature and effect of the changes as a result of adoption of this new accounting standard is described on page 12.

Several other amendments and interpretations apply for the first time in 2019, but do not have a material impact on the financial statements of the Society. The Society has not early-adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Society based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Society. Such changes are reflected in the assumptions when they occur.

- Pensions (note 5) – the Society's defined benefit pension obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The most significant assumptions relate to the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the Society's defined benefit obligation is highly sensitive to changes in these assumptions. Further details of the financial and demographic assumptions that have been used are shown in note 27 of the financial statements of the Co-operative Group Limited (authorised for issue on 23 April 2020).

- Impairment of non-financial assets (notes 8, 9 & 10) - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets or goodwill and intangibles) is reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. For property assets then the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

The Society estimates the value in use of an asset or CGU by projecting future cash flows into perpetuity and discounting the cash flows (DCF) associated with that asset at a pre-tax rate of 8.2%. Cash flows are projected using the business' five-year plan. Cash flow projections beyond five years (and therefore outside of the five-year plan period) use a steady or declining growth rate. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. For the Society these estimates are most relevant to goodwill, property, plant and equipment and right-of-use assets. The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in notes 7 and 9.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Estimates and judgements (continued)

- Tax and Deferred tax (notes 6 & 19) – the Society's tax charge is made up of current and deferred tax and is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Significant management judgement is required to determine the amount of deferred tax assets and liabilities that can be recognised, including estimates as to the likely timing and the level of future taxable profits, together with future tax planning strategies. See disclosures in notes 6 and 19 for details of the key estimates and assumptions that are made.

- Provisions (note 18) – a provision is recognised in the balance sheet when the Society has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The most significant provision for the Society relates to property provisions for non-rental costs associated with properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See note 18 for further details.

Management have also identified a key estimate in relation to the determination of lease discount rates to apply to IFRS 16 lease liability calculations. This is explained further on page 14.

Management has made the following key judgement which has a significant impact on the financial statements:

- Revenue from contracts with customers: Funeral plans - IFRS 15 (Revenue from contracts with customers) requires that revenue should be recognised in respect of separate performance obligations delivered to the customer. In applying the revenue standard to funeral plan sales the Society has concluded that the only separate performance obligation is the delivery of the funeral service and therefore revenue can only be recognised at the date the plan is redeemed and the funeral is performed. On interpreting the requirements of IFRS 15, management has made a significant accounting judgement in how we account for funeral plans.

Monies received from customers for a funeral plan are placed into whole of life insurance policies. The Society has no access to those monies or the returns from the associated policies until such time that the policy is redeemed or cancelled. When the policy is redeemed the monies are paid to the Society as consideration for performing the funeral. Neither the Society nor the customer can control the variability of the consideration, specifically the amount or timing of the consideration. Judgement has been applied in determining that consideration that is received from the policy is variable.

An alternative judgement would be to view the consideration received from the customer as a financing transaction, i.e. that the customer is providing financing to the Society because there is a timing difference between when the customer purchases the plan and when the funeral is carried out. Management do not believe a financing transaction exists in this instance. Firstly, because customers are not financing the Society when we sell a funeral plan as the Society has no access to the funds invested in whole of life policies until the policy is redeemed and the funeral is delivered. A customer takes out a plan for the peace of mind of having their funeral already arranged and to avoid placing the cost onto their families. Secondly, the Society cannot control the timing of delivery of a plan but the customer can as they are able to transfer a plan to another beneficiary. IFRS 15, paragraph 60, states that where the timing of delivery is at the discretion of a customer, then there is no financing arrangement.

Whilst some companies in the industry have applied the judgement that there is a financing component in their business model, it is important to note that the application of IFRS 15 depends on the facts and circumstances present in a contract with a customer and requires the exercise of judgement. Critically, the Society has several distinguishing features in its contractual terms from other operators in the industry which on careful consideration, has led to management applying a different judgement appropriate to this business.

If the Society were to apply a different judgement, that being that the transaction includes a financing component, the accounting under IFRS 15 would be materially different. Investment returns from our invested funds would be recognised as interest income. A liability would be recognised on day one of the transaction, which would represent the Society's obligation to perform the funeral. This liability would be grown by a judgemental rate that would represent a customer's expected return from lending to the Funeral's business. Once the funeral is carried out, this liability is then extinguished by recognising the amount as revenue. This means that the amount recognised as revenue is a function of a highly judgemental accounting concept, as opposed to the amount received from the whole of life investment policy. For clarity we have presented the illustrative impact of this alternative judgement on our profit and loss account below.

	Audited 2019 (as reported)	**Audited 2018 (as reported)**	**Unaudited 2019 (applying financing)**	**Unaudited 2018 (applying financing)**
	£'000	**£'000**	**£'000**	**£'000**
Revenue	262,636	275,583	260,737	273,013
Cost of sales	(26,864)	(26,458)	(26,864)	(26,458)
Administrative expenses	(246,830)	(235,358)	(246,830)	(235,358)
Operating (loss) / profit	**(11,058)**	**13,767**	**(12,957)**	**11,197**
Other income	-	856	-	856
Finance income / (costs)	(2,705)	-	(48,646)	38,668
(Loss) / Profit on ordinary activities before taxation	**(13,763)**	**14,623**	**(61,603)**	**50,721**
Taxation	(3,192)	3,850	6,208	(2,950)
(Loss) / Profit for the period	**(16,955)**	**18,473**	**(55,395)**	**47,771**

In arriving at this judgement, management have carefully considered the understandability of the accounts, as well as the accounting principles. The approach we have taken was originally arrived at in adopting IFRS 15 for the first time in 2018 and was supported by third party accounting advice. Our approach received an unqualified audit opinion in 2018 from our external auditors. In the absence of further interpretive guidance, management believe the accounting judgement that we have applied best depicts the accounting for delivery of funerals to our customers through our funeral plans. During 2020 we will continue to monitor developments in the industry and any future guidance that is published regarding the interpretation of IFRS 15 and in doing so continue to satisfy ourselves over the appropriate application of IFRS 15 to pre-need funeral plans. In doing this, the understandability of our accounts will remain a critical factor.

Management have also identified a key judgement in relation to determining lease terms under IFRS 16, which is described further on page 14.

Going concern

The Society generated a loss of £16,955k in the period (2018 : £18,473k profit) and at the balance sheet dates holds net assets of £370,090k (2018: £393,211k).

The Society is reliant on the support of Co-operative Group Limited ("the Group") in order to meet its day to day working capital requirements because the Group operates a central treasury function. The Society meets these requirements through cash generated from its operations and participation in facility arrangements provided by external lenders to the Group and certain of its subsidiaries, including the Society ("the Group facilities"), and in respect of which the Society has provided a cross guarantee. A letter of support has been obtained from the Group as evidence of its intention to give continued financial support.

As such, an assessment of the Group was undertaken by the Group Directors to determine the suitableness of the going concern basis of preparation for its subsidiaries, including the Society.

In making their assessment, the Group Directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability, cash flow and covenant compliance, and available capital resources. This included consideration of a base case and sensitivities considered reasonably possible in relation to trading performance and cash flow requirements. In making their assessment the Group Directors have noted that the consolidated group accounts show a net current liability position. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in note 29 of the Group's Annual Report, certain of which are provided subject to continued compliance with certain covenants.

COVID-19 is having a material impact on the operations of the Group and significant additional costs are being incurred, particularly in payroll as additional colleagues are recruited to meet demand and cover the work of those colleagues who are absent and being paid.

In undertaking the going concern assessment of the Group, assumptions on the key impacts of Covid-19 have been included on the financial projections, including (but not limited to) impacts on:

- Food store and funeral branch Payroll
- Logistics payroll
- Investment in protective equipment
- Increased cleansing and sanitation costs within store costs
- Front line colleague reward
- Type and size of funeral in response to restrictions on number of attendees (placed by government guidelines and in some cases even stricter restrictions by some crematoria) and people not being able to attend due to self-isolation
- The impact on demand in the Food business, taking into account a prudent but realistic view of the experience of the last few months
- The impact of government support for businesses – particularly business rates and VAT reliefs
- The Group's ability to control the level and timing of its capital expenditure programme (c£600m over the going concern timeframe)

The business rates support provided by government combined with the increased sales demand assumed within the Food business goes some way to limiting the significant incremental costs highlighted above.

After conducting the financial projections exercise and making all appropriate enquiries, the Group Directors have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, the Directors of the Society continue to adopt the going concern basis in preparing the Society's financial statements.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Property, plant and equipment and depreciation

Property, plant and equipment is measured initially at historical cost and includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Fixed assets in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Society's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	2.0% per annum
Plant and machinery	-	7.5% - 33.0% per annum
Fixtures and fittings	-	12.5% per annum
Motor vehicles	-	11.1% - 25% per annum

The residual value, if not insignificant, is reassessed annually.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

No depreciation is provided on freehold land.

IFRS 16 Leases (accounting policies applicable from 6 January 2019)

i) Right-of-use assets

The Society recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Society is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Society recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Society and payments of penalties for terminating a lease, if the lease term reflects the Society exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Society uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Society applies the short-term lease recognition exemption to its short-term leases of plant and machinery (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Leased assets (accounting policies applicable prior to 6 January 2019)

Leases where the Society takes on substantially all the risks and rewards of ownership are classified as finance leases. Plant and vehicles acquired under finance leases are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at the start of the lease, less accumulated depreciation and any impairment losses.

Depreciation is provided on the same basis as for owned assets. Minimum finance lease payments are apportioned between the finance charge and the repayment of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments in respect of operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense and the aggregate benefit is recognised as a reduction of rental expense over the lease term on a straight-line basis.

For any leases where the Society is the landlord, the aggregate cost of incentives is recognised as a reduction of rental income over the lease term on a straight-line basis.

Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of businesses, subsidiaries, associates, and joint ventures. In respect of business acquisitions that have occurred since 11 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

(ii) Amortisation

For intangible assets with finite useful lives, amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives, 20% per annum. Goodwill, which has an indefinite useful life, is tested annually for impairment and is not subject to amortisation. Where there is indication of impairment an impairment review is performed.

(iii) Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Website

In Accordance with IAS 38 costs of developing our website are capitalised to the extent that they provide future economic benefit. Such assets are amortised over a period not exceeding 5 years with an annual review to ensure the carrying value is still reflective of future economic benefit.

Impairment

The carrying amount of property, plant and equipment, intangible assets and right-of-use assets are reviewed at each balance sheet date and if there is any indication of impairment the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Profit and Loss Account.

A CGU is determined as a local network of interdependent branches.

The recoverable amount of the Society's assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of these assets, an impairment loss is reversed if there has been a change in the estimates based on an event subsequent to the initial impairment used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Funeral plans

When a customer takes out a funeral plan the initial plan value is recognised as an investment asset in the balance sheet and at the same time an equal liability is also recorded in the balance sheet representing the deferred income to be realised on performance of the funeral service covered by each of the funeral plans. The consideration receivable from a funeral plan is variable and depends on the amount the plan investment grows by and the timing of the funeral, both of which are outside the Society's control. The investments are held in insurance policies or cash-based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The plan investment is a financial asset, which is recorded at fair value each period using valuations provided by the insurance policy provider or reflecting the trust cash balances. The performance obligation to deliver the funeral is treated as a contract liability (deferred income) under IFRS 15. This contract liability accretes each period by the fair value movement on the plan assets and is held on balance sheet as additional deferred income until the delivery of the funeral when it is recognised as revenue along with the original plan value.

Contract Liabilities

A contract liability is presented in the balance sheet where a customer has paid an amount of consideration prior to us undertaking the service for the customer. Amounts received from customers in respect of funeral plans are invested in individual whole-of-life policies, trusts or life assurance products. These are held as investments on the balance sheet and attract interest and bonus payments throughout the year dependent upon market conditions. The corresponding obligation to deliver the funeral is shown in the balance sheet as a contract liability until the funeral is performed (at which point the revenue is recognised). See note 16 (Contract Liabilities) for further details.

Contract Assets

A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) are deferred and shown in the balance sheet as a contract asset. The costs are then recognised in the profit and loss account at the point that the funeral is performed and in line with when the revenue is recognised. See note 11 (Contract Assets) for further details.

Funeral benefit options (FBOs)

FBOs are attached to Guaranteed Over 50's life insurance plans (GOFs) sold by the Society's third party insurance partners. An FBO is the assignment of the sum-assured proceeds of a GOF policy to the Society for the purposes of undertaking their funeral. In exchange the GOF customer is awarded a discount on the price of the funeral.

No revenue is recognised by the Society at the point of assignment and instead an element of the costs that have been incurred in obtaining the FBO are deferred onto the balance sheet. These are then expensed at the point of redemption when the revenue is recognised. Any plans that are cancelled are written off at the point at which the Society is made aware of the cancellation. A separate provision is also made to cover the expected cancellations of FBOs. No investment or liability is recognised for FBOs as the option does not guarantee a funeral and the liability for which remains with the insurance partner. Any difference between the funeral price and the sum assured at the point of redemption is the liability of the deceased estate or whoever takes responsibility for arranging the funeral.

Low Cost Insurance Funeral Plans (LCIPs)

LCIPs can be paid for by instalments over between 2 and 25 years or they can be paid off in full at any time during this period without any penalties. If the plan holder dies before the instalments have been made in full (and provided that the plan has been in place for at least 12 months or the cause of death was as a result of an accident) then the funeral will still be provided by the Society and the customer will not have to settle the outstanding balance on any instalments and the balance of any monies owed will be waived. Any outstanding amounts owed to the Society (the difference between the full value of the plan and the amount paid up to death by the customer) are covered by an assured benefit from a third party insurer. The assured benefit is between the Society and the 3rd party insurer and has nothing to do with the customer. The Society continues to apply instalment monies received against customers' individual funeral plans until such time as a plan is redeemed and or cancelled.

The assured benefit between the Society and the 3rd party is judged to represent an insurance contract and as such falls under the scope of IFRS 4 (Insurance Contracts). In line with IFRS 4 the Society accounts for the LCIPs in the same way as a normal funeral plan (see accounting policy above).

Financial Assets and Liabilities

i) Recognition of financial assets

Financial assets are recognised on the date that they are originated. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Society's business model for managing them. The Society initially measures a financial asset at its fair value, with the exception of trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them. For financial assets which are not held at fair value through the profit and loss account, transaction costs are also added to the initial fair value. Trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them are measured at the transaction price determined under IFRS 15 (Revenue from Contracts with Customers).

ii) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when they are qualifying transfers and:

• the rights to receive cash flows from the assets have ceased; or
• the Society has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the profit and loss account.

Measurement

The Society calculates expected credit losses in line with guidance under IFRS 9. Where there is evidence of impairment, any impairment loss is recognised in the profit and loss account.

Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial.

Payable and receivables with a remaining life in excess of one year are deemed to be financial assets or liabilities and measured at the present value of the future cashflows. Such assets and liabilities are subsequently carried at amortised cost.

Dividend distribution

Dividend distributions to the Society's members are recognised as a liability in the Society's financial statements in the period in which the dividends are approved by the Society's members.

Pensions and other post-retirement benefits

The Society's employees were members of a Group (Co-operative Group Limited) wide pensions scheme, the Co-operative Group Pension (Average Career Earnings) Scheme (the Pace Complete Scheme). This Pace Complete Scheme is a defined benefit scheme. The Society contributed to the Pace Complete Scheme in respect of its employees who were members of the Scheme up until the end of October 2015 when it was closed to future accrual. However, the Society is unable to identify its share of the underlying assets and liabilities of the scheme and therefore contributions to the scheme up until the end of October 2015 were accounted for as if it were a defined contribution scheme. There is no contracted agreement or stated Group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual Group entities, therefore Funeral Services Limited, in its individual financial statements, cannot recognise the net defined cost so charged. Refer to disclosure of information relevant to the scheme on note 5.

A defined contribution scheme is a pension plan under which the Society pays contributions into a separate entity and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Inventories

Inventories and work in progress are stated at the lower of cost, including attributable overheads, and net realisable value. The cost of finished goods and work in progress includes the cost of materials and direct labour.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis. All borrowing costs are expensed when occurred except when they are directly attributable to the acquisition, construction or production of a qualifying asset. If this is the case, they are included in the cost of the asset.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Taxation

(i) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred taxation

Deferred tax is provided, with no discounting, using the balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profits and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. In the case of investment properties it is assumed that uplifts on valuation principally reflect future rentals.

The deferred tax assets and liabilities of the Society are presented net in the Balance Sheet. This is because the Society is allowed, under UK legislation, to make a single net corporation tax payment giving it the right of off-set.

Revenue

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). IFRS 15 defines performance obligations as a 'promise to provide a distinct good or service or a series of distinct goods or services'. Revenue is recognised when a performance obligation has been delivered which reflects the point when control over a product or service transfers to a customer. Revenue is measured based on the consideration set out in the contract with the customer and excludes amounts collected on behalf of third parties.

All revenue is derived from the Society's principal activity of funeral directors and associated services in the United Kingdom.

Revenue is recognised when separate performance obligations are delivered to the customer. For funeral sales ('at need') and funeral plan sales ('pre need') the only separable performance obligation is the funeral itself and therefore revenue is only recognised when the funeral is performed (or the plan is redeemed and the funeral is performed).

In the supply of monumental masonry, revenue is recognised at the point the masonry is fitted into place.

Member Rewards

The 5% member rewards earned as part of the membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet in another Group entity. The liability is reduced and the sale recognised when the rewards are redeemed. The 1% community reward is recognised as an administrative expense in the Profit and Loss Account when it is earned.

Share capital

Where the Board has an unconditional right to refuse redemption of co-operative share capital, such shares are treated as equity.

Provisions

A provision is recognised in the balance sheet when the Society has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Society's accounting policies. After that, the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets, which continue to be measured in accordance with the Society's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the profit and loss account. Gains are not recognised in excess of any cumulative impairment loss.

Investments

Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Functional currency

The functional currency for the Society is pound sterling which is also the presentation currency. All amounts are rounded to the nearest thousand unless otherwise stated.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Adoption of IFRS 16

(i) The effect of the adoption of IFRS 16

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Society, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Society has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 6 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

Impact on the statement of financial position (increase / (decrease)) as at 6 January 2019:

	£'000
Assets	
Right-of-use assets	48,907
Property, plant and equipment	(4,614)
Trade and other receivables	(1,209)
Deferred tax asset	1,276
Total assets	**44,360**
Equity	
Retained earnings	(6,166)
Total equity	**(6,166)**
Liabilities	
Lease liabilities	54,563
Trade and other payables	(3,868)
Provisions	(169)
Total liabilities	**50,526**

Impact on the Profit and Loss Account for the period ended 4 January 2020 with increases in costs shown as a negative figure and a reduction in costs shown as a positive figure:

	£'000
Depreciation expense (included in operating costs)	(6,050)
Rent expense (previously included in operating costs)	8,047
Operating profit	**1,997**
Finance costs	(2,287)
Profit before tax	**(290)**
Taxation	49
Loss for the period	**(241)**

(ii) Nature of the effect of adoption of IFRS 16

The Society's leasing activities and how these are accounted for

In previous reporting periods (including the 2018 financial statements for the period ended 5th January 2019), leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 6 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Society. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 impairment of assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. However an onerous provision is still held on balance sheet for onerous non-rental costs such as service charges on leasehold properties, as these costs are outside of the scope of IFRS 16. The impact of this is a reduction in the onerous lease provision of £169k as at 6 January 2019.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Adjustments recognised on adoption – Lease liabilities

On adoption of IFRS 16, the Society recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 6 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 6 January 2019 was 5.28%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

	£'000
Operating lease commitments disclosed as at 6 January 2019	48,547
Discounted using the lessee's incremental borrowing rate at the date of initial application	25,250
Add: finance lease liabilities recognised as at 6 January 2019	3,810
Add/(less): adjustments as a result of a different treatment of extension and termination options	25,503
Lease liability recognised as at 6 January 2019	54,563

	£'000
Of which are:	
Current lease liabilities	13,042
Non-current lease liabilities	41,521
	54,563

Notes to the financial statements (continued)

2 Accounting policies (continued)

Adoption of IFRS 16 (continued)

The lease liability recognised as at 6 January 2019 of £54.6m is comprised of the additional lease liabilities brought onto the balance sheet on the adoption of IFRS 16 of £50.8m and lease liabilities that existed on the balance sheet prior to the adoption of IFRS 16 of £3.8m.

Adjustments recognised on adoption – Right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 5 January 2019.

The recognised right-of-use assets relate to the following types of assets:

	As at 4 January 2020	As at 5 January 2019
Property	31,532	40,409
Plant and equipment	12,222	8,498
Total right-of-use assets	**43,754**	48,907

Adjustments recognised on adoption - practical expedients applied

In applying IFRS 16 for the first time, the Society has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 6 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Society has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Society relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Significant estimate in determining the lease discount rate to apply to lease liability calculations

There is significant estimation uncertainty in determining an appropriate discount rate to apply at the transition date of 6 January 2019. This is especially true for property leases where often there is no interest rate implicitly stated within the lease. For such leases a discount rate is derived by estimating the incremental borrowing rate ('IBR'). The IBR is the rate at which the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. There is therefore significant estimation uncertainty in estimating the appropriate IBR. As explained further in the accounting policies section on page 14, the Society has applied the practical expedient available when adopting IFRS 16 for the first time, to apply the same discount rates to assets which have similar characteristics. An increase in the discount rate of 0.5% applied to property leases would decrease the lease liability by £0.8m. A decrease in the discount rate of 0.5% applied to property leases would increase the lease liability by £0.8m.

Significant judgement in determining the lease term of contracts with extension options

The Society determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Society has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Society applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Society reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew. The Society included the renewal period as part of the lease term for leases of property due to the significance of these assets to its operations.

3 Operating profit

Profit on ordinary activities before taxation is stated after charging / (crediting):	**For period ended 4 January 2020 £'000**	**For period ended 4 January 2020 £'000**	For period ended 5 January 2019 £'000	For period ended 5 January 2019 £'000
Depreciation of property, plant and equipment		**22,883**		21,156
Depreciation of right-of-use assets*		**8,656**		-
Amortisation of intangibles		**299**		1,210
Branch closure dilapidations and onerous lease provisions	**1,108**		2,838	
Branch closure property, plant and equipment impairment	**2,971**		1,500	
Branch closure right-of-use asset impairment*	**2,094**		-	
Branch closure goodwill impairment	**511**		1,268	
Branch closure		**6,684**		5,606
Loss / (profit) on sale of property, plant and equipment - Others	**2,117**		(801)	
Other impairment of property, plant and equipment	**5,016**		301	
Other impairment of right-of-use assets*	**2,294**		-	
Other impairment of goodwill	**2,602**		-	
Impairment and loss / (profit) on disposal of property and fixed assets		**12,029**		(500)
Operating lease rental charges*		**-**		8,879
Cost of inventory consumed		**13,170**		14,247
Staff costs (see note 4)		**111,984**		115,478
Expected credit loss on debtors		**923**		1,378

The auditor's remuneration of £46,350 (2018: £45,000) is borne by the ultimate parent undertaking.

Other income of £nil (2018: £856k) relates to a rebate from the Parent undertaking for the community reward.

*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

4 Staff numbers and costs

The average number of persons employed by the Society (including Directors) during the period, analysed by category, was as follows:

	Number of employees for period ended 4 January 2020	Number of employees for period ended 5 January 2019
Full-time	**2,491**	2,447
Part-time	**2,186**	1,849
	4,677	4,296

Notes to the financial statements (continued)

4 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Wages and salaries	**95,216**	98,965
Social security costs	**7,580**	8,231
Other pension costs (see note 5)	**9,188**	8,282
	111,984	115,478

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Directors emoluments	955	572
Society pension contributions to personal pension schemes	5	3
	960	575

The emoluments of the highest paid Director amounted to £419k (2018: £333k), this did not include any contributions to personal pension schemes (2018: £nil).

Further to filing the accounts for the year-ended 5 January 2019, it transpired that the actual resignation date of Matthew Howells was 1 May 2019, rather than 13 June 2019, as reported.

5 Pension Scheme

The Society is a wholly owned subsidiary of Co-operative Group Limited ("Group") which operated a defined benefit scheme (the Pace Complete scheme) up until the end of October 2015 when it was closed to future accrual. The assets are held in a separately administered trust. Until December 2013, the Pace scheme was defined as a Group plan, as all participating entities were under the common control of Co-operative Group Limited (the sponsoring employer). Following the recapitalisation of The Co-operative Bank PLC in December 2013, the various entities participating in the Pace plan are no longer under common control of the Group and as a result, the Pace scheme became a multi employer scheme. Full details of the Pace plan for the period ending 4 January 2020 are disclosed in the Group's consolidated financial statements for that period.

This Society is neither the sponsoring entity nor legally defined as a participating employer of the Pace Complete scheme. However, as the Society either currently employs or has historically employed members of the Pace scheme, the charge made to the Society up until the end of October 2015 by the ultimate parent Society for employment costs included a charge in respect of the Pace scheme at an agreed percentage of the pensionable wage. The agreed percentage of pensionable wage was determined by an independent qualified actuary.

As the Pace Complete Scheme was closed to future accrual at the end of October 2015, the Pace DC scheme was expanded. The amount recognised as an expense in respect of the Pace DC scheme for this Society was £9,188,203 (2018: £8,281,824). This is included in the staff costs as disclosed in note 4. The employer contributions made by the Society have been charged to the income profit and loss account when incurred.

6 Taxation

Analysis of credit in period	**For period ended 4 January 2020 £'000**	**For period ended 4 January 2020 £'000**	For period ended 5 January 2019 £'000	For period ended 5 January 2019 £'000
UK corporation tax				
Group relief receivable	**261**		17,459	
Current tax credit - adjustments in respect of prior years	**300**		-	
Total current tax		**561**		17,459
Deferred tax (see note 19)				
Deferred tax - current period items	**(546)**		(18,246)	
Deferred tax adjustments in respect of previous periods	**(3,193)**		4,683	
Effect of rate of change on closing balance	**(15)**		(46)	
		(3,753)		(13,609)
Tax on profit on ordinary activities		**(3,192)**		3,850

Factors affecting the tax charge for the current period

The tax on the net profit before tax differs from the theoretical amount that would arise using the standard applicable blended rate of corporation tax of 19**%** (2018: 19%) as follows:

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Current tax reconciliation		
(Loss) / profit before tax	**(13,763)**	14,623
Tax at 19**%** *(2018: 19%)*	**2,615**	(2,778)
Effects of:		
Expenses not deductible for tax purposes	**(34)**	228
Depreciation and amortisation on non-qualifying assets	**(864)**	(1,712)
Transfer pricing	**913**	688
Adjustments to tax charge in respect of previous periods	**(2,893)**	4,683
Restatement of deferred tax to 17.00**%** (2018 restated: 17.04%)	**51**	70
Taxable dividends paid	**-**	3,129
Profit on disposal of fixed assets	**(2,979)**	(458)
Total income tax charge (see above)	**(3,192)**	3,850

The Finance Act 2016 was to reduce the main rate of corporation tax to 17% from 1 April 2020. Following the Budget, on 11 March 2020, the Chancellor has enacted with effect from 17 March 2020 that the previous enacted rate reduction will be revoked. Under IFRS it is the rate(s) actually enacted at the balance sheet date that determine the amount of deferred tax to be recognised. Accordingly, each deferred tax balance has been measured individually based on the enacted tax rate(s), as at 04 January 2020, at which it the deferred tax was expected to unwind in the future (either 19% or 17%). This results in a blended deferred tax rate of 17.0% (2018: 17.04%) at the balance sheet date.

However, for future reporting periods the Society will use the newly enacted 19% rate throughout for determining the amount of deferred tax to be recognised. If this 19% rate had been applied instead of the previously enacted rate(s) the impact on the balance sheet would have been to restate all deferred tax to 19% meaning the net DTL per Note 19 would increase by the £861k.

7 Dividends

A dividend of £nil was declared in the year (2018: £16,469,600).

Notes to the financial statements (continued)

8 Property, plant and equipment

As at 4 January 2020	**Freehold land and buildings**	**Plant and machinery**	**Fixtures and fittings**	**Motor vehicles**	**Assets under construction**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 5 January 2019	134,115	1,891	138,125	68,407	13,205	355,743
Impact on adoption of IFRS 16*	(428)	-	(290)	(4,057)	-	(4,775)
Additions	3,845	2,087	7,874	-	5,269	19,075
Disposals	(1,201)	(73)	(4,214)	(7,192)	(4,228)	(16,908)
Transfers from assets under construction	322	226	9,875	-	(10,423)	-
Reclassified from assets held for sale	1,799	-	-	-	-	1,799
Intra-group statutory transfer	(1,061)	-	-	8	-	(1,053)
At 4 January 2020	**137,391**	**4,131**	**151,370**	**57,166**	**3,823**	**353,881**
Depreciation						
At 5 January 2019	41,506	277	63,647	45,232	-	150,662
Impact on adoption of IFRS 16*	-	-	-	(161)	-	(161)
Charge for the period	2,458	272	14,684	5,469	-	22,883
Disposals	(433)	(7)	(2,888)	(7,097)	-	(10,425)
Impairment	1,891	-	6,096	-	-	7,987
Reclassified from assets held for sale	601	-	-	-	-	601
Intra-group statutory transfer	(292)	-	-	(9)	-	(301)
At 4 January 2020	**45,731**	**542**	**81,539**	**43,434**	**-**	**171,246**
Net book value						
At 4 January 2020	**91,660**	**3,589**	**69,831**	**13,732**	**3,823**	**182,635**
At 5 January 2019	92,609	1,614	74,478	23,175	13,205	205,081
Capital work in progress included above	**-**	**-**	**-**	**-**	3,823	**3,823**

Motor vehicles includes assets held under finance leases* as follows:

	For period ended 4 January 2020	For period ended 5 January 2019
	£'000	£'000
Cost	**-**	3,936
Accumulated depreciation	**-**	(161)
Net book value	**-**	3,775

Impairments relate to CGUs where the carrying value exceeded the fair value less costs to sell and the value in use.

The key estimates for value in use calculations are discount rates and expected changes to future cash flows.

The value in use of an asset is estimated by projecting future cashflows into perpetuity and discounting the cash flows associated with that asset at a pre tax rate of 8.2%.

Cash flows are projected using the business' five year plan, the results of which are reviewed by the Board. Cash flow projections beyond five years (and therefore outside of the five year plan period) use a steady or declining growth rate. This long term average growth rate applied was 1.9%.

Fair value less costs to sell of freehold properties are measured using internal valuations based on the rental yield of the property.

Because the majority of our impairment reviews are conducted on a CGU basis, this is the basis on which our sensitivity analysis has been performed. See note 10 for further details.

Impairment of £2,971k (2018: £1,500k) for funeral homes that are expected to close in 2020 was recognised in branch closures in the profit and loss account, of which £nil relates to assets held for sale (2018: £67k).

Freehold land is not depreciated. Freehold land was £15,943k as at 4 January 2020 (2018: £16,435k).

The Society has assets in use which are fully written down with nil NBV. As at 4 January 2020, the cost of fully written-down assets was £54,203k (2018: £42,834k).

*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

Notes to the financial statements (continued)

9 Leases

As a lessee

Right-of-use assets

	Property £'000	Plant and equipment £'000	Total £'000
Finance leases previously recognised	-	3,775	**3,775**
On adoption of IFRS 16	40,409	4,723	**45,132**
Balance at 6 January 2019	**40,409**	**8,498**	**48,907**
Depreciation charge for the year	(6,050)	(2,606)	**(8,656)**
Additions	2,343	6,330	**8,673**
Disposals	(96)	-	**(96)**
Impairment	(4,388)	-	**(4,388)**
Intra-group statutory transfer	(686)	-	**(686)**
Balance at 4 January 2020	**31,532**	**12,222**	**43,754**

The Society leases many assets, principally it leases properties for its funeralcare branches as well as some vehicles and other equipment. The leases of funeralcare branches are typically between 1-25 years in length. Vehicle and equipment leases are typically between 1-4 years in length and in some cases the Society has options to purchase the assets at the end of the contract term.

Lease liabilities

	As at 4 January 2020 £'000
Current	(10,888)
Non-Current	(42,933)
Lease liabilities included in the statement of financial position at 4 January 2020	**(53,821)**

	£'000
Finance leases previously recognised	(3,810)
On adoption of IFRS 16	(50,753)
As at 6 January 2019	**(54,563)**
Additions	(8,238)
Disposals	789
Interest expense	(2,705)
Payments	10,896
Balance at 4 January 2020	**(53,821)**

Extension and termination options

Some leases of funeral branches contain extension or termination options exercisable by the Society up to one year before the end of the non-cancellable contract period. Where practicable, the Society seeks to include extension and termination options in new leases to provide operational flexibility. The extension and termination options held are typically exercisable only by the Society and not by the lessors.

The Society assesses at lease commencement whether it is reasonably certain to exercise the extension or termination options. The Society reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

As at 4 January 2020, potential future cash outflows of £4.0m (discounted) have not been included in the lease liability because it is not reasonably certain that the Society will exercise the extension option. Included within the lease liability are future cash outflows of £18.4m (discounted) where the Society holds termination options but it is not reasonably certain to execute those termination options.

10 Intangible Assets

As at 4 January 2020

	Goodwill £'000	Website £'000	Total £'000
Cost			
At 5 January 2019	42,361	6,099	48,460
Additions	-	-	-
Disposal	(175)	-	(175)
At 4 January 2020	**42,186**	**6,099**	**48,285**
Amortisation			
At 5 January 2019	2,087	5,649	7,736
Charge for the period	-	299	299
Impairment	3,113	151	3,264
At 4 January 2020	**5,200**	**6,099**	**11,299**
Net book value			
At 4 January 2020	**36,986**	**-**	**36,986**
At 5 January 2019	40,274	450	40,724

The Society tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the goodwill impairment review, average selling price increases and wage and cost inflation have been applied in line with the assumptions in the five-year plan. Cash flows have been projected based on the five-year plan and into perpetuity from year five and discounted back to present value using a pre-tax discount rate of 8.2% (2018: 8.2%). Sensitivity analysis has been performed with both the growth rate and discount rate adjusted by +/- 1%, and under these sensitivities no further material amounts of impairment are calculated.

Impairment charges of £511k (2018: £1,268k) are recognised in property closures within the profit and loss account.

Amortisation charges of £299k (2018: £1,210k) are recognised in administrative expenses within the profit and loss account.

Notes to the financial statements (continued)

11 Funeral plan investments

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
At beginning of year	**1,223,187**	1,075,948
Net plan investments (including ongoing instalments)	**111,079**	125,776
Existing funeral Plans redeemed and cancelled	**(74,353)**	(70,866)
Fair value movement on funeral plan investments recognised as	**11,082**	92,329
At end of year	**1,270,995**	1,223,187

Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £143m (2018: £69m). This relates to 32,315 live plans (2018: 14,566 live plans). See note 2 for accounting policy for LCIP's.

The assured benefit between the Society and the customer is judged to represent an insurance contract and as such falls under the scope of IFRS 4 (Insurance Contracts). In-line with the requirements of IFRS 4 the Society accounts for the LCIPs in the same way as a normal funeral plan (see accounting policy above). These plans are assessed annually (gross of any reinsurance) using a liability adequacy test.

The Society holds investments on the balance sheet in respect of funeral plan policies which are invested in either individual whole-of-life policies, trusts or life assurance products. The investments are subject to an annual actuarial valuation. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funeral. The most recent valuation was performed as at 30 September 2019 and the headroom achieved is shown in the table below.

Funeral Plan Investments Actuarial Valuation	**30 September 2019 £m**	30 September 2018 £m
Total Assets	**1,296**	1,156
Liabilities:		
Present value (wholesale basis)	**1,207**	1,036
Total Liabilities	**1,207**	1,036
Headroom	**89**	120
Headroom as a % of liabilities	**7%**	12%

During the period plan sales significantly exceeded plan redemptions which, all other things being equal, would increase both total assets and liabilities. A reduction in wholesale cost per funeral has been offset by a higher inflation assumption and a lower expected investment return, given market expectations at 30 September 2019. However, it should be recognised that the Society continues to manage plans for the medium to long term given, in the normal course of business, this is when the majority of the liability will crystallise.

Key assumptions	**30 September 2019**	30 September 2018
Average total wholesale costs per plan funeral	**2,563**	2,705

The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. The headroom percentage is expressing the surplus as a percentage of total liabilities. A 0.1% increase in the inflation assumptions would reduce the surplus by approximately £21m (2018: £16m).

The "wholesale" actuarial valuation is based upon the Society's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Society were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Society fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus.

12 Inventories

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Raw materials and consumables	**163**	485
Work in progress	**131**	127
Finished goods	**3,947**	4,107
At end of year	**4,241**	4,719

13 Contract Assets

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Non-current	**53,745**	46,717
Current	**4,384**	3,788
At end of year	**58,129**	50,505

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Opening contract assets	**50,505**	43,610
Fulfilment costs - incurred on new funeral plan sales	**11,400**	9,865
Fulfilment costs - transferred to the profit and loss account on funeral plan redemptions	**(3,013)**	(2,214)
Fulfilment costs - transferred to the profit and loss account on funeral plan cancellations	**(763)**	(756)
Closing contract assets	**58,129**	50,505

No provision for expected credit losses has been recognised against contract assets in either the current or prior period.

A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans then fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) associated with delivering the funeral are deferred and shown in the balance sheet as a contract asset until the funeral is performed (at which point the costs are recognised in the profit and loss account in line with when the revenue is recognised).

Notes to the financial statements (continued)

14 Assets held for sale

The assets held for sale relate to the land and buildings of care homes that were approved for closure in 2018.

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Land and buildings	**-**	3,123
Total Assets held for sale	**-**	3,123

An impairment charge of £nil (2018: £67k) was recognised in property closures in the profit and loss account in relation to these assets.

As at the period end, no assets met the definition of assets held for sale.

The assets held for sale in 2018 did not represent a major line of business or major geographical area of operation, therefore there is was no discontinued operations disclosure.

15 Trade and other receivables

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Non-current assets:		
Trade receivables	111,345	72,426
	111,345	72,426
Expected obligations of funeral plan redemptions fall due as		
Between two and five years inclusive	**47,520**	34,886
Over five years	**63,825**	37,540
	111,345	72,426
Current assets:		
Trade receivables	46,427	48,645
Amounts owed by group undertakings	214,362	139,245
Prepayments and accrued income	1,595	2,713
	262,384	190,603

Trade receivables are non-interest bearing and the Society's standard payment terms are 60 days.

The £111m (2018: £72m) of non-current debt relates to pre-paid funeral plan instalments where customers have been invoiced before the funeral has occurred. £37m (2018: £38m) of current debt also relates to pre-paid funeral plan instalments which are £148m in total.

Trade receivables are stated at amortised cost which includes a credit risk impairment of £4.7m (2018: £5.2m). The Society has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. The Society has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables as shown in the table below.

		Days past due date			
	Current	**<3 months**	**3 to 6 months**	**More than 6 months**	**Total**
Expected credit loss rate (%)	0.07%	5.55%	38.88%	78.12%	
Estimated gross total carrying amount (£k)	7,028	2,505	1,039	5,298	15,870
Expected credit loss (£k)	5	139	404	4,139	4,687

Unprovided debts in the over 3 months old and 12 months old categories are often being paid in regular instalments.

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements (continued)

16 Trade and other payables

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Non-current liabilities:		
Accruals and deferred income	**4,351**	4,062
	4,351	4,062
Current liabilities:		
Trade payables	**25,337**	27,174
Other payables including taxation and social security	**610**	842
Accruals and deferred income	**11,074**	21,722
	37,021	49,738

17 Contract Liabilities

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Non-current	**1,435,398**	1,353,272
Current	**142,718**	130,302
At end of year	**1,578,116**	1,483,574
Opening contract liabilities	**1,483,574**	1,283,008
New plan additions (deferred income)	**154,179**	213,630
Interest and bonus applied (deferred income)	**11,082**	92,329
Plans cancelled or redeemed outside of the Society	**(5,146)**	(20,259)
Recognised as revenue in the year	**(65,573)**	(85,134)
Closing contract liabilities	**1,578,116**	1,483,574

Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £143m (2018: £69m). This relates to 32,315 live plans (2018: 14,566 live plans). See note 2 for accounting policy for LCIP's.

18 Provisions

	Dilapidation Provision £'000	**Property Provision £'000**	**Rent Free Period Provision £'000**	**As at 4 January 2020 Total £'000**
At beginning of the period	1,493	1,713	368	**3,574**
Impact of adoption of IFRS 16*	-	(169)	-	**(169)**
Additional provisions made in the period	2,006	556	-	**2,562**
Amounts used during the period	(439)	(341)	(368)	**(1,148)**
Intra-group statutory transfer	(869)	(787)	-	**(1,656)**
At end of the period	**2,191**	**972**	**-**	**3,163**
Non-current				**3**
Current				**3,160**
				3,163

Property provisions are held for running costs, excluding rental costs, of leasehold properties that are vacant or not planned to be used for ongoing operations. Property provisions are expected to be utilised over the remaining periods of the leases which range from 1 to 25 years. Note that under IFRS 16, Right-of-use assets are recognised on balance sheet and are depreciated and subject to impairment, this is in place of recording a rental expense through the profit and loss account. See note 2 for further detail.

In 2018, prior to the adoption of IFRS 16, property provisions also included the rental costs of vacant properties that are no longer used. The provision was estimated on the basis of the minimum amount which could be paid to landlords to exit the lease agreements. This was based on an underlying calculation on a property by property basis with reference to the head lease cost and term and also took account of property holding costs (such as business rates) and any estimated rental income (from subletting the properties and assuming that rental streams end at the next most likely break point) and discounted to reflect the present value of the related costs.

*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

Notes to the financial statements (continued)

19 Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a blended effective tax rate of 17.00% (2019: 17.04%).

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Deferred taxation (liability) / asset		
Deferred tax asset /(liability) brought forward (as originally reported)	**(4,843)**	8,766
Impact of adoption of IFRS 16*	**1,276**	-
At 5 January 2019 (after impact of IFRS 16)	**(3,567)**	8,766
Profit and loss account charge in the period	**(3,753)**	(13,609)
Deferred tax (liability) / asset closing balance	**(7,320)**	(4,843)
Comprising:		
Other temporary differences	**255**	425
Capital allowances on fixed assets	**3,675**	2,581
Unrealised gains on investment properties, rolled-over gains and historic business combinations	**(12,314)**	(7,849)
IFRS 16 transition adjustment charged to equity*	**1,064**	-
Deferred tax (liability)	**(7,320)**	(4,843)

*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

20 Called up share capital

	As at 4 January 2020 £	As at 5 January 2019 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	**3**	3

There is a single class of share capital.

21 Commitments

(i) Capital expenditure committed by the Society at period end was £510,000 (period ended 5 January 2019: £2,255,000)

(ii) in accordance with Schedule 1 Part 1 of Co-operative Group Limited £400m (2018: £355.0m) facilities agreement dated 12 February 2016 Funeral Services Limited has been identified as a Guarantor under this facility. As at 4 January 2020 £nil (2018: £15m) of this facility was drawndown.

(iii) As at 5 January 2019, the future minimum lease payments under non-cancellable operating leases* were as follows:

	As at 5 January 2019 Land and buildings £'000
Operating leases payments due:	
Within one year	8,419
In the second to fifth years inclusive	16,461
Over five years	23,667
	48,547

*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

22 Group Entities

Ultimate parent undertaking

The Society is immediately owned and a wholly owned subsidiary of Co-operative Group Holdings (2011) Limited, a Registered Society registered in England and Wales.

The Society's ultimate parent undertaking and controlling party is Co-operative Group Limited, a Registered Society registered in England and Wales. This is the smallest and largest group of which the Society is a member and for which consolidated accounts are prepared. A copy of the Group accounts can be obtained from the Secretary, Co-operative Group Limited, 1 Angel Square, Manchester, M60 0AG.

23 Related parties

Identity of related parties

The Society has a related party relationship with its Directors.

The Directors' emoluments are disclosed in Note 4.

Transactions with other Trading Group subsidiaries

The Society is involved in a Group set-off scheme whereby the bank accounts within the Trading Group are netted off against each other and any interest payable or receivable is settled or received by the ultimate parent Society, Co-operative Group Limited.

Notes to the financial statements (continued)

24 Post balance sheet events

Coronavirus (Covid-19)

On 11 March, subsequent to the balance sheet date, the World Health Organisation ('WHO') declared Covid-19 as a pandemic. Shortly after this announcement, the UK Government has taken action including implementing social distancing measures and advising people to stay at home. Given the recent escalation of Covid-19, this is considered as a non-adjusting post balance sheet event.

The Co-operative Group Limited ("the Group") is currently seeing Covid-19 impact its cost base in areas such as front line and logistics payroll, investment in protective equipment, increased cleansing and sanitation costs within store costs. The Group is also seeing impacts on the type and size of funerals we can conduct in response to restrictions on number of attendees placed by government guidelines and in some cases even stricter restrictions by some crematoria.

It is clearly impossible at this stage to accurately predict the impact on 2020 results but the business rates support provided by government goes some way to limiting the significant incremental costs highlighted above.

Within the accounting policies section, further detail on the key impacts of Covid-19 on the financial projections used in the assessment of the Going Concern of the Society has been provided. We have also provided an indication of the potential impact of Covid-19 on key assumptions and estimates contained within the balance sheet below:

Impairment of Property, plant & equipment (£182,635k), Right-of use assets (£43,754k), Goodwill and intangible assets (£36,986k), Trade Receivables (£111,345k), Contract Assets (£53,745k)

The estimates and assumptions used within the impairment methodology on these non-current assets does not include the impact of Covid-19 as this was not an observable indicator as at the balance sheet date. Covid-19 could have a material impact on the impairment assessment as a result of unpredictable cashflows in the business, and changes in the discount rates that have been applied, not least because of changes in macroeconomic factors since the escalation of Covid-19.

Given the difficulty in quantifying the impact of Covid-19, it is inherently difficult to quantify the potential impact on the impairment of non-current assets. As a result a reasonable estimate of the impact of Covid-19 cannot be provided at this time.

Funeral plan investments (£1,270,995k)

The Society holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life policies. The underlying investments are in a mixture of assets including equities and bonds. The impact of Covid-19 has seen significant falls in many Global equity and corporate bond prices. Due to ongoing volatility, it is impossible to quantify what any likely impact would be at this stage, and as a result a reasonable estimate of the impact of Covid-19 cannot be provided at this time.

Current assets

The Society has also reviewed the recoverability of its most significant current assets in particular trade receivables. The Society remains confident of their recoverability taking into account events since the period end.