



ANNUAL REPORT AND FINANCIAL STATEMENTS

for the Year Ended

31 March 2020

Lowther Homes Limited

Registered number SC402836

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the financial year ended 31 March 2020.

Principal activities

Lowther Homes Limited (Lowther" or "the Company") is a wholly owned subsidiary of Wheatley Housing Group Limited ("Wheatley Group"). Lowther provides mid and full-market rent homes to let. It owns a growing portfolio of 1,180 full and mid market rent ("MMR") homes in communities from Inverkip to Leith and manages a further 834 mid-market rent homes owned by fellow Wheatley Group subsidiaries, The Glasgow Housing Association Limited ("GHA"), Cube Housing Association Limited ("Cube") and Dunedin Canmore Housing Limited ("Dunedin Canmore").

Lowther Homes annual highlights

Lowther continued to grow its portfolio of affordable homes, being appointed to let and manage more homes on behalf of subsidiaries in Wheatley, as well as growth in the number of properties managed on behalf of the City of Edinburgh Council.

At the end of the year we owned or managed over 1,800 homes in 11 local authority areas with rents ranging from £350 to £1,470 per month.

The unprecedented events in March 2020 challenged our business as never before. Together with the other partner organisations in Wheatley, Lowther Homes moved quickly to mitigate some of the worst impacts of the coronavirus crisis, providing help to people who were self-isolating and facing hardship.

A new service model was designed and launched within the first two weeks. Our office was closed under government regulations and our employees equipped to work from home, supported by Wheatley Group's I.T. team working around the clock. A virtual call centre was created for the Group, with advisors working at home and providing a 24/7 service. As part of this we set up a specialist team, including letting agents, to help people deal with all impacts of the crisis.

The crisis necessitated in March a halt to many of our activities including letting and the RSL new build programme delivering a pipeline of new MMR properties for us to manage. Nevertheless we finished the financial year having completed our ambitions set out in our five-year *strategy Investing in our Futures*, and reporting a solid business performance.

We finished the year with a turnover from our letting activities of £13.5million. We grew our mid-market portfolio and our customer base and encouraged more of our customers to engage and transact with us digitally. Lowther, along with sister organisation YourPlace, contributed £3.0million in Gift Aid to the Wheatley Foundation, Wheatley's charitable trust, to fund projects which tackle poverty and disadvantage in our communities. Lowther's contribution was £1.5million.

Plans to merge the business of Lowther Homes with its fellow Wheatley Group subsidiary are due to be completed in 2020/21 allowing us to form a single company covering letting, factoring and commercial properties.

DIRECTORS' REPORT (CONTINUED)

The highlights for the year included:

New homes

By the end of March 2020, Lowther's portfolio had grown to 2,014 mid and full market rent homes owned and managed by Lowther. This includes a further 197 new-build homes Lowther was appointed to let and manage on behalf of Wheatley's subsidiaries during 2019/20.

The new build homes included:

- 52 homes in Bell Street, and a further 26 at Gallowgate, Glasgow;
- 14 homes at Langloan, and eight at Greendykes, Edinburgh;
- 11 homes in North Berwick;
- 18 homes in Balerno;
- a further 41 at Ibroxholm Oval, Glasgow as phase 2 of the development; and
- seven homes in Greendykes, Edinburgh.

Breakdown of property numbers:

By the end of 2019/20, over 65% of Lowther's portfolio was made up of homes for mid-market rent, and we remain one of the largest providers in this sector.

	Lowther Homes owned	Leased from Group subsidiaries
Mid market properties	534	821
Full market properties	646	13
Total	1,180	834

Lowther also manages a further 239 mid-market rent properties across seven sites for Edinburgh Living and North Telford LLPs under contract with City of Edinburgh Council.

Our performance

At the end of the year, our average days to let was 45 days for full market rent properties and 27 days for mid market homes. This falls below our target for the year. We have identified and implemented a number of actions which significantly improved performance in the last few months of the year.

Our gross rent arrears stood at 2.42%, a slight increase from the 2.26% at the end of 2018/19. Performance was negatively impacted towards the end of the year by the Coronavirus pandemic and the initial effect of Government restrictions on customers' incomes. We are working hard to mitigate the impact on the business and support our customers through the crisis including providing access to independent money advice.

We also finished the year with 100% of our properties having received their annual gas safety check by their anniversary date.

DIRECTORS' REPORT (CONTINUED)

Engaging with customers

Lowther's digital channels continued to grow in popularity with more customers than ever before engaging with us online.

The number of people visiting www.lowtherhomes.com each month increased to over 5,200 – up from 4,100 in the previous 12 months – with 1,261 website enquiries.

The number of customers registered for online self-services at the end of the financial year increased to 1,820 from 1,103 an increase of 65% over the previous 12 months.

Customers found it quick and easy to pay their bills, report repairs and check their balance 24/7 using a *My Lowther* online account. More than £1.3million was paid online by customers using *My Lowther* – a 95% increase from last year.

New business developments

Lowther Homes will be joining forces with Wheatley's factoring division YourPlace Property Management Limited in 2020/21. This will create one commercial business that brings together private letting, factoring and commercial properties.

Steps toward integration took place during 2019/20, including:

- one leadership and management team for both businesses
- combining business processes
- registering Lowther as a property factor with Scottish Ministers.

Digital transformation

As we moved to swiftly to working from home in March in line with Government guidelines we accelerated some of our plans and launched virtual check outs, digital sign-ups for new tenants and improvements to our customer communications to support income collection.

Directors

The Directors of the Company who were in office during the financial year and up to the date of the financial statements were:

Bryan Duncan (Chair)

Steven Henderson – resigned 17 June 2019

John Blackwood

Ian Wall – resigned 24 September 2019

Ronnie Jacobs

Gordon Sloan – resigned 25 September 2019

Sheila Gunn

Tom Mitchell – resigned 25 September 2019

Michael McCabe – resigned 25 September 2019

Neal Greer – appointed on 24 February 2020

Liz Walford

Paula Sharp – appointed on 19 November 2019

David Rockliff – appointed on 18 October 2019

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

DIRECTORS' REPORT (CONTINUED)

Independent auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor is to be proposed at the forthcoming Annual General Meeting.

Basis of preparation

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006. As such, the Company has taken exemption from preparing a strategic report.

FINANCIAL REVIEW

Lowther generated an operating surplus of £7.7m in 2020 (2019: £29.7m). This includes a £2.1m gain on the value of our investment properties held (2019: £10.3m). The prior year reported grant income recognised on the acquisition of a portfolio of MMR properties from other Wheatley Group subsidiaries of £15.2m. No MMR properties have been acquired in 2019/20.

Statement of Comprehensive Income

Turnover

Turnover, generated from rental income net of void losses, was £13.5m for the year ended 31 March 2020 (2019: £11.5m). The year on year increase was largely driven by rental income growth in both the property portfolio acquired in October 2018 and an increasing number of newly built properties leased from fellow Wheatley Group subsidiaries.

Operating expenditure and finance charges

Operating expenditure and finance charges in the year totalled £12.3m (2019: £10.5m). This comprised:

- £7.9m administrative costs, which includes the maintenance costs of the property portfolio, associated with the full and mid-market letting activities (2019: £7.3m); and
- £4.4m in financing charges in relation to the financing charges on the loan facility through Wheatley Funding No. 2 Ltd which is secured against our properties (2019: £3.2m). The Wheatley Foundation has agreed to deliver certain charitable community programmes on the Wheatley Group's behalf. Under this arrangement, these programmes were funded in part during the year by the Glasgow Housing Association agreeing that the interest receipt due from Lowther would be paid directly to the Wheatley Foundation. This payment has been recognised as gift aid in the financial statements of Lowther.

A charge of £1.5m (2019: £0.8m) is included within financing charges as required under FRS 102 in respect of unwinding of the deemed discount on the convertible loan instrument with Glasgow Housing Association Limited.

Lowther made a gift aid payment of £1.5m (2019: £1.6m) to the Wheatley Foundation during the year.

Other gains recognised in Statement of Comprehensive Income

The strong letting performance of Lowther Homes' portfolio of private market rented properties, combined with favourable market conditions in its selected operating locations, resulted in a gain on revaluation of investment properties of £2.1m (2019: £10.3m). In accordance with FRS 102, the total gains of £2.1m are recognised through the Statement of Comprehensive Income in profit and loss.

DIRECTORS' REPORT (CONTINUED)

Statement of Financial Position

Properties held for investment at the end of 31 March 2020 were valued at £141.5m (2019: £139.2m). Properties were valued at 31 March 2020 by an independent valuer, Jones Lang LaSalle Limited.

Principal risks facing the Company

The Board is responsible for assessing the risks facing Lowther. As a subsidiary of Wheatley Housing Group Limited, the principal risks are broadly similar to those facing the Group and can be seen in the consolidated financial statements of the Group.

DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board



Bryan Duncan, Director

11 September 2020

Wheatley House
25 Cochrane Street
Glasgow
G1 1HL

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LOWTHER HOMES LIMITED

Opinion

We have audited the financial statements of Lowther Homes Limited (“the company”) for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company’s financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors’ conclusions, we considered the inherent risks to the company’s business model and analysed how those risks might affect the company’s financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor’s report is not a guarantee that the company will continue in operation.

Directors’ report

The directors are responsible for the directors’ report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors’ report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors’ report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOWTHER HOMES LIMITED (continued)

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company'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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Michael Wilkie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
KPMG LLP
319 St Vincent Street
Glasgow
G2 5AS

21 September 2020

Lowther Homes Limited
Annual report and financial statements for the financial year ended 31 March 2020

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020**

	<i>Note</i>	2020 £'000	2019 £'000
Turnover		13,453	11,509
Operating expenses		(7,870)	(7,316)
Other gains	4	2,099	25,546
Operating profit	2	7,682	29,739
Gain/(loss) on disposal of fixed assets	5	23	(1)
Finance charges	6	(4,415)	(3,170)
Profit before taxation		3,290	26,568
Tax charge	7	(1,219)	(1,827)
Profit for the financial year		2,071	24,741

All amounts relate to continuing operations.

	Revenue Reserve £'000	Investors' Equity £'000	Total £'000
Balance at 1st April 2018	4,404	8,248	12,652
Profit for the year	24,741	-	24,741
Movement in equity component of intragroup convertible loan	-	38	38
Gift aid payment	(1,550)	-	(1,550)
Balance at 31 March 2019	27,595	8,286	35,881
Profit for the year	2,071	-	2,071
Movement in equity component of intragroup convertible loan	-	37	37
Gift aid payment	(1,500)	-	(1,500)
Current tax credit	285	-	285
Balance at 31 March 2020	28,451	8,323	36,774

The notes on pages 12 to 21 form part of these financial statements.

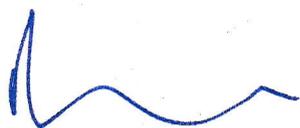
Lowther Homes Limited
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STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	<i>Note</i>	2020 £'000	2019 £'000
Fixed Assets			
Property, plant and equipment	8	26	49
Investment properties	9	141,515	139,156
Total Fixed Assets		141,541	139,205
Current Assets			
Trade and other debtors	10	1,553	970
Cash at bank and in hand		3,293	2,557
Total Current Assets		4,846	3,527
Creditors: amounts falling due within one year	11	(3,140)	(2,575)
Net Current Assets		1,706	952
Total Assets less Current Liabilities		143,247	140,157
Creditors: amounts falling due after one year	12	(106,473)	(104,276)
Net Assets		36,774	35,881
Equity			
Investors' Equity		8,323	8,286
Revenue reserve		28,451	27,595
Equity and reserves		36,774	35,881

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

The financial statements were approved by the Board of Directors on 17 August 2020 and signed on its behalf on 11 September 2020 by:



Bryan Duncan, Director

The notes on pages 12 to 21 form part of these financial statements.

Company Registration Number SC402836.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

1. Accounting policies

Lowther Homes Limited (the “Company”) is a private company incorporated, domiciled and registered in Scotland in the UK. The registered number is SC402836 and the registered address is Wheatley House, 25 Cochrane Street, Glasgow, G1 1HL.

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company’s financial statements to all period presented in these financial statement.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards in United Kingdom including Financial Reporting Standard 102, under the historical cost convention modified to include the revaluation of properties held for letting and commercial properties. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company’s ultimate parent undertaking, Wheatley Housing Group Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Wheatley Housing Group are available to the public and may be obtained from Wheatley House, 25 Cochrane Street, Glasgow, G1 1HL. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period; and
- Cash Flow Statement and related notes.

As the consolidated financial statements of the ultimate parent undertaking include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.
- The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The financial statements have been prepared on a going concern basis which the Board considers to be appropriate for the following reasons.

The Company prepares a 10-year business plan which is updated and approved on an annual basis. The most recent business plan was approved in February 2020 by the Board. As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of Covid-19 the Company has revised forecasts based on updated scenarios, including severe but plausible downsides.

The Board, after reviewing the Company budgets for 2020/21 and the Company’s financial position as forecast in the 10-year business plan, including changes arising from the Covid-19 pandemic, is of the

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

2. Accounting policies (continued)

opinion that, taking account of severe but plausible downsides, the Company has adequate resources to continue to meet their liabilities over the period of 12 months from the date of approval of the financial statements (the going concern assessment period). In reaching this conclusion, the Board has considered the following factors:

- Rent and service charge receivable – arrears and bad debt assumptions have been increased to allow for customer difficulties in making payments and budget and business plan scenarios have been updated to take account of potential future changes in rent increases;
- The property market – budget and business plan scenarios have taken account of delays in new build handovers in other Wheatley Group subsidiaries and the associated impact on the number of properties available for rent by the Company;
- Maintenance costs – budget and business plan scenarios have been modelled to take account revised profiles of repairs and maintenance expenditure, with major works being phased into future years;
- Liquidity – current available cash of £3.3m gives significant headroom for committed expenditure and other forecast cash flows over the going concern assessment period;
- The Group and Company’s ability to withstand other adverse scenarios such as higher interest rates and increases in the number of void properties.

The Board believe the Company has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Board is confident that the Company will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Accounting judgements and estimations

Estimates and judgements are continually evaluated and are based on historical experience, advice from qualified experts where required or appropriate and other factors.

Judgements have been made in:

- Determining the appropriate discount rates used in the valuation of investment properties;
- The assessment of useful lives for other fixed assets; and
- The assessment of the fair value of financial instruments.

Related party disclosures

The Company is a wholly-owned subsidiary of Wheatley Housing Group Limited and is included within the consolidated financial statements of Wheatley Housing Group Limited which are publicly available. Consequently, the Company has taken advantage of the exemption, under the terms of FRS 102, from disclosing related-party transactions with wholly owned entities that are part of the Wheatley Housing Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Value Added Tax

The Company is registered for VAT and is a member of the Wheatley VAT Group. Expenditure is shown net of VAT.

Turnover

Turnover relates to rental of residential properties. Income from rental activities is recognised when it is receivable.

Valuation of investment property

The directors consider that the interests in land and/or buildings are held for their investment potential rather than for consumption in the business operations. These are treated under FRS 102 as investment properties at fair value through the Statement of Comprehensive Income.

Investment properties in the course of construction are stated at cost. Those properties are transferred to completed properties when they are ready for letting. Investment properties are valued at market value subject to tenancies at the date of the Statement of Financial Position by an independent professional adviser qualified by the Royal Institution of Chartered Surveyors to undertake valuation. Where it is considered that there has been any impairment in value this is recognised in profit or loss in the period it arises. The cost of properties is their purchase price together with capitalised improvement works. No depreciation is provided in respect of investment properties applying the fair value model.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Improvements to investment properties

Improvement expenditure on investment properties is capitalised in circumstances where it is expected to provide incremental future benefits to the organisation, such as higher rent, reduced on-going maintenance costs or reduced re-let times for the properties.

Valuation of property, plant and equipment

Furniture & Fittings and Computer Equipment are stated at cost and depreciated on a straight-line basis as detailed below.

Depreciation

Property, plant and equipment depreciation is charged to the statement of comprehensive income on a straight-line basis over the expected useful lives of fixed assets to write off the cost, or valuation, less estimated residual values at the following annual rates. Assets are depreciated in the month of acquisition, or in the case of a larger project, from the month of completion, at the following rates:

Furniture, fittings and office equipment (cost)	20%
Computer hardware and software (cost)	33.33%

Convertible debt and investors' equity

Proceeds of convertible loans are allocated between liability and equity components. The carrying value of the liability component is determined as the fair value of a similar liability that does not possess a conversion feature. For the purpose of determining an appropriate discount rate, advice was obtained from independent property and investment consultants in relation to the market rate of return on a similar unsecured loan instrument. The discount rate used was 10.8%. The residual amount once the liability component has been established is treated as an equity element, and transaction costs are allocated pro rata against the liability and equity components. This allocation shall not be revised in subsequent periods. The liability component is treated as a basic financial instrument.

Lowther Homes Limited
Annual report and financial statements for the financial year ended 31 March 2020

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Operating profit

	2020	2019
	£'000	£'000
Operating profit is stated after charging:		
Auditor's remuneration in respect of the audit of these financial statements	9	8
Depreciation on fixed assets	23	24

The Company has no employees (2019: nil) as staff are employed by another group company and recharged.

3. Remuneration of directors

The directors did not receive any emoluments in respect of their services to the Company (2019: nil). Directors are employed by another group company and no recharge is made for their services.

4. Other gains

	2020	2019
	£'000	£'000
Grant income recognised on acquisition of MMR properties	-	15,204
Gain on revaluation of investment property	2,099	10,342
	2,099	25,546
	2,099	25,546

5. Gain/(loss) on disposal of fixed assets

This represents net income from the disposal of fixed assets.

	2020	2019
	£'000	£'000
Proceeds from disposal of properties	197	167
Value of properties disposed	(174)	(168)
Gain/(loss) on sale of fixed assets	23	(1)
	23	(1)

6. Finance charges

	2020	2019
	£'000	£'000
Interest and related charges on intra-group loan	2,885	2,390
Amortisation of discount on fair value of convertible loan	1,530	780
	4,415	3,170
	4,415	3,170

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NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax charge

	2020	2019
	£'000	£'000
Total tax expense recognised in the profit and loss account		
<u>Current Tax:</u>		
Current tax on income for the year	515	54
Adjustment in respect of prior periods	-	(61)
	515	(7)
<u>Deferred Tax:</u>		
Origination and reversal of timing differences	415	2,022
Adjustments in respect of prior periods	-	(213)
Effects of changes in tax rates	289	25
	704	1,834
 Total tax	 1,219	 1,827

The deferred tax charge of £704k has arisen on the valuation of investment properties in the year.

The main UK corporation tax rate reduced from 20% to the current rate of 19% on 1 April 2017. The Finance Act 2016 includes legislation which will reduce the tax rate further to 17% from 1 April 2020. This became law when The Finance Act 2016 received Royal Assent on 15 September 2016. Following the budget resolution on 17 March 2020, the main UK corporation tax rate will remain at 19% from 1 April 2020 (cancelling the enacted cut to 17%). This was substantially enacted at the balance sheet date and therefore deferred tax has been recognised at a rate of 19%.

Deferred Tax	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Accelerated capital allowances	-	-	-	-	-	-
Arising on business combinations	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-
Unused tax losses	-	-	-	-	-	-
Property revaluations	-	-	3,158	2,454	3,158	2,454
 Tax liabilities	-	-	3,158	2,454	3,158	2,454
Net of tax liabilities	-	-	-	-	-	-
Net tax liabilities	-	-	3,158	2,454	3,158	2,454

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax charge (continued)

Factors affecting the tax charge for the current period

	2020	2019
	£000	£000
Reconciliation of effective tax rate		
Surplus for the year	2,071	24,741
Total tax expense	1,219	1,827
Surplus excluding taxation	3,290	26,568
Tax using the UK corporation tax rate of 19% (2019: 19%)	625	5,048
Effects of:		
Qualifying charitable donations	-	(295)
Income not taxable	-	(2,889)
Expenses not deductible	(114)	(1,810)
Deferred tax movement on revaluations	419	2,022
Tax rate changes	289	(213)
Prior year adjustments	-	(36)
Effect of indexation allowance on chargeable gains	-	-
Recognised in equity	-	-
Total tax expense included in Statement of Comprehensive Income	1,219	1,827

8. Property, plant and equipment

	2020
	£'000
Cost	
At 31 March 2019	142
Additions	-
At 31 March 2020	142
 Accumulated Depreciation	
At 31 March 2019	93
Charge for financial year	23
At 31 March 2020	116
 Net Book Value	
At 31 March 2020	26
 Net Book Value	
At 31 March 2019	49

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NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Investment properties

	2020 £'000
Cost or Valuation	
At 1 April 2019	139,156
Additions – improvements	434
Disposals	(174)
Revaluation	2,099
At 31 March 2020	141,515
 Net Book Value - valuation	
At 31 March 2020	141,515
At 31 March 2019	139,156
 Net Book Value – historic cost	
At 31 March 2020	105,418
At 31 March 2019	105,158

The valuation of investment properties as at 31 March 2020 shown above of £141.5m (2019: £139.2m) is the market value subject to tenancies, between a willing buyer and willing seller in an arm's length transaction. The valuation was carried out by Jones Lang LaSalle, a qualified professional valuer.

The number of properties held by Lowther Homes Ltd at 31 March was:

	2020 No.	2019 No.
Total Units	1,180	1,183

10. Trade and other debtors

	2019 £'000	2019 £'000
Due within one year:		
Trade debtors	335	196
Other debtors	1,177	774
Corporation tax	41	-
	1,553	970

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

Lowther Homes Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Trade creditors	63	41
Accruals	410	226
Amounts owed to group undertakings	1,404	1,500
Other creditors	1,263	765
Corporation tax	-	43
	<u>3,140</u>	<u>2,575</u>

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

12. Creditors: amounts falling due after more than one year

	2020	2019
	£'000	£'000
Financial liability component of intra-group convertible loan	27,575	26,129
Amounts owed to group undertakings	75,740	75,693
	<u>103,315</u>	<u>101,822</u>
Deferred tax	3,158	2,454
	<u>106,473</u>	<u>104,276</u>

Intra-group convertible loan

The convertible loan with The Glasgow Housing Association Limited (“GHA”) is not secured and is due to mature in 2043. The Wheatley Foundation has agreed to deliver certain charitable community programmes on the Glasgow Housing Association’s behalf. Under this arrangement, these programmes were funded in part during the year by the Glasgow Housing Association agreeing that the interest receipt due from Lowther Homes Limited would be paid directly to the Wheatley Foundation on its behalf.

Amounts owed to group undertakings

Lowther has access to a £76.5m facility administered by WFL2 with Bank of Scotland. This new facility provided the capacity to fund the acquisition of 562 mid-market properties from The Glasgow Housing Association Limited, Dunedin Canmore Housing Association Limited and Cube Housing Association Limited in October 2018. Interest on the new facility is charged at a rate of 3.77%.

Borrowings are repayable as follows:

	2020	2019
	£'000	£'000
In less than one year	-	-
In more than one year but less than two years	-	-
In more than two years but less than five years	-	26,129
In more than five years	103,314	75,693
	<u>103,314</u>	<u>101,822</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Financial instruments

	2020	2019
	£'000	£'000
Financial assets:		
<u>Measured at amortised cost:</u>		
Debtors and accrued income	1,553	970
Total	1,553	970
Financial liabilities:		
<u>Measured at amortised cost:</u>		
Creditors, accruals and amounts owed to group undertakings	82,038	80,722
<u>Measured at fair value through income and expenditure:</u>		
Intra-group convertible loan	27,575	26,129
Total	109,613	106,851

Expenses payable on the financial liabilities is disclosed in note 6.

14. Called up share capital

	2020	2019
	£	£
<i>Authorised</i>		
Equity: 100 (2019: 100) Ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
Equity: 100 (2019: 100) Ordinary share of £1	100	100

15. Ultimate parent organisation

The Company is a wholly owned subsidiary undertaking of Wheatley Housing Group Limited, a company limited by guarantee and registered in Scotland.

The only group into which the results of the Company are consolidated is Wheatley Housing Group Limited. The consolidated financial statements of Wheatley Housing Group Limited may be obtained from the registered office at Wheatley House, 25 Cochrane Street, Glasgow, G1 1HL.

SUPPLEMENTARY INFORMATION

Secretary and Registered Office

Anthony Allison
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Banker

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