

**LOWTHER
HOMES.**

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

for the Year Ended

31 March 2021

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 2021.

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 portfolio of 1,178 full and mid-market rent ("MMR") homes in communities from Inverkip to Leith and manages a further 948 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").

In December 2020, the business activities of our sister company, YourPlace Property Management Limited ("YourPlace"), transferred to Lowther Homes, to create one commercial business bringing together private letting, factoring and commercial properties under a refreshed 'Lowther' brand.

While YourPlace and Lowther Homes have always worked very closely together, becoming one company helps us become more efficient, provide even better value and offer even more security over the services provided to customers.

The year ended with Lowther's purchase of GBG Enterprises Limited on 30 March 2021, the owner of the Bellgrove Hotel, a private hostel in Glasgow's east end. As part of a strategic initiative funded by Glasgow City Council and the Health and Social Care Partnership, staff from our sister organisation Wheatley Care will support the residents into new homes more suitable to their needs. The site will then form part of the wider regeneration of the Gallowgate, with Lowther developing plans for new mid-market rent homes as part of that.

Lowther Homes annual highlights

Lowther now provides services to over 29,000 homeowners, as well as to our 2,126 tenants and 398 tenants on behalf of City of Edinburgh Council stretching across 11 local authority areas.

Lowther is the second largest provider of property management services in Scotland and the largest provider of mid-market rent homes for let, with rents ranging from £345 to £1,500 per month.

We continued to grow our portfolio of affordable homes for rent, managing a further 273 homes on behalf of subsidiaries in Wheatley and through our contract with City of Edinburgh Council.

The year will be remembered as an extraordinary and exceptionally difficult one, with unprecedented circumstances affecting the business, our staff, and our customers.

We opened the year with a new service model already in place, with staff and customer service advisors working from home.

Repairs and maintenance services were limited to emergency and essential repairs, along with gas safety checks and servicing.

Capital investment critical in terms of health and safety, including the installation of smoke and heat detectors, continued throughout the year, as did external capital work. However, non-essential internal investment work was suspended.

DIRECTORS' REPORT (CONTINUED)

As an agile, flexible organisation, Lowther responded quickly and decisively to changes in government guidance over the year.

When lockdown restrictions were temporarily eased, we increased the range of services we could carry out, such as close-cleaning and a wider range of repairs, but reverted back to emergency and essential services as restrictions tightened again. At all times we did everything possible to protect both customers and staff through strict adherence to health-and-safety practices and the use of the appropriate Personal Protective Equipment ("PPE").

Wheatley's RSL new-build programme, suspended at the start of the year, resumed in June 2020. Lettings were also suspended until June, when we introduced a new virtual lettings model to prospective tenants.

We also launched a new free money and fuel advice service to help tenants whose income was affected by the pandemic, and supported tenants to access the Scottish Government's new Tenant Hardship Loan Fund.

Despite the restrictions, we finished the year with a turnover from our letting and factoring activities of £17.3 million and a further £0.9m of turnover recognised in relation to grant income received.

We grew our mid-market portfolio and our customer base and encouraged more of our customers to engage and transact with us digitally. Lowther, contributed £3.1m in Gift Aid to the Wheatley Foundation, Wheatley's charitable trust, to fund projects which tackle poverty and disadvantage in our communities.

New homes

By the end of March 2021, Lowther's portfolio made up of owned and mid-market rent properties owned by registered social landlords in the Wheatley Group had grown to 2,126 mid and full-market rent homes. The new build homes, all for mid-market rent, included:

- 49 at Inglefield Street, Govanhill in Glasgow
- 19 in Fountainbridge, Edinburgh
- 24 in phase 4 of the Greendykes development in Edinburgh.

By the end of 2020/21, almost 70% 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	935
Full market properties	644	13
Total	1,178	948

Lowther also manages a further 398 mid-market rent properties across eight sites for Edinburgh Living and North Telford LLPs under contract with City of Edinburgh Council, this portfolio having grown by 159 units after letting new homes in Craigmillar Town Centre and North Sighthill this year.

DIRECTORS' REPORT (CONTINUED)

Our performance

Performance was negatively impacted throughout the year by the pandemic, and the effect of Government restrictions on customers' incomes and our ability to deliver all our services.

At the end of the year, our average days to let was 51 days for full-market rent properties and 52.7 days for mid-market homes, performance that was not unique across the PRS sector in Scotland. Our new virtual letting model has supported safe letting through the restrictions, and with this, as well as a new marketing approach launched in March 2021, we expect to see improved performance through the next year.

Our gross rent arrears stood at 3.61% against a target of 4%, an increase of 1.91% from the previous year. COVID emergency legislation lengthened the notice period for eviction on the grounds of rent arrears from three to six months, with all evictions also banned for the latter half of the year.

We have put in place enhanced money and advice support for customers impacted by the pandemic, improved engagement and supported tenants to access the Scottish Government's new Tenant Hardship Loan Fund.

All our properties had their annual gas safety check, and we also rolled out our five-yearly programme of electrical safety checks.

In factoring, income was significantly impacted by pandemic restrictions. Our environmental services could not be safely delivered for large parts of the year, which meant we refunded or did not charge customers for over £280k of services in the 4 month period after the factoring activities were transferred to Lowther. Factoring debt since the transfer from YourPlace has remained within budgeted expectations and recovery actions through the courts are returning to normal after being suspended earlier in the year.

Anticipating that our income would be affected by the pandemic, we took early action to manage our costs, not filling vacancies, reducing operating costs and making use of the Government's furlough scheme to help cover some of the salary costs of staff who could not work due to restricted services.

Engaging with customers

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

More than 7,000 people use our website every month. The number of customers registered for online self-services rose by 16% from the previous year.

More than £4.4million was paid online by customers using their online *MyLowther* accounts over the year.

Customers found it quick and easy to pay their bills, report repairs and check their balance 24/7 using a *My Lowther* online account.

DIRECTORS' REPORT (CONTINUED)

New business developments

In 2021/22, Lowther will be managing Dumfries and Galloway Housing Partnership's ("DGHP's") 101 mid-market rent homes, 16 commercial properties and 1,400 factored properties. DGHP joined the Wheatley Group in December 2019 and this move further consolidates the Group's commercial activities in Lowther, while offering enhanced services to DGHP's customers.

Lowther also anticipates organic growth, with new mid-market rent homes being built by Wheatley RSLs for Lowther to manage in 2021/22, and a planned 114 new managed homes for City of Edinburgh Council. More than 1,100 homes are planned to be completed over the next five years, including more than 300 homes where Lowther will be the developer for the first time.

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)

Liz Walford

John Blackwood

Neal Greer

Sheila Gunn

Ronnie Jacobs

David Rockliff

Paula Sharp

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.

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.

DIRECTORS' REPORT (CONTINUED)

FINANCIAL REVIEW

Lowther generated a gross margin of £9.3m (2020: £7.4m) with the increase attributable to the transfer of the factoring business from YourPlace Property Management in December 2020. An operating profit of £8.7m was generated in 2021 (2020: £7.7m) after a gain reported in other gains and losses of £1.8m (2020: gain of £2.1m).

Statement of Comprehensive Income

Turnover

Total turnover of £18.2m (2020: £13.5m) is reported for the year an increase of £4.7m with £3.5m of the increase attributable to the factoring activities transferred during the year and the recognition of grant income received to fund the acquisition and associated costs of GBG Enterprises Limited. Turnover generated in the letting business from rental income net of void losses was £14.6m for the year ended 31 March 2021 (2020: £13.5m). The year on year increase of £1.1m was largely driven by additional rental income from growth in the number of newly built mid-market rent properties leased from fellow Wheatley Group subsidiaries.

Operating expenditure and finance charges

Operating expenditure in the year totalled £11.3m (2020: £7.9m), with costs to deliver factoring activities driving the increase. Operating expenditure comprised:

- £8.9m cost of sales (2020: £6.0m) relating to the maintenance costs of the property portfolio associated with the full and mid-market letting activities as well as the direct costs of delivering the factoring service; and
- £2.4m of administrative costs (2020: £1.9m);

Financing charges totalled £4.3m (2020: £4.4m). Of this £2.9m (2020: £2.9m) is in relation to the loan facility provided through the Group's commercial funding subsidiary Wheatley Funding No. 2 Limited ("WFL2") which is secured against our properties and the intragroup loan provided to Lowther by The Glasgow Housing Association Limited ("GHA"). 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 GHA 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 £1.4m (2020: £1.5m) 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 £3.1m (2020: £1.5m) to the Wheatley Foundation during the year.

Other gains and losses recognised in Statement of Comprehensive Income

In other gains and losses, a total gain of £1.8m (2020: gain of £2.1m) is reported. The gain is made up of the following items:

- 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 £1.6m (2020: £2.1m);
- The transfer of assets from our sister company, YourPlace Property Management Limited, on the 1 December 2020 resulted in the recognition of an accounting gain on business combination of £0.8m; and

DIRECTORS' REPORT (CONTINUED)

- Following the acquisition of the share capital of GBG Enterprises Limited on 30 March 2021, the investment held by Lowther has been reported at fair value of the net assets acquired, resulting in a fair value loss of £575k. The consideration of £825k paid was fully funded by grant income reported in turnover in accordance with FRS 102 under the performance model.

Statement of Financial Position

Properties held for investment at 31 March 2021 were valued at £143.3m (2020: £141.5m). Properties were valued at 31 March 2021 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.

By order of the Board



Bryan Duncan, Director

26 August 2021

Wheatley House
25 Cochrane Street
Glasgow
G1 1HL

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
26 August 2021

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 2021 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 2021 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").

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.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of board members and management as to the company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual suspected or alleged fraud; and
- Reading Board minutes.

As required by auditing standards, taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that entity management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to income recognition because of the limited opportunity and incentive for fraudulent revenue recognition and the limited judgement in respect of revenue recognition.

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

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the company's wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These include those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discuss with the board and other management (as required by auditing standards), and discussed with the board and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and companies legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statements items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: certain aspects of health and safety, and employment law recognising the company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Board and other management and inspection of regulatory and legal correspondence of any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatements. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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.

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

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:

- 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 8, 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

23 September 2021

Lowther Homes Limited
Annual report and financial statements for the financial year ended 31 March 2021

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2021**

	<i>Note</i>	2021 £'000	2020 £'000
Turnover	2	18,193	13,453
Cost of sales		(8,878)	(6,007)
Gross profit		9,315	7,446
Admin expenses		(2,366)	(1,863)
Other gains and losses	4	1,796	2,099
Operating profit	3	8,745	7,682
Gain on disposal of fixed assets	5	3	23
Finance charges	6	(4,339)	(4,415)
Profit before taxation		4,409	3,290
Tax charge	7	(1,004)	(1,219)
Profit for the financial year		3,405	2,071

All amounts relate to continuing operations.

**STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 MARCH 2021**

	Revenue Reserve £'000	Investors' Equity £'000	Total £'000
Balance at 1st April 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)
Tax Credit	285	-	285
Balance at 31 March 2020	28,451	8,323	36,774
Profit for the year	3,405	-	3,405
Movement in equity component of intragroup convertible loan	-	40	40
Gift aid payment	(3,139)	-	(3,139)
Current tax credit	596	-	596
Balance at 31 March 2021	29,313	8,363	37,676

The notes on pages 14 to 25 form part of these financial statements.

Lowther Homes Limited
Annual report and financial statements for the financial year ended 31 March 2021

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	<i>Note</i>	2021 £'000	2020 £'000
Fixed Assets			
Property, plant and equipment	8	2	26
Investment properties	9	143,295	141,515
Investment in subsidiary undertakings	9	250	-
Total Fixed Assets		<u>143,547</u>	<u>141,541</u>
Current Assets			
Trade and other debtors	10	6,968	1,553
Cash at bank and in hand		5,253	3,293
Total Current Assets		<u>12,221</u>	<u>4,846</u>
Creditors: amounts falling due within one year	11	(9,783)	(3,140)
Net Current Assets		<u>2,438</u>	<u>1,706</u>
Total Assets less Current Liabilities		<u>145,985</u>	<u>143,247</u>
Creditors: amounts falling due after one year	12	(108,309)	(106,473)
Net Assets		<u><u>37,676</u></u>	<u><u>36,774</u></u>
Equity			
Investors' Equity		8,363	8,323
Revenue reserve		29,313	28,451
Equity and reserves		<u><u>37,676</u></u>	<u><u>36,774</u></u>

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 16 August 2021 and signed on its behalf on 26 August 2021 by:



Bryan Duncan, Director

The notes on pages 14 to 25 form part of these financial statements.

Company Registration Number SC402836.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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.

The Company is the immediate parent of its wholly owned subsidiary, GBG Enterprises Limited and has applied the exemption available under FRS 102 9.3 from the requirement to prepare consolidated financial statements on the basis that the Company is itself a wholly owned subsidiary of Wheatley Housing Group.

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 2021 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 which included updated scenarios in recognition of the ongoing Covid-19 pandemic which include severe but plausible downsides. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

1. Accounting policies (continued)

The Board, after reviewing the Company budgets for 2021/22 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 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 and factoring price increases;
- The property market – budget and business plan scenarios have taken account of delays the re-profiled development programme and timing of 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 £5.3m 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 and to the factoring management activities carried out in the UK. Both income from rental and income from factoring management activities is recognised when it is receivable.

Grant income

Where a grant is paid as a contribution towards revenue expenditure, it is included in turnover. Where grant is received from government and other bodies as a contribution towards the capital cost of an acquisition, it is recognised as income using the performance model in accordance with FRS 102. Prior to satisfying the performance conditions, capital grant is held as deferred income on the statement of financial position.

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.

Investment in subsidiary undertakings

Investments in subsidiaries are shown at fair value with changes in fair value recognised through profit and loss.

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
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NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Analysis of turnover

	2021 £'000	2020 £'000
Analysis by class of business:		
Letting income	14,639	13,453
Factoring income	2,632	-
Grant income	922	-
	18,193	13,453

3. Operating profit

	2021 £'000	2020 £'000
Operating profit is stated after charging:		
Auditor's remuneration in respect of the audit of these financial statements	9	9
Depreciation on fixed assets	24	23

The Company has no employees (2020: nil) as staff are employed by another group company and recharged.

4. Other gains and losses

	2021 £'000	2020 £'000
Gain on revaluation of investment property (note 9)	1,584	2,099
Gain on business combination	787	-
Fair value adjustment - investment in GBG Enterprises Limited (note 9)	(575)	-
	1,796	2,099

Gain on business combination

On 1 December 2020, the business and net assets of YourPlace Property Management Limited were transferred to Lowther Homes Limited a fellow wholly owned subsidiary of Wheatley Housing Group Limited. No consideration was payable for the transfer and a gain of £787k representing the fair value of the net assets transferred is reported through profit and loss.

	2021 £'000	2020 £'000
The following amounts were transferred from YourPlace Property Management Limited:		
Current assets	8,914	-
Creditors: amounts falling due within one year	(8,127)	-
Net current assets	787	-
Creditors: amounts falling due after one year	-	-
Net assets	787	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Other gains and losses (continued)

Fair value of investment in GBG Enterprises Limited

On 30 March 2021 Lowther acquired 100% of the share capital of GBG Enterprises Limited for a consideration of £825k. The acquisition was fully funded by grant income reported in turnover in the profit and loss, in accordance with the performance model. The investment in GBG has been adjusted to a value equal to the fair value of the net assets in line with the accounting policy for subsidiary undertakings. A fair value of £250k has been determined following a valuation carried out by Jones Lang LaSalle, a qualified professional valuer. This results in a fair value loss of £575k being the difference between the consideration paid and the fair value of the net assets.

5. Gain on disposal of fixed assets

This represents net income from the disposal of fixed assets.

	2021	2020
	£'000	£'000
Proceeds from disposal of properties	105	197
Value of properties disposed	(102)	(174)
Gain on sale of fixed assets	3	23

6. Finance charges

	2021	2020
	£'000	£'000
Interest and related charges on intra-group loan	2,888	2,885
Amortisation of discount on fair value of convertible loan	1,451	1,530
	4,339	4,415

Lowther Homes Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax charge

	2021 £'000	2020 £'000
Total tax expense recognised in the profit and loss account		
<u>Current Tax:</u>		
Current tax on income for the year	612	515
Adjustment in respect of prior periods	-	-
	612	515
<u>Deferred Tax:</u>		
Origination and reversal of timing differences	392	415
Adjustments in respect of prior periods	-	-
Effects of changes in tax rates	-	289
	392	704
Total tax	1,004	1,219

The deferred tax charge of £392k 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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Accelerated capital allowances	-	-	-	-	-	-
Arising on business combinations	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-
Unused tax losses	-	-	-	-	-	-
Property revaluations	-	-	3,550	3,158	3,550	3,158
Tax liabilities	-	-	3,550	3,158	3,550	3,158
Net of tax liabilities	-	-	-	-	-	-
Net tax liabilities	-	-	3,550	3,158	3,550	3,158

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax charge (continued)

Factors affecting the tax charge for the current period

	2021	2020
	£000	£000
Reconciliation of effective tax rate		
Surplus for the year	3,405	2,071
Total tax expense	1,004	1,219
Surplus excluding taxation	4,409	3,290
Tax using the UK corporation tax rate of 19% (2020: 19%)	838	625
Effects of:		
Qualifying charitable donations	-	-
Income not taxable	(321)	-
Expenses not deductible	487	(114)
Deferred tax movement on revaluations	-	419
Tax rate changes	-	289
Prior year adjustments	-	-
Effect of indexation allowance on chargeable gains	-	-
Recognised in equity	-	-
Total tax expense included in Statement of Comprehensive Income	1,004	1,219

8. Property, plant and equipment

	2021
	£'000
Cost	
At 31 March 2020	142
Additions	-
At 31 March 2021	142
 Accumulated Depreciation	
At 31 March 2020	116
Charge for financial year	24
At 31 March 2021	140
 Net Book Value	
At 31 March 2021	2
 Net Book Value	
At 31 March 2020	26

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Investments

Investment properties

	2021 £'000
Cost or Valuation	
At 1 April 2020	141,515
Additions – improvements	298
Disposals	(102)
Revaluation	1,584
At 31 March 2021	143,295
Net Book Value - valuation	
At 31 March 2021	143,295
At 31 March 2020	141,515
Net Book Value – historic cost	
At 31 March 2021	105,613
At 31 March 2020	105,418

The valuation of investment properties as at 31 March 2021 shown above of £143.3m (2020: £141.5m) 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.

Investment properties (continued)

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

	2021 No.	2020 No.
Total Units	1,178	1,180

Investment in subsidiary undertaking

	2021 £'000	2020 £'000
Acquisition cost of GBG Enterprises Limited	825	-
Fair value adjustment of investment in subsidiary	(575)	-
Carrying value of investment in GBG Enterprises Limited	250	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Trade and other debtors

Due within one year:	2021 £'000	2020 £'000
Trade debtors	1,466	335
Other debtors	4,814	1,177
Corporation tax	54	41
Amounts owed by group undertakings	634	-
	<u>6,968</u>	<u>1,553</u>

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

11. Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	203	63
Accruals	997	410
Amounts owed to group undertakings – trading	5,368	1,404
Amounts owed to group undertakings – use of IT assets	444	-
Other creditors	2,743	1,263
Deferred income	28	-
	<u>9,783</u>	<u>3,140</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

	2021 £'000	2020 £'000
Financial liability component of intra-group convertible loan	28,979	27,575
Amounts owed to group undertakings	75,780	75,740
	<u>104,759</u>	<u>103,315</u>
Deferred tax	3,550	3,158
	<u>108,309</u>	<u>106,473</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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Amounts owed to group undertakings

Lowther has access to a £76.5m facility administered by WFL2 with Bank of Scotland. Interest on the facility is charged at a rate of 3.77%.

Borrowings are repayable as follows:

	2021 £'000	2020 £'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	-	-
In more than five years	104,759	103,315
	104,759	103,315

13. Financial instruments

	2021 £'000	2020 £'000
Financial assets:		
<u>Measured at amortised cost:</u>		
Debtors and accrued income	7,062	1,553
Total	7,062	1,553
Financial liabilities:		
<u>Measured at amortised cost:</u>		
Creditors, accruals and amounts owed to group undertakings	89,113	82,038
<u>Measured at fair value through income and expenditure:</u>		
Intra-group convertible loan	28,979	27,575
Total	118,092	109,613

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

14. Called up share capital

	2021 £	2020 £
<i>Authorised</i>		
Equity: 100 (2020: 100) Ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
Equity: 100 (2020: 100) Ordinary share of £1	100	100

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Ultimate parent organisation and subsidiary undertakings

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

The Company has one immediate subsidiary, GBG Enterprises Limited, which is a company registered in Scotland and limited by shares with 10,000 x £1 shares issued.

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

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