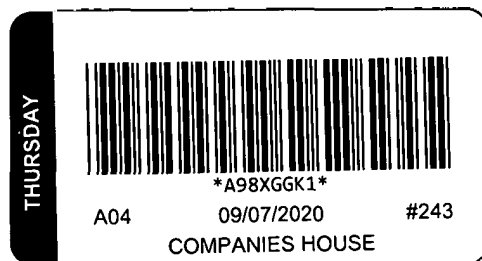


Co-operative Legal Services Limited

Strategic report, Directors' report and financial statements

Registered number 05671209

Period ended 4 January 2020



Corporate Information

Directors

Caoilinn Hurley

James Edward Morris

Helen Grantham

Jane Elisabeth Bates

Stuart Anthony Roberts

Secretary

Claire Louise Dalton

Auditors

Ernst & Young LLP

Bankers

Co-operative Bank

Barclays Bank

Registered Office

1 Angel Square

Manchester

M60 0AG

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Strategic report

The Directors present their annual Strategic report and the audited financial statements for the 52 week period ended 4 January 2020.

Principal activities

The principal activities of the Company during the period related to legal services and insurance claims handling.

Business review

The profits of the Company for the period are set out in the Profit and loss account on page 7. Turnover for the period was £35.3m (2019: £28.3m) with profit before taxation of £4.9m (2019: £2m). The Company did not pay any dividends during the period (2019: £nil).

At the period end, the Company had total net assets of £12.3m (2019: £8.2m) and held cash reserves of £15.3m (2019: £12.1m).

Co-operative Legal Services Limited operates within the legal services market in the United Kingdom with its primary focus being the sale of consumer law products including probate, estate planning, family law and personal injury services. Our aim is to help our members when they are most at need while offering a professional service at great value for money.

During 2019, the business continued to perform strongly, particularly in the probate and estate planning product areas which both experienced year on year revenue growth of 20%.

Directors Duties and s.172 statement

The Directors of Co-operative Legal Services Limited ("CLS") are required to act in a manner compliant with their duties as set out in the UK Companies Act 2006.

This includes a duty to promote the success of the Company for the benefit of its shareholders. Board processes are designed to support the Directors in discharging this duty, particularly in relation to decision making processes. Here, we set out our engagement activities with our key stakeholders. In order to fulfil this duty, Directors must consider the following:

- likely consequences of any decisions in the long term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- the Company's reputation for high standards of business conduct; and
- need to act fairly between members of the Company.

The following is an overview of how the Board has performed its duties during the year.

Customers

Being there for our customers and improving their overall customer experience is a priority of the Board.

Through understanding our customers' needs, we are able to offer products and services to fit their circumstances and by providing a positive customer experience, we aim to build relationships so they will continue to do business with us in the future.

The business sends out customer satisfaction surveys to all customers who have used our products and services. The Board receives information on complaint levels at every Board meeting as part of its Risk report, and keeps this under review. The business has also undertaken specific work on dealing with vulnerable clients and has reported to the Board on this.

Shareholders

Co-operative Legal Services Limited is a wholly owned subsidiary of Co-operative Group Limited ("Co-op Group"), the UK's largest consumer co-operative with 4.6 million active members.

The Co-op Group Board receives a monthly report on how the business is performing on all aspects including client and commercial aspects as well as strategy and colleague engagement.

Employees

CLS employs a number of colleagues in order to provide services to customers.

The Directors recognise the importance of colleagues, ensuring their views are considered and any impact on them when making decisions and supporting their wellbeing.

The Board receives regular reports on matters relating to employees including scores from colleague surveys where employees have the opportunity to have their say on a number of matters and give feedback to management. CLS also has a People Strategy comprising six key pillars with the aim of CLS becoming the Employer of Choice. The business is working through rolling out this strategy.

Suppliers

CLS has a range of suppliers, who provide goods and services to support the legal services business and operation. The terms of those supplies, and the day to day relationships, are negotiated and managed by the Legal Heads of Practice where they directly support the provision of legal services, and by the Co-op Group Procurement team for business support supplies such as IT and facilities.

Regulation

CLS is authorised and regulated by the Solicitors Regulation Authority and must therefore meet obligations imposed by the regulator in addition to complying with other legislation applicable to the firm.

The SRA Principles require CLS among other things to uphold the rule of law and administration of justice; uphold public trust and confidence in the solicitors' profession; act with independence, honesty and integrity, and act in the best interests of each client.

CLS maintains compliant business systems and processes to achieve those Principles and maintain a reputation for high standards of business conduct. CLS reports to the SRA annually to confirm the firm is meeting regulatory obligations.

Community

At the Co-op, we champion a better way of doing business for you and your community.

Whilst the Co-op is not required to produce a section 172(1) statement, further information on how the Society has engaged with stakeholders can be found within the Co-op's Annual Report and Accounts at <https://www.co-operative.coop/investors/annual-results>

Strategic report (continued)

Future development and performance of the business

The Company continues to invest in developing propositions to drive future growth with a particular focus on sourcing increased work through third party relationships, particularly in the areas of probate, will writing and estate planning.

Principal risks and uncertainties

There is financial risk to the business in that the assessment of liability for personal injury claims is a key activity and the standard of the assessments needs to be consistent. Failing to manage this risk effectively can result in resource being allocated to non-revenue generating work. In order to ensure this doesn't happen, regular training is performed and is backed up by a team infrastructure which provides guidance, tuition and review.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. Credit risk is managed in the following ways: aged analysis is performed on trade receivable balances and reviewed on a monthly basis; credit ratings are obtained on any new customers and the credit ratings of existing customers are monitored on an on-going basis; credit limits are set for customers and trigger points and escalation procedures are clearly defined.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The policy on overall liquidity is to ensure that the Company has sufficient funds to facilitate all on-going operations. As part of the annual budgeting and long term planning process, the Company's cash flow forecast is reviewed and approved by the Board. The cash flow forecast is amended for any material changes identified during the period such as material acquisitions and disposals.

Other key risks identified and managed accordingly by the Company include COVID-19, operational, regulatory and strategic risk. Discussion of risks and uncertainties, in the context of the Group as a whole, is provided within the Group's annual report which does not form part of this report.

Key performance indicators

The two main key performance indicators for the Company are caseload and case duration. Caseload is an indication of current and short-term future revenue potential; case duration is important for monitoring customer satisfaction, as well as accessing profitability.

Caseload has increased in line with expectations in the year, particularly in probate (38% year on year growth), will writing services, (15% year on year growth) and family law (22% year on year growth) departments. Probate case durations for matters closed during the period averaged 462 days (2019: 491 days). This improvement is attributed to technological innovations and continuous development of case management processes.

In addition to monitoring revenue and profitability of the Company, the Group Directors also monitor a number of key performance indicators of the Co-operative Group Limited ("the Group"). These include financial performance, growth in and engagement of members of the Group, growing customer loyalty and corporate reputation of the Group. Further details on these key measures can be found within the Group's annual report.

By order of the Board



Caoilinn Hurley
Director

Registered Office:
1 Angel Square
Manchester
M60 0AG

Date 25 June 2020

Directors' report

The Directors present their report and financial statements for the 52 week period ended 4 January 2020.

In accordance with the provisions of S414c(11), we have included sections within the Strategic report relating to future development and performance of the business and principal uncertainties and risks as we feel this is more beneficial to the users although Companies Act 2006 would otherwise prescribe them to be included within the Directors' report.

Proposed dividend and transfer to reserves

The Directors do not recommend the payment of a dividend (2019: £nil).

The profit for the period retained in the Company after dividends was £4.1m (2019: £1.7m).

Directors

The Directors who held office during the period were as follows:

Caolionn Hurley

Helen Grantham

James Edward Morris (appointed 11 July 2019)

Jane Elisabeth Bates (appointed 19 November 2019)

Stuart Anthony Roberts (appointed 14 January 2020)

Matthew Ian Howells (resigned 1 May 2019)

Alison Joanne Close (resigned 9 July 2019)

Emma Kate Dimbylow (resigned 1 October 2019)

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Financial instruments

The Company does not undertake financial instrument transactions.

Employees

The main communication with employees is via the Group Co-operative intranet site. All managers are kept informed about the Group's performance through annual, interim and social accountability reports, management bulletins and Newsline, the electronic weekly new service.

The Company's policy is to recruit disabled workers for those vacancies they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employees are also consulted on a regular basis so that the views of the employees can be taken into account in making decisions which are likely to affect their interests.

Going concern

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

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

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

COVID-19 is having a material impact on the operations of the Group and significant additional costs are being incurred.

More details in regard to the going concern assessment are provided in note 1 of the financial statements.

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

Disclosure of information to auditors

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 auditors are unaware. Each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to S487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By order of the Board



Caolionn Hurley
Director

Registered Office:
1 Angel Square
Manchester
M60 0AG

Date 25 June 2020

Statement of Directors' responsibilities in respect of the Directors' report and the Financial statements

The Directors are responsible for preparing the Strategic report, 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 the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including Financial Reporting Standard 101 'Reduced Disclosure Framework').

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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 its financial statements comply with the Companies Act 2006. They 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.

Independent auditor's report to the members of Co-operative Legal Services Limited

Opinion

We have audited the financial statements of Co-operative Legal Services Limited for the period ended 4 January 2020 which comprise the Profit and loss account, Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 4 January 2020 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of matter – Effects of COVID-19

We draw attention to note 1 and 18 to the financial statements which describes the economic and social consequences the company is facing as a result of COVID-19 which is impacting supply chains, consumer demand, personnel available for work and or being able to access offices among other macroeconomic factors. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Co-operative Legal Services Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the 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.

Ernst & Young LLP

Catherine Hackney (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Manchester 26 June 2020

Profit and loss account
for the period ended 4 January 2020

	Notes	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Revenue	2	35,327	28,287
Cost of sales		(3,825)	(3,676)
Gross profit		31,502	24,611
Operating expenses		(26,462)	(22,601)
Operating profit	3	5,040	2,010
Interest receivable and similar income	6	6	4
Interest payable and similar charges	6	(104)	-
Profit on ordinary activities before taxation		4,942	2,014
Taxation	7	(802)	(343)
Profit for the period		4,140	1,671

All amounts relate to continuing activities.

Statement of comprehensive income
for the period ended 4 January 2020

The Company has no recognised income or expenses in the current or prior period other than those included in the Profit and loss account shown above.

Balance sheet

as at 4 January 2020

	Notes	As at 4 January 2020 €'000	As at 4 January 2020 €'000	As at 5 January 2019 €'000	As at 5 January 2019 €'000
Non-current assets					
Property, plant and equipment	8	1,048		978	
Right-of-use assets *	9	2,095			
Intangible assets	10	4,330		4,368	
Investments	11	3,438		3,438	
Trade and other receivables	12	2,304		2,303	
Deferred tax asset	14	213		214	
Total non-current assets			13,428		11,301
Current assets					
Trade and other receivables	12	17,825		16,911	
Cash and cash equivalents		15,342		12,135	
Total current assets			33,167		29,046
Total assets			46,595		40,347
Non-current liabilities					
Lease liabilities *	9	1,745			
Trade and other payables	13			755	
Total non-current liabilities			1,745		755
Current liabilities					
Lease liabilities *	9	487			
Trade and other payables	13	32,076		31,377	
Total current liabilities			32,563		31,377
Total liabilities			34,308		32,132
Equity					
Called up share capital	15	8,000		8,000	
Retained earnings		4,287		215	
Total equity			12,287		8,215
Total equity and liabilities			46,595		40,347

* The Company has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 1 to the financial statements.

These financial statements were approved by the Board of Directors on 25 June 2020

and were signed on its behalf by:



Caoilinn Hurlley
 Director

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

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 6 January 2018	8,000	(1,456)	6,544
Profit for the period	-	1,671	1,671
Balance at 5 January 2019 as originally reported	8,000	215	8,215
Impact of adoption of IFRS 16 on retained earnings as at 6 January 2019 *	-	(82)	(82)
Tax on impact of IFRS 16 on retained earnings as at 6 January 2019 *	-	14	14
Balance at 5 January 2019 after impact of IFRS 16	8,000	147	8,147
Profit for the period	-	4,140	4,140
Balance at 4 January 2020	8,000	4,287	12,287

* The Company has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 1 to the financial statements.

All items are shown net of tax.

Notes

(forming part of the financial statements)

1 Accounting policies

Reporting entity

Co-operative Legal Services Limited is a company limited by shares and domiciled in England and Wales. The address of the Company's registered office is 1 Angel Square, Manchester, M60 0AG.

Accounting date

The financial statements for the 52 week period are prepared to 4 January 2020.

Basis of preparation

The financial statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework'.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, fair value measurements, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Where applicable, the following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101. The specific exemptions that the Company has taken advantage of are:

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

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and in accordance with applicable accounting standards and are prepared on the historical cost basis. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The Company is exempt by virtue of S400 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it is a wholly owned subsidiary of Co-operative Group Limited, a Society incorporated in England and Wales. These financial statements present information about the Company as an individual undertaking only. The accounting policies set out below, have been applied consistently to all periods presented in these financial statements.

New and amended standards adopted by the Company

The Company has applied IFRS 16 Leases for the first time for reporting periods commencing on or after 6 January 2019. The nature and effect of the changes as a result of adoption of this new accounting standard is described on pages 13 and 14.

Estimates and judgements

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgements and estimates made by management in the application of FRS 101 that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as follows:

(i) Revenue and milestones

Revenue within personal injury and probate is recognised using a fixed milestone methodology which represents the progression and fulfilment of a case. Milestones have been derived by using the output method, which measures consideration based on performance obligations and value transfer to the client. This approach and timing of milestones is reviewed on a regular basis to ensure revenue consideration is recognised within the appropriate accounting period.

(ii) Disbursement provisions

Details of calculations are shown in note 12.

(iii) Tax provisions

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

(iv) IFRS 16

IFRS 16 judgements in relation to determining lease discount rates and lease terms are described on page 15.

Notes (continued)

Going concern

The Company generated a profit of £4.1m in the period (2019: £1.7m) and at the balance sheet dates holds net assets of £12.3m (2019: £8.2m).

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

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

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

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

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

Property, plant and equipment and depreciation

Owned assets

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Plant and machinery	5 - 8 years
Fixtures and fittings	5 - 8 years
Computer software	2 - 5 years

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

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

No depreciation is provided on freehold land.

Notes (continued)

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

(i) Right-of-use assets

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

(ii) Lease liabilities

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

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

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

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

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

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

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

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

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

Intangible assets

(i) Goodwill

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

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is tested annually for impairment and is not subject to amortisation. Where there is indication of impairment an impairment review will be performed.

The licences and software have a useful economic life of 2 - 5 years and are amortised on a straight line basis over those years.

(iii) Subsequent expenditure

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

Impairment

The carrying amount of the Company's assets, other than investment property, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

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

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

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

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

Pensions and other post-retirement benefits

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

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

Notes (continued)

Taxation

(i) Income tax

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

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

(ii) Deferred taxation

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

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

Revenue

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

Provision of services is revenue recognised as a distinct performance obligation delivered to the client. All revenue is derived from the Company's principal activity of providing legal services within the United Kingdom. The following criteria must be met before revenue is recognised:

(i) **Personal injury claims:** Revenue on injury claims processed by the in-house solicitor is accrued over the life of the case as certain case milestones are achieved. No revenue is booked beyond the extent of recoverable costs until the admission of liability is received from the third party insurer. Revenue on injury claims referred to the Company's external panel of solicitors is booked when the Company has a right to consideration in accordance with the arrangement with the panel solicitor.

(ii) **Claims handling:** Revenue for claims handling represents the right to consideration earned in respect of claims handling services performed during the period through performance of contractual obligations, net of any sales tax.

(iii) **Probate fees:** Revenue on probate administration processed by the Company is accrued over the life of the case as certain milestones are achieved. Revenue on probate cases referred to the Company's external panel of solicitors is booked when the Company has a right to consideration in accordance with the arrangement with the panel solicitors.

(iv) **Family law services:** Revenue on private family law work is recognised at interim and final billing points in line with completion of work.

(v) **Will writing services:** Revenue on will writing services processed by the Company is booked when the payment is received from the customer. The payment of the agreed fee happens in line with the completion of the customer's will.

(vi) **Commissions:** Commissions are received on the referral of conveyancing work to an external solicitor. Revenue represents the gross amount of commissions earned and is recognised on completion of the conveyance.

(vii) **Later life planning products:** Revenue on Later life planning products processed by the Company is recognised at two distinct points - the first 50% when the initial instructions have been recorded and received by the legal team and the second 50% when the documentation has been created and sent to the customer for signing.

Provisions

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

Adoption of IFRS 16

(i) The effect of the adoption of IFRS 16

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

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

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

	£'000
Assets	
Right-of-use assets	2,525
Deferred tax asset	14
Total assets	<u>2,539</u>
Equity	
Retained earnings	(68)
Total equity	<u>(68)</u>
Liabilities	
Lease liabilities	2,607
Total liabilities	<u>2,607</u>

Notes (continued)

Adoption of IFRS 16 (continued)

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

	£'000
Depreciation expense (included in operating costs)	(441)
Rent expense (previously included in operating costs)	530
Operating profit	<u>89</u>
Finance costs	(123)
Loss before tax	<u>(34)</u>
Taxation	6
Loss for the period	<u><u>(28)</u></u>

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

The Company's leasing activities and how these are accounted for:

The Company leases assets which mainly comprise of property leases as well as vehicles and other equipment.

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

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

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

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

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

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

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

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 38 impairment of assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. However an onerous provision is still held on balance sheet for onerous non-rental costs such as service charges on leasehold properties, as these costs are outside of the scope of IFRS 16. The impact of this is a reduction in the onerous lease provision of £nil as at 6 January 2019.

Right-of-use assets were tested for impairment on transition with the impact on the consolidated balance sheet included in the figures shown in the table in section (i).

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

Adjustments recognised on adoption – Lease liabilities

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 6 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 6 January 2019 was 2.28%.

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

	£'000
Operating lease commitments disclosed as at 6 January 2019	<u>2,454</u>
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,856
Add: adjustments as a result of a different treatment of extension and termination options	751
Lease liability recognised as at 6 January 2019	<u><u>2,607</u></u>
Of which are:	£'000
Current lease liabilities	509
Non-current lease liabilities	2,098
	<u><u>2,607</u></u>

The lease liability recognised as at 6 January 2019 of £2,607k is comprised solely of the additional lease liabilities brought onto the balance sheet on the adoption of IFRS 16.

Notes (continued)

Adoption of IFRS 16 (continued)

Adjustments recognised on adoption – Right-of-use assets

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

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

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Property	1,804	2,011
Plant and equipment	291	514
Total right-of-use assets	2,095	2,525

Adjustments recognised on adoption - practical expedients applied

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

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

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

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

There is significant judgement involved in determining an appropriate discount rate to apply at the transition date of 6 January 2019. This is especially true for property leases where often there is no interest rate implicitly stated within the lease. For such leases a discount rate is derived by estimating the incremental borrowing rate ('IBR'). The IBR is the rate at which the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. There is therefore significant estimation uncertainty in estimating the appropriate IBR. As explained further in the accounting policies section on page 15, the Company has applied the practical expedient available when adopting IFRS 16 for the first time, to apply the same discount rates to assets which have similar characteristics. A decrease in the discount rate of 0.5% applied to property leases would increase the lease liability by £44k. An increase in the discount rate of 0.5% applied to property leases would decrease the lease liability by £42k.

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

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

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

2 Revenue

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Revenue comprises the following:		
Probate fees	25,988	18,800
Personal injury claims	4,369	5,023
Will writing services	2,241	1,951
Claims handling	1,437	1,400
Family law services	1,281	1,049
Employment law services	11	27
Commissions	-	37
	35,327	28,287

Notes (continued)

3 Operating profit

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Operating profit is stated after charging:		
Depreciation of property, plant and equipment	239	232
Depreciation of right-of-use assets *	441	-
Loss on sale of property, plant and equipment	-	76
Amortisation of intangibles	38	42
Operating lease rental charges - plant and equipment *	-	83
Operating lease rental charges - land and buildings *	-	368

The auditor's remuneration of £25k (2019: £24k) is borne by the ultimate parent undertaking.

The Company is exempt by virtue of S494 of the Companies Act 2006 from further disclosures in relation to auditors' remuneration as it is a wholly owned subsidiary of the Co-operative Group Limited for which consolidated financial statements are prepared disclosing non-audit fee information on a group wide basis.

* The Company has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 1 to the financial statements.

4 Staff numbers and costs

The staff were employed by the ultimate parent undertaking and associated costs incurred and recharged amounted to £17.8m (2019: £14.9m).

The average number of persons employed by the Company (including Directors) during the period was as follows:

	Number of employees For period ended 4 January 2020	Number of employees For period ended 5 January 2019
Full-time	488	360

The aggregate payroll costs of these persons were as follows:

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Wages and salaries	14,796	12,619
Social security costs	1,432	1,250
Other pension costs (see note 5)	1,542	1,040
	17,770	14,909
	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Directors' remuneration	467	763
Company contributions to money purchase pension plans	12	26
	479	809

The above were recharged to the Company by the ultimate parent undertaking, Co-operative Group Limited who paid for these on the Company's behalf.

The aggregate emoluments and amounts receivable under long term incentive schemes of the highest paid Director was £326,725 (2019: £338,855) and Company pension contributions of £nil (2019: £12,250)

Retirement benefits are accruing to 2 directors under a money purchase scheme (2019: 2).

5 Pension scheme

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

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

The amount recognised as an expense in respect of the Pace scheme for this Company was £1,542,254 (2019: £1,039,971). This is included in the staff costs as disclosed in note 4.

As the Pace Complete Scheme was closed to future accrual at the end of October 2015, the Pace DC scheme was expanded. The employer contributions made by the Company have been charged to the income statement when incurred.

Notes (continued)

6 Finance costs

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Interest payable		
Underlying interest expense on lease liabilities	(104)	-
Total interest payable and similar costs	(104)	
Interest receivable		
Interest receivable on short term deposits	6	4
Total interest receivable and similar income	6	4
Net finance costs	(98)	4

* The Company has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 1 to the financial statements.

7 Taxation

Analysis of charge in period

	For period ended 4 January 2020 £'000	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000	For period ended 5 January 2019 £'000
UK corporation tax				
Group relief payable	(828)		(325)	
Adjustments in respect of prior periods	41			
Total current tax		(787)		(325)
Deferred tax				
Current period items	(17)		(20)	
Adjustments in respect of prior periods	2		5	
Effect of rate change on closing balance	-		(3)	
Total tax charge		(802)		(343)

Factors affecting the tax charge for the current period

The tax on the net profit before tax differs from the theoretical amount that would arise using the standard applicable blended rate of corporation tax of 19% (2019: 19%) as follows:

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Current tax reconciliation		
Profit before tax	4,942	2,014
Current tax charge at 19% (2019: 19%)	(939)	(383)
Effects of:		
Expenses not deductible for tax purposes	103	43
Depreciation and amortization on non-qualifying assets	(10)	(7)
Adjustments to tax charge in respect of previous periods	43	5
Restatement of deferred tax to 17% (2019: 17.03%)	1	(1)
Tax charge on continuing business	(802)	(343)

The Finance Act 2016 was to reduce the main rate of corporation tax to 17% from 1 April 2020. Following the budget on 11 March 2020, The Chancellor has enacted with effect from 17 March 2020 that the previous enacted rate reduction will be revoked. Under IFRS it is the rate(s) actually enacted at the balance sheet date that determines the amount of deferred tax to be recognised. Accordingly, each deferred tax balance has been measured individually based on the enacted tax rates(s) as at 4 January 2020, at which the deferred tax was expected to unwind in the future (either 19% or 17%). This results in a blended deferred tax rate of 17% (2019: 17.03%) at the balance sheet date.

However, for future reporting periods the Company will use the newly enacted 19% rate throughout for determining the amount of deferred tax to be recognised. If this 19% rate had been applied instead of the previously enacted rate(s), the impact on the balance sheet would have been to restate all deferred tax to 19% meaning the deferred tax per note 14 would increase by £25k.

Notes (continued)

8 Property, plant and equipment
as at 4 January 2020

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost				
As at 5 January 2019	267	954	743	1,964
Additions	-	149	159	308
At 4 January 2020	267	1,103	902	2,272
Depreciation				
As at 5 January 2019	267	589	130	986
Charge for the period	-	129	109	238
At 4 January 2020	267	718	239	1,224
Net book value				
At 4 January 2020	-	385	663	1,048
As at 5 January 2019	-	365	613	978

* The Company has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 1 to the financial statements.

9 Leases

As a lessee

Right-of-use assets

	Property £'000	Plant and equipment £'000	Total £'000
On adoption of IFRS 16	2,011	514	2,525
Balance at 6 January 2019	2,011	514	2,525
Depreciation charge for the year	(207)	(234)	(441)
Additions	-	11	11
Balance at 4 January 2020	1,804	291	2,095

The Company leases many assets, principally it leases properties for its administrative functions and some vehicles. The leases of properties are typically around 10 years in length. Vehicle and equipment leases are typically between 1 and 4 years in length and in some cases the Company has options to purchase the assets at the end of the contract term.

	As at 4 January 2020 £'000
Current	487
Non-current	1,745
Lease liabilities included in the statement of financial position at 4 January 2020	2,232
Additional lease liabilities on adoption of IFRS 16	2,607
Lease liabilities as at 6 January 2019	2,607
Additions	11
Interest expense	123
Payments	(509)
Lease liabilities as at 4 January 2020	2,232

Extension and termination options

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

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

As at 4 January 2020, potential future cash outflows of £nil (discounted) have not been included in the lease liability because it is not reasonably certain that the Company will exercise the extension option. Included within the lease liability are future cash outflows of £752k (discounted) where the Company holds termination options but it is not reasonably certain to execute those termination options.

* The Company has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 1 to the financial statements.

Notes (continued)

10 Intangible assets
as at 4 January 2020

	Goodwill £'000	Computer software £'000	Total £'000
Cost			
As at 5 January 2019	6,538	264	6,802
At 4 January 2020	6,538	264	6,802
Amortisation			
As at 5 January 2019	2,250	184	2,434
Charge for the period		38	38
At 4 January 2020	2,250	222	2,472
Net book value			
At 4 January 2020	4,288	42	4,330
As at 5 January 2019	4,288	80	4,368

Amortisation charges of £38k (2019: £42k) are recognised in operating expenses within the income statement.

The licences and software have a useful economic life of 2 - 5 years and are amortised on a straight line basis over those years.

11 Investments

The Company holds an investment representing 100% of the ordinary share capital of The Co-operative Trust Corporation Limited, a legal services company registered in England and Wales. Following the grant of an alternative business structure licence to the Company in 2012 the entire business, assets and liabilities of The Co-operative Trust Corporation Limited were transferred to the Company at carrying value. As a result of this transfer, the value of the investment was written off in 2012, and The Co-operative Trust Corporation Limited is now dormant.

The Company holds an investment of £3,438,000 representing 100% of the share capital of Collective Legal Solutions Group Limited and its subsidiaries, an estate planning company registered in England and Wales. The principal activities of the business are the sale of basic and complex, end of life planning products. The registered office is 1 Angel Square, Manchester M60 0AG.

On March 29, 2018 Co-operative Legal Services Limited acquired 100% of the ordinary share capital of Chorus Law Group Limited.

Subsidiary details are listed below:

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Investments in subsidiaries		
At 5 January 2019	3,438	3,438
Additions		1,725
Transfer to goodwill		(1,725)
At 4 January 2020	3,438	3,438

	Trading/ Dormant	Total assets £	Total liabilities £	Revenue £	Profit / (loss) £
Collective Legal Solutions Group Limited *	Dormant	350,000	100,000	-	-
The Co-operative Trust Corporation Limited *	Dormant	-	-	-	-
Dovedon Limited **	Trading	3,519,000	2,330,000	4,440,000	749,000
CLS Probate Limited **	Trading	74,000	42,000	-	(2,000)
Care Estate Planning Limited **	Dormant	747,000	100,000	-	-
Collective Legal Solutions Limited **	Dormant	1,000	-	-	-
		4,691,000	2,572,000	4,440,000	747,000

* directly held

** indirectly held

Notes (continued)

12 Trade and other receivables

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Non-current assets:		
Amounts recoverable on contracts	2,304	2,303
	<u>2,304</u>	<u>2,303</u>
Current assets:		
Trade receivables	3,199	2,509
Amounts owed by Group undertakings	1	
Amounts recoverable on contracts	14,243	14,115
Prepayments and accrued income	382	287
	<u>17,825</u>	<u>16,911</u>

Amounts recoverable on contracts represent contract assets under IFRS 15.

All of the above financial assets are classified as loans and receivables. Trade receivables are stated net of expected credit loss of £1.7m (2019: £1.2m).

For personal injury, the provision is driven by high risk cases and cases where liability is either outstanding or denied. Any adjustment to the level of provision is recognised within the income statement in operating profit.

Amounts overdue but not impaired typically comprise high volume/low value balances for which the individual trading businesses do not seek collateral but continue to work with counterparties to secure settlement. No other debtors are overdue.

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

Movements in allowance for expected credit loss

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Opening provision for expected credit loss	1,227	836
Increase in provision during the year	1,026	712
Bad debts written off during the year	(507)	(321)
Closing provision for expected credit loss	<u>1,746</u>	<u>1,227</u>

13 Trade and other payables

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Non-current liabilities:		
Accruals and deferred income		755
Current liabilities:		
Trade payables	826	261
Amounts owed to Group undertakings	20,733	21,137
Corporation tax liability	1,112	325
Other taxation and social security	1,507	1,301
Accruals and deferred income	7,898	8,353
	<u>32,076</u>	<u>31,377</u>

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

14 Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a blended effective rate of 17% (2019: 17.03%).

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Deferred taxation asset		
Opening balance	214	232
IFRS 16 restatement - see note below	14	
Income statement charge in the period	(15)	(18)
Closing balance	<u>213</u>	<u>214</u>
Comprising:		
IFRS 16 transition adjustment taken through opening reserves	14	
Other temporary differences	17	
Capital allowances on fixed assets	182	214
Closing balance	<u>213</u>	<u>214</u>

On the adoption of IFRS 16 with effect from 1 January 2019 the opening reserves have been restated down by £82k. More information about this is provided in the accounting policies section on page 13. Tax relief is provided for this restatement by spreading a deduction over the combined weighted average length of the leases. A deferred tax asset of £14k was established through adjustment to opening reserves. By the end of the year this had only marginally fallen due to the tax relief taken in 2019 but still shows as £14k.

Notes (continued)

15 Called up share capital

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Authorised		
Ordinary shares of £1 each	<u>8,000</u>	<u>8,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>8,000</u>	<u>8,000</u>

16 Commitments and contingent liabilities

There are no capital commitments at the end of the current period and preceding financial period.

17 Group entities

Ultimate parent company

The Company is a wholly owned subsidiary of Co-operative Group Limited, a Registered Society in England and Wales. This is the smallest and largest group of which the Society is a member and for which consolidated accounts are prepared. A copy of the Group accounts can be obtained from The Secretary, Co-operative Group Limited, 1 Angel Square, Manchester, M60 0AG.

18 Post balance sheet events – Coronavirus (COVID-19)

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

The Co-operative Group Limited ("the Group") is currently seeing COVID-19 impact its cost base in areas such as front line and logistics payroll, investment in protective equipment and increased cleansing and sanitation costs within store costs. The Group has also seen an impact on demand in the business, taking into account a prudent but realistic view of the experience of the last few months.

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

Within the accounting policies section, further detail on the key impacts of COVID-19 on the financial projections used in the assessment of the going concern of the Company is provided. An indication of the potential impact of COVID-19 on key assumptions and estimates contained within the balance sheet is also provided below:

Impairment of Property, plant & equipment (£1m), Right-of use assets (£2.1m), Goodwill and intangible assets (£4.3m)

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

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

Current assets

The Company has also reviewed the recoverability of our most significant current assets in particular trade receivables. The Company remains confident of their recoverability taking into account the recent performance of the market.