Funeral Services Limited

Financial statements

Registered number 30808R

Period ended 6 January 2024

Corporate Information

Directors
H Smith
G Stewart

Secretary
C J Sellers

Auditors
Ernst & Young LLP, Statutory Auditor
No. 1 Colemore Square
Birmingham
B4 6HQ

Registered Office
1 Angel Square
Manchester
M60 0AG

Contents

Statement of Directors' responsibilities in respect of the financial statements

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

Co-operative and Community Benefit Society Law requires the Directors to prepare financial statements for each financial period. 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 ("FRS 101").

Under that 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 Society (Funeral Services Limited) and of the income and expenditure of the Society for that period.

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

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society financial position and financial performance;
- in respect of the financial statements, state whether applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the Society financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website.

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

Qualified Opinion

We have audited the financial statements of Funeral Services Ltd ("the Society") for the 53-week period ended 6 January 2024 which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 26, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements:

- give a true and fair view of the Society's affairs as at 6 January 2024 and of its income and expenditure for the 53 week 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 Co-operative and Community Benefit Societies Act 2014

Basis for Qualified Opinion

Up until April 2022, the Society sold and provided pre-need funerals plans which carry insurance risk arising from the uncertain timing of the death of the plan holder and consequently qualify as insurance contracts under IFRS 17 Insurance Contracts ('IFRS 17'). An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023. For the purposes of the transition requirements, IFRS 17 states (a) the date of initial application is the beginning of the annual reporting period in which an entity first applies IFRS 17 (being 1 January 2023); and (b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application (being 1 January 2022).

Management has not applied IFRS 17 to the pre-need funeral plan business for the period 1 January 2022 to 30 April 2022, prior to transferring the insurance contracts to another related entity. Management have accounted for the insurance contracts under IFRS 15. The Society's records indicate that, had management restated the comparatives on transition to IFRS 17, retained earnings would have increased by £6.9m as at both 31 December 2022 and 6 January 2024. In addition, the Society's financial statements do not disclose the impact of transition to IFRS 17 Insurance Contracts at 1 January 2022 and consequently do not include all of the disclosures required by the applicable financial reporting framework.

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for the period to 31 December 2025.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern.

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 Board is responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

Responsibilities of the Board

As explained more fully in the directors' responsibilities statement set out on page 4, the Board 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 Board 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 Board are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Society and determined that the most significant are direct laws and regulations related to elements of Society law and tax legislation, and the financial reporting framework.

- We understood how the Society is complying with those frameworks by making enquiries of management, those charged with governance and those responsible for legal and compliance matters. We also reviewed minutes of the Board, and gained an understanding of the Society's approach to governance, demonstrated by the internal control processes.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the Society's methods of enforcing and monitoring compliance with such policies.

- We assessed the susceptibility of the Society's financial statements to material misstatement, including how fraud might occur by considering the entity level controls that the Society has established to address risks identified by the Society, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. We considered the risk of management override and designated the risk of fictitious journals impacting revenue recognition to be a fraud risk. Our audit procedures included: enquiries with management, confirming revenue was recorded by the Society in accordance with the signed transfer pricing arrangement in place, testing the appropriateness of a sample of revenue related and other unusual journal entries with a specific focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved testing to address each identified fraud risk, including procedures to test journals that appear to be high risk.

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 Society in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Society those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Ernst & Young LLP
47CB169D9DD84BA...

Ernst & Young LLP
Statutory Auditor
Birmingham
26 June 2024

Income statement

(for the 53 week period ended 6 January 2024)

	Notes	**For period ended 6 January 2024***	For period ended 31 December 2022
		£'000	£'000
Revenue	3	**235,688**	243,469
Cost of sales		**(27,193)**	(26,256)
Gross profit		**208,495**	217,213
Administrative expenses		**(224,490)**	(215,047)
Exceptional expenses	7	**(163)**	(1,991)
Operating (loss) / profit	4	**(16,158)**	175
Finance income	9	**13,224**	5,228
Finance costs	8	**(2,202)**	(2,168)
Net finance income on funeral plans		**-**	26,579
(Loss) / profit on ordinary activities before taxation		**(5,136)**	29,814
Taxation	10	**1,052**	(4,712)
(Loss) / profit for the period		**(4,084)**	25,102

All amounts relate to continuing activities.

* The figures for the period ended 6th January 2024 represents the 53 week period ended 6th January 2024 with the 2022 comparatives representing 52 weeks to 31st December 2022.

Statement of comprehensive income

(for the 53 week period ended 6 January 2024)

The Society has no recognised income or expenses in the current or prior period other than those included in the income statement shown above, therefore a separate Statement of comprehensive income has not been presented. The total comprehensive loss for the 53 week period ended 6 January 2024 was £4,084k (52 week period ended 31 December 2022: profit of £25,102k).

The notes on pages 11 to 38 form an integral part of these financial statements.

Balance sheet

(as at 6 January 2024)

	Notes	**As at 6 January 2024**	As at 31 December 2022
		£'000	£'000
Non-current assets			
Property, plant and equipment	12	**148,343**	149,702
Right-of-use assets	13	**34,380**	36,945
Goodwill and intangible assets	14	**50,178**	44,739
Trade and other receivables	17	**124,359**	142,800
Contract assets	16	**6,210**	6,629
Total non-current assets		**363,470**	380,815
Current assets			
Inventories	15	**3,848**	3,251
Trade and other receivables	17	**11,006**	16,128
Contract assets	16	**609**	752
Corporation tax	10	**622**	-
Cash and cash equivalents		**108,060**	101,043
Total current assets		**124,145**	121,174
Total assets		**487,615**	501,989
Non-current liabilities			
Lease liabilities	13	**(32,069)**	(35,928)
Trade and other payables	18	**(353)**	(370)
Deferred tax liabilities	20	**(7,702)**	(8,132)
Total non-current liabilities		**(40,124)**	(44,430)
Current liabilities			
Lease liabilities	13	**(9,233)**	(9,217)
Trade and other payables	18	**(55,637)**	(51,336)
Corporation tax	10	**-**	(10,339)
Provisions	19	**(323)**	(285)
Total current liabilities		**(65,193)**	(71,177)
Total liabilities		**(105,317)**	(115,607)
Equity			
Called up share capital	21	**-**	-
Retained earnings		**(382,298)**	(386,382)
Total equity		**(382,298)**	(386,382)
Total equity and liabilities		**(487,615)**	(501,989)

The notes on pages 11 to 38 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 June 2024 and were signed on its behalf by:

H Smith Director	G Stewart Director	C J Sellers Secretary

Statement of changes in equity
(for the period ended 6 January 2024)

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2022	-	361,280	361,280
Profit and total comprehensive income for the period		25,102	25,102
Balance at 31 December 2022	**-**	**386,382**	**386,382**
Loss and total comprehensive loss for the period	**-**	**(4,084)**	**(4,084)**
Balance at 6 January 2024	**-**	**382,298**	**382,298**

The notes on pages 11 to 38 form an integral part of these financial statements.

Notes to the financial statements

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

Reporting entity

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

The principal activity of the Society is funeral directors and associated services in the United Kingdom. In the first 4 months of the prior year activity included issuing prepaid funeral plans prior to the transfer of the funeral plan business to Co-operative Funeral Plans Ltd (CFPL) as noted below.

Accounting date

The financial statements for the period are prepared for the 53 weeks to 6 January 2024. The Co-operative Group Limited (the "Group" - see note 24) subsidiaries prepare their accounts to the first Saturday in January unless 31 December is a Saturday. Comparative information is presented for the 52 weeks ended 31 December 2022.

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

Transfer of engagements

In the prior period on the 1 May 2022, a partial transfer of engagements to CFPL from the Society was registered transferring all charges in relation to funeral plan activity from the Society to CFPL. This transfer related solely to the prepaid funeral plan element of the business as the prepaid funeral plan industry was brought under FCA regulation.

Net liabilities of £65.5m for funeral plan assets and liabilities were transferred from the Society into CFPL. The net liability reflected the difference between the fair value of the assets held to cover the future delivery of the prepaid funeral plans and the fair value of that liability to deliver the funerals as measured under IFRS 15 (Revenue from Contracts with Customers). To compensate for taking on these net liabilities, the Society recognised a £65.5m intercompany loan payable.

2 Accounting policies

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

Basis of preparation

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

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

The Society's ultimate parent is Co-operative Group Limited (the Group). The Society faces the same risks and challenges in relation to climate change as the Group and manages these risks in-line with the Group's approach to climate change. The Group's overall approach to climate change is outlined in the Task Force on Climate related Financial Disclosures (TCFD) section of the Group's 2023 Annual Report and Accounts (ARA) (page 120). Climate related risks are also explained within the Principal Risks and Uncertainties (Environment and Sustainability) section of the ARA on page 59. The Group's assessment of the potential impact on the long term viability of the Group is also set out on page 116 of the Group's 2023 ARA.

Notes to the financial statements (continued)

2 Accounting policies (continued)

IFRS Exemptions applied

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 Society has taken advantage of are:

- IFRS 7 Finanical 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 Statement of Cash flows
- Para 30-31 of IAS 8 Accounting policies, changes in accounting estimates and errors
- Para 17 and 18A of IAS 24 Related party disclosures
- IAS 24 Intra-group transactions
- The second sentence of para 110 and paras 113(a), 114, 115, 118, 119(a) - (c), 120-127 and 129 of IFRS 15 Revenue from Contracts with Customers
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134 (f) and 135(c) to 135(e) of IAS 36, Impairment of Assets
- The requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

New and amended standards adopted by the Society

The Society has considered the following standards and amendments that are effective for the Society for the period commencing 1 January 2023 and concluded that they are either not relevant to the Society or do not have a significant impact on the financial statements :

- Amendments to IAS 8 - Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies
- Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12 - International Tax Reform Pillar Two Model Rules*

* Pillar 2 is being introduced into the UK to support the international actions promoted by the OECD to impose a minimum tax rate of 15%. The Co-op have considered the impact of the new rules and concluded that it has no application for the current year and is very unlikely to apply in 2024. This is because our prevailing Effective Tax Rate is above 15%.

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 1 January 2023 reporting periods and the Society has not early adopted the following standards and statements. The adoption of these standards is not expected to have a material impact on the Society's accounts:

- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current *
- Amendments to IAS 1 - Non-current Liabilities with Covenants *
- Amendments to IAS 16 - Lease Liability in Sale and Leaseback *
- Amendments to IAS 7 - Supplier Finance Arrangements *
- Amendments to IFRS 10 and IAS 8 - Sale or Contribution of Assets between an Investor and its Associate or Joint venture**

* Effective for annual periods beginning on or after 1 January 2024. ** In December 2015, the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Critical accounting estimates and judgements

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

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

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

Key judgements:

In the process of applying the Society's accounting policies, management has made the following key judgements which have the most significant impact on the financial statements:

Insurance contracts (funeral plans) - under the new Insurance accounting standard (IFRS 17 Insurance Contracts) the Co-operative Group have concluded that their funeral plan contracts with customers are deemed to represent an insurance contract and hence fall under the scope of IFRS 17.

An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023. For the purposes of transition:

a) The date of initial application is the beginning of the annual reporting period in which an entity first applies IFRS 17 (assessed as 1 January 2023 for FSL);

b) The transition date is the beginning of the annual reporting period immediately preceding the date of initial application (would be the 1 January 2022 for FSL).

The Society (FSL) does not hold any funeral plan contracts at the balance sheet date (6th January 2024) and did not hold any at the comparative balance sheet date (31st December 2022) or at the date of application of IFRS 17 (1st January 2023).

It is therefore management's interpretation of the standard and assessment that IFRS 17 is not applicable at the effective / application date of 1st January 2023 (as no insurance contract liabilities are held). Consequently it is management's interpretation that there is no requirement for FSL to consider the retrospective transition date and restate any 2022 figures.

IFRS 17 has been applied in CFPL (the Group entity which holds those funeral plan contracts at the balance sheet dates following the transfer from FSL on 1 May 2022) and the consolidated Group Accounts included appropriate restatement of comparative figures.

If IFRS 17 was deemed to apply to the Society (FSL) for year-end 2023 reporting then this would require retrospective restatement of comparative figures to reflect funeral plans being recorded under IFRS 17 rather than under IFRS 15. Any restatement would not materially impact retained earnings as at 31 December 2022 (FY22) or 6 January 2024 (FY23) as a result of offsetting elements between any changes in the liability valuation under IFRS 17 and the profit or loss on transfer of the book to CFPL. The impact at FY22 and FY23 would be an increase in retained earnings of £6.9m representing less than 2% of total retained earnings at those dates.

Furthermore, it is our assessment that such a restatement would reduce year-on-year comparability rather than enhance it (which would be the basic purpose of a restatement) reducing the usefulness and understandability of the accounts.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Key estimates and assumptions:

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

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

Leases (note 13) - the Society determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Society has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Society applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Society reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Impairment of non-financial assets (notes 12, 13 & 14) - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets, goodwill and intangibles) are reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. For property assets the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

The Society estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows (DCF) associated with that asset at a pre-tax rate of 11.6% (2022: 10.9%). The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in note 12.

Impairment of trade receivables (note 17) - trade receivables are stated at amortised cost which includes an impairment assessment for potential credit risk. The Society has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. In estimating the provision for expected credit losses the Society has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables. See note 17 for details.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern

The Society generated a loss of £4,084k in the period (2022: £25,102k profit) and at the balance sheet dates holds net assets of £382,298k (2022: £386,382k).

The Society is reliant on the support of Co-operative Group Limited ("the Group") in order to meet its day to day working capital requirements because the Group operates a central treasury function. The Society meets these requirements through cash generated from its operations and participation in facility arrangements provided by external lenders to the Group and certain of its subsidiaries, including the Society ("the Group facilities"). A letter of support has been obtained from the Group as evidence of its intention to give continued financial support. The Group has confirmed that it has the ability to provide such financial support and has committed to providing such support until at least 31 December 2025. The Society has an inter-company receivable of £124,359k as at 6 January 2024.

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

Our Co-op operates with net current liabilities as our working capital cycle means cash receipts from revenues arise in advance of the payments to suppliers for the cost of goods sold. We also borrow money from banks and others, and as part of this process we have checked that we can comply with the terms of those agreements - for example, banking covenants and facility levels. Accounting standards require that the foreseeable future covers a period of at least 12 months from the date of approval of the financial statements. The assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period, to 31 December 2025. Although our Co-op has a robust planning process, the continuing economic uncertainty means that additional sensitivities and analysis have been applied to test the going concern basis under a range of downside scenarios. The following steps have been undertaken to allow the directors to conclude on the appropriateness of the going concern assumption:

1.Understand what could cause our Co-op not to be a going concern in relation to facility headroom and covenant compliance.
2.Review and challenge of the base case forecast produced by management, including key investment choices.
3.Consider downside sensitivities across the base case forecast as part of going concern.
4.Examine what controllable mitigating actions would be taken in the event of these scenarios.
5.Perform a reverse stress test to assess under what circumstances liquidity and covenant headroom would become a risk, assess the likelihood of whether they could occur and any further mitigating actions.
6.Conclude upon the going concern assumption.

1. Understand what could cause our Co-op not to be a going concern in relation to facility headroom and covenant compliance.

In making their assessment, the directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability; cashflow and covenant compliance; and available capital resources. The potential scenarios which could lead to our Co-op not being a going concern are:

a. Not having enough cash to meet our debt liabilities as they fall due; and/or
b. A breach of the financial covenants implicit in our bank facility agreement.

We note at the year end date, of the total £1,107m of facilities available to us, we were £664m draw-down. Note 26 to the Group's Financial Statements sets out more information on the Group’s objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern (continued)

2. Board review and challenge the base case forecast

We have conducted a detailed forward planning exercise as part of our strategic plan. Co-op's base case forecast includes prudence following the uncertainty in the market due to geo-political factors, inflation and volatile energy costs. The Board has reviewed and approved these plans.

The key assumptions in the plan are:

a.Sales growth is driven by volume recovery following significant membership price investment and wider strategic scaling activity.

b.This growth is tempered with impact of cost headwinds (wage through Real Living Wage and continuing cost inflation) increasing the cost of goods.

c.Whilst capital investment remains tightly controlled, growth plans and an improved balance sheet will allow room for higher investment into future growth.

d.The sustainability bond due to mature in 2024 and the notes due to mature in 2025 will be repaid in full out of existing cash balances. The 2026 bond maturity is expected to be refinanced.

3. Consider downside sensitivities across the base case forecast

In undertaking our going concern assessment, we have included assumptions related to the uncertain economic environment, and modelled further severe but plausible downside sensitivities of internal and external factors on the financial projections including (but not limited to):

- A reduction in the sales in our Food retail business, with a 1% reduction to sales volume in FY24 and 1% thereafter.
- A reduction in the demand of our Funeralcare business, with a 1% reduction in volume of funerals delivered, a reduction in average sales price and a move to customer preferences towards lower cost funerals.
- An increase in energy costs of £10m in 2024 rising to £26m by end of 2025, which covers unhedged energy prices and significant escalation in the Middle East. Although we'd expect this risk to decrease overtime and don't foresee a long-term increase of this extent, we have assumed the same levels of risk across the outer years of the plan, increasing the risk to £51m by 2027.
- Assuming a slower salary inflation reversion to normal levels in FY25, representing £30m cost each year (the base plan assumes that salary inflation normalises over the life of the plan).
- Assuming a loss of a full third-party contract from Q2 2024, resulting an ongoing impact of circa £13m per annum.

The sensitivities identified above do not risk the validity of our Co-op as a going concern even before applying the mitigating actions set out below. Also, we have considered a plausible combination of the sensitivities happening concurrently where the validity remains protected. Even in the implausible scenario of all the sensitivities happening simultaneously we still have liquidity and covenant headroom.

4. Examine what mitigating actions would be taken in the event of these scenarios

Whilst out of line with our strategic ambition, there are several options within the business' control we could exercise, if the above risks materialised. Options include our Co-op's ability to:

- Control the level and timing of its capital expenditure programme, saving a minimum of 10% of the total capital outlay.
- Apply cost control measures across both variable and overhead budgets of at least £25m, as well as flexibility to the level of pass-through of energy and cost inflation to the end customer.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern (continued)

5. Perform a reverse stress test and assess any further mitigating actions

Whilst our initial going concern approach assesses likely risks to our base case forecasts through severe but plausible downside scenarios and options to mitigate them, the reverse stress test represents a scenario at which point the model breaks. Whilst unlikely, to demonstrate the above, we have modelled that a negative cash impacting event of £585m could occur before we would be at risk of breaching our covenant and/or liquidity headroom.

We note that whilst all remain undesirable strategically, we could mitigate the reverse stress test scenario through a further reduction or delay in capital expenditure and a change in the timing of our investment into operational improvements. There is also the option to apply further cost control measures and flexibility to pass a higher level of energy and cost inflation onto the end customer.

6. Conclude upon the going concern assumption

For the purposes of going concern, we assume that no new facilities are required or needed. We do not anticipate any change in this assumption, but this will be kept under review. Beyond the going concern assessment period the Group’s £350m 7.5% Bond matures in July 2026; our current forecast assumes that we will be able to refinance a broadly equivalent level of debt prior to its maturity. Based on Co-op’s past experience of successfully issuing bonds / raising debt, our credit rating and our expectations of the debt markets, the Directors are comfortable that this will be achievable as planned.

Based on all of the above considerations, the Directors have not identified any material uncertainties and have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group’s financial statements.

The Society Directors have considered the exercise performed by the Group Directors and have made appropriate enquiries where necessary. The Society Directors have also reviewed internal forecast documentation, management accounts and publicly available information relating to the Group's performance and are satisfied that the Group has access to sufficient funds to honour its commitments set out in the letter of support obtained from the Group. For this reason, the Society Directors continue to adopt the going concern basis in preparing the Society’s financial statements.

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank and short-term deposits with banks with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents includes debit and credit card payments made by customers which are receivable from banks and clear the bank within three days of the transaction date.

Property, plant and equipment and depreciation

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

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

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

Freehold buildings	- 2% per annum
Plant and machinery	- 7.5% - 33.0% per annum
Fixtures and fittings	- 12.5% per annum
Motor vehicles	- 11% - 25% per annum

The residual value, if not insignificant, is reassessed annually. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. No depreciation is provided on freehold land.

IFRS 16 Leases

i) Right-of-use assets

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

ii) Lease liabilities

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

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

Notes to the financial statements (continued)

2 Accounting policies (continued)

IFRS 16 Leases (continued)

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

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

Intangible assets

(i) Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Assets and liabilities accepted under a transfer of engagements are restated at fair value, including any adjustments necessary to comply with the accounting policies of the Society.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying value of goodwill is included in the carrying amount of the investment in the associate. Where impairment is required the amount is recognised in the income statement and cannot be written back. Negative goodwill arising on an acquisition is recognised directly in the income statement. Acquisition costs are expensed to the income statement when incurred.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Software development costs	3 - 7 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 charged to the income statement as incurred.

Impairment

At each reporting date, the Society reviews the carrying amounts of its property, plant and equipment, intangible assets, goodwill and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Impairment losses are recognised in the income statement.

Where the asset does not generate cash flows that are independent from other assets, the Society estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The CGU is deemed to be a local network of interdependent branches. Where an individual branch within a local network is to be closed, the individual branch is defined as the CGU, rather than being included with the network of interdependent branches. This is because the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Impairment (continued)

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount is returned to what it would have been, net of depreciation or amortisation, if no impairment loss had been recognised.

Where an individual branch within a local network is to be closed, the CGU attributable to that branch is redefined as being solely that individual branch on the basis that the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

Funeral benefit options (FBOs)

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

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

Financial Assets and Liabilities

i) Recognition of financial assets

Financial assets are recognised on the trade date which is the date it commits to purchase the instruments. Loans are recognised when the funds are advanced. All other financial instruments are recognised on the date that they are originated. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Society's business model for managing them. The Society initially measures a financial asset at its fair value, with the exception of trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them. For financial assets which are not held at fair value through the income statement, transaction costs are also added to the initial fair value. Trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them are measured at the transaction price determined under IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments).

ii) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when they are qualifying transfers and:

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

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

Notes to the financial statements (continued)

2 Accounting policies (continued)

Financial Assets and Liabilities (continued)

Measurement

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

Receivables and payables

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

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

Dividend distribution

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

Pensions and other post-retirement benefits

The Society's employees were members of a Group (Co-operative Group Limited) wide pensions scheme, the Co-operative Group Pension (Average Career Earnings) Scheme (the Pace Complete Scheme). This Pace Complete Scheme is a defined benefit scheme. The Society contributed to the Pace Complete Scheme in respect of its employees who were members of the Scheme up until the end of October 2015 when it was closed to future accrual. However, the Society is unable to identify its share of the underlying assets and liabilities of the scheme and therefore contributions to the scheme up until the end of October 2015 were accounted for as if it were a defined contribution scheme. There is no contracted agreement or stated Group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual Group entities, therefore Funeral Services Limited, in its individual financial statements, cannot recognise the net defined cost so charged. Refer to disclosure of information relevant to the scheme in Note 6.

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

Inventories

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

Interest-bearing borrowings

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

Notes to the financial statements (continued)

2 Accounting policies (continued)

Taxation

(i) Income tax

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

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

(ii) Deferred taxation

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

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

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

Revenue

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). Revenue is recognised when separate performance obligations are delivered to the customer. For funeral sales ('at need') the only separable performance obligation is the funeral itself and therefore revenue is only recognised when the funeral is performed (or the plan is redeemed and the funeral is performed).

The Society pays certain disbursements (such as burial plots, cremation fees) on behalf of its customers, which are recovered as part of the invoicing process. The charges are passed through to customers at cost with Co-op acting as an agent in the transaction and therefore no revenue is recognised.

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

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

Notes to the financial statements (continued)

2 Accounting policies (continued)

Member Rewards

The member rewards earned as part of the membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced when the rewards are redeemed. From October 2020 onwards member rewards are earned at 2% of sales value (prior to that at 5%). The Community reward is recognised as an operating expense in the income statement when it is earned (from October 2020 at 2% of sales value (prior to that at 1%)).

Share capital

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

Provisions

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

Offsetting

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

Functional currency

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

3 Revenue

	For period ended 6 January 2024 £'000	For period ended 31 December 2022 £'000
Provision of services	237,993	245,825
Member reward on provision of services	(2,305)	(2,356)
Net revenue (as shown in the income statement)	**235,688**	243,469

Notes to the financial statements (continued)

4 Operating (loss) / profit

	For period ended 6 January 2024 £'000	For period ended 31 December 2022 £'000
(Loss) / profit on ordinary activities before taxation is stated after charging / (crediting):		
Depreciation of property, plant and equipment	**19,041**	19,342
Depreciation of right-of-use assets	**7,432**	7,339
Branch closure dilapidations and onerous lease provisions	-	90
Branch closure right-of-use asset impairment	-	123
Branch closure	**-**	213
(Profit) / Loss on sale of property, plant and equipment (Other assets)	(153)	3,836
Other impairment of property, plant and equipment	9	(3,037)
Other impairment of right-of-use assets	43	679
Other impairment of goodwill	-	298
Impairment and loss on disposal of property and fixed assets	**(101)**	1,776
Cost of inventory consumed	**15,118**	13,704
Staff costs (see note 5)	**111,082**	102,141
Expected credit loss on debtors	**965**	1,419
Community reward earned	**902**	974

The auditor's remuneration of £20,055 (2022: £33,354) is borne by the ultimate parent undertaking.

Notes to the financial statements (continued)

5 Staff numbers and costs

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

	Number of employees for period ended 6 January 2024	Number of employees for period ended 31 December 2022
Full-time	1,899	1,842
Part-time	1,811	1,835
	3,710	3,677

The aggregate payroll costs of these persons were as follows:

	For period ended 6 January 2024 £'000	For period ended 31 December 2022 £'000
Wages and salaries	94,763	86,403
Social security costs	7,632	7,302
Other pension costs (see note 6)	8,687	8,436
	111,082	102,141

	For period ended 6 January 2024 £'000	For period ended 31 December 2022 £'000
Directors emoluments	552	713
Society pension contributions to personal pension schemes	23	17
	575	730

The emoluments of the highest paid Director amounted to £353k (2022: £297k).

Notes to the financial statements (continued)

6 Pension Scheme

The Society is a wholly owned subsidiary of Co-operative Group Limited ("Group") which operated a defined benefit scheme (the Pace Complete scheme) up until the end of October 2015 when it was closed to future accrual. The assets are held in a separately administered trust. Until December 2013, the Pace scheme was defined as a Group plan, as all participating entities were under the common control of Co-operative Group Limited (the sponsoring employer). Following the recapitalisation of The Co-operative Bank PLC in December 2013, the various entities participating in the Pace plan are no longer under common control of the Group and as a result, the Pace scheme became a multi employer scheme. Full details of the Pace plan for the period ending 6 January 2024 are disclosed in the Group's consolidated financial statements for that period.

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

As the Pace Complete Scheme was closed to future accrual at the end of October 2015, the Pace DC scheme was expanded. The amount recognised as an expense in respect of the Pace DC scheme for this Society was £8,687k (2022: £8,436k). This is included in the staff costs as disclosed in note 5. The employer contributions made by the Society have been charged to the income statement when incurred.

7 Exceptional expenses

In the prior year, the Society offered a number of cost of living payments / support to its employees including a 30% employee discount and £50 and £75 payments onto membership cards. As this was not in the normal course of the business, these were treated as exceptional expenses through the income statement. The Society also paid redundancy costs as a result of a reorganisation of the business in the prior year which was classified as an exceptional expense.

	For period ended 6 January 2024 £'000	For period ended 31 December 2022 £'000
Cost of living	163	851
Redundancy	-	1,140
	163	1,991

Notes to the financial statements (continued)

8 Finance costs

	For period ended 6 January 2024 £'000	For period ended 31 December 2022 £'000
Interest accruing on funeral plan liabilities *	-	29,195
Interest on leases	2,202	2,168
	2,202	31,363

* All funeral plan liabilities were transferred to Co-op Funeral Plans Limited on 1st May 2022.

9 Finance income

	For period ended 6 January 2024 £'000	For period ended 31 December 2022 £'000
Unrealised fair value movement on funeral plan investments *	-	55,328
Discount unwind on funeral plan debtors*	-	461
Debtor discount reversed on cancelled plans*	-	(15)
Interest on intra-group loans	13,224	5,228
	13,224	61,002

* All funeral plan assets were transferred to Co-op Funeral Plans Limited on 1st May 2022.

Notes to the financial statements (continued)

10 Taxation

Analysis of tax charge in period	**For period ended 6 January 2024**	For period ended 31 December 2022
	£'000	£'000
UK corporation tax:		
Group relief receivable / (payable)	**249**	(10,589)
Current tax receivable - adjustments in respect of prior periods	**373**	250
Total current tax	**622**	(10,339)
Deferred tax (see note 20):		
Deferred tax credit - current period items	**646**	4,512
Deferred tax adjustments in respect of prior periods	**(257)**	978
Effect of rate of change on closing balance	**41**	137
Total deferred tax	**430**	5,627
Tax credit / (charge) for the period	**1,052**	(4,712)

Factors affecting the tax charge for the current period

The tax on the net loss before tax differs from the theoretical amount that would arise using the standard applicable blended rate of corporation tax of 23.5**%** (31 December 2022: 19%) as follows:

	For period ended 6 January 2024	For period ended 31 December 2022
	£'000	£'000
Current tax reconciliation		
Profit before tax	**(5,136)**	29,814
Tax at 23.5**%** *(2022: 19%)*	**1,207**	(5,665)
Effects of:		
Expenses not deductible for tax	**(10)**	(3)
Depreciation and amortisation on non-qualifying assets	**(918)**	(659)
Transfer pricing	**538**	465
Adjustments to tax charge in respect of previous periods	**116**	1,228
Deferred tax rate change adjustment	**41**	137
Capital losses transferred	**62**	147
Profit/ (loss) on disposal of fixed assets	**16**	(362)
Total income tax charge (see above)	**1,052**	(4,712)

Notes to the financial statements (continued)

10 Taxation (continued)

Following the Budget on the 3 March 2021, the Chancellor announced that the main rate of Corporation Tax will increase from 19% to 25%, with effect from the 1 April 2023. Therefore the pro-rated tax rate for the year to 2023 is 23.5%.

Under IFRS (IAS 12) it is the rate enacted at the balance sheet date that determines the amount of deferred tax to be recognised. As the 25% rate has been enacted at the balance sheet date, deferred tax assets and liabilities expected to crystallise post balance sheet are all valued using 25%.

The impact in 2023 of recognising the net deferred tax movements at 25% rather than 23.5% has meant the tax credit through the income statement is increased by £41k.

11 Dividends

No dividend was declared in the period or the prior period.

Notes to the financial statements (continued)

12 Property, plant and equipment

	Freehold land and buildings	Fixtures and fittings and Plant and Machinery	Motor vehicles	Assets under construction	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost					
At 31 December 2022	134,854	173,493	52,110	2,516	362,973
Additions	2,013	2,304	1,570	12,904	18,791
Disposals	(517)	(948)	(278)	(509)	(2,252)
Transfers from assets under construction	28	6,435	225	(6,688)	-
Transfers to right-of-use assets	-	-	-	(633)	(633)
Transfers from other group companies	109	-	970	-	1,079
At 6 January 2024	**136,487**	**181,284**	**54,597**	**7,590**	**379,958**
Depreciation					
At 31 December 2022	49,627	116,070	47,574	-	213,271
Charge for the period	2,589	14,595	1,857	-	19,041
Impairment Charge	(304)	9	-	-	(295)
Disposals	(364)	(818)	(91)	-	(1,273)
Transfers from other group companies	(101)	(12)	984	-	871
At 6 January 2024	**51,447**	**129,844**	**50,324**	**-**	**231,615**
Net book value					
At 6 January 2024	**85,040**	**51,440**	**4,273**	**7,590**	**148,343**
At 31 December 2022	85,227	57,423	4,536	2,516	149,702
Capital work in progress included above **-**	**-**	**-**	**-**	7,590	**7,590**

No impairment (2022: £nil) was recognised for funeral homes that are expected to close in 2024 within branch closures in the income statement.

Freehold land is not depreciated. Freehold land was £13,883k as at 31 December 2022 (2022: £13,761k).

The Society has assets in use which are fully written down with nil NBV. As at 6 January 2024, the cost of fully written-down assets was £110,782k (2022: £100,964k).

Notes to the financial statements (continued)

12 Property, plant and equipment (continued)

Impairment

The recoverable amount for cash generating units (CGUs) is the greater of the fair value of the CGU (less costs to sell) and the value in use (VIU) of the CGU. The value in use for CGUs has been determined using discounted cash flow calculations.

The key assumptions in the value in use calculations are as follows:

Assumption	Detail
Structure of a CGU	A CGU is deemed to be a local network of interdependent branches, known as a Funeralcare Hub.
Cash flows	Future cash flows derived from Board approved four-year plan cash flow projections. These cash flows are extrapolated over the remaining lease term for leasehold properties or into perpetuity for freehold properties. Perpetuities included in cash flows where the Hub is expected to be operational beyond its current lease terms. A growth rate of 1.9% (2022: 1.9%) is applied beyond Board approved four-year plan horizon (reflecting the UK's long-term post war growth rate which is in-line with industry norms).
Discount rate	A post tax discount rate has been calculate for impairment purposes, with the Funeralcare segment's weighted average cost of capital (WACC) deemed to be an appropriate rate, subsequently grossed up to a pre-tax rate of 11.6% (2022: 10.9%). The post tax discount rate has been calculated using the capital asset pricing model. Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material. In each of the current and comparative years, sensitivity analysis has been performed in relation to our Funeralcare Hub impairment testing, testing for a 2% increase in discount rate and a decrease in growth to minus 2%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions. Sensitivity analysis has also been performed on our goodwill impairment testing, see below.

Goodwill impairment - sensitivity

For the Society's goodwill impairment review, average selling price increases and wage and cost inflation have been applied in line with the assumptions in the four-year plan. Although inherently uncertain this also includes our best estimate of future death rates. Cash flows have been projected based on the four-year plan and into perpetuity from year four and discounted back to present value using a pre-tax discount rate of 11.6% (2022: 10.9%). A long term growth rate of 1.9% has been applied beyond the three-year plan period (2022: 1.9%). Sensitivity analysis has been performed with the discount rate increased by 2% and a decrease in growth by minus 2%, and under these sensitivities no further material amounts of impairment are calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

Notes to the financial statements (continued)

13 Leases

As a lessee

Right-of-use assets

	Property £'000	Plant and equipment £'000	Total £'000
Balance at 31 December 2022	27,319	9,626	**36,945**
Depreciation charge for the year	(4,552)	(2,880)	**(7,432)**
Additions	3,692	1,451	**5,143**
Disposals	(96)	(139)	**(235)**
Impairment	(43)	-	**(43)**
Intra-group statutory transfer	(118)	120	**2**
Balance at 6 January 2024	**26,202**	**8,178**	**34,380**

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

Lease liabilities (discounted)

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Current	(9,233)	(9,217)
Non-Current	(32,069)	(35,928)
Lease liabilities included in the balance sheet	**(41,302)**	(45,145)

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Lease liabilities - maturity analysis (undiscounted)		
Less than 6 months	(4,812)	(4,882)
6 - 12 months	(4,640)	(4,508)
1 - 2 years	(8,001)	(8,695)
2 - 5 years	(14,412)	(16,830)
5 - 10 years	(10,675)	(10,621)
10 - 15 years	(5,574)	(5,778)
More than 15 years	(3,894)	(4,817)
Total lease liabilities	**(52,008)**	(56,131)

Notes to the financial statements (continued)

13 Lease liabilities (continued)	**As at 6 January 2024 £'000**	As at 31 December 2022 £'000
Opening lease liabilities	(45,145)	(48,097)
Transfer to CFPL	-	24
Additions	(5,048)	(5,221)
Disposals	232	535
Interest expense	(2,199)	(2,168)
Payments	10,546	9,832
Intra-group statutory transfer	312	(50)
Closing lease liabilities	**(41,302)**	(45,145)

Extension and termination options

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

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

As at 6 January 2024, potential future cash outflows of £1.7m (2022: £1.9m) (discounted) have not been included in the lease liability because it is not reasonably certain that the Society will exercise the extension option. Included within the lease liability are future cash outflows of £12.9m (2022: £14.1m) (discounted) where the Society holds termination options but it is not reasonably certain to execute those termination options.

14 Goodwill and intangible assets	**Goodwill £'000**	**Computer Software £'000**	**Total £'000**
Cost			
At 31 December 2022	33,114	19,843	52,957
Disposals	(1)	-	(1)
Transfers to other group companies	-	177	177
Additions	-	5,512	5,512
At 6 January 2024	**33,113**	**25,532**	**58,645**
Amortisation			
At 31 December 2022	2,126	6,092	8,218
Transfers to other group companies	-	12	12
Amortisation charge	-	237	237
At 6 January 2024	**2,126**	**6,341**	**8,467**
Net book value			
At 6 January 2024	**30,987**	**19,191**	**50,178**
At 31 December 2022	30,988	13,751	44,739
Capital work in progress included above	-	17,911	17,911

No impairment charge (2022: £nil) was recognised in respect of property closures within the income statement. For further detail in relation to the critical accounting policies and estimates used in the Society's impairment assessment of goodwill, please refer to note 12.

Notes to the financial statements (continued)

15 Inventories

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Raw materials and consumables	210	324
Work in progress	218	134
Finished goods	3,420	2,793
At end of year	**3,848**	3,251

16 Contract assets

(in respect of FBO's)

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Non-current	6,210	6,629
Current	609	752
At end of year	**6,819**	7,381

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Opening contract assets	7,381	7,910
Deferred costs in respect of FBOs	(562)	(529)
Closing contract assets	**6,819**	7,381

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

A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For FBO's then an element of the costs incurred in obtaining the FBO are deferred on the balance sheet as a contract asset until the funeral is performed (at which point the costs are recognised in the income statement in line with when the revenue is recognised).

Notes to the financial statements (continued)

17 Trade and other receivables

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Non-current assets:		
Amounts owed by group undertakings	124,359	142,800
	124,359	142,800
Current assets:		
Trade receivables	9,744	14,599
Prepayments and accrued income	1,262	1,529
	11,006	16,128

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

Trade receivables are stated at amortised cost which includes a credit risk impairment of £3.8m (2022: £3.6m). The Society has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. The Society has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables as shown in the table below.

		Days past due date			
	Current	**<3 months**	**3 to 6**	**More than 6**	**Total**
Expected credit loss rate (%)	1%	13%	95%	98%	
Estimated gross total carrying amount (£k)	4,185	2,892	474	2,976	10,527
Expected credit loss (£k)	28	380	451	2,906	3,765

Unprovided debts in the over 3 months old and more than 6 months old categories are often being paid in regular instalments.

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. There is no expectation of calling the debt repayment within the year therefore the amounts are classified as non-current.

Notes to the financial statements (continued)

18 Trade and other payables

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Non-current liabilities:		
Accruals and deferred income	353	370
	353	370

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Current liabilities:		
Trade payables	18,151	14,537
Other payables including taxation and social security	394	427
Corporation tax creditor	-	10,339
Accruals and deferred income	37,092	36,372
	55,637	61,675

19 Provisions

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Property provisions:		
At beginning of the period	285	874
Additional provisions made in the period	394	400
Amounts used during the period	(165)	(360)
Payments	(39)	(355)
Onerous lease transfer	(152)	(274)
At end of the period	**323**	285

Property provisions are held for running costs, excluding rental costs, of leasehold properties that are vacant or not planned to be used for ongoing operations. Property provisions are expected to be utilised over the remaining periods of the leases which range from 1 to 25 years.

Notes to the financial statements (continued)

20 Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a blended effective tax rate of 23.5% (2022: 19%).

	As at 6 January 2024 £'000	As at 31 December 2022 £'000
Deferred tax liability brought forward	**(8,132)**	(13,759)
Income statement charge in the period	**430**	5,627
Deferred tax liability closing balance	**(7,702)**	(8,132)
Comprising:		
Capital allowances on fixed assets	**8,227**	7,541
Capital allowances on intangible assets	**(1,279)**	(1,217)
Provisions	**157**	340
Unrealised gains on investment properties, rolled-over gains and historic business combinations	**(16,025)**	(16,101)
IFRS16 leases	**1,218**	1,305
Deferred tax liability	**(7,702)**	(8,132)

Following the Budget on the 3 March 2021, the Chancellor announced that the main rate of Corporation Tax will increase from 19% to 25%, with effect from the 1 April 2023. Therefore the pro-rated tax rate for the year to 2023 is 23.5%.

Under IFRS (IAS 12) it is the rate enacted at the balance sheet date that determines the amount of deferred tax to be recognised. As the 25% rate has been enacted at the balance sheet date, deferred tax assets and liabilities expected to crystallise post balance sheet are all valued using 25%.

The impact in 2023 of recognising the net deferred tax movements at 25% rather than 23.5% has meant the tax credit through the income statement is increased by £41k.

21 Called up share capital

	As at 6 January 2024 £	As at 31 December 2022 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	**3**	3

There is a single class of share capital.

Notes to the financial statements (continued)

22 Commitments

Capital expenditure committed by the Society at period end was £1,407k (2022: £4,113k)

The Society participates in the Group's cash pool arrangement and as such provides a guarantee for all members in relation to the Group's cash pool liability. At 6 January 2024, there was no liability arising from the Group's cash pool.

23 Contingencies

The Group has a £442.5m revolving credit facility (RCF) until September 2024 when it falls to £360m maturing in March 2026. Funeral Services Limited is a guarantor under the RCF.

As at 6 January 2024, Funeral Services Limited continued to be a guarantor of the facilities agreement. As at 6 January 2024, the facility was undrawn.

Funeral Services Limited is also a guarantor of Sterling bond notes issued by Co-operative Group Limited and Co-operative Group Holdings (2011) Limited, comprising a £200m Sustainability bond due in May 2024 and a £350m bond notes due in July 2026. Furthermore, there are £109m of subordinated repayment notes and £5m of subordinated instalment notes, issued by Co-operative Group Limited, due December 2025, to which Funeral Services Limited is also a guarantor.

24 Ultimate parent undertaking

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

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

25 Related parties

Identity of related parties

The Society has a related party relationship with its Directors as well as with fellow Group subsidiary undertakings. The Directors' emoluments are disclosed in Note 5 and balances receivable or payable to fellow Group undertakings are detailed in Notes 17 and 18 respectively.

Transactions with other Trading Group subsidiaries

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

Amounts owed to FSL from fellow group subsidiaries total £124,359k (2022: £142,800k). See note 17.

26 Post balance sheet events

In February 2024, Co-op Funeral Plans Limited (a fellow group society) introduced a new finance system, D365. The cost of the new system was £18.5m and had been incurred by Funeral Services Limited and was classified as a work in progress intangible asset (computer software) in 2023. On implementation, this was transferred to Co-op Funeral Plans Limited at cost of £18.5m.