herefordshire housing

Annual Report & Financial Statements

For the year ended
31 March 2018

Company Number 04221587
Charity Number 1105907
Regulatory Registration Number LH4353

Contents

Company Information

Company registration number	04221587 Registered as a Company Limited by Guarantee
Regulatory Registration number	LH4353
Charity Commission number	1105907
Executive Directors	
Interim Chief Executive	Duncan Forbes (appointed September 2018)
Chief Executive	Peter Brown (appointed July 2017, resigned September 2018)
Deputy Chief Executive	Jake Berriman (appointed July 2017, resigned September 2018)
Company Secretary	Richard Woolley (appointed July 2018) Jen Hayball (appointed July 2017 to July 2018)
Executive Directors	Christine Duggan Francis Narweh (appointed July 2017, resigned June 2018) Ann Sutcliffe (appointed July 2017) Paul Sutton (appointed July 2017, resigned September 2018) Richard Woolley
Interim Directors	Rowan Kirk (appointed July 2017) Vivien Knibbs (appointed July 2017)
Registered office	Legion Way, Hereford, Herefordshire, HR1 1LN
Auditors	External Auditor: KPMG LLP One Snowhill Snow Hilll Queensway Birmingham B4 6GH
	Internal Auditor: Beever & Struthers St Philips Point Temple Row Birmingham B2 5AF
Solicitor	Anthony Collins 134 Edmund Street Birmingham B3 FC2ES
Banker	Barclays Bank Plc P O Box 3333 One Snowhill Snow Hill Queensway Birmingham B3 2WN

Chair's Foreword

It is an enormously proud moment for me to introduce the financial statements for Herefordshire Housing Association, which has become part of the newly formed Connexus Housing Group. I would like to thank Tim Ralphs the previous Chair who stepped down in July 2017 and was instrumental in the creation of Connexus with me and had been a Board member of the Shropshire Housing Group for a number of years. In addition I would like to thank Sue Harrison, Chris Mellings and David Isaacson for their contribution to the Group all of whom stepped down from the Board at the same time to allow Board members to join Connexus from Herefordshire Housing.

The Board is clear that bringing Shropshire Housing and Herefordshire Housing together will provide resilience in the future whilst building on the excellent financial and operational performance delivered by both Groups over recent years.

Our Joint Board Steering Group which created the merger was keen to ensure that it was a genuine merger of equals preserving the integrity of each organisation and maintaining the principle that excellent service to residents and other customers remains at the forefront of our values.

There have been some changes to Government policy, but welfare reform and building more homes remain at the top of the Government's priorities facing our sector with Universal Credit being rolled out more widely in our areas over the next 12 months. Our long term financial forecast has been fully stress tested under the Board's instruction to ensure that these and other risks are being well managed.

We are delighted to have delivered this merger, but acknowledge that our real work on this is just beginning. To ensure that governance arrangements are fit for purpose, the Board has:

- Operated under a single overlapping Group Board from the date of merger.
- Set up an initial Board and Committee structure that provided continuity from the previous Groups.
- Reviewed that structure within the year and aligned our Board/Committee structure with our ambition and priorities from the new corporate plan.

We appointed Peter Brown as Chief Executive of Connexus following the merger. Peter has worked with Jake Berriman, the former Deputy Chief Executive to implement the initial integration. Duncan Forbes has now been appointed as Interim Chief Executive to take us into the next phase.

I have every confidence that our colleagues will deliver the objectives set out in our Corporate plan, providing even better services for our customers and greater value for money.

Ruth Cooke

Ruth Cooke
Chair

Interim Chief Executive's Foreword to the Financial Statements

Shropshire Housing Group (SHG) and Herefordshire Housing Group (HHG) came together to form Connexus on 27th July 2017, already part way through the 2017/18 accounting period. The Business Case for merger, formed in the preceding months, was for two well run and financially sound organisations to come together as equals, building on our social purpose whilst developing a stronger commercial approach.

We said that by bringing our organisations together and aligning our service offer, after allowing for the costs of merger, we will create operational efficiencies of around 5% of turnover from year three and 6.3% by year five.

By any standards we have made a flying start to creating Connexus. Driven by a clear purpose of "creating places where people can reach their potential "our new Corporate Plan focuses on 4 pillars, People, Places, Partnership and Profit for Purpose and is underpinned by strong shared values summed up in PRIDE, passionate, respectful, involving, determined and effective. We are already beginning the embedding of the Connexus Way of working in which we consistently challenge the way we work and place Value for Money and the customer at the centre of our thinking.

As an example of being more efficient and effective, the Board made some early strategic decisions about governance and have operated with a single overlapping Board of Management from the outset. With a clear ambition to further simplify our operational and governance arrangements by the end of June 2018 will see the non- executive team reduce to 11, including one co-optee and the Executive Management Team reduce from 7 to 6. We also reduced the number of Committees and established an Enterprise Committee to provide a focus for new business and development growth.

The efficiencies that we have made as a group in continuing to respond to the 1% annual rent reductions will continue to 2020 have not been at the expense of properly maintaining existing homes. In the last 12 months across the group we have invested £20m in responsive and planned maintenance and servicing.

In the last 12 months together as a group we have seen a net increase of new homes in management of 128, but by pooling our expertise and resources we have approved a New Homes Strategy which has seen significant growth in the number of new starts on site and an ambition to have an additional 1,500 homes in management by 2021. Our approach to development seeks to support the Government in tackling the housing crisis and includes significant numbers of shared ownership and open market homes alongside social and affordable rental properties. We have acknowledged that this has seen an adjustment to a V2 rating whilst we have maintained an excellent G1 Governance rating.

Our operating margin for the year is 34.5% against a forecast of 26% which is pleasing in the context of the financial performance forecast at merger.

Duncan Forbes
Interim Chief Executive Officer

Report of the Board

The Board presents its report and the audited financial statements for the year ended 31 March 2018.

Principal activities

Herefordshire Housing Limited is a company limited by guarantee with direct subsidiaries which include Enterprise 4 Limited (a private company limited by shares), Independence Trust Limited (a charitable company limited by guarantee) and Hereford Capital plc. Rise Partnership Developments Limited, formerly a subsidiary of Herefordshire Housing Limited was transferred to become a direct subsidiary of Connexus Housing Limited ('the Parent") during the year. Herefordshire Housing Limited is a subsidiary of Connexus Housing Limited.

The Company's overall aim is delivering quality housing services to diverse communities. Its principal activities are the management and development of social housing and related support.

Review of business and future developments

Details of the Group's performance for the financial year and future plans are set out in the Strategic Report that follows this report.

Housing property assets

Details of changes to the Group's fixed assets are shown in notes 12 and 13 to the financial statements.

Political and charitable donations

No charitable donations were made during the financial year (2017:£nil).
No political donations were made during the financial year (2017: £nil).

Reserves

The surplus on reserves at the end of the financial year was £40.5 million (2017: £31.6 million). This is after the transfer of the total comprehensive income for the financial year of £8.9 million (2017: £7.5 million).

Post balance sheet events

There are no significant post balance sheet events requiring adjustment to, or disclosure in, the financial statements

Payment of creditors

In line with government guidance, the Group's aim is to pay purchase invoices within 30 days of receipt, or earlier if agreed with the supplier. Performance against this aim is shown in note 17 to the financial statements.

Board Members and Non-Executive Directors

The Connexus Group operates with co-terminus boards, where the board members act for and on behalf of the whole Group. South Shropshire Housing Limited (SSHA), Meres and Mosses Housing Association (MMHA), Herefordshire Housing (HHL) and Connexus Housing Limited share the same board members.

The non-executive directors of the Group who were in office during the year and up to the date of signing the financial statements are set out below. The Board comprises of ten Ordinary board members. There are is currently one vacancy on the Board.

Current Board members:

Ordinary Board Members

Ruth Cooke (Chair)	Ruth is CEO of Clarion, the UK's largest housing association. Ruth is passionate about the delivery of quality housing and care services, and has a particular interest in the challenges of providing affordable housing in rural communities.
James Williamson (Vice Chair) (appointed July 2017)	James is a Chartered Accountant and spent most of his career working in Finance and General Management for an American multi-national in both the UK and Europe and latterly as a part time Finance Director to several companies in different sectors in the UK.
Graham Biggs (appointed July 2017)	Graham is the Chief Executive of the Rural Services Network (RSN) – England's largest national membership organisation relating to services to rural communities. Graham is a Fellow of the Chartered Institute of Secretaries and Administrators and was awarded an MBE in 1995 for "Services to Local Government".
Sonia Higgins (appointed July 2017)	Sonia has more than twenty five years' experience in the energy industry and has held a number of senior roles. Sonia has worked as a consultant providing management consultancy services to multinational groups, financial institutions and smaller project companies on their investment and future commercial strategy.
Gillian Jones (appointed July 2017)	Since April 2014, Gill has been self-employed, working with a range of public, private and voluntary sector clients in areas of business development, project management, fund-finding and neighbourhood planning.
David Lincoln	David has previously worked in the gas and electricity industries, in roles ranging from operational to business and systems development and change management. David is also a volunteer adviser with Herefordshire Citizens Advice Bureau.

Dr Michael McCarthy	Michael has a background in social policy, later life housing and services and in local economic regeneration. In 2001, he became MD of a rural regeneration consultancy and since 2008 has run his own strategy and development consultancy, Work House.
Michael Parkes (resigned March 2018)	Michael had a career of almost 40 years in Local Government Environmental Health where he developed interests in public protection and the development of partnership working to improve health and well-being. He held a variety of roles and supported the work of many related regional, national and professional groups. After retiring as Head of Service in 2007 he undertook consultancy work, drawing together and clarifying the relationships between Environmental Health, wider regulatory services and Public Health. Most recently this included work on developing learning opportunities to improve joint public health competences.
Allison Taylor	Allison has many years' experience at a senior level with a particular emphasis on people management and helping organisations create a climate to enable people to work at their best. Allison runs her own consultancy offering leadership development and executive coaching
Elizabeth Walford (appointed July 2017)	Liz has a lifetime's experience in the social housing, having held a number of executive positions within leading organisations in the sector. She retired as Group Chief Executive of Walsall Housing Group in 2009 following five years in that post.

In addition the following Board members served on the Board until resigning on 27th July 2018:

Richard Johnston
Jon Land
Rebecca McGuirk

The Group has insurance policies that indemnify both its Board Members and Executive Directors against liability when acting for the Companies. With the exception of the Interim Chief Executive, Duncan Forbes, Executive Directors are not Board Members and act as executives within the authority delegated by the Board.

The Board is responsible for the Group's strategic direction. Day to day management and implementation is delegated to the Interim Chief Executive and his Executive team who meet at least fortnightly. The Executive Directors and senior colleagues attend Board and Committees.

The Board meet a minimum of four times a year. The Chief Executive and Chair meet regularly.

Stakeholders

The strength of the Group lies in the quality and commitment of its employees. The Group's ability to meet its objectives and commitments to customers in an efficient and effective manner depends on the contribution of employees throughout the financial year. Consultation and communication with all employees takes place through regular briefings, team meetings and union representation.

The Group is committed to eliminating discrimination and harassment and promoting equality and diversity. Connexus Housing Limited actively encourages customer involvement by promoting various mechanisms. These include supporting resident groups, a customer involvement panel with direct access to the Group Board, and independent surveys through 'Voluntas'. These all help for customers to play an active role in shaping the future provision of services.

The Group's commitment is not purely to its customers, but also to the wider community. The Group supports the Discovery Centre in Craven Arms, the Mayfair Centre in Church Stretton and the Newton Farm Information Centre, a Hereford charity providing a wide range of advice either directly, by signposting or by providing space for other agencies on a surgery basis. This includes regular visits by the Citizens Advice Bureau (to whom grant aid is given to fund a part-time officer dedicated to supporting our tenants) and an access point for the local Credit Union.

The Group directly allocated grants to community groups to support initiatives across Shropshire and Herefordshire.

NHF Code of Governance

We are pleased to report that the Group complies with the recommendations of the NHF Code of Governance. A formal review of the effectiveness of the Board has been undertaken during the year and found that the Group was compliant with the code.

Members of the Association

As of 31st March 2018 there were 21 shareholders, each holding a £1.00 share all of which are independent in accordance with the Association's new Rules. Connexus Housing Limited is also a member and holds a £1.00 share. Members have voting rights at Annual and Special General Meetings. Members of the Association are eligible to be elected to sit on the Board and Committees. The detailed arrangements regarding membership are set out in the Rules of the Association.

Health and safety

The Board is aware of its responsibilities on matters relating to health and safety and the Group has detailed health and safety policies. The Group complies with the Health and Safety at Work Act 1974 and other relevant legislation.

Public Benefit

In setting the Company's aims and objectives, the Board has given careful consideration to the Charity Commission's general guidance on public benefit. The Board confirms that the Company complies with the public benefit criteria by:

- The provision of housing, accommodation and related services for people in need.

Internal controls assurance

The Board is ultimately responsible for ensuring that the Group maintains a system of internal control that is appropriate to the business environments in which it operates. The Group adheres to the NHF Code of Governance that it adopted in 2015.

Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed. The Board recognises that no system of internal control can provide absolute assurance against material misstatement or loss or eliminate risk of failure to achieve business objectives.

The system of internal control is designed to manage key risks to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance with respect to:

- the reliability of financial and operational information and;
- Safeguarding of the Company's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Company is exposed, internally through the wider management team and externally through independent internal and external audit.

Regular management reporting on control issues provides assurance to successive levels of management and to the Board, with overview and structured feedback through the Board's Audit and Risk Committee. The arrangements include a rigorous procedure, monitored by the Audit and Risk Committee, for ensuring that corrective action is taken in relation to any significant control issues. Financial governance is monitored by the Audit and Risk Committee and by the Group Board.

The key elements of the internal control framework include:

- The Board being directly responsible for strategic risk management.
- Delegation of authority to the Audit and Risk Committee to monitor internal control.
- Experienced and suitably qualified colleagues are employed by the Group and responsible for important business functions. Annual appraisals of colleagues are carried out to maintain standards of performance.
- The Leadership team compiling and monitoring the key business risks
- Monthly management accounts aligned to the needs of the business providing reliable, relevant and up to date financial information with significant variances from budgets being investigated
- Significant new initiatives being evaluated and approved in accordance with the Standing Orders and Financial Regulations of the Group.
- All development projects are subject to an appraisal
- A development programme is approved by the Board prior to commencement.
- HR policies and procedures designed to ensure that all colleagues are aware of their roles and responsibilities in terms of the internal control framework.
- A weekly EMT meeting is held that monitors all aspects of internal control.

- An Internal audit service for the Group is provided by Beever and Struthers who report directly to the A&R Committee at least quarterly.
- Both the Internal Auditors (Beever and Struthers) and External Auditors (KPMG) meet with A&R Committee members in a closed session at least annually.
- We are also undertaking further work to strengthen our fire risk management arrangements.

During the year a historic issue concerning internal control and governance arose in development and was resolved. Further actions were identified to strengthen controls and reporting arrangements.

The Board confirms this framework has been in place throughout the financial year 2017-18 and up to the date of signing these financial statements.

Financial risk management

The Company is financed by a combination of retained reserves, long-term loan facilities and grants from the Government. The Group has a formal Treasury Management Policy that was approved by the Finance and Treasury Committee in July 2018.

This policy seeks to address funding and liquidity risk and ensure covenant compliance; it states which types of financial instrument can be authorised for use, covering both borrowings and investments. In addition, the policy identifies the maximum value of financial instruments and with whom they may be agreed. The purpose of this policy is to reduce the impact to Connexus of adverse movements in interest rates and fluctuations in income (especially sales).

Going concern

After making enquiries the Board has a reasonable expectation that the Company has adequate resources to continue its operational activities for the foreseeable future, being a period of twelve months after the date on which the report and financial statements were signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Annual General Meeting

The annual general meeting will be held on 27 September 2018 at the registered office, The Gateway, Craven Arms.

Independent Auditor

KPMG LLP were appointed by the Board in November 2017.

A resolution to reappoint KPMG LLP, as independent auditor, will be put to the members at the annual general meeting.

The report of the Board was approved by the Board on 27 September 2018 and signed on its behalf by:

Ruth Cooke

Ruth Cooke
Chair
27 September 2018

Strategic Report

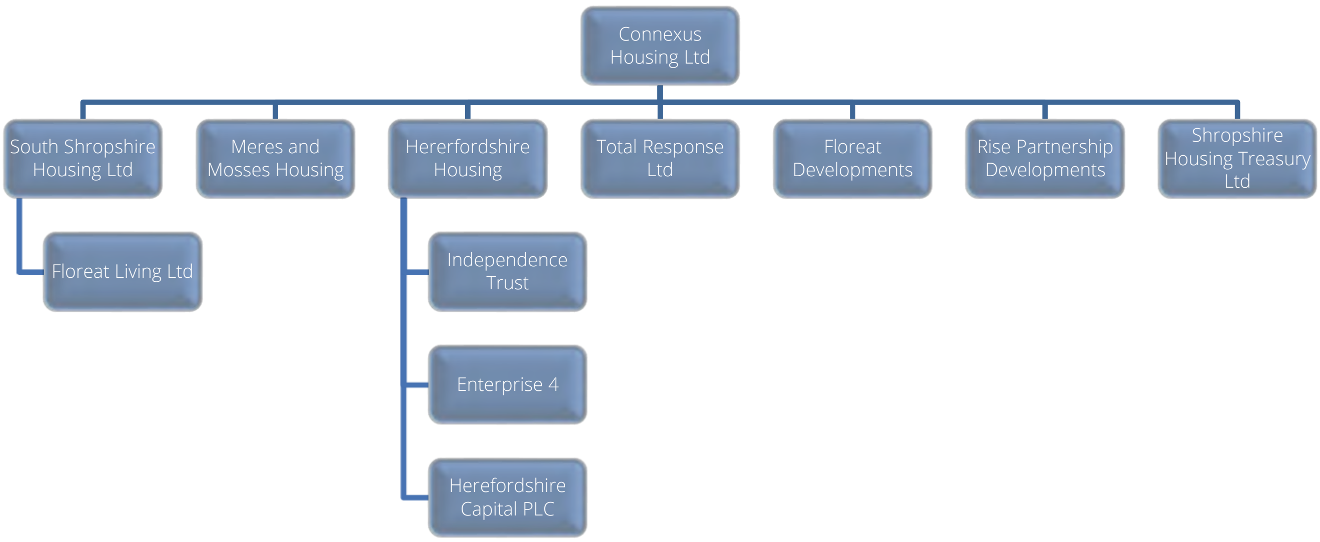
Background and business model.

This strategic report is prepared has been prepared for the Connexus Housing Limited (the Group), of which Herefordshire Housing is a subsidiary.

Connexus Housing Limited is a not for profit organisation providing homes and support services to people across Shropshire, Herefordshire and beyond.

Connexus Housing Limited (CHL) was established in 2007 as Shropshire Housing Limited as the non-stock holding group parent of subsidiaries South Shropshire Housing Association Limited (SSHA) and Meres and Mosses Housing Association (MMHA). It was re-named Connexus Housing Limited (Connexus) in July 2107 following a merger with Herefordshire Housing Limited (HHL) after HHL joined the group as a subsidiary. Connexus is a charitable private company registered under the Co-operative and Community Benefit Societies Act 2014. It is the parent of a group of companies and manages 10,548 including 10.096 social housing properties with related support, 18 market rent properties, 44 commercial properties and 390 leasehold properties.

The Connexus Group consists of 4 Registered Providers (including the parent) and 8 other subsidiaries:



Connexus' principal activities are the management and development of social housing and related services and support through its three wholly-owned registered provider subsidiaries, each of which joined the group following stock transfers from local authorities. SSHA completed a full transfer of council stock in 1994, MMHA joined the group in 2007, and HHL was established via stock transfer in 2002 before joining the group as a subsidiary in July 2017.

The remaining entities serve a variety of purposes in achieving the Group's aims:

- Floreat Living Limited builds homes for open market sale with the profits being gift aided to the parent.
- Floreat Development Limited designs and builds affordable homes for the Registered Providers in the Group.

- Total Response Limited provides repairs, maintenance and other property services to SSHA, MMHA and to external customers
- Independence Trust provides a range of services that support people's emotional and physical wellbeing
- Enterprise4 Limited provides a range of maintenance and housing related services to residents, non-residents and commercial companies
- Rise Partnership Developments Limited provides design and build services to HHL under a development agreement
- Herefordshire Capital plc. is a vehicle which arranges finance for Herefordshire Housing.
- Shropshire Housing Treasury Limited is a vehicle which arranges finance for the Group.

The Group is registered with Homes England and complies with the regulatory framework of social housing through the Regulator of Social Housing. Connexus was rated as G1 for governance and V2 for viability in January 2018.

This means that Connexus meets governance requirements and meets viability requirements. It has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.

At the 31st March 2018, we managed 10,548 homes. However, we are more than just a landlord, we exist to help houses to become homes and places become communities – Creating Places where People can reach their potential.

To deliver our purpose, the Group is built on 4 pillars – People, Places and Partnerships and Profit for Purpose. We do this in an enterprising, commercially aware and cost effective way so that we can reinvest surpluses we make into our core priorities.

We measure our success in terms of the returns we achieve on our time, money and resources to: Customers, Communities and Connexus

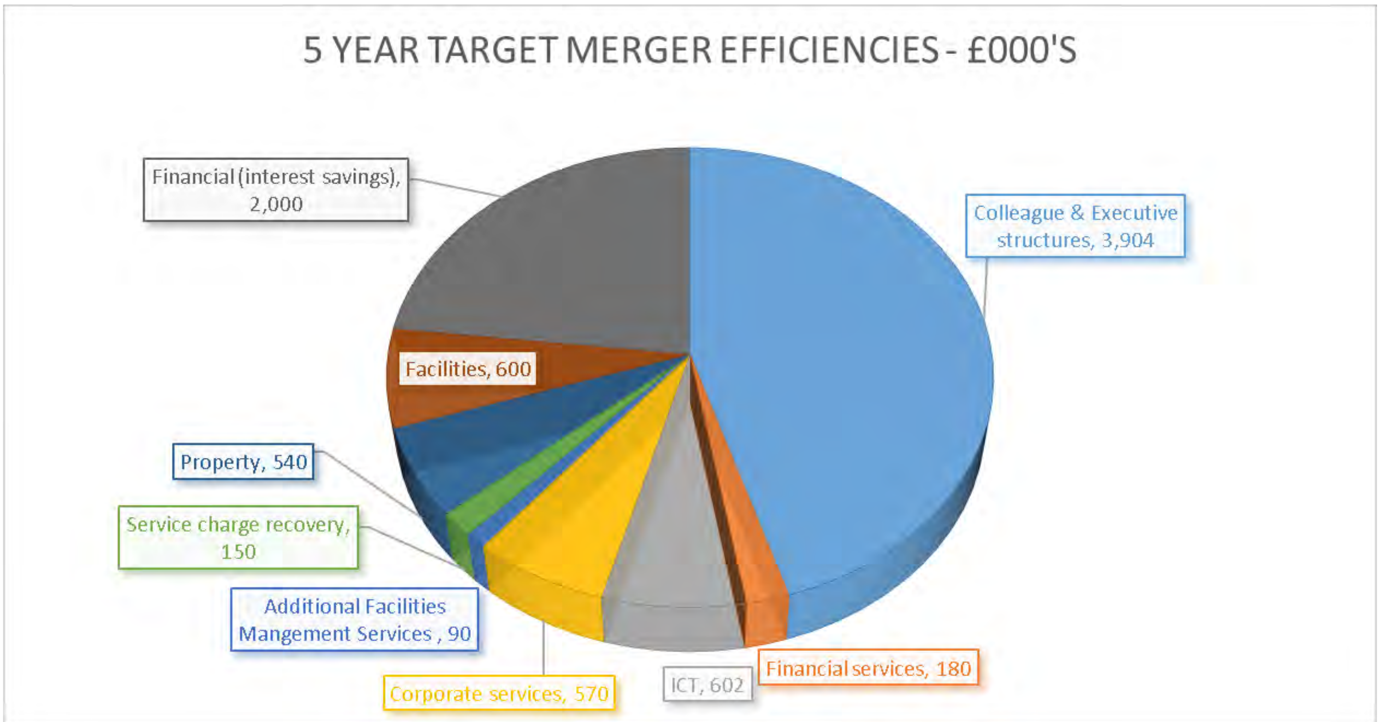
In 2018 we outperformed our long term financial forecast by delivering an operating surplus of £19.6m, £4.2m ahead of forecast, allowing us to invest more in new and existing homes in the future.

2017/18 Corporate Plan achievements

In the Corporate Plan we described our priorities under four headings:

Well run and delivering value for money

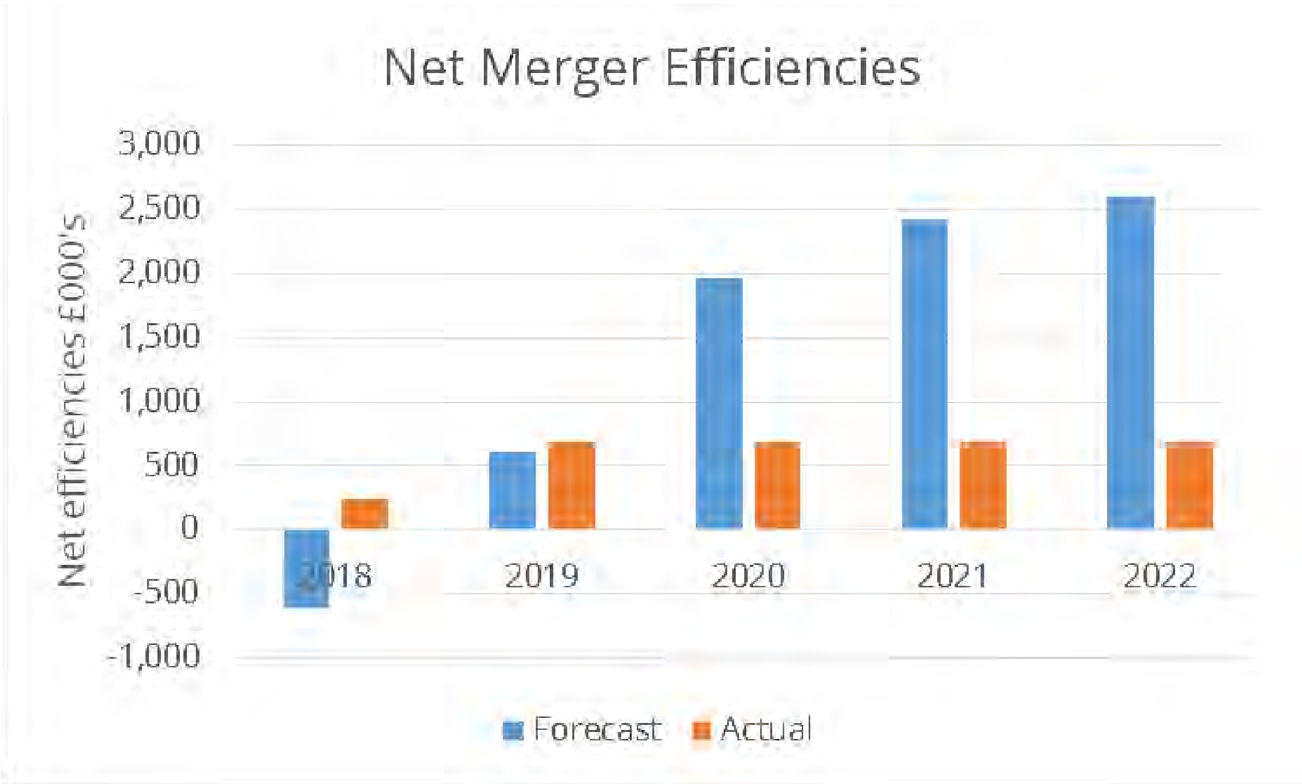
As a key part of the business case for merger with Herefordshire Housing. We identified £8.636 million of efficiencies that could be delivered in the first five years following merger. This was broken down into the following areas:



This equates to a recurring saving of £2.6m per year from 2022, 6% of current operating costs.
For 2017/18 a saving in year of £669,000 equating to a recurring saving of £691,000 has been delivered.
Efficiencies have been delivered ahead of schedule by reviewing contracts held by Herefordshire Housing and Shropshire Housing Groups and combining into a single contract for the Group. Examples of this include Treasury Advisors, External Auditors, Internal Auditors, benchmarking provider and mobile telephony. In addition there have been savings in the leadership team where only one Director or Head of Service is needed. Examples of this include the Director of Development post that was not filled at Herefordshire Housing (as a Director was already in post at Shropshire Housing Group), the Heads of Finance, HR and IT where, for each, only one Head of Service remains where 2 were in post (i.e. one for each Group) at the start of the year.

There have been additional costs in delivering the merger and one of the difficult aspects has been the differing IT systems between the two Groups which has necessitated a significant investment in IT this year and over the next 2-3 years.

Delivery of the efficiencies forecast at the point of merger is best illustrated by the graph below. The forecast is the net saving estimated at the point of merger (and approved by the Board as part of the business case for merger) while the actuals are savings (net of merger costs) identified in year or, where included in future years, are as a result of recurring savings already delivered.



Empowering people to meet their needs and aspirations

- Connexus is committed to providing employment for local people within our communities and to this end widened its apprenticeship opportunities in the year and developed an apprenticeship offer to maiximise the opportunities from the apprenticeship levy introduced in May 2017

- A Connexus "Insight and Change" team has been established in the Group to work closely with the housing and development teams to use customer profiling to better understand demand for our homes and services.

- A valuable part of the Group is our services delivered through the subsidiary Independence Trust and wellbeing teams in Shropshire. Amongst the services delivered in 2018 were the Careline service with 38,500 connections at the end of March 2018. The Responder service in Herefordshire gives further empowerment to individuals to retain independence in their own homes with the falls responder service alone receiving over 90 calls per month. A range of other services are delivered to help people maintain their independence including wellbeing services in Gloucester, Droitwich and Stroud, a Foyer in Ludlow and the Homelife service in Shropshire

- Connexus is committed to being a great employer and in 2018 established the Connexus Consultation Group to provide a forum for colleagues. In addition in 2018, learning and development co-ordination was centralised into one team who have created a learning and development strategy and annual plan to meet the needs of colleagues in line with the corporate plan.

Providing great homes and sustaining communities

- A "New Homes strategy" was written in 2018 that describes how Connexus will provide homes that meet a range of needs. The strategy aims for a mix of development by 2021 of 52% social and affordable rent, 3% Rent to Homebuy, 21% shared ownership, 7% market rent and 17% open market sale to meet the diversity of need.

- In year there was a net increase of 128 new homes in management. £28m was spent on development of new homes in the year, funded by a mixture of grant, sales income and loans.

Creating and valuing partnerships

- Connexus works with a range of partners across Shropshire, Herefordshire, Gloucestershire and Worcestershire. In 2018 Connexus was successful in bidding for the community wellbeing service in Stroud and Berkley Vale where we work in partnership with the local GPs in providing a signposting service.

Corporate plan 2018-2021

The Connexus Way – the Corporate Plan for 2018-21 was approved by the Group Board in November 2017. Our purpose is defined in the plan as "to help houses to become homes and places to become communities – creating places where people can reach their potential"

The Corporate Plan identifies Brexit, the housing crisis, welfare reforms and rapid technological changes as having an impact on our customers, communities and our homes hence describing these as the drivers of the Corporate Plan. The values and the "pillars" that Connexus is focusing on are descried in the Chief Executive's report (above)

Our priorities for the next 3 years are summarised in the Plan under 4 headings:

Empowering people to meet their needs and aspirations

By 2021 we will have:

- Helped more people to reach their potential through apprenticeships and learning and development opportunities
- A solid grasp of local housing markets and use of customer profiling to better understand demand to modernise our homes and services
- Helped more people to lead happy and fulfilling lives through adapting homes to meet customer needs
- Been recognised as a great employer by securing Investors in People and retaining and developing a skilled workforce

Providing great homes and sustaining communities

By 2021 we will have:

- Increased the number of Connexus Homes in management to 11,500 – the right homes in the right places
- A portfolio of homes which are affordable to build, run and maintain by investing in new technology and construction methods

- A simpler and more individual approach to letting our properties by understanding what matters
- Strengthened our reputation as a place shaper by delivering rural community-led housing and urban renewal projects

Creating and valuing partnerships

By 2021 we will have:

- Become the Landlord of choice in Herefordshire and Shropshire and introduce the "Connexus Commitment" home offer to our customers
- Become the 'go to' partner by actively pursuing collaborative solutions with Local Authorities, other third sector agencies and Housing Associations, the Local Enterprise Partnership and the HCA, where they add value to local communities
- Expanded the Connexus menu of support and wellbeing by growing our specialist floating support, Falls Responder services and place based interventions
- A new fleet of low emission vehicles providing a Connexus Repairs service.

Well run and delivering value for money

By 2021 we will have:

- Retained top governance and viability ratings and be delivering business case efficiencies of over 5% and recurring savings of £2m a year from 2020
- Maintained a strong Value for Money ethos delivering social as well as financial benefits with secure funding to meet our ambitions and "golden rules" in place to keep total costs per unit below £3,000 a year.
- Steadily grown turnover of non-"social purpose" activity by carefully blending private rent, shared ownership and outright sale with more affordable homes to support customer needs and sustainable communities
- Simplified and strengthened our market presence with positive peer and customer recognition of the Connexus brand and The Connexus Way of working.

Financial Performance

The Company made a surplus after tax for the year ended 31st March 2018 of £7.1 million, (2017: £8.6 million). Whilst the surplus in the year is lower than in 2017, it presents a substantial improvement relative to the £5.9 million budget.

The key variances which have resulted in the £1.5 million reduction in surplus relative to 2017 are:

- £332,000 additional income generated from property disposals
- Increased depreciation charge of £378,000 in 2018 due to increased expenditure on component replacements (kitchens, bathrooms etc.) and new homes brought into management.
- The employers contribution for pension costs increased by £505,000
- Housing management costs reduced by £104,000
- Interest charges increased by £259,000

- Exceptional costs of £198,000 incurred in relation to the merger.

From a budgetary perspective, the positive variance has largely been driven by additional income from property sales and the positive variances across voids and bad debts offsetting the higher depreciation and management expenditure.

The operational performance for the year was also positive, examples of which include:

- Costs relating to the merger of £198,000 (largely unbudgeted as the merger took place after budgets had been approved) managed within existing overall budget.
- Void rent loss £99,000 lower than budgeted.
- Bad debt costs being £83,000 lower than anticipated

The focus for 2018 continued to be maintaining the quality of our homes with an investment programme with £9.9 million spent, (2017: £9.8 million). Priority in the year for Herefordshire housing homes was roof and window and door replacements.

The total comprehensive income for the year was £8.9 million surplus compared with £7.5 million in 2017.

Value for money

In April 2018 the Regulator of Social Housing updated the Value for Money Standard and we have updated our approach to VFM to ensure compliance with this.

<u>The required outcomes from the RSH are that Registered Providers must:</u>

Clearly state their strategic objectives – the Corporate Plan that was approved in 2018 details our strategic objectives is summarised above. A Value for money strategy was approved prior to merger with a new strategy approved in July 2018. The strategic objectives of the July 2018 VFM strategy are to:

- Generate the optimal outcomes for the Group, tenants, customers and communities from the considered use of all of the resources.
- Create efficiencies in the way we operate.
- Utilise profits from commercial activities to provide better services for our customers.
- Understand the return on our assets and utilise this to assist in the prioritisation of activities against our strategic objectives making new development decisions based on social and financial return to the Group, our customers and communities.
- Create and embed a VfM culture across all of Connexus.
- Use growth in the business to provide local employment opportunities, apprenticeships and reduce dependency.
- Provide social and economic benefits to individuals and communities in our core geographical areas.
- Create environmental efficiencies

The financial efficiencies generated will provide funding to:

- Meet new homes targets
- Invest in existing stock
- Improve customer services

- Maintain sustainable communities
- Support business growth and development

Approach agreed by Board in delivering value for money

The strategy in place since merger has been updated and reviewed by the Audit & Risk Committee and has been scrutinised and approved at the Board on 31st July 2018.

The VFM agenda is embedded at Connexus through the creation of a Connexus Value Group (CVG). Chaired by the Director of Resources, the CVG includes colleagues across the Group at all levels. The Chair of the Audit and Risk Committee, James Williamson, is Board champion for "value for money" and is a member of CVG alongside the Deputy Chief Executive.

Our approach is designed to ensure that value for money is provided for our customers. Specifically:

- Connexus has adopted a Customer First approach to focus on delivering to purpose and what matters most to the customer rather than being driven by costs, targets and budgets. All of these will be measured and monitored but will not drive delivery.
- Connexus has developed a Customer and Community Involvement Strategy and will listen to the concerns of customers in order to deliver better services and amend our approach in response to customer feedback. We communicate with our customers in a variety of ways, via our website, telephone and text messaging, meetings, face to face contact and social media but we principally communicate our VfM story and service changes etc. through our customer newsletters.
- Customer Involvement Panels are central to the process of service review and improvement.
- Connexus has partnership working as a key pillar and will work closely with other landlords across our core operating area of Shropshire and Herefordshire to better address the collective needs of residents, tenants and customers and to be responsive to priority issues facing our Council partners.

Ensure that optimal benefit is derived from resources and assets to optimise economy, efficiency and effectiveness.

The approved VFM strategy states that Connexus will:

- Prioritise our expenditure and ensure that expenditure is only incurred if it directly benefits our customers or indirectly benefits our wider customer base.
- Create a business case for major decisions and scrutinise these at Connexus Value Group, Senior Management Team meetings, Executive Management Team meetings, Enterprise Committee, Audit & Risk Committee, Operations Committee or Parent Board as appropriate. The business case will be backed up by a financial appraisal linked to the quality and benefits to our customers
- Understand our performance and cost base in relation to outcomes and review these in comparison to other similar organisations (including commercial organisations where available) on at least an annual basis using analysis to drive service improvement where appropriate.
- Monitor trends against performance on a monthly basis and have processes in place to improve, introducing continual learning cycles.

- Review our performance through balanced scorecards and management accounts on a monthly basis and at least quarterly report to Board and relevant Committees.
- Drive efficiencies in procurement by creating a procurement plan and monitoring outcomes.
- Set annual targets for VfM efficiencies, recording and scrutinising efficiencies delivered.
- Have robust business planning and budget process and review to ensure that financial performance will comply with funders' covenants
- Include an annual efficiency target of 2% in our Long Term Financial Forecast.
- Where possible we will generate a profit by providing services to non-residents and use the profit to reduce costs or improve the service to our residents.
- Implement our Asset Management Strategy to optimise the return on our assets.
- Use a variety of data from a number of sources (including customer satisfaction, customer profiling and complaints/compliments analysis) to review and triangulate evidence to value for money
- Involve customers through representative tenant groups, resident inspectors and scrutiny panels
- Challenge our delivery models and ensure that our corporate structure provides VfM.

Specific expectations from the RSH are that Registered Providers must demonstrate:

Robust approach to achieving value for money, including "rigorous appraisal of potential options for improving performance"

Options appraisals are considered for significant decisions and reviewed by EMT, relevant Committees or the Group Board as appropriate. Significant items for improving performance in the first year or the merger included team restructures and ICT systems to deliver efficiencies– all of which were reviewed at EMT.

Regular and appropriate consideration by the Board of potential value for money gains, including consideration of costs and benefits of alternative delivery structures

During 2018, value for money was reviewed at the Finance and Treasury Committee and Audit and Risk Committee with an annual review of our achievements reviewed at the Board on 31st July 2018. The Board approved a future reporting timetable of bi-annual review of VFM gains at the Audit and Risk Committee as well as an annual review by the Group Board.

Consideration of value for money across the whole business, including returns from non-social housing

An Enterprise Committee (reporting directly into the Group Board) was established during the year to consider the justification for all non-social housing activity. The criteria for all new business was decided upon by the Committee in May 2018.

That they have appropriate targets in place for measuring performance in achieving VFM in delivering strategic objectives, including regularly monitoring and reporting of performance against targets. –

The regulator's metrics were calculated for the 2 Groups prior to merger and have reviewed reports received from an independent analyst organisation (I4H) for the year end. Targets are set for the metrics based on the financial outcomes from the business case. Specific efficiency targets have been identified to arise out of the merger, while a range of targets are included in the business case for merger which are regularly monitored. A further 2% efficiency target (of operating costs) is set on approved budgets each year.

Registered providers must annually publish evidence in the statutory accounts as follows:

- Performance against VFM targets, metrics set by the regulator and performance compared to peers.
- Measurable plans to address any areas of underperformance

These are detailed below:

Overall VFM self-assessment

Connexus uses an organisation "I4H" to undertake an annual detailed housing performance analytics review and a report has been produced for 2017/18 that Connexus is performing at just below the median compared to our peer group of 14 other housing organisations. The table below details how this has been calculated. Results for the following table are classified into 4 quartiles – green is performing in the top quartile, yellow in the upper median quartile, orange is for the lower median quartile while red is performing in the lowest quartile.

VfM Measure	Results 2017/18	Median 2017/18	Score 2017/18
Total Cost Per Unit	£3,067	£2,947	20
Total Operational Performance Score	210	200	30
Total Customer Satisfaction Score	100	100	20
Total Financial Score	160	200	20
Total VfM Score	**90**	**100**	**90**

Connexus is just below the median score of the 15 organisations in terms of VFM score, total cost per unit and financial score in the lower median quartile, customer satisfaction at the median and operational performance above the median. The reasons behind this are considered in more detail below.

Performance against our peers, nationally and against our VFM targets.

The Regulator set out standard metrics that all Registered Providers must report against. Benchmarking has been undertaken by i4H based on our draft outturn performance against a peer group of 14 similar Registered Providers, nationally and against Connexus targets. The results of this benchmarking and our actual results for the year for Connexus are set out below:

FY18 Financial Indicator	FY18 Out turn (Peer Group)	FY18 Out turn (national)	Median (Peer Group)	Median (National)	FY 18 Target (Business case)	FY18 Actual	Variance From target
Reinvestment	1.2%	1.2%	6.94%	6.94%		12.6%	
New supply delivered % (Social Housing)	1.6%	1.6%	1.30%	1.25%		1.6%	
Gearing Ratio	58%	58%	57%	47.15%	65%	62%	3%
EBITDA MRI Interest cover	174.1%	174.1%	241.00%	214.18%	149%	163.9%	14.9%
Headline social housing cost per unit £	£3,204	£3,204	£3,203	£3,296	£3,338	£3,303	£35
Operating Margin (Overall)	30.4%	30.40%	30.00%	27.52%	26.0%	29.5%	3.5%
Operating Margin (Social Housing)	35.7%	35.70%	32.00%	27..51	28.0%	34.6%	6.6%
Metric 7 - Return on Capital Employed	5.72%	5.72%	5.72%	4.38%		5.71%	
Total Score	160	190	175	175		190	

Analysis of results

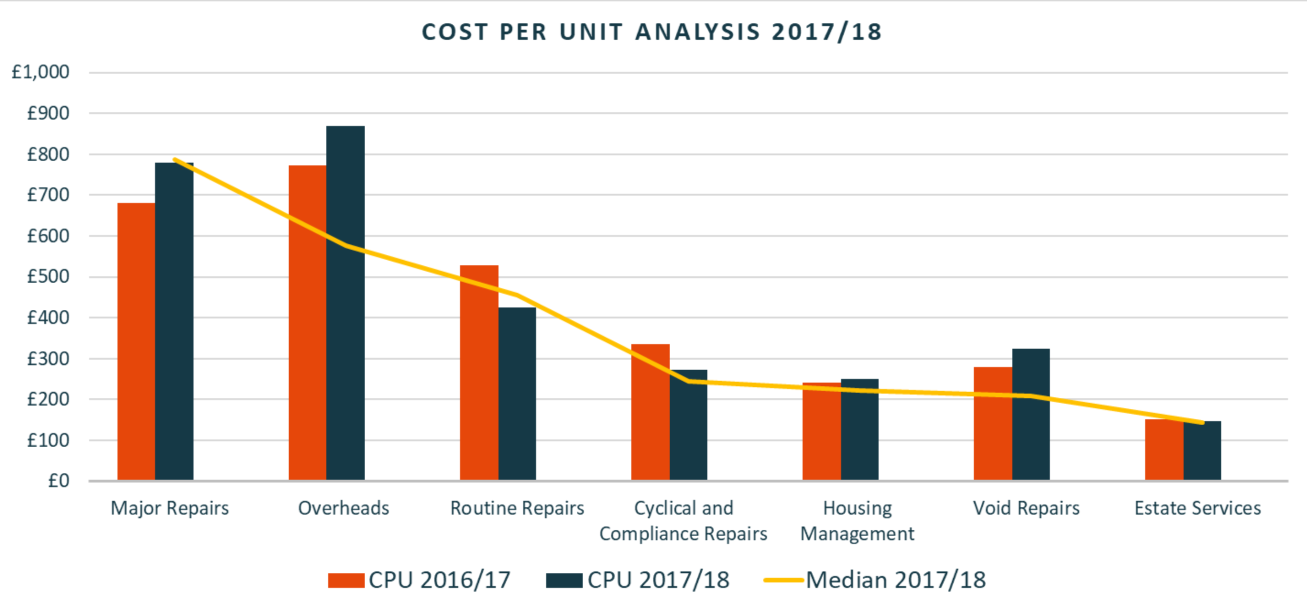
The colours for benchmarked results are as per the description in the overall assessment above, while the performance against the target is coloured as green, performing better than target, amber, on target and red performing below target.

Connexus has out-performed the financial targets set at the business case through careful cost control, regular monitoring at Executive Team meetings, Senior Management team meetings, committees and Group Board and proper scrutiny and financial option appraisals of significant items.

Performance against our peer group and nationally is generally strong with only EBTITDA MRI/Interest being in the lowest category. This is a ratio to identify the cash coverage for loans. At 174.1%, this is comfortably above any requirement from any lender and is above the forecast in the long term financial forecast, so no specific action is required. A target for 2019 has been approved by the Board of 179.1%.

At 58%, the gearing ratio is 1% below the median. Funding our development programme will force this to rise to the target of 66.1 in 2019. Careful cashflow management and further opportunities to on-lend between companies in the Group will enable us to achieve this.

Cost per unit has been analysed as per the graph below:



Overhead costs stand out as an area that is increasing from the prior year and is significantly higher than the median for the peer group. There are exceptional costs in here of £428,000 and Connexus is modernising its IT systems to ensure better services to customers and to have one IT platform for the whole group which will reduce costs in the long run.

In addition our strategy identifies the following value for money outcomes to be measured (with targets derived from our corporate plan, business case for merger and approved Long Term Financial Forecast)

	Target	Actuals	Variance	Targets		
	2018	2018	2018	2019	2020	2021
New Homes delivered	195	174	(21)	179	500	364
Investment in existing homes	£7.03m	£9.0m	£0.13m	£9.8m	£11.6m	£10.5m
Corporate Restructure review	√	√	Partially complete	√		
Treasury Management Review			N/A	√		
Social Return on investment		£8.1m	Target not set	£5m	£5m	£5m

21 less new homes were delivered than forecast. This was due to remodelling of two schemes, one in Herefordshire and one in Shropshire. These will be carried forward to 2019 so the revised target will be 200 for 2019. The development team are working on a revised delivery plan to ensure that these targets are met.

Investment in existing homes exceeded the original target, but was maintained within the overall approved budget, due to efficiencies delivered elsewhere. An Asset management strategy had been approved that will manage the profile of spend against our targets.

A corporate structure review was planned during 2018 to simplify the Group structure. This was partially achieved with the selection of one company to deliver future design and build contracts for affordable housing for the Group (Rise Partnership Developments) and one company to deliver housing for sale (Floreat Living). Some simplification of the governance structure took place as described earlier in this document.

£8.1m of social return on investment was delivered by the Group. No target had been set on this, £5 million has been set as the target for future.

Operational Performance

Benchmarking from I4 identifies the following performance against our peers:

Performance Indicator	2016/17 Result	2017/18 Result	Peer Median
Rent collected current and former tenants (including arrears b/f)	99.24%	100.54%	98.49%
Current tenant arrears (Excluding Voids)	1.42%	1.25%	2.78%
Former tenant arrears (Excluding Voids)	0.95%	0.98%	1.48%
Rent loss due to voids	0.49%	0.30%	0.65%
Average time complete repairs (Days)	13.76	15.14	11.35
Average relet time (Days)	26.37	31.45	20.59
Gas safety certificate %	100.00%	100.00%	N/A
SAP rating	66.58	67.29	71.40
Total Score	**190.00**	**210.00**	**210**

Rent arrears, rent collection and rent loss due to voids are all performing well despite the increasing number of tenants on universal credit. However, average time to complete repairs, average relet time and SAP rating are in the lowest quartile.

The following actions are taking place to address this with the outcomes targeted for delivery by the end of 2019:

Indicator	Issues / Actions taken to improve performance	Measurable Plan
Average time to complete repairs	A new trade colleague performance report now published monthly basis allowing managers to monitor performance rates of individuals and teams to ensure all time is accounted for. The redesign of the Connexus Repairs team structures is allowing opportunity for improving operational delivery through reviewing processes and procedures, and raising expectations of managers.	Implementation of new colleague structure is currently taking place with each manager being provided with clear objectives in accordance with and linked directly to the Corporate Plan. Repairs manager now has clear tasks associated with the 5 key department objectives: • Embed new management structure • The system thinking experiments • Building effective relationships • Establish positive, effective, customer centred Connexus Repairs structure • Service Delivery The repairs manager has also been provided with clear guidance regarding expectations on service area delivery with clear time-bound targets. Full review of the Out of Hours Service. Repairs Manager to take complete ownership of the Out of hours service. Operational Managers Meeting will commence on a monthly basis purely focussing on performance management and operational matters.
Average re-let times	Utilisation of the vanguard project is active in the South and is improving the working processes, customer satisfaction and void turn-around times. The time taken to let the properties once they are ready to let has been at a good or acceptable level or performance for most voids	Rolling in more of lettings service to Vanguard project to focus on customers. We will continue to work closely with both Shropshire & Herefordshire Council and other local RP's to provide an improved service.

	Changes to re-let practices to match the needs of the prospective tenant. Reviewing performance measure in more detail so we can understand where the delays are occurring and see if we can identify any trends or re-occurring issues that are affecting our void performance.	Software to be installed by Herefordshire Council to improve the lettings of homes in Herefordshire and enable Connexus South to have control of all their own adverts and be able to advertise properties available to possible applicants outside of Herefordshire Council's housing register. A similar approach is being adopted in Shropshire.
SAP ratings	Annual investment programme that improves the energy efficiency of our property stock. Works include External wall insulation, installation of renewable heating systems such as air source heat pumps, replacement of older gas boilers for modern A rated boilers and the installation of controllable Quantum storage heaters. .	Energy surveys. These energy performance certificates (EPC) demonstrate an increase in energy efficiency. Annually review our overall SAP score. By 2030 our property stock must have individual SAP scores of C or above to allow us to let them. Plan being created to achieve this. Property Surveyors are to be trained to become Domestic Energy Assessors. This will enable us to undertake more EPC's which will improve further our knowledge and understanding of the energy performance of our stock.

Risk Management

Connexus is exposed to risks which may have material and adverse effects on its reputation, performance and financial position.

The Group measures these risks by reviewing the likelihood and impact of the inherent risk of an event occurring, identifying controls and actions to mitigate the risk and calculation of the residual risk remaining.

The most significant business risks facing the Group at the end of the March 2018 were:

Risk	Management Controls
Financial	
Negative impact on the business plan from Increasing pension fund contributions required to meet pension fund deficits & auto-enrolment responsibilities.	The Long Term Financial forecast (LTFF) is regularly reviewed to ensure increase in costs linked to pensions are taken into account. Stress testing is carried out on the LTFF to demonstrate the resilience of the plan from increased pension liabilities. A review of pension entitlement across the Connexus Group is currently being undertaken to inform the LTFF.
Changes in economy having a detrimental impact on the LTFF including access to funds, increased cost of regulation, a sector wide "material event" and changes to inflation/interest rates.	Prudent assumptions are used in the LTFF to minimise the impact. The LTFF is externally validated at least annually The LTFF is regularly stress tested with mitigation strategies calculated and approved by the Board. A variety of funding options is in place to maintain flexibility to manage interest rate changes.
Inadequate funding leading to inability to acquire land or develop new homes	Prudent assumptions are used in the LTFF to funds are in place for all committed schemes. A broad range of loan options is maintained across Connexus to enable to undertake new developments, Medium-term cashflow forecasts are reported to Board quarterly.
Development	
Failing to deliver open market sales development programme	A New Homes strategy was approved by the Group Board in 2018 which reduces the impact of this risk setting a cap on the amount of open market sales development being carried out at any one time. All schemes are subject to a robust financial and technical appraisal that is linked to the LTFF.

	There is robust Board scrutiny with each development scheme being subject to appraisal, approval and subsequent ongoing monitoring from the Enterprise Committee. The approved Treasury Management Policy limits cash requirements to exclude sales income.
Changing market conditions for shared ownership or open market sale resulting in unsold homes for longer than forecast.	A dedicated sales team manages all sales. Market sales research is carried out on all sites prior to development with market intelligence data gathered on sales prices prior to setting. We ensure that there is only a manageable number of homes for sale at any one time with specific schemes managed in phases with the next phase only released when the sales are achieved.
Rising development costs may affect viability of development schemes	Prudent assumptions are used in development appraisals. Stress testing of the LTFF includes the scenario of rising development costs. Mitigations are approved by the Group Board.
Operational	
ICT system implementation delays	A project criteria process has been introduced at Connexus to ensure realistic timescales and resources are planned for in each implementation. Major projects are reviewed and signed off by the Executive Management Team. Project implementation groups manage and monitor system implementations to minimise delays.

Good governance is key to delivering a merger and Connexus ensures that a prudent approach is in place to maintain good governance. The Group Board has a key role in governing the organisation to mitigate the risk of poor governance and utilises its powers appropriately.

The General Data Protection Regulation (GDPR)

The General Data Protection Regulation came into effect on the 25th May 2018, and applies to any data companies hold or process within the EU. It also relates to companies outside the EU, for example, US companies who hold any data on UK customers. Its overall goal is to safeguard consumer data and enforce data security rights. At the same time it forces organisations to think about what they collect, and how they use it.

Connexus is committed to the proper and appropriate use of data held regarding customers and colleagues, storing securely and only retaining whilst there is valid reason to do so.

Accounting Policies

The principal accounting policies are set out in note 2 to the financial statements on pages 39 to 49.

Capital Structure and Treasury Policy

The Group's financial instruments comprise borrowings, some cash and liquid resources and various items such as trade debtors, creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. It is the Group's policy to not trade in financial instruments. The main risk arising from the Group's financial instruments is liquidity risk. The Board reviews and agrees policies for managing this risk, details of which are summarised below. The policy was implemented following the refinancing in January 2018.

Treasury activities are controlled and monitored by the Director of Resources, with the assistance of external consultants as required, and are carried out in accordance with policies and strategies approved by the Board. The Board undertakes regular reviews of treasury management activity and covenant compliance. The Company has adopted a policy that balances the need to keep cash levels necessary only to meet immediate business requirements but also protecting the long-term position by taking advantage of long-term rates, when the opportunity arises.

The overall aim is to manage the Company's exposure to interest rates and have a debt profile that supports the needs of the business.

The Group finances its operations through a mixture of retained profits, bank funding and bond finance at fixed rates of interest. The Group has funding in place in the form of a 35 year bond for £120 million, of which £15 million is in retained bonds yet to be issued and a £40 million revolving credit facility (RCF) of which £29 million is yet to be drawn. At 31st March 2018, borrowings stood at £204 million (2017: £188.3 million), with undrawn facilities of £44 million (2017: £60 million). At the year-end 93% of borrowings were at fixed rates.

All borrowings are at fixed rates in GBP and the Group has no currency exposures. Any movements in interest rates will therefore not impact on the surplus before tax.

The Group does not hold any derivative financial instruments.

The table below provides an analysis of when the debt falls due for repayment:

Group	2018 £'000	2017 £'000
Within two to five years	11,000	10,000
After five years	192,984	178,258
Interest rate basis:		
Fixed	93%	95%
Floating	7%	5%

The weighted average percentage of financial liabilities is 4.66% in 2018. (2017: 4.80%).

Cash Flow

Cash inflows and outflows for the year ended 31st March 2018 are set out in the cash flow statement on page 38. Net cash inflows from operating activities are from the management of housing stock. Returns on investment and servicing of finance are due to interest income and interest charges on loans.

The net cash outflow from capital expenditure is the spend on capitalised repairs on existing housing stock, spend on development of new housing stock which has been capitalised less grant and sales proceeds from properties sold under the 'Right to Buy scheme', plus spend on other fixed assets. The net movement in financing is the difference between loans repaid and new loans.

The Company generated net cash from operating activities of £7.164 million (2017: £17.972 million). After investing and financing activities cash and bank balances for the year ended 31st March 2018 decreased by £521,000 (2017: £762,000).

Current Liquidity

The Connexus Group treasury management policy requires that Connexus will maintain a minimum level of liquidity such that there is:

i. sufficient cash to cover the next three months forecast net cash requirement

ii.sufficient cash and committed loan facilities capable of immediate draw down to cover the next twelve months forecast cash requirement; and

iii.sufficient cash and committed loan facilities (whether or not capable of immediate draw down) to cover the higher of total committed development spend and the next eighteen months forecast cash requirement

The Group finances its operations through a mixture of retained profits, bank funding and bond finance at fixed rates of interest. The Group has funding in place in the form of a 35 year bond for £120 million, of which £15 million is in retained bonds yet to be issued and a £40 million revolving credit facility (RCF) of which £29 million is yet to be drawn. The Board does not consider that there are any seasonal effects on the borrowing requirements. The main factor influencing the amount and timing of borrowings is the pace of the Planned Maintenance and Improvement and New Development programmes. This has a significant impact according to the timing of payments to contractors and receipt of any capital grants.

Statement of compliance

The Board confirms that this Strategic Review has been prepared in accordance with the principles set out in the Housing SORP 2014 Statement of Recommended Practice for registered social housing providers. Herefordshire Housing Limited is fully compliant with the Governance and Viability standard following the review undertaken during the year with the exception of full compliance with the GDPR standard as noted above which will be fully compliant by end December 2018.

Statement of the responsibilities of the Board in respect of the Board's report and the financial statements

The Board is responsible for preparing the Board's Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the group and the association and of the income and expenditure of the group and the association for that period.

In preparing these financial statements, the Board is 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 and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Report of Board, the Strategic Report and the financial statements were approved by the Board on 27 July and signed on its behalf by:

Ruth Cooke

Ruth Cooke
Chair
27 September 2018

Independent Auditor's report to the members of Herefordshire Housing Limited

We have audited the financial statements of Herefordshire Housing Limited ("the Company") for the year ended 31 March 2018 set out on pages 38 to 79. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 and section 128 of the Housing and Regeneration Act 2008. 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.

Respective responsibilities of directors and auditor

As explained more fully in the Board Responsibilities Statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Group and the Company as at 31 March 2018 and of the surplus for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Independent Auditor's report to the members of Herefordshire Housing Limited (continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Board Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Board report

- we have not identified material misstatements in those reports: and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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;
- 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.

SBrown

Sarah Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
One Snowhill, Snow Hill Queensway
Birmingham B4 6GH

Date: 27 September 2018

Statement of Comprehensive Income

	Note	2018 £ 000	2017 £ 000
Turnover	3	29,867	28,970
Operating expenditure	3	(19,921)	(17,890)
Surplus on disposal of fixed assets	5	1,144	1,346
Operating Surplus	3,4	11,090	12,426
Interest receivable and other income	7	43	33
Interest and financing costs	8	(4,030)	(3,771)
Surplus before tax		7,103	8,688
Taxation	9	(50)	(120)
Surplus for the year		7,053	8,568
Actuarial gain/(loss) in respect of pension schemes	29	1,837	(1,041)
Total comprehensive income for the year		8,890	7,527

All results derive from continuing operations.

Statement of Financial Position as at 31 March 2018

	Note	Company 2018 £ 000	Company 2017 £ 000
Fixed Assets			
Tangible fixed assets - housing properties	12	125,959	114,772
Other tangible fixed assets	13	4,902	5,164
Investment properties	14	682	-
Investment in subsidiaries	31	13	13
		131,556	**119,949**
Current assets			
Properties held for sale	14	4,601	2,535
Stock	14	85	121
Trade and other debtors	15	28,814	18,905
Debtors: amounts due after more than one year		30	30
Short term investments	26	2,036	691
Cash and cash equivalents		318	839
		35,884	**23,121**
Creditors: amounts falling due within one year	16	**(5,586)**	**(5,162)**
Net current assets/liabilities		30,298	17,959
Total assets less current liabilities		**161,854**	**137,908**
Creditors: amounts falling due after more than one year	17	(113,552)	(97,653)
Provisions for liabilities			
Pension provision	29	(7,647)	(8,577)
Other provisions	22	(176)	(89)
Total net assets		40,479	31,589
Reserves			
Income and expenditure reserve		40,479	31,589
Total reserves		40,479	31,589

The financial statements were approved and authorised for issue by the Board on 27 September 2018.

Ruth Cooke

Ruth Cooke
Chair

James Williamson
Vice Chair

Richard Woolley
Company Secretary

Consolidated Statement of Changes in Reserves

	Share Capital £'000	Income and Expenditure Reserve £'000	Total Capital and reserves £'000
At 31 March 2016	-	24,062	24,062
Surplus for the year ending 31 March 2017	-	8,568	8,568
Other comprehensive income for the year	-	(1,041)	(1,041)
As at 31 March 2017	-	31,589	31,589
Surplus for the year ending 31 March 2018	-	7,053	7,053
Other comprehensive income for the year	-	1,837	1,837
At 31st March 2018	-	40,479	40,479

Consolidated Cash Flow Statement

	Note	2018 £000s	2017 £000s
Net cash generated from operating activities	23	**7,164**	**17,972**
Cash flow from investing activities			
Purchase of tangible fixed assets		(19,984)	(16,060)
Purchase of other tangible fixed assets		(421)	(604)
Purchase of investment properties		-	
Purchase of short term investments		(1,345)	(5,078)
Grants received		1,053	1,271
Interest received		43	31
		(20,654)	(20,440)
Cash flow from financing activities			
Interest paid		(4,296)	(3,681)
New secured loans		17,265	5,515
Repayments of borrowings		-	-
Capital element of finance lease repayments	25	-	(128)
Net Cash Inflow		12,969	1,706
Net change in cash and cash equivalents		**(521)**	**(762)**
Cash and cash equivalents at the beginning of the year		**839**	**1,453**
Cash and cash equivalents at the end of the year		**318**	**2,516**

Notes to the Financial Statements

1. Legal status

The Company, Herefordshire Housing Limited, is a private Company Limited by Guarantee, incorporated under the Companies Act 1985 (now updated to the Companies Act 2006), and is registered with and regulated by the Regulator of Social Housing as a social housing Registered Provider. The Company was registered as a charity on 16th September 2004.

2. Accounting policies

The following accounting policies have been adopted as being appropriate to the Group's circumstances with regard to giving a true and fair view and have been applied consistently in dealing with items which are considered to be material in relation to the Groups' financial statements.

a. Basis of Accounting

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS102) and the Housing SORP 2014: Statement of Recommended Practice for social housing providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

b. Going concern

The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the group's day to day operations. The group also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with the lender's covenants.

On this basis, the board has a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason it continues to adopt the going concern basis in the financial statements.

Accounting policies (continued)

c. Significant judgements and estimates

The preparation of the financial statements requires management to make significant judgements estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes may differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognized in the financial statements.

- Property, plant and equipment
  The Company has undertaken a review of the intended use of all housing properties. In determining the intended use, the Company has considered if the asset is held for social benefit or to earn commercial rentals. The Company has determined that market rented property, as it is developed are investment properties. The Company has determined that the small number of shops held, due to their nature and low level of rentals charged are held as property, plant and equipment are held for their social benefit.

- Capitalisation of property development costs
  The Company capitalises development expenditure in accordance with the accounting policy described within these notes. Initial capitalization of costs is based on management's judgement that development scheme is likely to proceed. Costs capitalised in this way are regularly reviewed and any costs identifies as abortive are charged to the Statement of Comprehensive Income. The total amount capitalised is disclosed in the notes.

- Impairment
  The Company has identified a cash generating unit for impairment assessment purposes during development and construction at a programme level, with subsequent impairment assessment once in management at a property level.

Estimation uncertainty
Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

Useful lives of depreciable assets
Other than investment properties, tangible fixed assets are depreciated over their useful lives. Management reviews the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes in homes standards which may require more frequent replacement of key components.

The key judgements and estimates applied in respect of housing property are contained within these notes and include:

- The useful economic life of properties
- That properties have no residual value at the end of useful life.

Accounting policies (continued)

Defined benefit obligation (DBO)
The Company has obligations to pay pension benefits to colleagues. The cost of these benefits and the present value of the obligation depend on a number of critical underlying assumptions. These include standard rates of inflation, mortality, discount rate and anticipation of future salary increases provided by the pension administrators and actuaries. Variations in these assumptions may significantly impact the net pension obligation in the balance sheet and the annual defined benefit expenses.

Fair value measurement
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimates fair values may vary from the actual prices.

d. Turnover and revenue recognition

Turnover represents rental income receivable in the year, income from shared ownership first tranche sales, and other services included at invoice value (excluding VAT where recoverable) of goods and service supplied in the year and revenue grants receivable in the year.
Government grants received for housing properties are included in turnover amortised over the expected useful life of the housing property structure.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids. Income from first tranche sales of properties built for sale is recognized at the point of legal completion of the sale.

e. Accrued Income

Where goods or services are provided but not yet invoiced, that revenue is accrued for.

f. Deferred Taxation

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognized to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

g. Loan interest costs

Interest payable and similar charges include interest payable, loan fees, and finance leases recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial liability.

Accounting policies (continued)

h. Finance and issue costs

Costs directly connected with the raising of finance are deducted from loans and written off over the life of the loan to the Statement of Comprehensive Income (SOCI).

i. Preserved Right to Buy Income and Sales

Surpluses and deficits arising from the disposal of properties under the Preserved Right to Buy legislation are disclosed on the face of the Statement of Comprehensive Income before the operating result. On the occurrence of a sale a relevant proportion of the proceeds are clawed back by Herefordshire Council. The surplus or deficit is calculated by comparing the net proceeds received with the carrying value of the property sold.

j. Management Costs

Management costs are allocated to revenue accounts on the basis of an estimation of colleague time allocated, except for specific items of expenditure, which are allocated directly.

k. Tangible Fixed Assets

Housing Properties

Housing properties are properties held for the provision of social housing or to otherwise provide social benefit. Housing properties are principally properties available for rent and are stated at historical cost less accumulated depreciation and impairment losses. The cost of properties represents the acquisition price of land and buildings, development costs, interest charges incurred in the development period, and expenditure incurred in respect of improvements.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements.

Properties in the course of construction are stated at cost and are transferred into housing properties, when complete. Properties in the course of construction are not depreciated.

Donated land and other assets

Where land has been donated as part of an intended development, the land is recorded at its current value at the gifting date within cost of construction and the income treated as a grant if from a government body and as turnover if from a non-government body. Current value takes into account any restrictions on use.

Accounting policies (continued)

Shared Ownership Properties

Shared ownership properties are split between fixed and current assets in line with the expectation relating to the first tranche sale percentage. The expected first tranche proportion is classified as a current asset until the point of the first tranche sale. The current asset is then transferred to cost of sales and matched against sales proceeds within the operating surplus in the Statement of Comprehensive Income. Any operating surplus is restricted to the overall surplus which takes into account the Existing Use Value-Social Housing (EUV-SH) of the remaining fixed asset element.

The remaining element of the asset is classified as a fixed asset and included in housing properties at cost, less any provision for depreciation or impairment.

l. Investment Properties

The classification of properties as investment property or property plant and equipment is based upon the intended use of the property. Properties held to earn commercial rentals or for capital appreciation or both are classified as investment properties. Properties that are used for administrative purposes or that are held for the provision of social housing are treated as property plant and equipment.

Where land is acquired for use in the provision of social housing or for a social benefit it is accounted for as property, plant and equipment.

Investment properties are reported based on their market valuation.

m. Government Grants

Government grants include grants receivable from the Homes England (formerly Homes and Communities Agency), local authorities, and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and, where applicable, its individual components (excluding land) under the accruals method.

Grants relating to revenue are recognised in the Statement of Comprehensive Income over the same period as the expenditure to which they relate once reasonable assurance has been gained that the entity will comply with the conditions and that the funds will be received.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Accounting policies (continued)

Government grants received for housing properties are subordinated to the repayment of loans by agreement by the RSH. Government grants released on sale of a property may be repayable but are normally available to be recycled are credited to a Recycled Capital Grant Fund and included in the statement of financial position in creditors.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income in the Statement of Comprehensive Income.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to the Statement of Comprehensive Income. Upon disposal of the associated property, the Group is required to recycle these proceeds and recognise them as a liability.

n. Other Grants

Grants received from non-government sources are recognised using the performance model. A grant which does not impose specified future performance conditions is recognised as revenue when the grant proceeds are received or receivable. A grant that imposes specific future performance-related conditions on the associations is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

o. Depreciation

Property, plant and equipment

The Group separately identifies the major components which comprise in its housing properties, and charges depreciation, so as to write-down the cost of each component to its estimated residual value on a straight-line basis.

A full year's depreciation is charged on all assets in the year of acquisition but no charge is made in the year of disposal.

Accounting policies (continued)

The expected useful lives of assets identified separately are as follows:

Structure:	
Non-traditional	30 years
Pre 1974 construction	75 years
Post 1974 construction	100 years
Other Major Components:	
Roofs	60 years
Windows & doors	30 years
Heating systems	36 years
Wiring	40 years
Kitchens	20 years
Bathrooms	30 years
Boilers	12 years
Lifts	20 years
Leasehold Properties:	Remaining life of lease
Garages:	25 Years

Freehold land is not depreciated

<u>Other tangible fixed assets</u>

Tangible fixed assets other than housing properties are stated at cost (less grant) less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use.

Depreciation (to residual value) is charged on a straight line over the expected useful life of the asset from the month of acquisition, at the following annual rates:

Computers and other equipment	15% - 33%
Plant and Equipment	20% - 33%
Vehicles	25%
Furniture, fixtures and fittings	25%

Depreciation on offices is calculated in compliance with the SORP, on a straight line basis over the following periods:

Newly constructed offices:	50 Years from the date of practical completion
Leasehold offices	Over the period of the lease

Accounting policies (continued)

p. Impairment

The Group's internal controls are designed to identify where the value of property, plant and equipment and work in progress held in the Statement of Financial Position is more than the lower of cost or net realisable value. Where there is evidence of impairment, fixed assets are written down to the recoverable amount, this is likely to be the value in use of the asset based on its service potential. The resulting impairment loss is recognized as expenditure in the Statement of Comprehensive Income. Where an asset is currently deemed not to be providing service potential to the association, its recoverable amount is its fair value less costs to sell. Depreciated replacement cost is taken as a suitable measurable model.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply and included in surplus or deficit in the Statement of Comprehensive Income.

q. Capitalisation of Development Overheads and Interest

Only specific and directly attributable costs are capitalised in line with the Statement of Recommended Practice

Interest on loans financing new development is capitalised up to the date of practical completion if it represents either:

- Interest on borrowings specifically financing the programme after deduction of interest on Social Housing Grant (SHG) in advance or

- Interest on borrowings of the company as a whole after deduction of interest on SHG in advance to the extent that they can be deemed to be financing the development programme.

r. Properties for sale

Shared ownership first tranches sales and completed properties for outright sale are disclosed as a current asset, stated at the lower of cost and net realisable value. Cost comprises materials, direct labour costs and other direct overheads, as identified above. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal.

s. Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of any transactional costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

t. Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate method.

Accounting policies (continued)

u. Employee Benefits

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

v. Finance Leases

Where the Group enters in to a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the Statement of Financial Position as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Statement of Comprehensive Income, and the capital element which reduces the outstanding obligation for future instalments.

w. Operating Leases

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

x. Stocks

The value of stock is shown at the lower of cost (the original purchase price) or net realisable value in accordance with accounting standards. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. The value of stores stock is calculated using the weighted average method.

y. Bad and doubtful debts

Provision is made for current and former tenant arrears, as well as other miscellaneous debts (service charges, community alarm income, and fees receivable for the provision of services) to the extent that recovery is considered doubtful.

z. Provisions

Due to the numbers of properties and the establishment of regular programmes of repair and maintenance, the Group does not generally make a provision for future works. Actual costs are charged to the Statement of Comprehensive Income.

The Group will recognise provisions where it has a present obligation (legal or constructive) as a result of a past event or where a transfer of economic benefit will be required to settle the obligation and an estimate can be made.

Where properties are leased a provision will be made for dilapidations where specified in the terms of the lease based on the annual rent for that property.

The Company recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

Accounting policies (continued)

aa. Pensions

Herefordshire Housing Group participates in the following defined benefit pension schemes: Pension costs for these schemes are assessed in accordance with the advice of a qualified actuary.

Worcestershire County Council Local Government Pension Scheme (LGPS)

The Company's financial statements report pension obligations according to the requirements of FRS 17 – 'Retirement Benefits'. Multi-employer defined benefit schemes that identify individual employers' shares of underlying assets and liabilities are reflected in the Statement of Comprehensive Income and the Statement of Financial Position. The difference between the fair value of the assets held in the pension scheme and the scheme's liabilities are recognised in the Statement of Financial Position as a pension scheme asset or liability. Changes in the defined benefit pensions scheme asset or liability arising from factors other than cash contribution by the employer are charged to the Statement of Comprehensive Income or the Statement of Changes in Reserves.

Social Housing Pension Scheme (SHPS)
This scheme is administered independently by the TPT Retirement Solutions.
For the SHPS scheme it is not possible to identify the individual employer's share of underlying assets and liabilities of belonging to individual participating employers.

Contributions payable from the association to the SHPS under the terms of its funding agreement for past deficit are recognised as a liability in the Statement of Financial Position and the resultant expense in the Statement of Comprehensive Income.

Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Re-measurements (actuarial gains and losses) are reported in other comprehensive income.

In accordance with statutory obligations the Company auto-enrols colleagues who are not members of the existing pension schemes into the Social Housing Pension Defined Contribution scheme.

bb. Corporation Tax

The charge for taxation is based on the results for the year and takes into account taxation deferred (or accelerated) because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax on a full provision basis.

Herefordshire Housing is exempt charities for tax purposes and are therefore not liable to corporation tax on surpluses on their charitable activities.

Where the Company undertakes activities that are outside of its charitable purpose and exceed the permitted threshold corporation tax will be payable.

Accounting policies (continued)

cc. Value Added Tax (VAT)

The Company is VAT registered, but a large proportion of its income, income, being housing rents, and Right to Buy sales, which are exempt for VAT purposes, while other income sources being standard, zero rated or outside of scope gives rise to a partial exemption calculation.

The financial statements include VAT to the extent that it is suffered and not recoverable from HM Revenue & Customs. The balance recoverable or payable at the year-end is included as a current liability or asset.

dd. Financial instruments

Financial instruments which meet the criteria of basic financial instrument as defined in Section 11 of FRS102 are accounted for under an amortised historic cost model.

Basic financial instruments are recognised at amortised historical cost.

Non-basic financial instruments are recognised at fair value using a valuation technique with any gains or losses reported in surplus or deficit.

ee. Investments

Investments are stated at market value and the increase or decrease in value at the end of the year is taken to or deducted from reserves.

ff. Liquid resources

Liquid resources are readily disposable current asset investments. They include some money market deposits, held for more than 24 hours that can only be withdrawn without penalty on maturity or by giving some notice of more than one working day.

3. Turnover, operating costs and operating surplus

2018	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	24,912	-	(15,396)	9,516
Other Social Housing Activities				
Current asset property sales	1,705	(1,334)	-	371
Other support services	251	-	(345)	(94)
Non-social housing activities				
Provision of services to Group undertakings	305	-	(682)	(377)
Commercial lettings	820	-	(411)	409
Other	1,874	-	(1,555)	319
Total from Social and Non-Social Housing Activities	**29,867**	**(1,334)**	**(18,389)**	**10,144**
Surplus on disposal of fixed assets				1,144
Exceptional items				(198)
Total Operating Surplus				**11,090**

2017	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	24,939	-	(14,316)	10,623
Other Social Housing Activities				
Current asset property sales	423	(384)	-	39
Other support services	286	-	(404)	(118)
Non-social housing activities				
Provision of services to Group undertakings	412	-	(405)	7
Commercial lettings	803	-	(402)	329
Other	2,107	-	(1,979)	128
Total from Social and Non-Social Housing Activities	**28,970**	**(384)**	**(17,506)**	**11,080**
Surplus on disposal of fixed assets				1,346
Total Operating Surplus				**12,426**

The group and companies activities consist solely of social housing and non-social housing activities within the UK.
The cost of sales relate directly to the share of the low cost home ownership properties sold.

Notes to the financial statements

3. Turnover, operating costs and operating surplus (continued)

Particulars of Income and Expenditure from social housing lettings:

	General Needs Housing	Supported Housing and Housing for older people	Temporary Social Housing	Low cost Home Ownership	Total 2018	Total 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable	19,353	4,455	85	62	**23,955**	24,011
Service Charges Receivable	268	489	13	10	**780**	765
Amortised government grants	108	-	-	-	**108**	94
Other revenue grants	69	-	-	-	**69**	69
Turnover from social housing lettings	19,798	4,944	98	72	**24,912**	24,939
Management	(4,038)	(1,147)	(17)	(22)	**(5,224)**	(5,328)
Services	(540)	(267)	(13)	(5)	**(825)**	(814)
Routine maintenance	(2,930)	(667)	(25)	-	**(3,622)**	(3,808)
Planned maintenance	(282)	(264)	(1)	-	**(547)**	(104)
Bad debts	(84)	(33)	-	-	**(117)**	(83)
Depreciation of housing properties	(3,798)	(530)	(7)	(23)	**(4,358)**	(3,981)
Pension operating costs	(570)	(126)	(2)	(5)	**(703)**	(198)
Operating costs on social housing lettings	(12,242)	(3,034)	(65)	(55)	**(15,396)**	(14,316)
Operating surplus on social housing lettings	7,556	1,910	33	17	9,516	10,623
Void losses	(75)	(45)	(10)	(14)	(144)	(137)

Notes to the financial statements

4. Operating Surplus

	2018 Company £'000	2017 Company £'000
Operating surplus is arrived at after charging / (crediting):		
Depreciation and Impairment		
Depreciation of housing properties	4,358	3,981
Restatement of property impairment	-	-
Depreciation of other tangible fixed assets	594	593
Depreciation of finance lease assets	89	85
Grant amortisation	(108)	(94)
Operating lease rentals		
Service fleet	-	-
Office equipment	39	29
Auditors' remuneration (excluding VAT)		
- for external audit services	22	29
- for tax advice & loan covenant review	-	-
Exceptional items	198	-

Exceptional items relate to costs directly incurred in relation to the merger during the year.

Notes to the financial statements

5. Surplus on Disposal of Property, Plant and Equipment

	2018 £'000	2017 £'000
Disposal Proceeds	1,766	2,318
Carrying value of fixed assets	(622)	(972)
Surplus on disposal of fixed assets	1,144	1,346

Disposal proceeds includes £256,000 in respect of overage payments (2017: £585,000).
In 2017, overage income of £171,000 was accrued, 2018: £nil.

6. Accommodation in Management

	2018 Number	2017 Number
Social housing		
General housing - social rent	3,987	3,994
General housing - affordable rent	372	319
Supported housing	980	971
Low cost home ownership	39	16
Social housing owned	**5,378**	**5,300**
Market rent properties	4	-
Leasehold market rent properties	7	7
Leasehold properties	390	390
Other		
Garages	1,991	1,991
Shops	29	29
Other owned	**2,020**	**2,020**

7. Interest receivable and other Income

	2018 £'000	2017 £'000
Interest receivable from deposits and investments	43	33

Notes to the financial statements

8. Interest and financing costs

	2018 £'000	2017 £'000
Interest payable on loans	4,195	3,637
Interest on finance leases	-	2
Other charges	101	86
	4,296	3,725
Pension finance costs	211	247
Interest payable capitalised on housing properties under construction	(491)	(213)
Loan amortisation	14	12
	4,030	3,771
Capitalisation rate used to determine the finance costs capitalised during the financial year:	4.19%	4.19%
Accumulated costs capitalised	1,534	1,043

During 2017 loan arrangement fees of £182,000 were incurred in respect of the retained bond which were capitalised.

9. Taxation

Herefordshire Housing Limited is an exempt charity for tax purposes and is therefore not liable to corporation tax on surpluses on its charitable activities. However, during the year it has undertaken a number of activities that are outside of its charitable purpose and has exceeded the £50,000 permitted threshold.

	2018 £'000	2017 £'000
UK Corporation tax on surplus for the year	50	120
Total current tax	50	120

Tax paid during the year in respect of the prior year amounted to £65,000.

Notes to the financial statements

9. Taxation (continued)

Analysis of charge in the period

The tax charge on the surplus/(deficit) on ordinary activities for the year was as follows:

	2018 £'000	2017 £'000
Current tax:		
UK Corporation Tax charge / (credit) for the year	55	120
Under/(over) provision in the previous years	(5)	-
Total current tax	50	120

Surplus/(deficit) on ordinary activities before tax	7,092	8,688
Surplus/(deficit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20%	1,347	1,738
Effects of:		
Capital allowances in excess of depreciation	(12)	(14)
Adjustment in respect of prior years	(5)	-
Surplus relating to charitable entities	(1,280)	(1,604)
	50	120

Notes to the financial statements

10. Employees

Average monthly number of colleagues (including the Chief Executive), employed during the financial year:

	2018 Number	2017 Number
Management & Support	49	57
Development	3	5
Asset Management	13	13
Housing management	42	47
Property and maintenance	95	100
Care & Support	37	36
	239	258

Average monthly number of employees expressed in 37-hour full-time equivalents (full-time staff actually work 37 hours):

	2018 Number	2017 Number
Management	47	53
Development	3	4
Asset Management	13	13
Housing Management	40	43
Property and Maintenance	92	97
Care & Support	23	24
	218	234

Employee costs:

	2018 £'000	2017 £'000
Salaries	6,018	6,107
Social security costs	557	540
Other pension costs	755	731
	7,330	7,378

Employee numbers are calculated on the basis of the average number of colleagues employed at the end of each quarter.

Notes to the financial statements

10. Employees (continued)

Remuneration bandings for all employees earning over £60,000:	2018 Number	2017 Number
£150,000 to £160,000	1	-
£140,000 to £150,000	-	1
£130,000 to £140,000	-	-
£120,000 to £130,000	1	-
£110,000 to £120,000		1
£100,000 to £110,000	1	-
£90,000 to £100,000	-	1
£80,000 to £90,000	3	-
£70,000 to £80,000	1	2
£60,000 to £70,000	3	2
	10	7

In addition to the above, in 2017, £75,600 was payable to a third party in relation to management services provided by an Interim Head of Operations within the Property and Assets team.

11. Board Members and Executive Directors

The Directors of the Group are defined as the Chief Executive and any other person who is a member of the Executive Management Team, or its equivalent, of the Registered Provider. There are 7 Executive Directors all of whom accrue benefits under either the SHPS or the WCCPF pension scheme.

	2018 £'000	2017 £'000
Aggregate Emoluments paid to Non-Executive Directors (Board Members)	25	46
Aggregate Emoluments paid to Executive Directors	340	312
Pension payments relating to services as Executive Directors	40	38
Consideration payable to third parties in relation to Director services provided	-	11
	405	407

The emoluments of the highest paid Director, Peter Brown, the Chief Executive, excluding pension contributions, were £140,315 (2017: £128,346). The Chief Executive is a member of the Social Housing Pension Scheme. He is an ordinary member of this pension scheme, and no enhanced or special terms apply. The Company did not make any further contribution to an individual pension arrangement for the Chief Executive.

No compensation was payable to past Directors in relation to the period of account in respect of loss of office (2017:£nil).

11. Board Members and Executive Directors (continued)

	2018 £'000	2017 £'000
Aggregate Emoluments paid to Non-Executive Directors (Board Members)	25	46
Aggregate Emoluments paid to Executive Directors	340	312
Pension payments relating to services as Executive Directors	40	38
Consideration payable to third parties in relation to Director services provided	-	11
	405	**407**

Following the merger of the Herefordshire Housing Group, Directors from the former Shropshire Housing Group were appointed as Directors of Herefordshire Housing. These Directors are directly employed by Connexus Housing Limited and their remuneration is therefore not reported above.

In 2017, a further £10,832 was payable to third parties in relation to Director services provided by Dawn Matthews-Smith, Interim Director of Health and Well Being whose contract ended in May 2016.

	Appointed	Resigned	2018 £000	2017 £000
Ruth Cooke (Chair)	28/09/2010	-	4	9
James Williamson	27/07/2017	-	-	-
Richard Johnston	28/09/2010	27/07/2017	4	5
Graham Biggs	27/07/2017	-	-	-
Sonia Higgins	27/07/2017	-	-	-
Gillian Jones	27/07/2017	-	-	-
Jon Land	04/06/2013	27/07/2017	4	4
David Lincoln	28/09/2010	-	2	5
Michael McCarthy	04/06/2013	-	2	5
Rebecca McGuirk	12/05/2015	27/07/2017	-	4
Michael Parkes	28/09/2010	16/03/2018	3	5
Cllr Paul Rone	27/07/2011	27/07/2017	4	4
Allison Taylor	28/09/2010	-	2	5
Elizabeth Walford	27/07/2017	-	-	-
			25	46

Notes to the financial statements

12. Tangible fixed assets - Housing Properties

	Housing properties held for letting £000s	Housing properties in the course of construction £000s	Completed shared ownership properties £000s	Total £000s
Cost				
At 1st April 2017	131,449	9,334	1,120	141,903
Properties acquired	-	14,259	-	14,259
Works to existing properties	5,680	45	-	5,725
Interest capitalised	-	491	-	491
Schemes completed	9,072	(10,792)	1,720	-
Transfer to Investment Properties	-	(682)	-	(682)
Transfer to current assets	-	(3,866)	-	(3,866)
Disposals - Other	(1,051)	(204)	-	(1,255)
At 31st March 2018	**145,150**	**8,585**	**2,840**	**156,575**
Depreciation				
At 1st April 2017	27,110	-	21	27,131
In the Year	4,132	204	23	4,359
Released on disposal	(670)	(204)	-	(874)
At 31st March 2018	**30,572**	**-**	**44**	**30,616**
Net Book Value				
At 31st March 2018	**114,578**	**8,585**	**2,796**	**125,959**
At 31st March 2017	104,339	9,334	1,099	114,772

Housing properties and offices book value, net of depreciation comprises:

	2018 £'000	2017 £'000
Freehold land and buildings	125,787	114,592
Long leasehold land and buildings	172	180
Office, Legion Way	3,965	4,056
	129,924	**118,828**

Notes to the financial statements

12. Tangible fixed assets – Housing Properties (continued)

Expenditure on works to existing properties

	2018 £'000	2017 £'000
Components capitalised	5,680	6,053
Amounts charged to income and expenditure	4,168	3,912
	9,848	9,965

Social housing assistance

Total social housing and other capital grants:

	2018 £'000	2017 £'000
Social Housing Assistance		
Total accumulated grant received or receivable at 31 March	9,930	8,877
Recognised in the Statement of Comprehensive Income	614	506
Recognised in the Statement of Comprehensive Income - Disposal	22	11
Held as deferred income	9,294	8,360
At 31st March	9,930	8,877

Aggregate amount of finance costs included in the cost of housing properties:

	2018 £'000	2017 £'000
Aggregate Amount brought forward	1,043	830
Amount incurred in the year	491	213
At 31st March	1,534	1,043

Valuation

JLL Limited has undertaken a valuation of housing properties for the purposes of the bond security, in accordance with the conditions of the Company's funding agreement with the investors. The valuation, calculated on an existing use for social housing basis, was £139.9 million (for 4,223 properties) against the £120 million bond (£105 million drawn as at 31 March 2018).

The last full valuation of all housing properties was undertaken as at 31st March 2016. The valuation, calculated on an existing use for social housing basis, was £177.0 million.

Notes to the financial statements

12. Tangible fixed assets – Housing Properties (continued)

Impairment

Herefordshire Housing assesses at each reporting date whether there is any indication that an asset (housing and non-housing) is impaired.

The following indicators of impairment must, as a minimum, be considered by a social landlord in assessing whether there is an indication that assets are impaired:

a) Contamination not identified as part of a development which results in a material increase in development costs

b) Change in government policy, regulation or legislation which has a material detrimental impact on the development scheme

c) Change in demand for a property

d) Material reduction in the market value of the property

e) Obsolescence of the property eg. Where it is probable that a plan to regenerate existing properties by demolishing them or replacing of components of existing properties will go ahead

HHL does not consider that any such indicators exists and therefore it has not undertaken an exercise to estimate the recoverable amount.

Where a property is to be demolished or is unable to be let the net book value of these assets has been compared with the market value on disposal to determine whether impairment is required. In the case of Beattie Avenue Bungalows where plans are being prepared for the regeneration of the scheme and tenant consultation has commenced the land value is deemed to be in excess of the net realisable value and therefore there is no requirement to impair these assets.

13. Other fixed assets

	Offices	Furniture fixtures & fittings	Computers & other equipment	Vehicles, plant & equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1st April 2017	5,105	350	2,848	1,311	9,614
Additions	20	5	396	-	421
Disposals	(15)	-	-	-	(15)
At 31st March 2018	5,110	355	3,244	1,311	10,020
Capital Grants					
At 1st April 2017	-	-	6	-	6
At 31st March 2018	-	-	6	-	6
Accumulated depreciation					
At 1st April 2017	1,049	270	2,104	1,021	4,444
Charged in year	111	52	405	115	683
Disposals	(15)	-	-	-	(15)
At 31st March 2018	1,145	322	2,509	1,136	5,112
Net Book Value					
At 31st March 2018	3,965	33	729	175	4,902
At 31st March 2017	4,056	80	738	290	5,164

Included within the Note 14 are vehicles, plant & equipment held under a finance lease with zero net book value (2017: £nil) as the lease has expired however the contract has been extended as the vehicles are not being replaced until 2019.

14. Investment properties and non-social housing properties held for letting

	Market rent
	£'000
Valuation	
At 1st April 2017	-
Additions	682
Disposals	-
At 31st March 2018	682
At 31st March 2017	-

Notes to the financial statements

15. Stock and work in progress

	2018 £'000	2017 £'000
Stock and work in progress	85	121
Schemes developed for shared ownership disposal	860	935
Properties developed for outright sale	3,741	1,143
Property and land awaiting sale	-	457
Properties held for sale	4,601	2,535

16. Debtors

	2018 £'000	2017 £'000
Rent and service charges receivable	384	374
Less: Provision for bad and doubtful debts	(192)	(172)
Net rent arrears	192	202
Other debtors	253	332
Social housing grant receivable	136	-
Amounts owed by subsidiary undertakings	25,995	16,423
Other taxation and social security	1	-
Prepayments and accrued income	2,237	1,978
	28,622	18,733
	28,814	18,935

Intercompany debtors within Herefordshire Housing includes £22.0 million in respect of investments undertaken by Herefordshire Capital plc. on behalf of the Company (2017: £17.0 million).

Notes to the financial statements

17. Creditors: amounts falling due within one year

	2018 Company £'000	2017 Company £'000
Trade creditors	2,349	2,153
Rent and service charges received in advance	636	619
Other taxation and social security	329	367
Accruals	441	788
Other creditors	83	88
Deferred grant income	108	94
Inter-company creditors	1,186	859
Past service deficit payable under SHPS	41	40
Receipts in advance	413	111
Other capital grants received in advance	-	43
	5,586	5,162

Payments to creditors

The Company aims to pay purchase invoices within 30 days of receipt, or earlier if alternative payment terms have been agreed. Creditor days during the financial year were 34 days (2017: 32 days).

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

	2018 Company £'000	2017 Company £'000
Inter-company loans (Note 20 and 26)	105,000	90,000
Less: Issue costs	(804)	(823)
Deferred grant income	9,186	8,266
Past service deficit payable under SHPS	170	210
	113,552	97,653

Notes to the financial statements

19. Deferred income

	2018 £'000	2017 £'000
At 1 April	8,360	7,188
Grant received in the year	1,053	1,271
Released to Property Sales	(11)	(5)
Released to income in the year	(108)	(94)
At 31 March	**9,294**	**8,360**
Amounts to be released within one year	108	94
Amounts to be released in more than one year	9,186	8,266
	9,29	**8,360**

20. Debt analysis

	2018 £'000	2017 £'000
Due after more than one year:		
Loans	105,000	90,000
Total borrowings	**105,000**	**90,000**

The Group refinanced its funding in November 2014. It has a 35 year bond for £120 million in place of which £35 million was in the form of retained bonds. The bonds have a 35 year maturity, amortising over the last 5 years. During 2017-18 Herefordshire Capital purchased £15 million of the £35 million retained bond.

Based on the lender's earliest repayment date, borrowings are repayable as follows:

	2018 £'000	2017 £'000
Five years or more	105,000	90,000
Total borrowings	**105,000**	**90,000**

Loans are fully secured against properties charged to the Prudential Security Trustee.

Notes to the financial statements

21. Financial Commitments

	31st March 2018 £'000	31st March 2017 £'000
Authorised expenditure not contracted	116,108	56,242
Authorised expenditure contracted	2,724	5,094
	118,832	61,336

At the reporting date the Group had £3.8 million of cash and cash equivalents, £24.0 million short term investments and £44.0 million of undrawn funding. The remaining £122.1 million is expected to be funded by future surpluses, Social Housing Grant, loan finance and new build asset sales.

The Company is committed to making the following future minimum lease payments under non-cancellable operating leases:

	2018 £'000	2017 £'000
Due within one year	25	9
Due one to five years	69	25
Minimum future operating lease payments	94	34

22. Provisions for liabilities

The leave pay provision represents holiday balances accrued as a result of services rendered in the current period and which employees are entitled to carry forward. The provision is measured as the salary cost for the period of absence.

Company	Leave pay £'000
At 1 April 2017	89
Additions	-
Reversals	(13)
At 31 March 2018	76

Notes to the financial statements

23. Reconciliation of operating surplus to net cash flow from operating activities

	2018 £000s	2017 £000s
Operating surplus	**11,090**	**12,426**
Depreciation of housing properties	4,359	3,981
Depreciation of other fixed assets	685	678
Impairment	-	-
Carrying value of assets disposals	1,868	1,124
Transfer of fixed assets to properties for sale	(2,066)	(1,036)
Movement in stock	36	-
Movement in debtors	(9,909)	(1,038)
Movement in creditors	424	1,808
Movement in provisions	87	(261)
Pension cost less contributions payable	703	443
Other finance costs		-
Adjustments for investing or financing activities	-	6
Taxation paid in the year not provided for in prior year	(5)	(65)
Government grants utilised in the year	(108)	(94)
Net cash flow from operating activities	**7,164**	**17,972**

The carrying amount of tangible fixed asset disposals has been adjusted to allow for£260,000 overage accrued for in the current year less £171,000 overage payments received in the year relating to 2016-17.

24. Reconciliation of net cash flow to movement in debt

	2018 £000s	2017 £000s
Increase / (decrease) of cash in the year	(521)	(762)
Cash flow from (decrease) / increase in liquid resources	1,345	(437)
Cash flow from (decrease) / increase in debt	(15,000)	(4,690)
Decrease in net debt from cash flows	(14,176)	(5,889)
Net debt at 1st April	(87,608)	(81,719)
Net debt at 31 March	(101,784)	(87,608)

In addition to the £15 million bond finance received a further £2.265 million was received as bond premium.

Notes to the financial statements

25. Analysis of changes in net debt

	1st April 2017 £'000	Cashflow £'000	31st March 2018 £'000
Cash	839	(521)	318
Short term investments	691	1,345	2,036
	1,530	824	2,354
Debt (loans)	(85,000)	(20,000)	(105,000)
Issuance costs	862	-	862
	(82,608)	(19,176)	(101,784)

26. Financial assets and liabilities

Other than short-term debtors, financial assets held are cash deposits at bank or placed on money markets at call or invested in sterling gilts. They attract interest at variable rates and amounts held are shown below:

	2018 £'000	2017 £'000
Cash and cash equivalents	2,036	691
Total financial assets	**2,036**	**691**

Financial liabilities excluding trade creditors

	Company 2018 £'000	Company 2017 £'000
After five years	105,000	90,000
Interest rate basis:		
Fixed	100.0%	100.0%
Floating	-	-

The Group has £15 million of retained bond financing in place which is fully secured.

27. Financial Instruments

Fair values of Financial Instruments

The fair values of all financial assets and liabilities by class together with their carrying amounts are shown in the balance sheet as follows:

	Carrying Amount £'000	Fair Value £'000
Financial assets		
Other loans and receivables	105,000	125,944
Financial liabilities measured at amortised costs		
Other interest-bearing loans and borrowings	105,000	104,181

The fair value of trade and other receivables is estimated as the present value of future cashflows, discounted at the market rate of interest at the balance sheet date if the effect is material.

The Group has no financial instruments measured at fair value, so fair value hierarchy disclosure requirements do not apply.

All financial assets held by the Group (Loans and Receivables) qualify to be held at amortised cost, therefore the requirement to disclose the effect of changing the inputs in calculation of fair values is not considered applicable.

At 31 March 2018, the fair value of the subsidiary, Herefordshire Capital plc., long term debt was £125.9 million (2017: £107.7 million. The movement in valuation is driven by an increase in notional of £15m and the movement in the gilt curve. The fair value of financial liabilities is estimated as the present value of future cashflows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Notes to the financial statements

Financial risk management

Risk Management

The Corporate Finance team is responsible for the management of funds and control associated risks. Its activities are governed by the Group Board who are responsible for treasury issues in all Herefordshire Housing legal entities which include this Company.

Credit Risk

Herefordshire Housing Limited's (HHL) subsidiary, Herefordshire Capital plc. raises capital market financing and the proceeds are immediately on-lent to Herefordshire Housing Limited.

The credit risk is mitigated through a number of factors, including the housing asset security that stands behind the loan to HHL, the overall credit worthiness of the Group, the guarantees that HHL has issued to the Company and the contractual protections in the loan agreement itself.

Herefordshire Capital plc. is currently rated BAA1by Moody's.

27. Financial Instruments (continued)

The aging of trade receivables at the balance sheet was not past due. The full amount is believed to be recoverable.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group has robust Treasury Management policies in place to ensure there is sufficient liquidity to cover 18 months.

The contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements are in 33 years.

The debt is repayable as follows:

	2018 £'000	2017 £'000
Lump Sum Repayments:		
In five years or more	105,000	90,000
	105,000	90,000

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their Outstanding Principal Amount in ten equal instalments on the Interest Payment Dates falling on, and

Notes to the financial statements

including, 28th May, 2045 to, and including, 28th November, 2049 (each an Instalment Redemption Date and the latter being the Maturity Date).

Interest rate risk

The Company currently borrows on a fixed rate basis from the capital market through Herefordshire Capital which then on-lends these funds to Herefordshire Housing Limited on a similar fixed rate basis.
The Group does not have any hedging activities and it does not have any derivatives.
The interest rate on all borrowings is fixed at 4.193% until 2049.

28. Contingent liabilities

As at 31st March 2018 the Company had the following contingent liabilities:

- £1,644,103 estimated potential employer debt should the Company cease to participate in the Social Housing Pension Scheme. This figure is based on the financial position of the Scheme as at 30th September 2016 as we have not received an updated projection from the pension provider for this financial year. Note 29 provides additional information.

29. Pensions

All the Company's employees are eligible for membership of the Worcestershire County Council Pension Fund or the Social Housing Pension Scheme (SHPS). Further information on each scheme is given below.

Social Housing Pension Scheme

Herefordshire Housing Limited participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

Notes to the financial statements

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contributions

	31 March 2018 (£000s)	31 March 2017 (£000s)	31 March 2016 (£000s)
Present value of provision	211	250	277

Tier 1 From 1 April 2017 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 2 From 1 April 2017 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 3 From 1 April 2017 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)
Tier 4 From 1 April 2017 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035 million. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement, the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Notes to the financial statements

29. Pensions (continued)

Present value of provisions

Reconciliation of opening and closing provisions

	Period Ending 31 March 2018 (£000s)	Period Ending 31 March 2017 (£000s)
Provision at start of period	250	277
Unwinding of the discount factor (interest expense)	4	5
Deficit contribution paid	(40)	(38)
Remeasurements - impact of any change in assumptions	(3)	6
Remeasurements - amendments to the contribution schedule	-	-
Provision at end of period	211	250

Statement of Comprehensive Income Impact

	Period Ending 31 March 2018 (£000s)	Period Ending 31 March 2017 (£000s)
Interest expense	4	5
Remeasurements – impact of any change in assumptions	(3)	6
Remeasurements – amendments to the contribution schedule	-	-
Contributions paid in respect of future service*	86	81
Costs recognised in income and expenditure account	87	92

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes.

Assumptions

	31 March 2018 % per annum	31 March 2017 % per annum	31 March 2015 % per annum
Rate of discount	1.72	1.33	2.06

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

The Company was been notified by the TPT Retirement Solutions of the estimated employer debt on withdrawal from the Plan based on the financial position of the scheme as at 30th September 2017. As of this date the estimated employer debt for the Company was £1,644,103. No further update has been received to this position.

29. Pensions (continued)

Worcestershire County Council Pension Fund (WCCPF)

The WCCPF is a multi-employer scheme with more than one participating employer, which is administered by Worcestershire County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

Triennial actuarial valuations of the pension scheme are performed by an independent, professionally qualified actuary using the projected unit method. The last actuarial valuation was completed as at 31 March 2016.

The market value of the overall scheme assets at 31st March 2018 was £2,788 million.
The market value of the Company's share of the scheme assets at 31st March 2018 was £25,314,000 (2017: £23,447,000) representing a funding level of 77% (2017: 73%) based on liabilities valued on actuarial assumptions. Liabilities had a market value of £32,961,000 (2017: £32,024,000).

Employers' contributions to the WCCPF by the Company for the year ended 31st March 2018 were £696,000 (2017: £679,000). The Company's employer's contribution rate was 13.9% during the financial year (2017: 14.0%).

Following the outcome of the valuation, the overall average employer contribution rate will be 15.1% of pensionable pay, plus £36.3 million per annum increasing at 3.7% per annum on the basis that deficits are recovered over 18 years. In the absence of other factors, the contributions at the above level would mean a gradual improvement so that the Fund would have increased to 100% at the end of the 18 years.

In practice, each employer's position is assessed and separate employer contribution rates are set based on individual employer circumstances.

There is no provision for unitising the assets of the WCCPF under the Local Government Pension Scheme Regulations. The above assets as a whole are allocated to participating bodies on a consistent and reasonable basis and overall investment performance is attributed to employers on a pro-rata basis (i.e. a notional individual employer investment strategy that is identical to that adopted for the Scheme as a whole).

Notes to the financial statements

29. Pensions (continued)

Assumptions

The principal assumptions at the balance sheet date are:

	2018 % per annum	2017 % per annum
CPI inflation	2.1	2.3
Future salary increases	3.6	3.8
Future pension increases	2.2	2.3
Discount rate	2.7	2.6

	2018 No. of Years	2017 No. of Years
Post retirement mortality assumptions:		
Current pensioners - Male	22.7	22.6
- Female	25.7	25.6
Future pensioners - Male	24.9	24.8
- Female	28.0	27.9

Analysis of the amount charged to the Statement of Comprehensive Income

	2018 £'000	2017 £'000
Current service costs	1,380	840
Employer contribution	(696)	(679)
Administration expenses	16	15
Curtailments	-	14
Amounts charged to operating costs	**700**	**190**

	2018 £'000	2017 £'000
Interest on pension liabilities	836	924
Expected return on assets	(629)	(682)
Total pension gain charged to other finance income	**207**	**242**

Notes to the financial statements

29. Pensions (continued)

Statement of total recognised surpluses and deficits:

	2018 £'000	2017 £'000
Remeasurements (liabilities & assets)	1,837	(1,041)
Cumulative actuarial loss recognised in reserves	(5,075)	(6,912)

Analysis of the amount recognised in the Statement of Financial Position

Year ended 31 March

	2018 £'000	2017 £'000
Present value of funded benefit obligations	32,961	32,024
Fair value of plan assets	(25,314)	(23,447)
Deficit related to the Company	**7,647**	**8,577**
Net liability to the Company	**7,647**	**8,577**

Change in benefit obligation during financial year to 31 March

	2018 £'000	2017 £'000
Opening scheme liabilities	32,024	25,775
Current service cost	1,380	840
Interest on pension liabilities	836	924
Member contributions	289	262
Re-measurements – loss: experience	-	(3,224)
Re-measurements – gain: assumptions	(1,566)	7,973
Curtailments	-	14
Benefits paid	(2)	(540)
Present value of benefit obligation at end of the year	**32,961**	**32,024**

Notes to the financial statements

29. Pensions (continued)

Change in plan assets during financial year to 31 March

	2018 £'000	2017 £'000
Opening fair value of plan assets	23,447	18,671
Interest on plan assets	629	682
Remeasurements (assets)	271	3,708
Administration expenses	(16)	(15)
Employer contributions	696	679
Member contributions	289	262
Benefits/ transfers paid	(2)	(540)
Closing fair value of plan assets	**25,314**	**23,447**

The actual return on the plan assets was £900,000 (2017: £4,841,000).

Analysis of plan assets

The major categories of plan assets as a percentage of total plan assets are:

	2018 %	2017 %
Equities	86.4	85.3
Other bonds	4.8	5.4
Property	4.2	4.2
Cash/Liquidity	1.2	2.4
Other	3.4	2.7

The company expects to contribute £695,000 to its defined benefit pension plan in 2018-19.

History of experience gains and losses (WCCPF)

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Defined benefit obligation	(32,961)	(32,024)	(25,775)	(25,591)	(20,175)
Plan assets	25,314	23,447	18,671	18,376	15,833
(Deficit)	**(7,647)**	**(8,577)**	**(7,104)**	**(7,215)**	**(4,342)**
(Losses)/gains on plan liabilities	1,566	(4,749)	1,649	(3,900)	1,411
Gains/(losses) on plan assets	271	3,708	(960)	990	(547)

Notes to the financial statements

30. Related parties

During the year there was one tenant who served as an ordinary member of the Board, Richard Johnston (resigned July 2017). His tenancy was on normal terms and he was not able to use his position to his advantage.

There was one councillor on the Board during the year ended 31st March 2018. This was Cllr Paul Rone (resigned July 2017). He was not able to use his position as an advantage. All the Group's transactions with the council are on a commercial basis.

31. Disclosure of Group activity

Herefordshire Housing Limited's subsidiaries are listed below. It is a Registered Provider of social housing, registered with the Homes and Communities Agency. Its principal activity is the provision of social housing. All subsidiaries within the Group are consolidated and reported under the group parent, Connexus Housing Limited.

Name of undertaking	Nature of Business
Enterprise4 Limited	Property maintenance and other non-charitable activities
Independence Trust Limited	Wellbeing, support and care services
Herefordshire Capital Plc.	Treasury and financing services on behalf of Herefordshire Housing Limited

Subsidiaries are entities over which, either directly or indirectly, the Company has control through the power to govern financial operating policies so as to obtain benefit from their activities.

The Company has invested a £1 share in the wholly owned subsidiary Enterprise 4 Limited, £1 share in the wholly owned subsidiary Rise Partnership Developments Limited and £12,500 £1 shares in Herefordshire Capital Plc.

Intra Group Transactions

Debtor and creditor balances between members of the Group are either debt subject to a market rate of interest, or trading balances which are non-interest bearing and are due to be settled within one year of their recognition. Costs are recharged to non-regulated entities within the Group at cost plus 5%.

Connexus Housing Limited provides corporate services across the group entities.

Herefordshire Housing Limited provides accounting, IT and management services to other group entities.

Herefordshire Housing Limited recharges Enterprise4 Limited a management recharge of 20% of direct costs.

Independence Trust Limited provides Care and Support Services to Herefordshire Housing Limited for which costs are fully recharged.

Herefordshire Capital Plc. recharges its interest and other loan administration costs to Herefordshire Housing Limited.

Notes to the financial statements

Rise Partnership Developments Limited, formerly a direct subisidiary of Herefordshire Housing (and now Connexus Housing Limited) provides design and build services to Herefordshire Housing Limited.

Ultimate parent undertaking and controlling party

The Company is a wholly owned subsidiary of Connexus Housing Limited, and has taken advantage of the following exemptions:

- Exemption from producing a cash flow statement in accordance with FRS102
- Exemption from disclosing transactions or balances with entities which form part of the Group.

The Company's parent undertaking, which is also the Company's ultimate parent undertaking, is Connexus Housing Limited, a company incorporated in Great Britain.

The consolidated financial statements of Connexus Housing Limited are available from the Company Secretary, The Auction Yard, Craven Arms, Shropshire,SY7 9BW.In accordance with FRS102, the Group has taken advantage of the exemption from disclosing transactions or balances with entities which form part of the Group.