



herefordshire housing

Annual Report & Financial Statements

For the year ended
31 March 2019



Company Number 04221587
Charity Number 1105907
Regulatory Registration Number LH4353

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Executive Directors, Advisor and Banker

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, resigned April 2019)

Chief Executive Peter Brown (Appointed July 2017, resigned September 2018)
Richard Woolley (Appointed April 2019)

Deputy Chief Executive Jake Berriman (Appointed July 2017, resigned September 2018)

Company Secretary Richard Woolley (Appointed September 2018, resigned March 2019)
Jen Hayball (Appointed July 2017, resigned September 2018)
Nicola Griffiths (Appointed March 2019)

Executive Directors Christine Duggan BSc (Hons) (Appointed July 2017)
Francis Narweh (Appointed July 2017, resigned July 2018)
Ann Sutcliffe (Appointed July 2017, resigned March 2019)
Paul Sutton (Appointed July 2017, resigned September 2018)
Richard Woolley FCCA, BA (Hons) (Appointed July 2017, promoted April 2019)
Lynsey Squair (Appointed June 2019)
Victoria Tomlinson (Appointed June 2019)

Interim Directors Rowan Kirk (Appointed July 2018, resigned June 2019)
Vivien Knibbs (Appointed July 2018, resigned June 2019)
Greg Van Enk Bones (Appointed March 2019, resigned June 2019)
Duncan Forbes (Appointed April 2019, resigned June 2019)
Peter Donovan (Appointed June 2019)

Registered office Legion Way
Hereford
Herefordshire
HR1 1LN

Independent Auditor KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Herefordshire Housing Limited
Report and financial statements for the year ended 31 March 2019



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Birmingham
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Banker Barclays Bank Plc
P O Box 3333
One Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

Chair's Foreword

Work has continued in year in creating One Connexus to provide resilience for the future whilst building on the financial and operational performance.

Government agenda has been more focussed following the publication of a Social Housing Green paper in 2018, the key aims of which are:

1. Providing safe and secure homes for all residents
2. Rebalancing the relationship between residents and landlords to ensure every resident has a voice
3. Increasing the supply of social housing
4. Tackling the stigmatisation of social housing tenants
5. Using transparent data on performance and satisfaction to assure, inform and empower tenants
6. Supporting a more proactive approach to the regulation of consumer issues and introducing a new charter
7. Basing future changes to the social housing sector on tenant experience and evidence of what works

We are supportive of this approach and have signalled our commitment to working closer with tenants by becoming early adopters of the "Together with Tenants" initiative led by the National Housing Federation.

It has been a difficult year for Connexus with historic governance issues resulting in a downgrade by our Regulator to a G2, V2 grading. Whilst this confirms that Connexus is compliant, the Regulator defines G2 as compliant but "the provider needs to improve some aspects of its governance arrangements to support continued compliance".

The Regulator of Social Housing published a regulatory notice on 28th August 2019 where they identified that Connexus had breached the Home Standard as there had been failings in relation to ensuring solid fuel appliances were fit for use and that urgent remedial repairs had not been scheduled or completed in a timely way. Since the issues were identified we have been working hard to strengthen our approach to Health and Safety. All outstanding remedial works are now completed and we are strengthening our approach to data quality, working with the regulator to have this complete by October 2019.

I am grateful to the Board who steered us through the governance issues and worked with management and our Internal Auditors in a wider review of strengthening governance and implementation of a series of checks and improvements to governance across the Group culminating in a report back to the Regulator evidencing that work had been completed. An In Depth Assessment was carried out by the Regulator in May 2019. We are awaiting the outcome.

My 9 years as a Board member at Connexus ends in September so I would like to thank Board members past and present and staff for making this a thoroughly enjoyable appointment - in particular this year to Board members, Liz Walford, Gill Jones and Hilary Gardner who are leaving the Board in September 2019 too and James Williamson, Graham Biggs, Philippa Jones, Sonia Higgins and Michael McCarthy who stepped down during the year. John Barker has recently been appointed as

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Chair of Connexus (designate) and will take up the post following the Annual General meeting in September. John brings a wealth of experience both as a Chief Executive and Non-executive Board member/Chair of Housing Associations so we have every confidence that John will provide a strong strategic lead for the future. In addition, we have appointed Richard Woolley as Chief Executive from April 2019 following a rigorous recruitment process.



Ruth Cooke

Chair

Chief Executive's Foreword to the Financial Statements

I was enormously proud to be appointed to the post of Chief Executive for Connexus in April 2019. Connexus is an incredibly diverse organisation with over 10,000 homes under management as well as strong community links delivering support services in Shropshire, Herefordshire and Gloucestershire.

Our operational focus for 2019 has been to continue to deliver the goals set out in the merger business case that brought Shropshire Housing and Herefordshire Housing Groups together in 2018. I am grateful to my predecessor (as Interim Chief Executive), Duncan Forbes who led Connexus throughout the majority of the financial year as well others on the executive team who made a big contribution to the development of the Group who left Connexus this year.

As part of bringing our organisations together and aligning our service offer, after allowing for the costs of merger, we aimed to create efficiencies of around 5% of turnover from year three and 6.3% by year five. For 2019 we have generated a cumulative saving of £1.188m compared to a forecast of £1.127m

The efficiencies that we have made 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 we have invested £19.2m in responsive and planned maintenance and servicing.

In the last 12 months together we have seen a net increase of new homes in management of 112, Our business case for merger forecast an increase in the number of homes of 1458 by the end of 2020 and this is reflected in our "New Homes Strategy". 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.

Our operating margin for the year is 29% against a forecast of 31%, the variance to forecast is primarily down to increased management costs incurred in the year.

The Registered Providers within the Connexus Group have a strong history in working with our communities and I am keen that we do not lose sight of this. This was reinforced this year when Connexus won the "Best Older Persons Landlord" in the prestigious UK housing awards as well as a further award from the Royal Institute of British Architects for the design of our Independent Living scheme in Ludlow.

The challenges of rural housing remain at the top of my agenda and I am looking forward to working closely with local communities in Shropshire and Herefordshire so that the strategy of Connexus is aligned to that of the community.



Richard Woolley
Chief Executive

Report of the Board

The Board presents its report and the audited financial statements for the year ended 31 March 2019.

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 (2018: £nil).
No political donations were made during the financial year (2018: £nil).

Reserves

The surplus on reserves at the end of the financial year was £44.3m (2018: £40.5m). This is after the transfer of the total comprehensive income for the financial year of £3.8m (2018: £8.9m).

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.

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 Mösse 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 eight Ordinary board members.

Current Board members:

Ordinary Board Members

Ruth Cooke (Chair)
(appointed July 2017)

Ruth is the former CEO of Clarion, one of the UK's largest housing association and has recently been appointed as the Chief Executive of GreenSquare Group. 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.

John Cross
(appointed December 2018)

John has extensive senior level experience leading on the development of new affordable homes and has worked as a highly successful Chief Executive for a number of organisations including bpha. He previously served as Chair of the National Housing Federation for three years.

Hilary Gardner
(appointed December 2018)

Hilary has over 30 years' experience in the Housing Sector both at an executive and non-executive level. Hilary is currently a non-executive Director of Sanctuary Students and from 2013-16 was Chair of Sanctuary (North West). Hilary now has her own housing consultancy business.

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
(appointed July 2017)

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.

Paul Smith
(appointed December 2018)

Paul is the Cabinet Member for Housing at Bristol City Council and a member of the Advisory Panel for the Housing Ombudsman. Paul has also served as the Chief Executive of two national charities, the Furniture Re-use Network and Housing Potential (the skills agency for housing).

Allison Taylor
(appointed July 2017)

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 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.

Richard Woolley
(appointed April 2019)

Richard has over 20 years' experience in the housing sector, gained with both Large Scale Voluntary Transfers (LSVTs) and traditional housing associations. Having been Director of Resources for Herefordshire Housing and then Connexus Housing, Richard was appointed as Chief Executive and to the Board in April 2019.

In addition, the following Board members served on the Board until resigning: during the year:

Graham Biggs, appointed July 2017, resigned 15th November 2018

Sonia Higgins, appointed July 2017, resigned 30th November 2018

Philippa Jones, appointed July 2017, resigned 17th April 2019

Michael McCarthy, appointed July 2017, resigned 31 December 2018

James Williamson, appointed July 2017, resigned 30th November 2018

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 and the former Deputy Chief Executive, Jake Berriman, 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 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

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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 31 March 2019 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.

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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 Beaver and Struthers who report directly to the A&R Committee at least quarterly.
- Both the Internal Auditors (Beaver and Struthers) and External Auditors (KPMG) meet with A&R Committee members in a closed session at least annually.

The Board confirms this framework has been in place throughout the financial year 2018/19 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 January 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 19 September 2019 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 19 September 2019 and signed on its behalf by:



Ruth Cooke
Chair

19 September 2019

Herefordshire Housing Limited Report and financial statements for the year ended 31 March 2019

Strategic Report

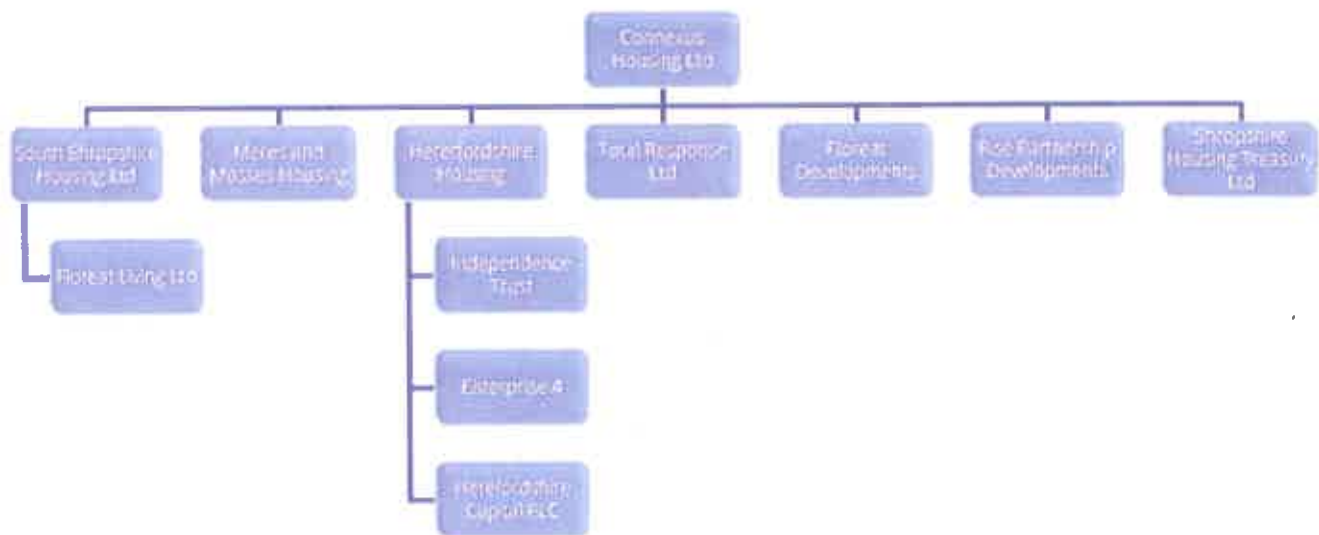
Background and business model.

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. Connexus is the parent of a group of companies which manages 10,693 including 10,208 social housing properties with related support, 18 market rent properties, 43 commercial properties and 424 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.

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- 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 G2 for governance and V2 for viability in November 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 31 March 2019, we managed 10,693 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. In 2019 some of this over-performance was reversed with an operating surplus of £17.23m compared to a budgeted surplus position of £19.64m. This was largely due to changes to the original planned programme of market sale homes delivered in year, with several schemes now being forecast for delivery in future years.

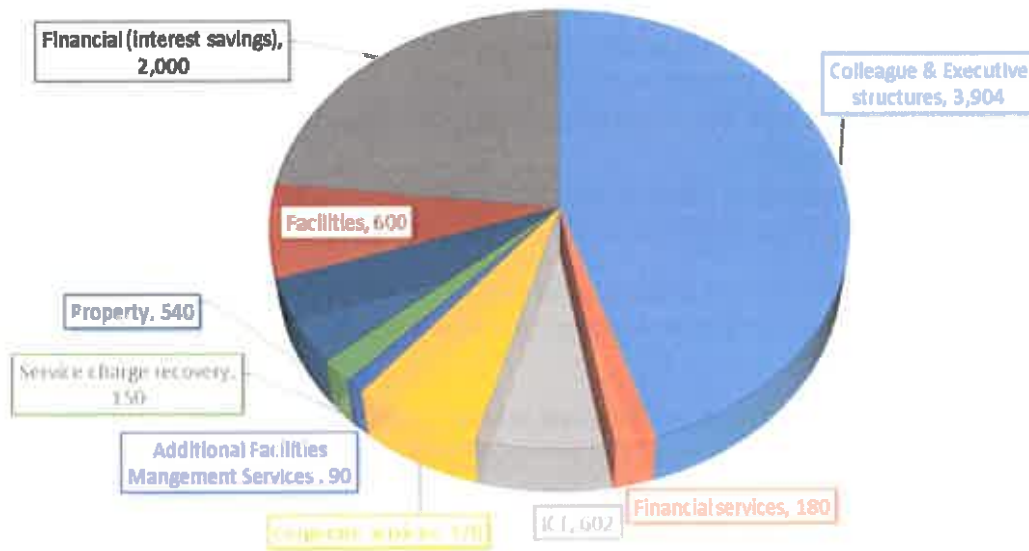
2017/18 Corporate Plan achievements

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 £8.636m of efficiencies that could be delivered in the first five years following merger. This was broken down into the following areas:

5 YEAR TARGET MERGER EFFICIENCIES - £000'S



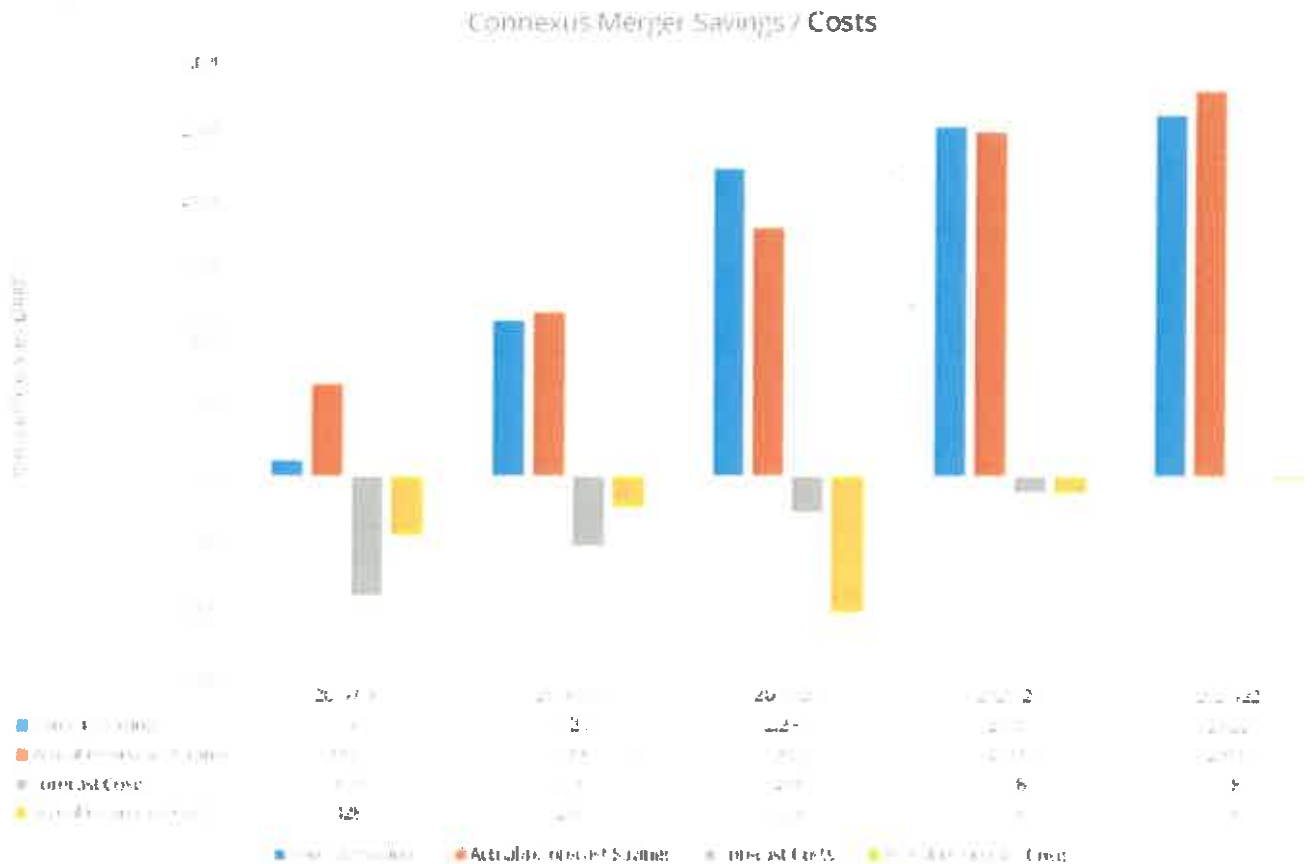
This equates to a recurring saving of £2.6m per year from 2022, 6% of current operating costs. For 2018/19 a saving in year of £0.519m equating to a recurring saving of £0.786m has been delivered.

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 merger process.

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 significant progress has been made and work to harmonise systems will continue over the next 1-2 years.

Delivery of the efficiencies forecast at the point of merger is best illustrated by the chart below. Shown are the forecast savings and costs estimated at the point of merger (and approved by the Board as part of the business case for merger) alongside the actual and reforecast savings and costs presented to Board in May 2019 (net of merger costs). On this chart savings are recurring so can be seen increasing annually while costs are incurred only once in the year shown.

Savings have been ahead of target in both 2017/18 and to a lesser degree in 2018/19, whilst forecast merger costs have been below target levels, as highlighted in the graph below forecast costs expected to be incurred in 2019/20. The total reforecast savings are now £2.8m by 2021/22, compared to the original estimate of £2.622m. Total forecast costs remain the same at £1.787m overall by 2021/22.



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 maximise 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 2019 were the Careline service with 40,000 connections at the end of March 2019. The Responder service in Herefordshire gives further empowerment to individuals to retain independence in their own homes with 159 individuals subscribing to the falls responder service alone. 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

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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 112 new homes in management (compared to 2018 restated property numbers). £26m was spent on development and acquisition 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 2019 Connexus was successful in our submission for the Community Advice, Links and Mental Health Support Service. The contract is for 5 years commencing on 1st April 2019. It will enable service users with serious mental illness and common mental health conditions to live inclusively within their local communities through non-medical interventions and will provide one element of the recovery pathway within Gloucestershire.
- We were also successful in our bid for the newly commissioned Community Autism Support and Advice Service for Gloucestershire (CASA). The contract is for 5 years and will provide a post diagnostic support for individuals with Autism Spectrum Conditions in Gloucestershire

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 described in the Chief Executive's report (above)

Our priorities for the next 2 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 Homes England, 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 31 March 2019 of £6.03m, (2018: £7.1m). The surplus in the year is lower than in 2018 and adverse compared to the £6.4m budgeted surplus.

The key variances which have resulted in the £1.02m reduction in surplus relative to 2018 are:

- Reduced income from Rent and Service Charges £0.133m

Herefordshire Housing Limited

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- Increased charge for bad debt of £0.11m in year.
- The surplus from non-social housing activities increased by £0.423m in year.
- Management costs increase by £1.2m in year.
- Interest and financing costs increased by £0.436m in year
- No exceptional costs occurred in year (£0.198m 2018).

From a budgetary perspective, the adverse variance has largely been driven by additional intercompany recharges of £0.392m relating to management cost increases incurred by the group in year.

The focus for 2019 continued to be maintaining the quality of our homes with an investment programme with £9.1m spent, (2018: £9.9m). Priority in the year for Herefordshire housing homes was roof, window and door replacements.

The total comprehensive income for the year was £3.8m surplus compared with £8.9m in 2018. The primary reason for the significant movement on last years performance is due to Pension Scheme costs.

An actuarial loss of (£2.22m) was recognised in year as opposed to an Actuarial Gain of £1.84m in 2018, which accounts for £4.06m of the variance.

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.

The required outcomes from the RSH are that Registered Providers must:

Clearly state their strategic objectives – the Corporate Plan that was approved in 2018 details our strategic objectives is summarised above. A new Value for Money strategy was approved In July 2018. The strategic objectives are to:

- Generate the optimal outcomes for the Group, tenants, customers and communities from the considered use of all 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 the Connexus group.
- 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

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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 31 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, Hilary Gardner, is Board champion for “value for money” and is a member of CVG alongside the 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

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- 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 which include merger savings and team restructures

Regular and appropriate consideration by the Board of potential value for money gains,

Gains have been considered at the internal Connexus Value Group and at Audit and Risk Committee and for particular items at Board. Options appraisal and VfM section of the Board reports ensure there is regular and appropriate consideration of VfM by the Board. We now plan to rationalise the structure and merge the entities in the business to generate further efficiencies.

Consideration of value for money across their whole business and where they invest in non-social housing activity, they should consider whether this generates returns commensurate to the risk involved and justification where this is not the case.

The Enterprise Committee was established in 2018 to ensure that non-social housing returns were properly evaluated with a paper being approved in May 2018 identifying the criteria that management should follow. New business finances are prepared by the Finance Team and reviewed by the Interim Director of Resources in conjunction with the lead Director or, if material, by the Executive Management Team.

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That they have appropriate targets in place for measuring performance in achieving value for money in delivering their strategic objectives, and that they regularly monitor and report their performance against these targets

Targets have been developed from the Business Case for merger, the efficiency targets approved by the Board, the standard metrics produced by the Regulator of Social Housing and other metrics that EMT and SMT have identified. These are included in the VfM Strategy. We report on our financial VfM targets (where they can be derived from the Statement of Comprehensive Income) in our quarterly financial reports to Board. A more detailed 6 monthly review of performance against targets is taken to Audit and Risk Committee and reported annually to the Board.

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 has engaged i4H to provide benchmarking information, with the full report for 2018/19 was provided in July 2019, and is benchmarked against 15 of its peers.

Methodology

The scoring is based on the quartile system presented below and the system will correspond the score to the quartile position.

Performance	Score	Percentile
Elite	40	76 - 100
Median/Upper	30	51 - 75
Low/Median	20	26 - 50
Poor	10	0 - 25

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Financial Performance and Position

The following table presents the new VfM Metrics introduced by the Regulator Social Housing in 2018. The new metrics are a requirement of the updated VfM Standard and are of importance to the regulator in the consideration of efficiency.

19 - Financial Indicator	2018 Outturn	2019 Outturn	Median
New Supply Delivered% (Social Housing)%	1.55%	1.52%	1.44%
Gearing Ratio %	58.03%	62.78%	48.65%
EBITDA MRI Interest Cover %	174.12%	168.27%	208.13%
Headline social housing cost per unit £	£3,204	£3,379	£3,278
Operating Margin % (Overall)	30.35%	28.51%	30.71%
Operating Margin % (SHL)	35.65%	27.33%	35.05%
Return on capital employed (ROCE)	5.72%	4.94%	5.37%
Total Score	180	120	175

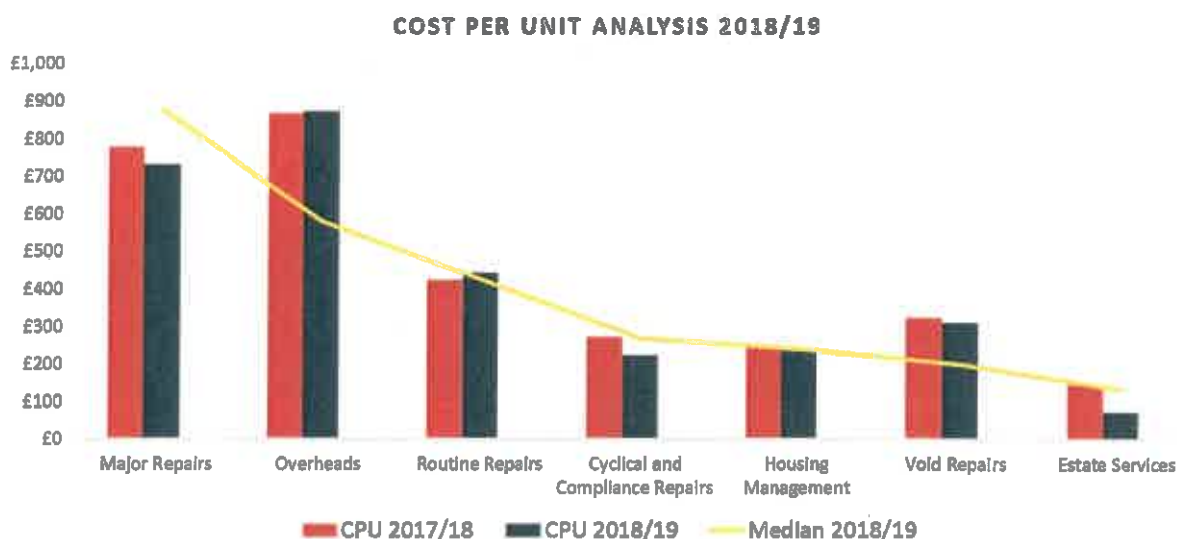
Overall, Connexus group has seen a reduced financial position for FY19 compared to FY18, reflected in lower quartile performance. A high gearing ratio can be offset against high new delivery performance.

There was a c.33% decrease in Connexus Group's overall finance score for FY19 in comparison to FY18, this is predominantly due to an increase in cost per unit and decrease of operating margin. Management costs have increased significantly and are a key driver into increased overall cost. The analysis shows a c.47% performance gap between Connexus Group's current position and the elite category in FY19. Cost per unit and operating margin should be targeted to improve overall financial performance.

Compared to all social housing providers, above 1,000 units Connexus Group's performance is considerably improved. The quartile position moves from lower quartile to mid/lower quartile. In particular performance for headline social housing and ROCE performance is improved.

Operating costs

This is an overview of the Groups cost per unit across our key areas



Service Area	CPU 2017/18	CPU 2018/19	Median 2018/19
Major Repairs	£779	£732	£877
Routine Repairs	£425	£442	£427
Void Repairs	£325	£311	£199
Cyclical and Compliance Repairs	£272	£224	£241
Housing Management	£249	£236	£270
Estate Services	£146	£74	£135
Overheads	£870	£874	£582
Total Cost Per Unit	£3,067	£2,892	£2,973

Connexus has an overall cost per unit of £2,892, (£3,019 including service charges). This is below the median cost level for the peer group (£2,973). Connexus Group was showing as above the median cost level for the peer group in FY18, there has been a £175 per unit (6%) decrease per unit over these two financial periods. We are working to reduce the total cost per unit in future years as the integration of the group is completed.

A review of overheads is an area that has the potential for the most cost reduction when compared to the peer group. Costs have remained at a similar level for FY18 and FY19.

IT and Central costs are both significantly above the median level for the peer group. There has been further investment in IT and integration of the group which as stated above would be expected to reduce.

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Housing management costs have remained low cost and showing as upper quartile for FY19. This has been a consistent trend for the Connexus Group backed up with upper quartile arrears performance.

Connexus Group has seen a slight decrease in its overall repairs and maintenance cost per unit in FY19 in contrast to FY18 (£92 per unit, 5.13%). However, void repairs in particular remains high cost and stand out as an area for review. This is supported with lower quartile re-let times and rent lost due to voids.

Operational Costs

Performance Indicator	2017/18 Result	2018/19 Result	Peer Median
Rent collected current and former tenants (Including arrears b/f)	100.54%	100.15%	99.71%
Current tenant arrears (Excluding Voids)	1.25%	1.42%	2.83%
Former tenant arrears (Excluding Voids)	0.98%	0.56%	1.41%
Rent loss due to voids	0.87%	0.98%	0.69%
Average time complete repairs (Days)	13.96	15.85	11.00
Percentage of repairs completed at the first visit	90.61%	83.18%	89.10%
Satisfaction with the last repair (Transactional)	n/a	89.70%	93.65%
Appointments kept %	n/a	99.90%	97.70%
Average re-let time (Days)	33.75	35.85	20.90
Gas safety certificate %	100.00%	100.00%	100.00%
SAP rating	67.29	67.12	71.10
Average seconds to answer Inbound calls	119.50	66.80	55.70

Connexus group is showing as mid/lower quartile performance for FY19. Direct comparison to last year is not available due to additional indicators being introduced.

Performance results are showing a similar trend to last year. Rent Arrears performance remains as upper quartile. Re-let times remain as lower quartile and there has been a decline in repairs performance.

Two areas preventing Connexus Group from achieving upper quartile performance, these are average days to complete repairs and re-let times. Average days taken to complete repairs has increased by 1.9 days (12%), whilst re-let times performance has declined by 2.10 days (6% increase). Percentage

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of repairs complete at the first visit is showing as lower quartile at 83% as well as satisfaction with repairs using transactional surveys.

Housing management costs have decreased slightly in FY19 in contrast to FY18, with upper quartile performance for rent arrears performance. Resourcing levels for housing management is showing Connexus as having low full-time equivalent (FTE) per 1000 units managed, compared to the peer group.

Satisfaction

Performance Indicator	Latest Result	Median 2017/18
Overall Services	93.00%	90.84%
Quality of Home	81.00%	85.90%
Neighbourhood	75.00%	83.97%
Repairs and Maintenance	89.00%	84.35%

Latest satisfaction data available for the group has been used to provide a consolidated result. The results show, the overall position for Connexus Group is mid/upper quartile performance (FY19, 110).

Overall performance and repairs satisfaction are showing as upper quartile. This is positive in terms of key driver studies of satisfaction have found a correlation between high repairs satisfaction and high overall performance.

In contrast, quality of home and neighbourhood satisfaction is showing as lower quartile performance.

Overall score with our Peers

Our peers had an overall score of between 60 & 130, Connexus overall score was 90 and placed us in the low performance quartile

VfM Measure	2017/18	2018/19	Median 2018/19	Score 2018/19
Cost Per Unit	£3,067	£2,892	£2,973	30
Operational Performance Score	210	260	300	20
Customer Satisfaction Score	100	110	100	30
Financial Score	160	120	175	10
Total VfM Score	90	90	100	90

Connexus will continue to work on improving VfM and will put in measurable plans where required

Indicator	Issues / Actions taken to improve performance	Measurable Plan
Rent loss due to voids	A Connexus Voids and Lettings Improvement Project, led by the Head of Housing Services, is underway	Measurable improvements due to be seen by October 2019.

	<p>currently with improvements to rent loss, re-let times and void costs expected to be seen by 1st October 2019. The project will 're-set' the current system by allocating increased resource from both the housing and repairs teams, introduce and monitor new measures to further develop our understanding of the current system and focus on implementation of learning from this increased understanding in order to improve performance.</p>	
<p>Average time to complete repairs (Days)</p>	<p>The roll out of the Orchard Repairs system across all colleagues will support better measurement and understanding of performance in this area. Particularly in the sense of being able to look at our data joined up on a single system. Subject to how Shropshire repairs are implemented certain Orchard reports will only need minor adjustment to be reportable for all of Connexus.</p> <p>Additional measures are also being included in performance management in order to better track performance against all repair types e.g. emergency, urgent, routine and planned, rather than the current measure of an overarching average repair length. This will enable more focused work to better understand issues impacting performance.</p> <p>Exception reports are also being developed to better manage exceptions e.g. those repairs that are overdue/outstanding so recurring themes can be identified and performance improved. Likewise the steer towards setting a single reporting platform (Crystal Reports Server) for colleagues to access real-time repairs reporting –early 2020 subject to Orchard rollout.</p>	<p>Implementation of Orchard Repairs: October 2019 (TBC. Subject to process review).</p> <p>Development of Performance dashboard with new measures: November 2019 (Timescale subject to Orchard implementation) December 2019 (Relative to above completion)</p> <p>Development of Exception reports: August 2019.</p>

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<p>Percentage of repairs completed at the first visit</p>	<p>As part of the implementation of Orchard, we will fine tune the categories to measure those repairs which have not been completed at first visit – currently the system contains 50+ categories therefore it is difficult to really understand the drivers behind failed first time fix. Once the system is in place, we can better analyse the factors impacting performance.</p> <p>This will also include factors such as diagnosis, scheduling of repairs and the management of materials.</p> <p>Workshops have also been taking place with staff to better define what is meant by completed at first visit – it is proposed it is measured in two ways – the residents perception of if the repair was completed ‘right first time’ and the measure from the system in relation to ‘first time fix’.</p> <p>The exception reports mentioned above will also support this as we will be able to better manage and understand those repairs which are taking multiple visits to complete.</p>	<p>Implementation of Orchard Repairs: October 2019 (TBC. Subject to process review).</p> <p>Development of Performance dashboard with new measures: November 2019 (Timescale subject to Orchard implementation) December 2019 (Relative to above completion)</p> <p>Development of Exception reports: August 2019.</p> <p>Timeframe for outcome of RFT/First Time Fix: August 2019</p>
<p>Satisfaction with the last repair</p>	<p>The two areas above will lead to better day to day management of repairs – the logic being, if we can improve the basics of repairs and improve the percentage of repairs completed first time fix, the satisfaction of our residents will also increase.</p> <p>A recent review has also been carried out in relation to voids where residents were asked to define repairs carried out at void. This did lead to an increase in the number of residents happy with the condition of their home. Customer survey was reviewed with CR team last quarter with notable improvements being a standardised scales and new questions, particularly around qualitative capture for I&C to review quarterly themes. Monthly stats</p>	<p>Implementation of Orchard Repairs: October 2019 (TBC. Subject to process review).</p> <p>Development of Performance dashboard with new measures: November 2019 (Timescale subject to Orchard implementation) December 2019 (Relative to above completion)</p> <p>Development of Exception reports: August 2019.</p>

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	<p>dashboard also being provided to CR team for investigation which include demography slicers for understanding demand.</p>	
Average re-let time (Days)	<p>A Connexus Voids and Lettings Improvement Project, led by the Head of Housing Services, is underway currently with improvements to rent loss, re-let times and void costs expected to be seen by 1st October 2019. The project will 're-set' the current system by allocating increased resource from both the housing and repairs teams, introduce and monitor new measures to further develop our understanding of the current system and focus on implementation of learning from this increased understanding in order to improve performance.</p>	<p>Measurable improvements due to be seen by October 2019.</p>
SAP Rating	<p>The Asset Management Strategy's target for average thermal performance of the stock is 10% or 6 SAP points above the English average as published in the English Housing Survey, this figure currently stands at 66.1. We are currently exceeding that target at 66.5 for Connexus North and 67.7 for Connexus South. It is expected that average SAP will increase across Connexus once energy efficiency works and heating upgrades have been taken into account.</p> <p>Annual investment plans support the increase of our average SAP rating as well as works carried out at void.</p> <p>Significant work is also being carried out to our Asset Management system, along with an increase in the number of stock condition surveys being carried out to further improve the data we hold on our stock and thus enable us to make sensible decisions about each property to increase the SAP rating.</p>	<p>Stock condition data transfer from legacy system to new Asset Management system (Inc EPCs) and reporting in place: November 2019</p> <p>Mobile solution in place to better support collection of stock data: October 2019</p> <p>Increased stock condition surveys completed: March 2021</p> <p>All investment contracts run through new Asset Management system to better inform stock condition/energy performance data: April 2020</p> <p>Warmer Homes programme complete: April 2021</p>

	<p>We are also embarking on a significant project involving European funding which will see 132 properties invested in to improve the energy efficiency of these buildings. This project will enable us to model what work is required to improve the energy efficiency of our stock in general.</p>	
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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 2019 were:

Risk	Management Controls
<p>Governance Failing to meet governance and viability standards leading to a downgrade</p>	<p>Compliance check against NHF Code of Governance E-learning for all colleagues and board members Policies Up-dated Review of all governance processes Task and Finish Group on Improving Governance led by Chair and CEO</p>
<p>Development Development Sales (including shared ownership) not materialising as forecast / surpluses not achieved as forecast in business plan</p>	<p>Cashflow monitoring at operational level Development of internal controls Effective personal relationships with strategic and development control planning colleagues from the local authority Marketing Monthly reporting to EMT Board scrutiny and monitoring Professional advisors as and when required Professional Sales Team Set of operational development procedures in place Supply chain competence – use of experienced supply chain partners in the construction of the development</p>
<p>Financial Financial Issues / Covenant Failure</p>	<p>Monthly management accounts to budget holder Quarterly review of accounts at Board</p>

<p>Impact of Brexit seriously affecting the business.</p> <p>The identified risks include but are not limited to:</p> <p>Deteriorating Housing Market Conditions bringing about falling house and land values.</p> <p>Interest, Inflation & Currency Risk BoE indicated that a no deal scenario would bring about increased inflation, interest rates and weaker Sterling.</p> <p>Access to Finance being restricted as a result of a no-deal Brexit, which would impact on the ability to develop.</p> <p>Availability of Labour in the construction industry being affected by EEA nationals leaving the UK workforce.</p> <p>Access to materials and Components as a result of the net deficit in building materials with the EU.</p> <p>Access to Data being restricted due to the data being held outside the UK due to Cloud based technology</p>	<p>Quarterly review of covenants performance / levels and cashflows by Board</p> <p>Regular review of key ratios by EMT (monthly) and SMT (quarterly)</p> <p>Specialist Treasury advice</p> <p>A stress testing exercise was considered by board in March 2019 with overall Brexit Risk being reviewed by EMT on a monthly basis.</p> <p>The identified risks and controls are shown below</p> <p>Monthly monitoring of Development performance and sales, by SMT reviewed by Enterprise & Development Committee.</p> <p>Limiting exposure to floating rates, and taking timely refinancing decisions. Inflation risk will be monitored but is broadly mitigated by the resumption of rent indexation from 2020/21.</p> <p>Quarterly review by Board of undrawn credit facilities to ensure that approved facilities match LTFF requirements.</p> <p>Development team monitoring of contractor performance to ensure that there is no slippage in programmes.</p> <p>Supply chains have been checked with all major suppliers with minimum exposure to off shore market supply. This will continue to be reviewed as new suppliers are contracted.</p> <p>Review of Connexus data has been conducted with all cloud based data held with UK providers with the exception of one system which is not critical to operations.</p>
<p>Health and Safety</p>	
<p>Health and Safety Legal Compliance carried out poorly or not adequately</p>	<p>Benchmarking data analysis</p> <p>CDM policy implemented</p> <p>Data management systems to monitor delivery</p> <p>Internal Audit</p> <p>Operations Committee scrutiny</p> <p>Qualified and competent colleagues</p> <p>Reporting to EMT, Board and Operations Committee</p> <p>Use of specialist contractors as necessary</p> <p>Weekly/monthly compliance reporting</p>

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 25 May 2018, and applies to any data companies hold or process within the EU. The regulation also relates to companies outside the EU. 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 all data securely and only retaining whilst there is valid reason to do so. In July 2018 a Data Protection Officer was appointed to strengthen controls around GDPR. A Document and Data retention schedule is in place and all data is retained in line with this schedule, as such we are compliant with GDPR retention regulations.

In May 2018 the group had an internal audit completed and all the recommendations from the audit were implemented by February 2019.

Accounting Policies

The principal accounting policies are set out in note 2 to the financial statements on pages 43 to 53.

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 bonds taken at fixed rates of interest. The Group has funding in place in the form of a £40m revolving credit facility (RCF) of which £25m is yet to be drawn. At 31 March 2019, borrowings stood at £223m (2018:

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£204m), with undrawn facilities of £25m (2018: £44m). At the year-end 89% 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	2019 £'000	2018 £'000
Within two to five years	15,000	11,000
After five years	207,701	192,984
Interest rate basis:		
Fixed	89%	93%
Floating	11%	7%

The weighted average percentage of financial liabilities is 4.62% in 2019. (2018: 4.66%).

Cash Flow

The Group generated net cash from operating activities of £25.8m (2018: £30.78m). After investing and financing activities cash and bank balances for the year ended 31st March 2019 decreased by £1.394m (2018: £1.917m).

The company is exempt from producing a cashflow statement in accordance with FRS102

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

Cash and bank balances and short term investments at 31 March 2019 for the Group were £38.1m (2018: 27.8m), for the company were £1.898m (2018: £2.354m). Additionally the Group has a fully secured revolving credit facility in place with £25m available to draw. 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.

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Statement of the responsibilities of the Board

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the association and of the surplus or deficit for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess 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 they either intend to liquidate the association or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the association's transactions and disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that the financial statements comply with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The directors are 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 directors who held office at the date of approval of this statement confirm, so far as they are each aware, there is no relevant audit information of which our independent auditors are unaware; and each director has taken all the steps they ought to have taken as a director to make them aware of any relevant audit information and to establish that our independent auditors are aware of that information.

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The Report of Board, the Strategic Report and the financial statements were approved by the Board on 19 September and signed on its behalf by:



Ruth Cooke
Chair
19 September 2019

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

We have audited the financial statements of Herefordshire Housing Limited ("the association") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, and Consolidated Statement of Changes in Reserves and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the association as at 31 March 2019 and of its surplus for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

Brexit other matters

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial

statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the association's business model, including the impact of Brexit, and analysed how those risks might affect the association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

Other Information

The directors are responsible for the other information, which comprises the Chair's Foreword, Chief Executive's Foreword to the Financial Statements, Report of the Board, Strategic Report, and Statement of the responsibilities of the Board. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

- we have not identified material misstatements in the other information;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; 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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 34, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the association or to cease operations, or have no realistic alternative but to do so.

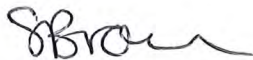
Auditor's responsibilities

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

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

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

This report is made solely to the association'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 association'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 association and the association's members, as a body, for our audit work, for this report, or for the opinions we have formed.



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

Birmingham B4 6GH

27 September 2019

Herefordshire Housing Limited
Report and financial statements for the year ended 31 March 2019

Statement of Comprehensive Income

	Note	2019 £ 000	2018 £ 000
Turnover	3	33,218	29,867
Operating expenditure	3	(23,862)	(19,921)
Surplus on disposal of fixed assets	5	671	1,144
Operating Surplus	3,4	10,027	11,090
Interest receivable and other income	7	471	43
Interest and financing costs	8	(4,466)	(4,030)
Surplus before tax		6,032	7,103
Taxation	9	1	(50)
Surplus for the year		6,033	7,053
Actuarial (loss)/gain in respect of pension schemes	28	(2,094)	1,837
Re-measurement of SHPS obligation	28	(124)	
Total comprehensive income for the year		3,815	8,890

All results derive from continuing operations.

Statement of Financial Position as at 31 March 2019

	Note	Company 2019 £ 000	Company 2018 £ 000
Fixed Assets			
Tangible fixed assets - housing properties	12	140,954	125,959
Other tangible fixed assets	13	4,929	4,902
Investment properties	14	682	682
Investment in subsidiaries	31	13	13
		146,578	131,556
Current assets			
Properties held for sale	15	1,330	4,601
Stock	15	119	85
Trade and other debtors	16	41,937	28,814
Debtors: amounts due after more than one year		178	30
Short term investments		1538	2,036
Cash and cash equivalents		360	318
		45,462	35,884
Creditors: amounts falling due within one year	17	(5,675)	(5,586)
Net current assets/(liabilities)		39,787	30,298
Total assets less current liabilities		186,365	161,854
Creditors: amounts falling due after more than one year	18	(130,789)	(113,552)
Provisions for liabilities			
Pension provision	28	(11,098)	(7,647)
Other provisions	22	(184)	(176)
Total net assets		44,294	40,479
Reserves			
Income and expenditure reserve		44,294	40,479
Total reserves		44,294	40,479

The financial statements were approved and authorised for issue by the Board on 19 September 2019.



Ruth Cooke
Chair



Nicola Griffiths
Company Secretary



Richard Woolley
Chief Executive

Consolidated Statement of Changes in Reserves

	Share Capital £'000	Income and Expenditure Reserve £'000	Total Capital and reserves £'000
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
	-	40,479	40,479
As at 31 March 2018	-		
Surplus for the year ending 31 March 2019	-	6,033	6,033
Other comprehensive income for the year	-	(2,218)	(2,218)
At 31 March 2019	-	44,294	44,294

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.

The individual accounts of Connexus Housing Group have also adopted the following disclosure exemption:

- The requirement to present a statement of cash flows and related notes

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 programme, 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:

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

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. **Exemptions taken**

The Group does not currently apply any exemptions.

e. **Turnover and revenue recognition**

Turnover represents rental income receivable in the year, income from shared ownership first tranche sales, and properties built for open market sales is recognised at the point of legal completion of the sale, 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.

f. **Accrued Income**

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

g. 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.

h. 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.

i. 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 (SOC).

j. 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.

k. 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.

l. 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.

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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.

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 (EU-V-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.

m. 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 are treated 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 at market valuation.

n. 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

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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.

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.

o. 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.

p. 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.

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

	Herefordshire
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

Other tangible fixed assets

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

q. 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.

r. 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.

s. 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.

t. 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.

u. 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.

v. 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.

w. 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.

x. 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.

y. 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.

z. 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.

aa. Provisions

Due to the numbers of properties and the establishment of regular programme 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 Group 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.

bb. Pensions

Connexus Housing Group participates in the following defined benefit pension schemes:

Local Government Pension Scheme (LGPS)

The Group has three LGPS schemes in place – two with Shropshire Council Pension Fund (MMHA and SSHA) and Worcestershire County Council Local Government Pension Scheme. Pension costs for these schemes are assessed in accordance with the advice of a qualified actuary.

The Group 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 Pension Trust.

The group has two defined benefit schemes in place (SSHA and HHL). For the previous year it was not possible to identify the individual employer’s share of the underlying assets and liabilities therefore defined contribution accounting had been applied.

For the year ended 31 March 2018 contributions payable from the association to the SHPS under the terms of its funding agreement were recognised as a liability in the Statement of Financial position.

For the year ended 31 March 2019, the association is able to identify its share of the scheme assets and the scheme liabilities. It has therefore applied defined benefit accounting, the relevant date for accounting for this change from defined contribution to defined benefit accounting is 1 April 2018. The scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates.

The deficit funding agreement liability that was previously recognised in creditors was derecognised on the 1 April 2018, and an initial net defined benefit pension liability was recognised at this date in the statement of financial position. The resulting net difference on initial recognition of the SHPS obligation was recognised in other comprehensive income.

As at the year ended 31 March 2019, the net defined benefit pension liability has been included within the provisions for pension liability in the financial statements.

In the year ended 31 March 2019, the current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current

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reporting period within the income and expenditure account. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income. Refer to Note 28 for more details

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

dd. 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, is exempt for VAT purposes and this 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.

ee. 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.

ff. 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.

gg. 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.

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Notes to the financial statements

3. Turnover, operating costs and operating surplus

2019	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	24,777	-	(16,783)	7,994
Other Social Housing Activities				
Current asset property sales	782	(593)	-	189
Other support services	298	-	(298)	-
Non-social housing activities				
Provision of services to Group undertakings	2,791	-	(2,769)	22
Market Sales	1,945	-	(1,847)	98
Other	2,625	-	(1,572)	1,053
Total from Social and Non-Social Housing Activities	33,218	(593)	(23,269)	9,356
Surplus on disposal of fixed assets				671
Total Operating Surplus				10,027

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)
Other	2,694	-	(1,966)	728
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

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.

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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 £'000	Supported Housing and Housing for older people £'000	Temporary Social Housing £'000	Low cost Home Ownership £'000	Total 2019 £'000	Total 2018 £'000
Rent receivable	19,213	4,437	95	124	23,869	23,955
Service Charges Receivable	250	444	14	15	723	780
Amortised government grants	111	2	-	-	113	108
Other revenue grants	72	-	-	-	72	69
Turnover from social housing lettings	19,646	4,883	109	139	24,777	24,912
Management Services	(5,249)	(1,134)	(11)	(42)	(6,436)	(5,224)
Routine maintenance	(741)	(143)	(14)	-	(898)	(825)
Planned maintenance	(2,984)	(540)	(13)	3	(3,534)	(3,622)
Bad debts	(203)	(252)	(5)	(1)	(461)	(547)
Depreciation of housing properties	(180)	(45)	(1)	(1)	(227)	(117)
Pension operating costs	(3,779)	(573)	(8)	-	(4,360)	(4,358)
Operating costs on social housing lettings	(702)	(156)	(2)	(7)	(867)	(703)
	(13,838)	(2,843)	(54)	(48)	(16,783)	(15,396)
Operating surplus on social housing lettings	5,808	2,040	55	91	7,994	9,516
Void losses	(101)	(45)	(9)	(6)	(161)	(144)

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Notes to the financial statements

4. Operating Surplus

	2019 Company £'000	2018 Company £'000
Operating surplus is arrived at after charging / (crediting):		
Depreciation and Impairment		
Depreciation of housing properties	4,373	4,358
Restatement of property impairment	-	-
Depreciation of other tangible fixed assets	710	594
Depreciation of finance lease assets	80	89
Grant amortisation	(113)	(108)
Operating lease rentals		
Service fleet	-	-
Office equipment	61	39
Auditors' remuneration (excluding VAT)		
- for external audit services	23	22
- for tax advice & loan covenant review	-	-
Exceptional items	-	198

2018 Exceptional items relate to costs directly incurred in relation to the merger during the year.

Herefordshire Housing Limited
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5. Surplus on Disposal of Property, Plant and Equipment

	2019	2018
	£'000	£'000
Disposal Proceeds	896	1,766
Carrying value of fixed assets	(225)	(622)
Surplus on disposal of fixed assets	671	1,144

Disposal proceeds includes £184,000 in respect of overage payments (2018: £256,000).
In 2018, overage income of £233,000 was accrued, 2019: £nil.

6. Accommodation In Management

	2019	2018
	Number	Number
Social housing		
General housing - social rent	3,987	3,987
General housing - affordable rent	384	372
Supported housing	968	980
Low cost home ownership	46	39
Social housing owned	5,385	5,378
Market rent properties	4	4
Leasehold market rent properties	7	7
Leasehold properties	392	390
Other		
Garages	1,965	1,991
Shops	29	29
Other owned	1,994	2,020

7. Interest receivable and other Income

	2019	2018
	£'000	£'000
Interest receivable from deposits and investments	471	43

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8. Interest and financing costs

	2019	2018
	£'000	£'000
Interest payable on loans	4,719	4,195
Interest on finance leases	-	-
Other charges	101	101
	4,820	4,296
Pension finance costs	201	211
Interest payable capitalised on housing properties under construction	(569)	(491)
Loan amortisation	14	14
	4,466	4,030
Capitalisation rate used to determine the finance costs capitalised during the financial year:	4.05%	4.19%
Accumulated costs capitalised	2,103	1,534

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.

	2019	2018
	£'000	£'000
UK Corporation tax on surplus for the year	(1)	50
Total current tax	(1)	50

Tax paid during the year in respect of the prior year amounted to £nil.

Herefordshire Housing Limited
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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:

	2019 £'000	2018 £'000
Current tax:		
UK Corporation Tax charge / (credit) for the year	54	55
(Over)/under provision in the previous years	(55)	(5)
Total current tax	(1)	50
Surplus/(deficit) on ordinary activities before tax	6,382	7,092
Surplus/(deficit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20%	1,213	1,347
Effects of:		
Capital allowances in excess of depreciation	(11)	(12)
Adjustment in respect of prior years	(10)	(5)
Surplus relating to charitable activities	(1,193)	(1,280)
	(1)	50

Herefordshire Housing Limited
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10. Employees

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

	2019 Number	2018 Number
Management & Support	39	49
Development	7	3
Asset Management	14	13
Housing management	41	42
Property and maintenance	96	95
Care & Support	30	37
	227	239

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

	2019 Number	2018 Number
Management & Support	38	47
Development	7	3
Asset Management	14	13
Housing Management	40	40
Property and Maintenance	94	92
Care & Support	17	23
	210	218

Employee costs:

	2019 £'000	2018 £'000
Salaries	6,068	6,018
Social security costs	576	557
Other pension costs	1,628	755
	8,272	7,330

Including past pension deficit of £148,523 (LGPS 107,213, SHPS 41,310) (2018 LGPS £107,213)

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

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10. Employees (continued)

Remuneration bandings for all employees earning over £60,000:	2019 Number	2018 Number
£150,000 to £160,000	-	1
£140,000 to £150,000	-	-
£130,000 to £140,000	-	-
£120,000 to £130,000	1	1
£110,000 to £120,000	-	-
£100,000 to £110,000	1	1
£90,000 to £100,000	-	-
£80,000 to £90,000	3	3
£70,000 to £80,000	1	1
£60,000 to £70,000	4	3
	10	10

In addition to the above, £420,000 was paid to a third party in relation to management services provided by the Interim Chief Executive, Interim Director of Development, Interim Director of Assets and Repairs and Interim Director of Finance. This excludes loss of office payments.

11. Board Members and Executive Directors

The Board Members and Executive Directors are also directors of the parent Connexus Housing Limited. 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. Excluding Interims employed during the year, there are 3 Executive Directors remunerated by Herefordshire Housing Limited all of whom accrue benefits under either the SHPS or the WCCPF pension scheme.

	2019 £'000	2018 £'000
Aggregate Emoluments paid to Non-Executive Directors (Board Members)	-	25
Aggregate Emoluments paid to Executive Directors	411	340
Pension payments relating to services as Executive Directors	33	40
Consideration payable to third parties in relation to Director services provided	420	-
	864	405

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The emoluments of the highest paid Director, Richard Woolley, excluding pension contributions, was £113,000 (2018: £140,315). The Chief Executive is a member of the Local Government Pension Scheme. The Company did not make any further contribution to an individual pension arrangement for the Chief Executive.

A severance payment amounting to £133,154 was payable to the ex-Chief Executive, Peter Brown, in relation to the period of account in respect of loss of office (2018:£nil). This sum is reported in the above emolument table:

Following the merger of the Herefordshire Housing Group, Directors from the former Shropshire Housing Group were appointed as Directors of Herefordshire Housing. These Directors and Board members listed below are directly employed by the parent Connexus Housing Limited. Their emoluments are paid by the parent company.

	Appointed	Resigned	2019 £000	2018 £000
Ruth Cooke (Chair)	28/09/2010	-	-	4
James Williamson	27/07/2017	30/11/2018	-	-
Graham Biggs	27/07/2017	15/11/2018	-	-
Sonia Higgins	27/07/2017	30/11/2018	-	-
Gillian Jones	27/07/2017	-	-	-
David Lincoln	28/09/2010	-	-	2
Michael McCarthy	04/06/2013	31/12/2018	-	2
Allison Taylor	28/09/2010	-	-	2
Elizabeth Walford	27/07/2017	-	-	-
John Cross	11/12/2018	-	-	-
Hilary Gardner	11/12/2018	-	-	-
Philippa Jones	11/12/2018	17/04/2019	-	-
Paul Smith	11/12/2018	-	-	-
Paul O'Driscoll	20/03/2017	31/12/2018	-	-
			-	10

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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 2018	145,151	8,585	2,839	156,575
Additions	-	12,864	-	12,864
Works to existing properties	5,302	35	-	5,337
Interest capitalised	-	569	-	569
Schemes completed	2,225	(2,961)	736	-
Transfer to Investment Properties	-	-	-	-
Transfer to current assets	-	833	-	833
Disposals - Other	(1,135)	(12)	-	(1,147)
At 31 March 2019	151,543	19,913	3,575	175,031
Depreciation				
At 1st April 2018	30,572	-	44	30,616
In the Year	4,331	13	30	4,374
Released on disposal	(900)	(13)	-	(913)
At 31 March 2019	34,003	-	74	34,077
Net Book Value				
At 31 March 2019	117,540	19,913	3,501	140,954
At 31 March 2018	114,579	8,585	2,795	125,959

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

	2019 £'000	2018 £'000
Freehold land and buildings	140,790	125,787
Long leasehold land and buildings	164	172
Market rent units at valuation	682	682
Office, Legion Way	3,854	3,965
	145,490	130,606

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Notes to the financial statements

12. Tangible fixed assets – Housing Properties (continued)

Expenditure on works to existing properties

	2019	2018
	£'000	£'000
Components capitalised	5,119	5,680
Amounts charged to income and expenditure	3,995	4,168
	9,114	9,848

Social housing assistance

Total social housing and other capital grants:

	2019	2018
	£'000	£'000
Social Housing Assistance		
Total accumulated grant received or receivable at 31 March	12,448	9,930
Recognised in the Statement of Comprehensive Income	727	614
Recognised in the Statement of Comprehensive Income - Disposal	37	22
Held as deferred income	11,684	9,294
At 31 March	12,448	9,930

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

	2019	2018
	£'000	£'000
Aggregate Amount brought forward	1,534	1,043
Amount incurred in the year	569	491
At 31 March	2,103	1,534

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 £135.4m (for 4,133 properties) against the £120m bond which was fully drawn as at 31 March 2019, £105m 31 March 2018).

The last full valuation of all housing properties was undertaken as at 31 March 2016. The valuation, calculated on an existing use for social housing basis, was £177m.

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 e.g. 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, Eign Mill Road and Highmore Street 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.

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13. Other fixed assets

	Offices £'000	Furniture fixtures & fittings £'000	Computers & other equipment £'000	Vehicles, plant & equipment £'000	Total £'000
Cost					
At 1st April 2018	5,110	355	3,244	1,311	10,020
Additions	-	13	796	15	824
Disposals	-	-	(12)	(32)	(44)
At 31 March 2019	5,110	368	4,028	1,294	10,800
Capital Grants					
At 1st April 2018	-	-	6	-	6
At 31 March 2019	-	-	6	-	6
Accumulated depreciation					
At 1st April 2018	1,145	322	2,509	1,136	5,112
Charged in year	111	30	556	93	790
Disposals	-	-	(8)	(29)	(37)
At 31 March 2019	1,256	352	3,057	1,200	5,865
Net Book Value					
At 31 March 2019	3,854	16	965	94	4,929
At 31 March 2018	3,965	33	729	175	4,902

Included within the Note 13 are vehicles, plant & equipment held under a finance lease with zero net book value (2018: £76k) 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 2019 £'000	Market rent 2018 £'000
Valuation		
At 1st April	682	-
Additions	-	682
Disposals	-	-
At 31 March	682	682

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Notes to the financial statements

15. Stock and work in progress

	2019 £'000	2018 £'000
Stock and work in progress	119	85
Schemes developed for shared ownership disposal	1,330	860
Properties developed for outright sale	-	3,741
Properties held for sale	1,330	4,601

16. Debtors

	2019 £'000	2018 £'000
Due within one year		
Rent and service charges receivable	436	384
Less: Provision for bad and doubtful debts	(225)	(192)
Net rent arrears	211	192
Other debtors	713	253
Social housing grant receivable	-	136
Amounts owed by subsidiary undertakings	39,929	25,995
Other taxation and social security	17	1
Prepayments and accrued income	1,067	2,237
	41,726	28,622
	41,937	28,814
Due after more than one year		
Amounts owed by subsidiary undertakings	30	30
Prepayments	149	-
	179	30

Intercompany debtors within Herefordshire Housing includes £31.5m in respect of investments undertaken by Herefordshire Capital plc. on behalf of the Company (2018: £22.0m).

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17. Creditors: amounts falling due within one year

	2019 Company £'000	2018 Company £'000
Trade creditors	953	2,349
Council's share of Right to Buy proceeds	546	-
Rent and service charges received in advance	729	636
Other taxation and social security	54	329
Accruals	1,206	441
Other creditors	2	83
Deferred grant income	113	108
Inter-company creditors	1,603	1,186
Pension contributions payable	-	41
Receipts in advance	469	413
Other capital grants received in advance	-	-
	5,675	5,586

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 38 days (2018: 34 days).

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

	2019 Company £'000	2018 Company £'000
Inter-company loans (Note 20 and 26)	120,000	105,000
Less: Issue costs	(782)	(804)
Deferred grant income	11,571	9,186
Pension deficit contributions	-	170
	130,789	113,552

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19. Deferred Income

	2019 £'000	2018 £'000
At 1 April	9,294	8,360
Grant received in the year	2,518	1,053
Released to Property Sales	(15)	(11)
Released to income in the year	(113)	(108)
At 31 March	11,684	9,294
Amounts to be released within one year	113	108
Amounts to be released in more than one year	11,571	9,186
	11,684	9,294

20. Debt analysis

	2019 £'000	2018 £'000
Due after more than one year:		
Loans	120,000	105,000
Total borrowings	120,000	105,000

The Group refinanced its funding in November 2014. It has a 35 year bond for £120m in place of which £35m was in the form of retained bonds. The bonds have a 35 year maturity, amortising over the last 5 years. During 2018/19 Herefordshire Capital purchased the final £15m of the £35m retained bond.

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

	2019 £'000	2018 £'000
Five years or more	120,000	105,000
Total borrowings	120,000	105,000

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21. Financial Commitments

	31 March 2019 £'000	31 March 2018 £'000
Authorised expenditure not contracted	41,375	116,108
Authorised expenditure contracted	13,041	2,724
	54,416	118,832

At the reporting date the Group had £2.4m of cash and cash equivalents, £35.7m short term investments and £25.0m of undrawn funding. The remaining £190.5m is expected to be funded by reserves, 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:

	2019 £'000	2018 £'000
Due within one year	55	25
Due one to five years	66	69
Minimum future operating lease payments	121	94

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	Groundworks	Leave pay	Total
	£'000	£'000	£'000
At 1 April 2018	100	76	176
Additions	-	8	8
Reversals	-	-	-
At 31 March 2019	100	84	184

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23. Reconciliation of net cash flow to movement in debt

	2019	2018
	£'000	£'000
Increase / (decrease) of cash in the year	42	(521)
Cash flow from increase / (decrease) in liquid resources	(498)	1,345
Cash flow from decrease / (increase) in debt	(15,012)	(15,000)
Decrease in net debt from cash flows	(15,468)	(14,176)
Net debt at 1st April	(101,784)	(87,608)
Net debt at 31 March	(117,252)	(101,784)

In addition to the £15m bond finance received a further £1.975m was received as bond premium (£2.265m 2018)

24. Analysis of changes in net debt

	1st April 2018	Cashflow	31 March 2019
	£'000	£'000	£'000
Cash	318	42	360
Short term investments	2,036	(498)	1,538
	2,354	(456)	1,898
Debt (loans)	(105,000)	(15,000)	(120,000)
Issuance costs	862	(12)	850
	(101,784)	(15,464)	(117,252)

25. 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:

	2019	2018
	£'000	£'000
Sterling	1,538	2,036
Total financial assets	1,538	2,036

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Financial assets and liabilities continued.

Financial liabilities excluding trade creditors

	2019 £'000	2018 £'000
After five years	120,000	105,000
Interest rate basis:		
Fixed	100.0%	100.0%
Floating	-	-

26. 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	120,000	142,601
Financial liabilities measured at amortised costs		
Other interest-bearing loans and borrowings	120,000	119,203

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 2019, the fair value of the subsidiary, Herefordshire Capital plc. long term debt was £142.6m (2018: £125.9m). The movement in valuation is driven by an increase in notional debt 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.

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26. Financial Instruments (continued)

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 Connexus 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 BAA1 by Moody's.

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 30 years.

The debt is repayable as follows:

	2019	2018
	£'000	£'000
Lump Sum Repayments:		
In five years or more	120,000	105,000
	120,000	105,000

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 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.

Herefordshire Housing Limited

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27. Contingent liabilities

As at 31 March 2019 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 28 provides additional information.

28. 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 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.

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 the funding defined benefit occupational pension schemes in the UK.

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

The scheme is classified as a 'last-man standing arrangement'. Therefore the company is potentially liable for the 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.

For financial years ending on or before 28 February 2019, it has not been possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme, therefore the company has accounted for the scheme as a defined contribution scheme.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the company to account for the scheme as a defined benefit scheme.

For accounting purposes, two actuarial valuations for the scheme were carried out with effective dates of 31 March 2018 and 30 September 2018. The liability figures from each valuation are rolled forward to the relevant accounting dates, if applicable, and are used in the conjunction with the company's fair share of the scheme's total assets to calculate the company's net deficit or surplus at the accounting period start and end dates.

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28. Pensions (continued)

Assumptions

The principal assumptions at the balance sheet date are:

	2019	2018
	% per annum	% per annum
Discount rate	2.29	2.55
RPI inflation	3.30	3.20
CPI inflation	2.30	2.20
Salary Growth	3.30	3.20
Allowance for commutation of pension for cash at retirement	75% of max allow	75% of max allow

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy at age 65
	Years
Retiring today:	
Males	21.8
Females	23.5
Retiring in 20 years:	
Males	23.2
Females	24.7

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28. Pensions (continued)

Analysis of the amount charged to the Statement of Comprehensive Income

	2019
	£'000
Current service costs	2
Employer Contribution	(59)
Expenses	2
Amounts charged to operating costs	(55)
Interest on pension liabilities	34
Expected return on assets	(26)
Amounts charged to other finance costs	8
Total recognised in statement of comprehensive income	(47)

Statement of total recognised surpluses and deficits:

	2,019
	£'000
Difference on transition from defined contribution to defined benefit accounting	
Past service deficit liability as at 1 April de-recognised	211
Net pension scheme deficit under defined benefit	(335)
Loss recognised in other comprehensive income on initial recognition as at 1 April	(124)
Remeasurements in year (liabilities & assets)	(177)
Total loss recognised in other comprehensive income for year ended 31 March	(301)

Analysis of the amount recognised in the Statement of Financial Position

	2,019	2,018
	£'000	£'000
Present value of funded benefit obligations	1,995	1,449
Fair value of plan assets	(1,530)	(1,114)
Deficit related to the Company	465	335
Net liability to the Company	465	335

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Notes to the financial statements

28. Pensions (continued)

Change in benefit obligation during financial year to 31 March

	2019
	£'000
Opening benefit obligation	1,449
Current service cost	2
Expenses	2
Interest Cost	34
Member contributions	9
Actuarial losses (gains) - Experience	621
Actuarial losses (gains) - Demographics	6
Actuarial losses (gains) - Financial	114
Curtailments	-
Benefits paid and expenses	(242)
Closing benefit obligation	1,995

Change in plan assets during year to 31 March

	2019
	£'000
Opening fair value of plan assets	1,114
Interest income	26
Remeasurements - Experience gain (loss)	564
Employer contributions	59
Member contributions	9
Benefits paid and expenses	(242)
Closing fair value of plan assets	1,530

The actual return on the plan assets (including any change in share of assets) over the period ended 31 March 2019 was £590,000

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Notes to the financial statements

28. Pensions (continued)

Analysis of plan assets

	2019	2018
	£'000	£'000
Global Equity	257	220
Absolute Return	132	136
Distressed Opportunities	28	11
Credit Relative Value	28	-
Alternative Risk Premia	88	42
Fund of Hedge Funds	7	37
Emerging Market Debt	53	45
Risk Sharing	46	10
Insurance-Linked Securities	44	29
Property	34	51
Infrastructure	80	29
Private Debt	21	10
Corporate Bond Fund	71	46
Long Lease Property	23	-
Secured Income	55	41
Over 15 Year Gilts	-	-
Liability Driven Investment	560	406
Net Current Assets	3	1
Total assets	1,530	1,114

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28. 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 31 March 2019 was £2,795m.

The market value of the Company's share of the scheme assets at 31 March 2019 was £26.883m (2018: £25.314m) representing a funding level of 72% (2018: 77%) based on liabilities valued on actuarial assumptions. Liabilities had a market value of £37.516m (2018: £32.961m).

Employers' contributions to the WCCPF by the Company for the year ended 31 March 2019 were £0.71m (2018: £0.70m). The Company's employer's contribution rate was 13.9% during the financial year (2018: 13.9%).

Following the outcome of the valuation, the overall average employer contribution rate will be 15.1% of pensionable pay, plus £36.3m 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).

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28. Pensions (continued)

Assumptions

The principal assumptions at the balance sheet date are:

	2019	2018
	% per annum	% per annum
CPI inflation	2.2	2.1
Future salary increases	3.7	3.6
Future pension increases	2.3	2.2
Discount rate	2.5	2.7
	2019	2018
	No. of Years	No. of Years
Post retirement mortality assumptions:		
Current pensioners - Male	22.8	22.7
- Female	25.8	25.7
Future pensioners - Male	25.1	24.9
- Female	28.2	28.0

Analysis of the amount charged to the Statement of Comprehensive Income

	2019	2018
	£'000	£'000
Current service costs	1,293	1,380
Past service costs	275	-
Employer contribution	(709)	(696)
Administration expenses	17	16
Curtailments	-	-
Amounts charged to operating costs	876	700
	2019	2018
	£'000	£'000
Interest on pension liabilities	888	836
Expected return on assets	(695)	(629)
Total pension gain charged to other finance income	193	207

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Notes to the financial statements

28. Pensions (continued)

Statement of total recognised surpluses and deficits:

	2019	2018
	£'000	£'000
Remeasurements (liabilities & assets)	(1,917)	1,837
Cumulative actuarial loss recognised in reserves	(6,992)	(5,075)

Analysis of the amount recognised in the Statement of Financial Position

Year ended 31 March

	2019	2018
	£'000	£'000
Present value of funded benefit obligations	37,516	32,961
Fair value of plan assets	(26,883)	(25,314)
Deficit related to the Company	10,633	7,647
Net liability to the Company	10,633	7,647

Change in benefit obligation during financial year to 31 March

	2019	2018
	£'000	£'000
Opening scheme liabilities	32,961	32,024
Current service cost	1,293	1,380
Interest on pension liabilities	888	836
Member contributions	297	289
Past service cost / (gain)	275	-
Re-measurements – loss: experience	-	-
Re-measurements – gain: assumptions	2,261	(1,566)
Curtailements	-	-
Benefits paid	(459)	(2)
Present value of benefit obligation at end of the year	37,516	32,961

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Notes to the financial statements

28. Pensions (continued)

Change in plan assets during financial year to 31 March

	2019 £'000	2018 £'000
Opening fair value of plan assets	25,314	23,447
Interest on plan assets	695	629
Remeasurements (assets)	344	271
Administration expenses	(17)	(16)
Employer contributions	709	696
Member contributions	297	289
Benefits/ transfers paid	(459)	(2)
Closing fair value of plan assets	26,883	25,314

The actual return on the plan assets was £1.039m (2018: £0.9m).

Analysis of plan assets

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

	2019 %	2018 %
Equities	71.8	86.4
Government Bonds	8.1	-
Other bonds	4.9	4.8
Property	6.3	4.2
Cash/Liquidity	2.3	1.2
Other	6.5	3.4

The company expects to contribute £708,000 to its defined benefit pension plan in 2019-20.

History of experience gains and losses (WCCPF)

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Defined benefit obligation	(37,516)	(32,961)	(32,024)	(25,775)	(25,591)
Plan assets	26,883	25,314	23,447	18,671	18,376
(Deficit)	(10,633)	(7,647)	(8,577)	(7,104)	(7,215)
(Losses)/gains on plan liabilities	(2,261)	1,566	(4,749)	1,649	(3,900)
Gains/(losses) on plan assets	344	271	3,708	(960)	990

Herefordshire Housing Limited

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Notes to the financial statements

29. Related parties

There were no related party arrangements in place in the year compared to 2018/19 where 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 31 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.

30. 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 is Connexus Housing Limited and

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.

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

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.

