

Report and Financial Statements

For year ended
31 March 2019



Good Prospects
within everyone's
reach.

We are a community anchor, supporting people and places to be the best they can be



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Association information

Co-operative and Community Benefit Society (formerly Industrial and Provident Society) registration number : 17445R

The Regulator of Social Housing registration number : L2285

Registered office : 205 Roundhay Road, Leeds, LS8 4HS.
www.connecthousing.org.uk

Board of Management :

Chair	Vice Chair
■ David Wolverson	■ Alison Leech
Other Members	
■ Tracey Bell	★ Jubah Miah (to 31 March 2019)
★ Karen House	■ Helen Forman
✦ Karen Lythe	★ Susan Waterson (to 12 September 2018)
✦ ■ Paul Howley	✦ David Wilmshurst
✦ ★ Yasmin Hussain	

Committee structure:

- ✦ These members serve on the Audit and Risk Management Committee

(Chair: Paul Howley)

- ★ These members serve on the HR and Governance Committee

(Chair: Karen House)

- These members serve on the Treasury Task and Finish Group

(Chair: David Wolverson)

Leadership Team :

Chief Executive and Secretary	Director of Finance and Resources	Director of Neighbourly Places	Director of Home
Helen Lennon	Sean Flynn	Christine Fox	Martyn Broadest
BA (Hons) MBA MCIH	BA (Hons) ACMA	BA (Hons)	BSc (Hons) DipHE (Hsg)

Association information (continued)

Bankers :

Yorkshire Bank Plc
2 Infirmary Street
Leeds
LS1 2UL

Legal Advisors :

Bevan Brittan
King Orchard
1 Queen Street
Bristol
BS2 0HQ

Ward Hadaway
Sandygate House
102 Quayside
Newcastle Upon Tyne
NE1 3DX

Devonshires
30 Finsbury Circus
London
EC2M 7DT

External Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle Upon Tyne
NE1 4JD

Internal Auditors

Beevers and Struthers
St George's House
215 -219 Chester Road
Manchester
M15 4JE

Report of the Board of Management

The Board of Connect Housing is pleased to present its report together with the audited financial statements of Connect Housing for the year ended 31 March 2019.

Nature of the business

Connect Housing Association is a Community Benefit Society (CBS), registered with the Financial Conduct Authority (FCA) under the Co-operative and Community Benefit Societies Act 2014 and a Registered Provider of social housing regulated by The Regulator of Social Housing.

The Association's principal aims are to contribute to the regeneration and sustainability of local communities through the provision of affordable, good quality, well maintained and well managed homes, and the provision of community services, for people with housing needs across West Yorkshire.

The Association has charitable status and operates the following key business streams:

- housing for rent, primarily by families and individuals who are unable to rent or buy at open market rates;
- supported housing, and floating support provision for people who need additional housing-related support; and
- low-cost home ownership, primarily shared ownership.

Details of the Association's principal activities, its performance during the year and factors likely to affect its future development are contained within the Strategic Report found later in this document.

Board and Committee Members and Executive Directors

The Board and Leadership Team members serving during the period and up to the date of signing the Financial Statements are listed on page 3. Board members are shareholders of the Association and provide their services on an unpaid, voluntary basis.

The Board is responsible for directing the affairs of Connect, determining the vision and strategy and ensuring that the Association is viable, properly governed and properly managed. It sets, and ensures adherence to, Connect's values, purpose and strategic objectives to secure Connect's long-term success; taking appropriate advice as required.

The day-to-day management of the business and implementation of strategies agreed by the Board are delegated to the executive directors (Leadership Team) comprising the Chief Executive, the Director of Finance and Resources, the Director of Neighbourly Places and the Director of Home.

Officers' insurance

The Association has maintained throughout the year insurance of members and senior employees against liabilities in relation to the Association.

Governance

The Regulator of Social Housing confirmed Connect's regulatory judgement of G1:V1 during 2018/19.

The Association is governed by a Board of up to 12 non-executive members. Across the membership of the Board, Connect aims to include:

- Skills and experience – the full range of expertise required to govern the Association effectively; and
- Profile – members with a range of characteristics and backgrounds, broadly reflecting the areas where Connect Housing operates.

There are currently 9 members with 3 appointments to be confirmed at the Annual General Meeting on 18th September 2019 to bring the Board to its full complement of 12.

The Human Resources and Governance Committee (HRGC) led an open recruitment process during 2019 to successfully address identified skills gaps in asset management, development and Information Technology as well as bring on to the Board experience in Health services and Business Transformation.

The committee structure includes:

- An Audit & Risk Management Committee which ensures there is a robust framework of delegation, systems of internal control and a risk management framework in order to safeguard the assets of the Association;
- An HR and Governance Committee which ensures there are robust HR and governance arrangements in place, including remuneration of the Chief Executive, staff and Board members and a performance appraisal system for the Board, Chair, individual Board members and Chief Executive.
- A Treasury Task and Finish Group.

Membership of these groups is indicated on page 3.

Following a recommendation by the independent review of governance in 2017, and the adoption of latest (2015) version the National Housing Federation (NHF) model rules in August 2018, the Association moved to a closed shareholding policy whereby only Board members are shareholders.

The 2018 independent Board effectiveness review concluded that there was a 'good governance culture' at Connect. The HRGC carried out the 2019 Board effectiveness review to inform the governance action plan for 2019/20.

Financial Statements

The Board is pleased to report another strong financial performance for the year with a surplus before pension re-measurements of £2.154 million (2018: £2.491 million), in what continues to be a very challenging operating environment. After adjustments in respect of pension schemes the total comprehensive income for the year is £523k (2018: £2.523 million). The Board is however aware that surplus levels are projected to be much lower in the short to medium term (reflecting in particular the on-going impact of Welfare Reforms, final year of the 1% per annum rent reduction and increasing compliance works).

The Association's reserves represent internally generated resources already invested in the business and now total £22.372 million (2018: £21.849 million). The level of reserves reflects a sound financial performance over many years, and the Association's long term planning aims to ensure the maintenance of adequate reserves at all times in the future.

The reserves remain necessary to ensure that the Association:

- is able to plan ahead from a sound financial base, safe in the knowledge that short term financial issues will not prejudice long term programmes;
- can continue to borrow private finance on competitive terms to fund its future development programme;
- can continue to make provision for the proper maintenance of its property stock in the long term (including planned, routine and major repairs) - this cost will increase significantly as the average age of the stock increases;
- is able to develop schemes which meet housing need, but for which public funding may not be available and
- may pursue other opportunities as they arise.

Going concern

The Board has considered the association's current and future prospects and its availability of financing and is satisfied that the company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. For this reason, the Board continues to adopt the going concern basis of preparation for these financial statements.

Statement of the responsibilities of the Board for the report and financial statements

The Board is responsible for preparing the Report of the Board of Management, the Strategic Report, and the Financial Statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society and registered social landlord legislation requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the financial surplus of the Association for that period. Under that law these financial statements have been prepared in accordance with FRS 102 and in preparing them the Board:

- select appropriate policies and apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing from April 2015. It is also responsible for maintaining an adequate system of internal control and safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring that the Report of the Board is prepared in accordance with the "Housing SORP 2014 : Statement of Recommended Practice for registered social housing providers".

Internal controls assurance

The Board acknowledges its overall responsibility for establishing and maintaining the Association's system of internal control and reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, and not absolute, assurance against material misstatement or loss.

The Association has procedures to ensure that the internal control systems are monitored and reviewed regularly by the Board. The Board has reviewed the effectiveness of the Association's internal control systems for the period from 1 April 2018 up to the date of approval of the annual report and financial statements.

Key elements of the control framework include:

- Board approved terms of reference and delegated authorities for staff and committees;
- Clearly defined management responsibilities for the identification, evaluation and control of significant risks;
- Robust strategic and business planning processes;
- Detailed financial budgets and forecasts for subsequent years;
- Regular reporting to senior management and the Board of key business objectives, targets and outcomes;
- Formal recruitment, retention, training and development policies;
- Detailed approach to treasury management, subject to annual external review;
- Established authorisation and appraisal procedures for all significant new initiatives and commitments;
- Board approved whistle-blowing, anti-fraud, and anti-bribery policies;
- Annual review of the Fraud Register by the Board, with on-going management review;
- Monitoring of control systems by the Board, Audit & Risk Management Committee, management review, and by the commissioning of independent reviews;
- Annual reviews of the Key Strategic Risks and Directorate risk maps by the Board and Audit & Risk Management Committee, with on-going management review;
- A risk management strategy reviewed and agreed annually by the Board and the Audit & Risk Management Committee, with on-going management review;
- Detailed policies and procedures in each key area of the Association's work;
- Annual review of the Asset & Liability Register by Audit & Risk Management committee and Board of Management; and

- Annual review of the Association's Stress Testing framework.

The Board cannot delegate ultimate responsibility for the system of internal control but it can, and has, delegated authority to the Audit & Risk Management Committee (A&RMC) to regularly review the effectiveness of the system of internal control. The Board receives reports from the A&RMC together with minutes of its meetings.

The means by which the A&RMC reviews the effectiveness of the system of internal control include considering risk reports, internal audit reports, management assurances, and the external audit management letter. The A&RMC has received the Chief Executive's annual review of the effectiveness of the system of internal control for the Association together with the annual report of the internal auditors, and has reported its findings to the Board. The Board has in turn conducted its own annual review of the effectiveness of the system of internal control.

Risks and uncertainties

The Key Strategic Risks (KSR) that may prevent the Association from achieving its strategic objectives have been informed by the changing risk environment regarding Health & Safety, support services commissioning, the pre and post Brexit economy and employment market, and the planned implementation of a new Information Technology solution.

The risks are assessed in terms of their impact and likelihood and are documented through risk maps which help us to manage and report on this area. The use of a 5x5 matrix to allows flexibility to differentiate risks and plot risk appetite more accurately.

Disclosure of information to auditors

So far as each person who was a director (who are members of the Board) at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the association's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information. The Board and A&RMC also meet on occasions in closed session without the presence of staff.

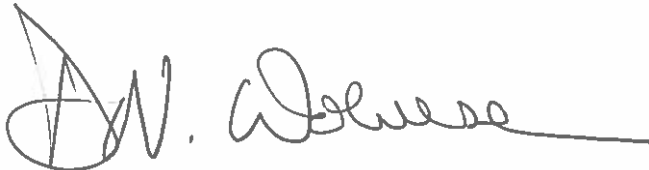
Annual general meeting

The annual general meeting will be held on 18 September 2019, at our Leeds office: 205 Roundhay Road, Leeds, West Yorkshire. LS8 4HS.

External auditors

Ernst & Young LLP have indicated their willingness to continue in office, and a resolution to re-appoint them will be proposed at the annual general meeting.

The Report of the Board of Management was approved on 18 September 2019 and signed on its behalf by

A handwritten signature in black ink, appearing to read 'D. Wolverson', with a long horizontal line extending to the right.

David Wolverson
Chair of the Board of Management

Strategic report

The Board of Connect Housing Association is pleased to present the Strategic Report for the year ended 31 March 2019. Our over-arching strategy has not changed during 2018/19.

Our purpose

We are a community anchor, supporting people and places to be the best that they can be.

Our vision

A more equal society where a good home, a good neighbourhood, good health and good prospects are within everyone's reach.

Our strategic objectives and themes

VALUED HOMES

Our offer will be for everyone, including the poorest in society and those with more than housing needs. We will be part of the solution to the crisis of homelessness.

We will build; we will buy; we will grow our offer of truly affordable homes for rent and sale by 2% a year.

The safety and condition of our homes is a priority.

VALUED PEOPLE

Based on a deep understanding of what local people want and need, we will adopt models of support that are affordable and sustainable.

Great people deliver great service, so we will be a happy, vibrant place to work where people can be their best.

We will 'grow our own' by making learning a high priority.

VALUED NEIGHBOURHOODS

As a local landlord and employer, we will take an asset-based approach to people and places, seeking out and working with people who, together, can make a difference.

We will innovate and experiment with ways to maximize our resources to use for the good of our communities.

VALUED SERVICES

Supported by technology and efficient systems, our costs will be appropriate to the social impact of our work.

Our customers will design our services with us - choice, convenience and communication will be core principles to the way we work

We will be a reliable and trustworthy service providers

Our values are our foundation

Create solutions

Love making a real difference

Include the whole community

Respect others

Strategic report (continued)

Principal activities

Connect is a not-for-profit community-based housing and support provider with over 3,400 homes across Leeds, Kirklees, Calderdale and Wakefield. As well as managing over 3,400 properties, the Association develops new affordable housing and also provides, albeit on a small scale, non-social housing, in particular commercial premises and accommodation for students in higher education. However, the Association's focus remains its social housing and community activities and these are expected to continue to constitute over 90% of the Association's activities by turnover.

Statement of compliance with the Governance and Financial Viability Standard

The Board reviewed a self-assessment against the standard at the HR and Governance committee on 11th June 2019 and confirmed compliance with the Governance and Financial Viability Standard at the Board seminar on 21st June 2019. The Board considers changes in good practice as part of the self-assessment and includes any areas for improvement in the governance action plan each year.

Statement of compliance with the NHF Code of Governance

The Board has adopted the NHF Code of Governance (2015 edition) and reviewed a self-assessment against the code at the HR and Governance committee on 11th June 2019 confirming compliance with the Code at the Board seminar on 21st June 2019. The Board considers changes in good practice as part of the self-assessment and includes any areas for improvement in the governance action plan each year.

Employees

The Association recognises that the fulfilment of its strategic objectives depends on the quality, commitment and flexibility of the 167 (full time equivalent) people it employs across the organisation.

Connect's People Strategy aims to deliver a performance and learning culture. The Association is committed to investing in its employees and through its 4-monthly performance and career development review system, is able to identify and build on every employee's talents and development needs to ensure that Connect has the skills and experience required now and in the future. In these reviews all of our team members explore how they have moved the business and themselves forward as the two are inextricably linked.

Strategic report (continued)

The Association aims to reflect within its workforce, and on its Board, the diversity of the communities where it is working. The Association is also committed to equal opportunities for all its employees, both at the recruitment stage and throughout their employment, through, amongst other things, the Staff Liaison Group which includes three Staff Representatives elected by all staff for a three year term.

Operational Highlights in 2018/19

Connect has had another productive year. During 2018/19 the Association has:

- More than doubled its delivery of new homes (see later).
- Achieved excellent operational performance, particularly in arrears management, with total arrears at 2.7% and fewer evictions (10) than the previous year (12) despite an increase in the number of tenants transitioning to Universal Credit. Reports of Anti-Social Behaviour also reduced by 31%.
- Refinanced, securing £30m to support future development aspirations.
- Commenced the replacement of its I.T. platform and website to enable greater digitisation and efficiency gains as part of a Business Transformation programme.
- Refurbished its Leeds office to create a better customer and staff experience.
- Developed new partnerships, including chairing Leeds City Region's Housing Association partnership and becoming part of Kirklees Better Outcomes Partnership offering support to people in Kirklees.
- Invested more in the safety and condition of our homes and quality of our repairs service, bring void & boiler installation in-house.
- Reduced the gender pay gap to 1%.
- Developed a new tenant engagement strategy with involved tenants to ensure a wide range of tenants voices are heard.

For more details see our 2019 annual report

Business and financial review

Turnover increased to £20.4m (2018: £18m) largely as a result of increased first tranche shared ownership sales.

Rent losses from voids and bad debts (expressed as % of income from lettings) at the year end were 1.3 % (2018: 1.5%). The board considers void management to be a key performance measure and continually reviews the percentage of void stock in management, re-let times whilst investing in financial inclusion.

The net housing stock saw an increase to 3,484 (2018: 3,416) with significant development work being undertaken and the disposal of non- economic units, falling in line with our longer term asset management strategy.

The operating surplus £3.85m (2018: £3.90m) although under pressure from additional compliance work remained around the same level.

Strategic report (continued)

The Association's five-year results are summarised below:

Five-year summary

For the year ended 31 March 2019

	2019 FRS102	2018 FRS102	2017 FRS102	2016 FRS102	2015 FRS102 restated	2014 old UK GAAP
	£'000	£'000	£'000	£'000	£'000	£'000
Statement of Comprehensive Income						
Total turnover	20,436	18,001	17,048	16,972	16,501	15,171
Operating surplus	3,854	3,904	3,843	3,281	3,164	2,671
Total comprehensive income (surplus) for the year	523	2,523	2,072	670	1,147	831
Transferred to reserves						
Statement of Financial Position						
Housing properties, net of depreciation and impairment	125,695	121,293	116,407	115,019	114,123	138,821
Grant	-	-	-	-	-	(83,101)
	125,695	121,293	116,407	115,019	114,123	56,720
Other fixed assets	2,240	2,279	2,534	2,088	1,069	1,061
Investment properties	4,943	4,943	4,943	4,943	4,943	
Debtors (after 1 yr)	413	283	344	422	344	341
Fixed assets	133,291	128,798	124,228	122,472	120,479	58,131
Net current assets/(liabilities)	(2,422)	(895)	(409)	(4,757)	(1,324)	121
Total assets less current liabilities	130,869	127,903	123,819	117,715	119,155	58,252
Loans, DPF and RCGF (due after more than one year)	46,752	45,543	43,682	39,953	40,764	40,761
Deferred grant income (due after more than one year)	57,300	57,481	57,467	57,856	58,629	
Provision for SHPS pension liability	3,787	2,362	2,737	2,967	2,355	
Provision for other liabilities	658	668	607	685	823	741
Reserves : income and expenditure	16,612	16,089	13,566	11,494	10,824	12,131
: revaluation	1,150	1,150	1,150	1,150	1,150	
: restricted	4,610	4,610	4,610	4,610	4,610	4,611
: total	22,372	21,849	19,326	17,254	16,584	16,741
	130,869	127,903	123,819	117,715	119,115	58,252
Housing properties owned at year end:						
Social housing	No. 3,234	No. 3,187	No. 3,120	No. 3,090	No. 3,082	No. 3,081
Non-social housing	246	246	246	246	246	241
	3,480	3,433	3,366	3,336	3,328	3,322
Statistics						
Operating surplus as % of turnover	18.9%	21.7%	22.5%	19.3%	19.2%	17.6%
OCI (surplus) for the year as % of turnover	2.6%	14.0%	12.2%	3.9%	7.0%	5.5%
Grant losses (voids and bad debts as % of rent & service charges receivable)	1.3%	1.5%	1.7%	2.1%	2.5%	2.5%
Grant arrears (gross arrears as % of rent & service charges receivable)	2.0%	2.0%	2.0%	2.3%	2.9%	2.9%
Interest cover (RBS/HBos)**	3.6(2.9)	4.0(3.2)	3.5(2.8)	2.91(2.3)	3.1(2.6)	2.1(1.6)
3ITDA-MRI	213%	273%	223%	155%	177%	166%
Liquidity (current assets divided by current liabilities)**	0.6(0.8)	0.9(1.3)	1.0(1.5)	0.4(0.5)	0.8(1.2)	1.1(1.5)
Lending (total loans as % of capital grants plus reserves)	43.4%	42.2%	41.2%	40.8%	40.3%	40.2%
Lending (total debt as % carrying value of properties)	37.7%	37.9%	37.3%	36.1%	35.7%	29.2%

**These ratios were affected by FRS102 'presentation' changes for '2015 restated' onwards with regards to amortised grant (Interest cover) and deferred grant (Liquidity). For 5 year comparison purposes, the numbers initially shown are calculated under FRS 102 and any figures in (brackets) are as calculated under old UK GAAP presentation rules with regard to these two grant elements.

Strategic report (continued)

Treasury management and cashflow projections

The Association continues to manage its treasury activities tightly. The Association aims to draw down long-term loans only when necessary, and ensure that funds which are not required in the short term are invested to achieve the best possible return consistent with minimum risk. The current cash balances and loan facilities will be sufficient to fund anticipated development work during 2019/20.

Cashflows


The Association has seen a net decrease in cash during the period of £559,000 (2018: £755,000 increase). This decrease is in line with our treasury management policy of maintaining a cash balance sufficient to fund the business going forward and, with the aid of easy access to additional funds, we continue to invest in new affordable homes. The current cash balances and remaining loan facilities will be sufficient to fund anticipated development work during 2019/20.

Principal Risks











The principal key risks facing the organisation are:

- Operational: effective management of both existing housing stock and of new development programmes.
- Financial: welfare reform (income loss); funding availability.
- Compliance: having key business skills within the organisation; compliance with all Homes England regulatory requirements.
- Strategic: changes in housing policy/ legislation; Information Technology solution

Principal Risks

Key Strategic Risk areas and sub risks and associated Internal Assurance			
Key Strategic Risk Area	Description	Internal Assurance	Movement
Financial	Impacts of Welfare Reform(WR) mean that Connect is unable to generate sufficient income from property letting to sustain core activities, whilst at the same time continuing to fulfill Connect's social objectives.	Board annual review and approval of Budget and Business Plan (BP); Annual certification by Board on stress testing; BP performance reviewed quarterly by Management Team (MT) / Group (MG) and Board; Quarterly review of Welfare Reform (WR) Impact Assessment by MT.	

CONNECT HOUSING ASSOCIATION LIMITED

Key Strategic Risk Area	Description	Internal Assurance	Movement
Strategic	Strategic planning inadequate to prepare Connect effectively for the economic challenges (including Brexit) ahead.	Board annual review and approval of Budget and BP including environment scans and SWOT analysis; BP performance reviewed quarterly by MT / MG and Board; Twice yearly Board seminars; MT and MG planning days.	
Financial	Loss of contract income, particularly in Supported Housing, reducing capacity for tenancy support, & impacting on delivery of key BP objectives.	BP Operational Plan updates to Board; MT updates on contracts and new business; Annual Support Services Strategy update to Board.	
Financial	Inadequate internal and external resources are available with sufficient capacity and at acceptable cost to maintain the Association's stock to an acceptable level that will sustain demand in line with Connect's strategic objectives.	Reporting to MT and Board annually on Repairs & Maintenance and Development performance.	
Financial	Pension liabilities continue to escalate to a level that is no longer sustainable.	Monthly MT monitoring of risk; Quarterly Board monitoring; Annual Board review.	
Strategic	IT system implementation fails to deliver benefits and affects business continuity and/or customer service.	Monthly Project Vault Board overseeing implementation includes an independent Critical Friend skilled in I.T & project management. Project Vault updates in LT reports to Board.	
Strategic	Connect systems are subject to cyber attack rendering Connect's IT systems inoperable.	Information Management Strategy Security ,Acceptable use , Confidentiality and Data Protection policies. Comprehensive Induction Process for all New Staff. Continuous Training. User deactivation process and monthly checks.	
Operational	Crisis management fails to secure effective business continuity.	Quarterly Business Continuity Plan (BCP) e-battle box updates; Annual review of BCP to MT.Periodic Internal audit reviews.	
Financial	VFM objective to redirect resources through efficiency savings to investment in high quality front line services, improving stock and delivering new developments fails to achieve planned results.	Strategic Leads; Annual Board VFM strategy; Self-Assessment statement; Quarterly financial reports to the Board; Appropriate staff and Board training / briefing sessions.	
Compliance	Impact of H&S failure in terms of personal injury, regulatory status, reputational damage, cost and diversion from core business.	Monthly reporting to MT, six-monthly safeguarding report to MT and annually to Board (monthly on serious concerns); Internal Audit (IA) (of at least one aspect of H&S); Incident logging; H&S review meetings (quarterly minutes to MT); Annual H&S report to Board.	
Strategic	Digitisation strategy fails to deliver the service choice and efficiencies that enable resources to be focused on those customers in greatest need.	On-going review of IS systems (Project Vault); Cyclical reviews of Comms and IS strategies to Board; 6-mthly Money Matters report to MT.	

Housing stock

The Board notes a small increase of 68 in the stock of property this year, with the total number of homes in management now standing at 3,484. Property movements arise largely as a result of proactive asset management.

Housing development and maintenance

In total, the Association undertook spend of £8.2 million (2018: £8.5 million) on the purchase and refurbishment of housing stock and other assets during the year financed from current cash balances and social housing grant. The carrying value of properties in the financial statements (Historical cost less depreciation - excluding grant) is £125.7 million (2018: £121.3 million).

Future developments

Connect's ambitions are set out in the over-arching strategy on page 12. The four strategic objectives reflect the need to balance the prudent and constructive use of Connect's financial resources with the need to consolidate and develop its service standards and inherent financial strength.

Connect will continue to participate fully in the active regeneration work which is a vital ingredient of on-going strategy. However, the Association is fully aware of its obligations to existing tenants, and any new development work will be undertaken having regard to the need to protect and enhance the quality of existing services.

The Association recognises that it is not only providing homes, but also helping to build cohesive communities, through initiatives which address social, economic and physical regeneration issues. Its Neighbourly Places strategy places emphasis on working in partnership with tenants, residents, Local Authorities and other partners to ensure that Connect supports people to create the neighbourhoods they want to live in.

Connect Housing continues to respond to the changing investment agenda associated with traditional development funding streams by exploring new partnerships and opportunities, that can make a positive contribution towards its business plan objectives.

Strategic report (continued)

Government rent reduction policy

The 3rd year of the 1% rent reduction policy was in place with this affecting the majority of social rents. The Association has stress tested a number of scenarios as part of its normal Business Planning process and the current Business Plan encompasses this with an end date of 31 March 2020. Current financial forecasts demonstrate that Connect remains in a financially strong position.

The Strategic report was approved on 18 September 2019 and signed on its behalf by

A handwritten signature in black ink, appearing to read 'D Wolverson', with a long horizontal flourish extending to the right.

David Wolverson
Chair of the Board of Management

Value for Money (VfM)

The Board confirmed its Vision and Purpose in 2018/19 and this sets out the broad direction for our Value for Money (VfM) strategy, guiding how we allocate and prioritise expenditure on new and existing activity. By stating that we are a community anchor, supporting people and places to be the best that they can be, Connect is making it clear that our service will not be based on a 'no frills', lowest cost model even in an age of austerity. However, in these difficult times, this poses a greater challenge to ensure that we make best use of our finite resources to provide the headroom in the Business Plan to invest in activities that meet the objectives identified in our strategy mapping framework:

- we will maximise revenue to invest in communities through innovative growth;
- we will retain and grow our customer base by offering good value to our customers – our homes and services will be affordable and
- we will minimise costs to a level appropriate to the social impact of our work i.e. we will not be the lowest cost in our field.

Connect has not fundamentally changed its social purpose but we have increased our ambitions regarding development and explicitly stated that we want to be part of the solution to the crisis of homelessness (Valued Homes). We have re-affirmed our commitment to offering support services and using our resources for the good of the communities in which we work (Valued People and Valued Neighbourhoods). We have also reflected our business transformation programme and Value for Money in our focus on Valued Services.

What VfM means to Connect

'Value for Money' is a term used to assess whether or not an organisation has obtained the maximum benefit from the goods and services it acquires and provides, within the resources available to it. Achieving VfM is often described in terms of the 'three Es' and we extend this (for Connect's approach to VfM) to include 'Equity' as a fourth 'E'. This is to emphasise that decisions will be taken in line with our Values and commitment to communities, meaning that the VALUE element of VfM means a lot to us:

- Equity – ensuring services are delivered fairly to a wide range of customers in line with Connect's Values;
- Economy – careful use of resources to save expense, time or effort;
- Efficiency – delivering the same level of service for less cost, time or effort and
- Effectiveness – delivering a better service or getting a better return for the same amount of expense, time or effort.

A key objective of Connect's Business Plan is to deliver affordable quality in homes and services. Through VfM Connect aims to ensure:

- resources are available to achieve the association's Business Plan objectives and key priorities;
- a balance between cost, quality and performance and
- a high level of customer satisfaction.

It is generally accepted that VfM is about:

- doing the right things (what customers want and what the business needs);
- doing things right (first time);
- at the right price (not necessarily the cheapest) and
- in the right way (the most streamlined way that meets requirements).

The VfM savings we made in 2018/19

Connect's 2018/19 Budget included VfM savings across the business of £336k including scaling back on expenditure levels where feasible or tighter operational targets.

Turnover for 2018/19 delivered a £200k favourable outturn - £17.5m actual against a budgeted turnover (excluding first tranche sales) of £17.3m.

Outturn Rent arrears (before write-offs) for 2018/19 were 2.6% favourable against a target of 3.8%, with total arrears at the year-end of £344k against a budget of £499k. Void rental loss for the year was 0.76% favourable against the annual target of 1%. Void loss at year end showed a favourable outturn against budget of £31k or 23.6% (£101k actual against £132k budget).

Continued investment in our Money Matters (financial inclusion) team meant that every tenant moving onto Universal Credit received a personal contact and was offered, and in many cases assisted, to transition to the new benefit. In 2018/19 arrears of tenants using the service reduced by £28k. Connect benefited from an overall business saving of £298k (up from £245k in the previous year). This figure is representative of the work our Money Matters team has done to either bring in rental income via tenant payment plans, Discretionary Housing payments (DHP's), Department of Work and Pensions managed payments (Alternative Payment Arrangements) or made in savings by the prevention of court action or eviction. A total annual saving of £655k was generated for tenants. This is the amount gained for tenants in additional benefits, trust fund / grant applications, and debt reductions / write offs. Using the Housing Association Charitable Trust (HACT) Social impact calculator savings of £1.9m have been identified, thus for each £1 invested in the service, £11.15 has been generated in social value.

The budgeted profit on sale of all Housing Properties was £198k and the outturn was £310k which is a favourable difference of £112k reflecting the continued business emphasis on asset management including more development activity and turnover of un-economic units.

The budgeted operating expenditure (excluding first tranche sales) for 2018/19 was £13.5m and the outturn was £14.4m - which is an adverse outturn of £900k. Much of this variance relates to Maintenance expenditure overspends (see below for further details). Other variances related to additional Health & Safety compliance work (£129k) and accelerated depreciation of the Leeds office (£63k) following a valuation review.

Interest and Financing costs for 2018/19 were £2.1m against a budget of £2m which is an adverse outturn of £100k, reflecting additional investment in Development activity.

Our VfM metrics for 2017/18 and 2018/19

The tables below shows Connect's VfM metrics (based on the Sector Scorecard), for the last three financial years alongside the latest available comparison data (2017/18).

VfM - Investment in Homes

Table 1

Metric	Connect Housing - outturn	Connect Housing - outturn	Peer Group	Sector Median (All)	Connect Housing - outturn	Connect Housing - target	Outturn to target variance	Comments
CPU Year	2016/17	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19	
Closing Social Housing units owned and/or in management	3,124	3,191	33,119	2,712,335	3,238	3,233	5	Active asset management activities with 78 new homes added and 23 disposed.
Metric 1: Re-investment % (existing and new properties)	4.27%	7.78%	7.78%	5.82%	7.34%	6.71%	0.6%	Re-investment varies from year to year as it follows the profiles of the development programme and the planned repairs programme.
Metric 2a: New supply delivered - social housing	0.52%	2.57%	1.19%	1.00%	2.41%	2.01%	0.4%	Higher than both Peers and the Sector median, new supply increases annually in line with the Development strategy.
Metric 2b: New supply delivered - non-social housing	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	N/A
Metric 3: Gearing %age	35.5%	35.6%	33.5%	43.7%	35.7%	38.6%	-2.9%	Lower than Peers and Sector median, Gearing rises as external funding increases to maintain sustainable development programme.
Metric 4: EBITDA-MRI %	221.5%	254.0%	296.9%	203.0%	213.0%	309.5%	-96.5%	In line with the Sector median, but lower than Peers, EBITDA %age reduces due to increased debt used to fund the development programme.

The development programme was a significant achievement in 2018/19. Connect took handover of 78 new homes in the year to 31 March 2019, comprising 33 homes funded through the Affordable Homes Programme and a further 45 acquired through Section 106 Agreements. Of these units, 27 were for social rent, 20 for affordable rent and 8 for intermediate market rent, with 23 being for shared ownership. This delivery was a really encouraging start to Connect's new business plan ambition to grow the stock by an average of 2% per annum over the next 10 years.

Connect also tendered for and agreed £30m of new loan facilities at very competitive rates during 2018/19 to support our Development aspirations. Our pipeline for new homes currently comprises schemes which could deliver in the region of 190 homes, including a substantial proportion of which would be supported housing, over the next 3 years. However, due to the development cycle and maturity of these opportunities, we are now only forecasting 35 completions in 2019/20.

In 2018/19 Connect has completed a further 406 independent stock condition surveys towards our rolling programme of surveying the whole stock over a 5 year period. The data has provided further validation for the major repairs investment projections included in the business plan.

A comprehensive Asset Management Review of the older "rehab" stock has also been completed and the results presented to the Board to inform future disposals strategy on value for money grounds. The review showed that the stock built before 1930 requires significantly more maintenance expenditure than properties built after this period. Whilst stock of this age represents 14% of the portfolio, it attracts 24% of the maintenance spend. Average repairs costs per dispersed rehab property are £1,100 compared to 50% of this figure for scheme based properties. The average Net Present Value (NPV) for rehab properties is £18,214 compared to £31,096 for scheme based properties. Customer satisfaction with the home is 10 percentage points lower in rehab stock compared to scheme-based properties. Accordingly, 198 properties from the older rehab stock (approximately 1/3rd of the total) have been identified for gradual disposal at next void. At current estimates of Open Market Value, these sales could generate in excess of £18m in cash to support the ongoing development programme, including over £5m in recycled grant. This "Active Asset Management" approach is a key component of Connect's development growth strategy. In 2018/19 Connect disposed of property assets comprising 21 homes and an obsolete supported housing scheme, generating receipts in excess of £1.5m.

How our costs compare with our peer group, the sector and budget.

The table below compares our Cost per Unit (CPU) with medians for our peers and the sector as a whole – the only comparison figures currently available relate to 2017/18. Detail of our Peer Group and definitions can be found at the end of this VfM Self-assessment.

Table 2

Metric	Connect Housing - outturn	Connect Housing - outturn	Peer Group	Sector median (All)	Connect Housing - outturn	Connect Housing - target	Outturn to target variance
CPU Year	2016/17	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19
Headline social housing cost per unit £	3,754	3,649	2,988	3,362	3,872	3,900	-1%
Median social housing cost per unit £	3,300	3,362	3,362	3,362	n/a	n/a	n/a
Variance £	454	287	-374	n/a	n/a	n/a	n/a
Variance %age	14%	9%	-11%	n/a	n/a	n/a	n/a
Management £ CPU	991	866	866	964	929	1,010	-8%
Service charge £ CPU	220	254	254	377	272	239	14%
Maintenance £ CPU	1,335	1,185	960	945	1,311	1,196	10%
Major repairs £ CPU	598	522	630	720	597	630	-5%
Other social housing £ CPU	610	822	107	219	763	825	-8%

Connect’s headline Social Housing Cost Per Unit (SHCPU) has fallen in recent years from a high of £4,207 per unit in 2015/16 to £3,649 per unit in 2017/18. Although higher than both the peer group median (£2,988) and the Sector median (£3,362), this needs to be considered alongside Connect’s commitment to Supported Housing activities reflected in the much higher levels of ‘Other Social Housing’ expenditure. For example, excluding the £354 CPU from ‘Other Social Housing’ expenditure relating to the Engage support contract (for older people with dementia and complex housing related support needs), would reduce Connect’s overall 2017/18 SHCPU from £3,649 to £3,295 which is below the 2017/18 Sector median (£3,362) and much closer to the peer group median (£2,988).

Although pleasing to note that Connect’s 2018/19 SHCPU outturn (£3872) was 1% below budget, it is still expected to remain above the 2018/19 Sector median. Two areas in particular help to explain this outturn position:

- (i) Maintenance costs – 2018/19 has been a challenging year in terms of service delivery and cost and budget management resulting in an 11% year-on-year increase and a 10% overspend against budget.

Responsive repairs has seen a significant year-on-year increase in demand and, when coupled with an increase in material costs, has resulted in a full

year overspend against budget. New procurement arrangements (offering greater transparency and cost control) and increased internal controls implemented at the half year did however help to reduce the full year impact and will continue to assist in this area going forward.

Voided Maintenance activity was insourced later in the year than planned causing higher than budgeted costs in this area, however it is now delivering expected savings helping to offset some of the early year external contractor overspends.

Compliance testing has had stronger emphasis in last financial year with a £360k increase in 18/19 from the previous year and will continue to maintain that momentum in future years.

Connect has been moving much of its maintenance activity to an in-house team and as further efficiencies are made, and the Association grows its stock, the cost per unit are expected to fall back much closer to the sector median.

- (ii) Other Costs – Compared to the Sector more widely and its peers, Connect continues to offer a wide range of support services to those in need where financially viable. An example of this commitment is the Engage contract entered into in 2017/18 to deliver support services (for older people with dementia and enduring mental health conditions) in partnership with other providers. Although financially viable, and in line with Connect's strategic priorities, such activities do increase the level of Connect's base line costs. Excluding the costs of Engage would reduce Connect's 'Other Social Housing' CPU, and thus the overall SHCPU, by £350 per unit.

VfM – Efficiency

Table 3

Metric	Connect Housing - outturn	Connect Housing - outturn	Peer Group	Sector Median (All)	Connect Housing - outturn	Connect Housing - target	Outturn to target variance	Comments
CPU Year	2016/17	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19	
Metric 6a: Operating margin %age from social housing lettings	25.6%	26.1%	26.1%	32.5%	20.4%	21.1%	-0.7%	Fall in margin reflects ongoing impact of the rent reductions and increased operational and compliance expenditure.
Metric 6b: Operating margin %age – overall	22.5%	21.7%	21.8%	29.7%	18.9%	22.5%	-3.6%	As above, plus reduced margins on low cost and shared ownership sales.
Metric 7: Return on capital employed.	3.3%	3.3%	3.3%	4.1%	3.2%	3.1%	0.1%	The return on capital is in line with peers but below the Sector median.

Although in line with peers for 2017/18, Connect’s operating margin from social housing lettings (26.1%) was below the Sector median and slightly below budget in 2018/19 at 20.4%. Excluding the impact of Low cost / Shared Ownership sales, social housing lettings turnover has increased by only 1.3% during 2018/19, with rent from the new housing stock being impacted by the annual 1% rent reduction. Like for like costs have however risen by 9.1% with the increased operational costs noted above including additional maintenance and compliance expenditure and accelerated depreciation.

In terms of the overall operating margin, although the volume of Low cost / shared Ownership sales has increased from £482k to £2.9m, margins on this activity have fallen from 41.1% to 25.6% (reflecting a different mix of property types), further reducing the overall return year-on-year from 21.7% to 18.9%. Excluding this sales activity, Connect’s margin has recorded a slight year-on-year decrease from 21.2% to 20.9% in 2018/19.

The continued investment into both new and existing homes has seen our Return on Capital Employed reduce slightly in 2018/19 when Connect invested £1.6m capital and £1.36m revenue in planned maintenance. Significant year-on-year increases were delivered in electrical safety and fire safety, following, respectively, our move to a 5 year testing cycle, and comprehensive fire safety review undertaken independently by Savills. Over the next 5 years, Connect is projecting capital investment of £8m in

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improving its stock. The business plan has been updated to reflect the requirement for higher levels of annual spend on compliance areas than has historically been the case.

VfM – Effectiveness

Table 4

VfM measure	Connect Housing - outturn	Connect Housing - outturn	Peer Group	Sector Median (All)	Connect Housing - outturn	Connect Housing - target	Outturn to target variance	Comments
CPU Year	2016/17	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19	
Customers satisfied with overall service	88.1%	87.5%	87.2%	88.0%	87.2%	90.0%	-2.80%	Lower than target but broadly in line with peers and the Sector median.
Current Tenant arrears	2.00%	2.01%	3.40%	3.10%	1.95%	2.81%	-0.86%	Arrears holding steady in challenging environment, outperforming budget and benchmarking.
Former tenant arrears	0.90%	0.70%	0.77%	0.91%	0.60%	0.94%	-0.34%	Excellent trend in ever more challenging environment. Outperforming budget and benchmarking.
Void loss	1.19%	0.91%	0.92%	0.90%	0.76%	1.00%	-0.24%	Excellent trend in ever more challenging environment. Outperforming budget and benchmarking.

Customer satisfaction with the overall service received from Connect has shown a slight decline since 2016/17 and at 87.2% in 2018/19 is 2.8% below target. Performance analysis shows no underlying reasons for areas of dissatisfaction. Connect currently collect limited amounts of data across a number of areas that dilutes the effectiveness of the data and limits the amount of actions we can attribute to each score. It is however very pleasing to note that customer satisfaction with Connect's Repairs Service and delivering Value for Money has increased year-on-year rising from 84.3% to 85.2% and 85.7% to 88.9% respectively.

In 2019, Connect is introducing a new Customer Relationship Management (CRM) system to better understand and engage with our customers, together with the Net Promoter Score (NPS) as a way to measure Customer Satisfaction and produce actionable results. Our new CRM will enable us to have better relationships with our customers and offer a better service. As well as understanding our customers better and engaging them in a way and frequency that suits their needs, we will also be able to better track individual contacts and tasks, ensuring each one is completed fully. The introduction of the NPS will enable us to capture significantly more data, and highlight individual service failures to ensure we put recovery actions in place and plan for longer term improvements to our offering.

During the year the Leadership Team, the Board and the Connect Residents Federation reviewed tenant engagement activities and involvement and scrutiny structures leading to a new co-produced Tenant Engagement Strategy. Building on what already works well, it aims to broaden engagement mechanisms, increase the diversity of involved tenants and strengthen tenant influence at all levels. The strategy aims to ensure engagement methods are modern, convenient for the customer and good value for money. We will be tracking the impact and cost of all engagement activity and produce an annual impact analysis that will shape future activity. During the year, the Service Improvement Forum continued to feed tenant priorities into the business and change planning process, and holding us to account by our tenants via the Service Improvement Forum. 'Satisfaction with views taken into account' increased to 83% compared to 79% in 2017/18.

Working to a new strategy, focused on mitigating the impact of welfare reforms, and a 'rent on time' campaign more tenants had moved to a zero or credit balance by year end. In terms of arrears written off, £71k was written off against a budget of £105k, an improvement against the previous year (£85k). Our Money Matters (financial inclusion) team targeted support at tenants moving onto Universal Credit (UC), with personal contact made in every case. Average UC arrears were £371, less than the national average of £489 (NHF March 2018 UC survey). Arrears of tenants using the Money Matters Service reduced by £28,461 during the year. Both the Money Matters and Income Services teams work to support tenancy sustainment and minimise evictions, and there were fewer evictions and reduced tenancy turnover compared to the previous year.

Effective management of empty properties has continued to be a priority. Void rent loss was 0.76% against a target of 1%, an improvement compared to 2017/18 when void loss was 0.91%. Whilst performance on the percentage of void properties let in under 5 weeks improved by 2.1% compared to the previous year, performance on re-let time (days) remained static and is a priority area for improvement in 2019/20. We are currently piloting an additional temporary resource in the Lettings Team dedicated to ensuring efficient pre-tenancy termination and tenancy creation processes. The estimated efficiency savings are expected to more than cover the costs of the post. A VfM review of the Lettings Service is planned for 2019/20.

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Our projected VfM metrics

The table below details our outturn Sector Scorecard metrics for 2018/19 and projections for the next four years.

Table 5

Metric	Connect Housing Association Ltd	Connect Housing Association Ltd	Connect Housing Association Ltd	Connect Housing Association Ltd	Connect Housing Association Ltd	Comments
CPU Year	2018/19	2019/20	2020/21	2021/22	2022/23	
Closing Social Housing units owned and/or in management	3,238	3,256	3,399	3,582	3,605	Increased homes as result of the ongoing development programme.
Metric 1: Re-investment %	7.34%	12.04%	5.71%	6.10%	6.64%	Re-investment varies from year to year in line with the development and repairs programmes.
Metric 2a: New supply delivered - social housing	2.41%	4.21%	5.11%	0.64%	1.34%	New supply rises in line with the development profile.
Metric 2b: New supply delivered - non social housing	0.00%	0.00%	0.00%	0.00%	0.00%	N/A
Metric 3: Gearing %age	35.7%	38.0%	39.0%	40.0%	42.0%	Gearing rises as loans increase in line with the development programme.
Metric 4: EBITDA-MRI %	213.0%	208.0%	181.0%	178.0%	153.0%	The EBITDA %age reduces due to increased debt used to fund the development programme.
Metric 5: Headline social housing cost per unit	£ 3,872	£ 3,600	£ 3,522	£ 3,646	£ 3,893	In real terms "Headline Costs" falls as more homes come into management, in particular for years 19/20 and 20/21
Metric 6a: Operating margin %age from social housing lettings	20.4%	20.2%	22.5%	22.9%	23.3%	Operating margin gradually improving in line with Development activity.
Metric 6b: Operating margin %age – overall	18.9%	22.9%	21.9%	24.1%	25.2%	Operating margin gradually improving in line with Development activity.
Metric 7: Return on capital employed.	3.2%	3.5%	3.2%	3.2%	3.2%	In line with planned asset management activities.

Summary

In summary Connect has outlined:

- how important VfM is in achieving Connect's strategic objectives;
- the VfM savings we made in 2018/19 and what we did with the extra resources;
- how our operating costs (i.e. CPUs) compare with others; and
- our performance in relation to the VfM metrics and what we expect the projected figures to be.

Because of the data and comments shown in the tables above the Board is confident that the requirements of the VfM standard have been complied with.

Benchmarking and definitions

In consultation with HouseMark (a leading housing sector benchmarking organisation) our peer group has increased from 6 to 13 organisations and is now based on all North East, Yorkshire and Humberside housing associations with between 1,000 and 5,000 units as shown below:

Table 6

Registered provider	Housing units owned and/or managed
Arches Housing Limited	1,193
Byker Community Trust Ltd	1,782
Connect Housing Association Ltd	3,191
Dale and Valley Homes Ltd	4,161
Durham Aged Mineworkers Association	1,814
Leeds and Yorkshire Housing Association Ltd	1,465
Leeds Federated Housing Association Ltd	4,072
North Star Housing Group Ltd	3,643
Pickering and Ferens Homes	1,316
Railway Housing Association and Benefit Fund	1,431
South Yorkshire Housing Association Ltd	5,650
The Joseph Rowntree Housing Trust	2,121
Unity Housing Association Ltd	1,280

Key to VfM metrics

1. *Reinvestment % - this metric calculates the investment in properties we have made (existing and new) as a percentage of the total value of all our properties;*
2. *New supply % - the number of housing units developed or acquired as percentage of the total stock;*
3. *Gearing % - how much of the adjusted assets are made up of debt – shows the degree of dependence on debt finance;*
4. *EBITDA-MRI % - Earnings before Interest, Tax, Depreciation and Amortisation (including Major Repairs). Measures the surplus generated compared to the interest payable;*
5. *Headline social housing cost per unit – measures total social housing costs divided by the number of units owned or managed;*
6. *Operating margin % - a measure of profitability or financial efficiency of a business. Specialist providers tend to have lower margins than average; and*
7. *Return on capital employed % - compares operating surplus to total assets (less current liabilities) and used in the commercial sector as a measure of assessing efficient investment of capital resources.*

Independent auditor's report to the members of Connect Housing Association Limited

Opinion

We have audited the financial statements of Connect Housing Association Limited for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Association's affairs as at 31 March 2019 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Report of the Board of Management.

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

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

Responsibilities of the Board

As explained more fully in the Statement of the Responsibilities of the Board set out on page 8, the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Association's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing from April 2015. 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.

Ernst & Young LLP

Ernst & Young LLP, Statutory Auditor
Newcastle Upon Tyne
25 September 2019

Statement of Comprehensive Income (SoCI)

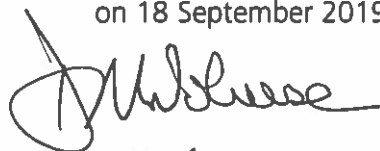
for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Turnover	3	20,436	18,001
Operating costs	3	<u>(16,582)</u>	<u>(14,097)</u>
Operating surplus	3,5	3,854	3,904
Gain on disposal of fixed assets (non-operational)	6	310	343
Interest receivable and other income	7	69	44
Interest and financing costs	8	<u>(2,079)</u>	<u>(1,800)</u>
Surplus for the year		2,154	2,491
Initial recognition of actuarial loss	23	(2,210)	-
Actuarial gain in respect of pension schemes	23	579	32
Total comprehensive income for the year		<u>523</u>	<u>2,523</u>

The Association's results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Management on 18 September 2019 and signed on its behalf by:

 David Wolverson (Chair)

 Alison Leech (Vice Chair)

 Helen Lennon (Secretary)

Statement of Changes in Reserves (SoCR)

for the year ending 31 March 2019

	Income and expenditure reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Total £'000
Balance as at 1 April 2017	13,566	4,610	1,150	19,326
Surplus for the year	2,491	-	-	2,491
Actuarial gain in respect of pension schemes	32	-	-	32
Balance at 31 March 2018	16,089	4,610	1,150	21,849
Surplus for the year	2,154	-	-	2,154
Initial recognition of actuarial loss	(2,210)	-	-	(2,210)
Actuarial gain in respect of pension schemes	579	-	-	579
Balance at 31 March 2019	16,612	4,610	1,150	22,372

Please see Note 2 for an explanation of the above reserves.

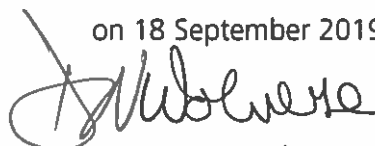
Statement of Financial Position (SoFP)

as at 31 March 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible fixed assets – housing properties	12	125,695	121,293
Other tangible fixed assets	13	2,240	2,279
Investment properties	14	4,943	4,943
Debtors	16	413	283
		133,291	128,798
Current assets			
Properties held for sale	15	64	567
Trade and other debtors	16	1,377	1,270
Cash and cash equivalents		2,552	3,111
		3,993	4,948
Creditors: amounts falling due within one year	17	(6,415)	(5,843)
Net current liabilities		(2,422)	(895)
Total assets less current liabilities		130,869	127,903
Creditors: amounts falling due after more than one year	18	(104,052)	(103,024)
Provisions for liabilities			
- Pension provision SHPS	23	(3,787)	(2,362)
- Other provisions	24	(658)	(668)
Total net assets		22,372	21,849
Reserves			
	SoCR		
Income and expenditure reserve		16,612	16,089
Revaluation reserve		1,150	1,150
Restricted reserve		4,610	4,610
Total reserves		22,372	21,849

The accompanying notes form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Management on 18 September 2019 and signed on its behalf by:

 David Wolverson (Chair)

 Alison Leech (Vice Chair)

 Helen Lennon (Secretary)

Statement of Cash Flows (SoCF)

for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Net cash generated from operating activities	27	6,162	5,440
Cash flow from investing activities			
Purchase and refurbishment of tangible fixed assets		(8,255)	(8,523)
Proceeds from sale of tangible fixed assets	6	621	887
Grants received	19	1,316	2,009
Interest received and similar income	7	69	44
		<u>(6,249)</u>	<u>(5,583)</u>
Cash flow from financing activities			
Interest paid		(2,043)	(1,695)
New secured loans		2,000	3,000
Repayments of borrowings		(429)	(407)
		<u>(472)</u>	<u>898</u>
Net change in cash and cash equivalents		(559)	755
Cash and cash equivalents at beginning of the year		3,111	2,356
Cash and cash equivalents at end of the year		2,552	3,111

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

1. Legal status

The Association is registered, in Leeds, England, under the Co-operative and Community Benefit Societies Act 2014 and is a registered provider of social housing with charitable status. The Association registration number and details of the registered office are included in the Association information on page 2.

2. Accounting policies

Basis of accounting and Statement of compliance

The financial statements of the Association are prepared under the historical cost convention in accordance with applicable accounting standards, namely, UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing Providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

In preparing the Strategic Report and the Report of the Board of Management, the Board has followed the principles set out in the latest Statement of Recommended Practice: Accounting by registered social housing providers (SORP).

The financial reporting framework that has been applied is applicable to law and United Kingdom Accounting Standards (FRS 102 - United Kingdom Generally Accepted Accounting Practice).

The Associations' financial statements have been prepared in compliance with FRS 102 for the period ended 31 March 2019. They are presented in Sterling (£) to the nearest £'000.

Connect Housing Association is a public benefit entity in accordance with FRS 102.

Going concern

At the reporting date the Association had net current liabilities of £2.422m (2018: net current liabilities of £895k). The Association's business activities, its current financial position and factors likely to affect its future development are set out in detail within the Strategic Report. The Association currently has in place debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the Associations day to day operations for the foreseeable future, and the Board of Management has no reason to believe that continued financing will not be made available in the future. The Association also has a long-term business plan which shows

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

that it is able to service these debt facilities whilst continuing to comply with lender's covenants.

On this basis, the Board of Management has a reasonable expectation that the Association has 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.

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Significant management judgements

The following are the significant management judgements made in applying the accounting policies of the Association that have the most significant effect on the financial statements.

Impairment

As part of the Association's continuous review of housing asset performance, management identify any schemes that have significant void losses, are impacted by policy changes, or where the decision has been made to dispose of properties. These factors are considered to be an indication of impairment.

Where there is evidence of impairment, the assets are written down to the recoverable amount and any impairment losses are charged to operating surpluses.

The process for estimating the recoverable amount of housing assets is as follows:

- (a) Determine the level at which recoverable amount is to be assessed (the asset or cash-generating unit (CGU) level). The CGU level was determined to be an individual scheme;
- (b) Estimate the recoverable amount of the CGU (market value less costs to sell);
- (c) Calculate the carrying amount of the CGU (cost less depreciation and grant) and;
- (d) Compare the carrying amount to the recoverable amount to determine if an impairment loss has occurred i.e. where the carrying amount exceeds the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS At 31 March 2019

Where the carrying amount of a scheme is deemed to exceed its recoverable amount, the scheme is written down to its recoverable amount. The resulting impairment loss is recognised as operating expenditure. Where a scheme is currently deemed not to be providing service potential to the Association, its recoverable amount is its fair value less costs to sell (where we are free to sell the property on the open market this is essentially market value less costs to sell).

Based on this assessment, management has concluded that no impairments are required this year.

Classification of housing properties as PPE or Investment properties

The accounting treatment for properties classed as 'PPE' (property plant and equipment) is different than for those classed as 'Investments' under FRS 102. This accounting treatment is explained later in note 2. In determining this classification the main considerations taken by management are intended use, and why the assets were acquired or built.

Investment property is property held for commercial gain or for capital appreciation or both, rather than for social benefit or for use in the business. They attract a market rent and are not subsidised. Property held primarily for the provision of social benefit is PPE.

In light of the above, management have determined that two of our Commercial & Student accommodation schemes (063 New York Street and 075 Royal Park Flats – Unipol) meet the definition of investment properties under FRS 102 and are therefore accounted for as such. All other properties are considered to be held for social benefit and are accounted for as PPE.

Classification of loans as Basic or Complex financial instruments

The accounting treatment for loans classed as 'basic' is different than for those classed as 'complex' under FRS 102. This accounting treatment is explained later in note 2.

The Associations non-standard financial instruments impacted by this decision predominantly consist of loan borrowings including fixed and floating rate loans. In order to determine the nature of these loans, management enlisted the services of Capita Asset Services (Sector) to undertake an independent review of all of the Associations loan agreements. The result of this review was that all of the Associations loans have been deemed as basic and are therefore held at amortised historical cost.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

Loans including **two-way break clauses**:

To assess any potential impact of the above on our current loan classifications management asked our Treasury adviser (Capita Asset Services) to confirm their understanding. In their opinion the inclusion of two-way break provisions in our loan agreements does not affect the accountancy treatment of the loans under FRS 102, and does not require them to be treated as anything other than basic instruments.

Classification of leases as Operating or Finance

The accounting treatment for leases classed as 'operating' is different than for those classed as 'finance' under FRS 102. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Association. All other leases are classified as operating leases. The Associations leases relate to office equipment, office space, office car parking, vans and laundry equipment.

Following review, and in light of the above, management have determined that all of the Association's leases are operating leases and are therefore accounted for as such.

The Rentals payable under operating leases are charged to income and expenditure on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the Association recognises annual rent expense equal to amounts owed to the lessor.

Government grants policy option

Government grants include grants receivable from the Homes England, local authorities, and other government organisations. Under FRS 102, government grants must be accounted for using the accruals model or the performance model. This accounting treatment is explained later in note 2.

As the Association accounts for its properties at cost, management have adopted the accruals model for government grants, as required by SORP 2014. Non-government grants (although not applicable) would be accounted for using the performance model.

Under the accruals model, government grants are allocated to the property structure (for amortisation period purposes only) and amortised over the useful economic life of that structure. The unamortised amount is held within deferred income.

NOTES TO THE FINANCIAL STATEMENTS At 31 March 2019

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. Actual results may be substantially different.

Useful lives of depreciable assets

Management reviews its estimate of the useful economic 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 to decent homes standards which may require more frequent replacement of key components. In terms of housing properties the on-going appropriateness of the component list (covered later in note 2) is considered alongside the useful lives of the components annually as part of the Asset Management Strategy reviews. Accumulated depreciation (as per notes 12 and 13) at 31 March 2019 was £53.722 million (2018: £51.229 million).

Basis of the valuation of investment properties

The Associations investment properties comprise commercial units at Royal Park Flats and New York Street.

In line with FRS 102 requirements these investment properties were initially valued as at 13th February 2015 (Royal Park Flats) and 6th May 2014 (New York Street). These valuations were undertaken by Ryden LLP, professional external valuers, who are a Royal Institute of Chartered Surveyors Regulated firm. As a result, Ryden ensures its processes and valuations are fully compliant with the Professional Standards (incorporating the International Valuation Standards) January 2014. Investment properties have been valued based on the market value of the properties subject to the existing tenancies.

Further formal valuations are to be undertaken every 5 years. In between these formal valuations management expertise will be used in order to determine whether any interim revaluations are necessary. In the year ending 31st March 2019 there was no revaluation applied to these properties which reflects management expert input at that time.

Turnover and revenue recognition

Turnover comprises rental income receivable in the year from tenants and leaseholders, income from shared ownership first tranche sales, sales of properties built for sale and other services included at the invoiced value (excluding VAT where recoverable) of goods and services supplied in the year and revenue grants receivable in the year.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

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 and properties built for sale is recognised at the point of legal completion of the sale. Revenue grants are receivable when the conditions for the receipt of agreed grant funding have been met. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with Administering Authorities.

Value Added Tax

The Association charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Association and not recoverable from HM Revenue and Customs. The balance of VAT payable or recoverable at the year end is included as a current liability or asset.

Interest payable

Interest is allocated at a constant rate on the carrying amount over the period of the borrowing, and is charged to income and expenditure in the year.

Financial instruments

Financial instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS 102 are accounted for under an amortised historic cost model and thus recognised at amortised historical cost.

Complex financial instruments are recognised at fair value using a valuation technique with any gains or losses being reported in surplus or deficit. At each year end, the instruments are revalued to fair value, with the movements posted to the income and expenditure.

Following independent review of our loan agreements all of the Associations financial instruments have been deemed as basic and are therefore recognised at amortised historical cost.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Creditors

Short term trade creditors are measured at transaction price.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

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.

Pensions

The Association participates in an industry-wide multi-employer pension scheme offering a number of defined benefit schemes (DBS) as well as a defined contribution scheme; the Social Housing Pension Scheme (SHPS). Previously, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers but this has been remedied in 2018/19 so the (DBS) is now accounted for under FRED 71. Management's recognition of the Defined Benefit Obligation is as advised by the SHPS administrators and independently reviewed by First Actuarial. This estimate is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the liability and the annual defined benefit expenses (as analysed in Note 23). The liability at 31 March 2019 was £3.787 million (2018: £4.572 million).

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 cost less accumulated depreciation and impairment losses. Cost includes the cost of acquiring land and buildings, and development costs. Interest charges incurred during the development period are charged to income & expenditure.

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.

Expenditure on shared ownership properties is split proportionally between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover and the remaining element is classed as a fixed asset and included in housing properties at cost, less any provisions needed for depreciation or impairment.

Government grants

Government grants include grants receivable from the Homes England (HE), local authorities, and other government organisations. Government grants received for housing

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

properties are accounted for using the accruals model and as such are recognised in income over the useful life of the housing property structure (but not the land), even if the fair value of the grant exceeds the carrying value of the structure in the financial statements.

Grants relating to revenue are recognised in income and expenditure 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 with the HE. Government grants released on sale of a property may be repayable but are normally available to be recycled and 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 and expenditure.

All of the Associations' grant received has been classified as Government grant.

Other grants

Although not applicable, non-government grants would be accounted for using the performance model.

Depreciation of housing properties

The Association separately identifies the major components which comprise 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, over its estimated useful economic life.

Management initially determined these components during full implementation of Component Accounting in 2011/12 and the factors considered at the time were:

- Average spend over the last 7 full years
- Anticipated spend over the next 30 years

Whilst realising that actual asset lives may differ over time.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

The Association measures its housing properties and major components at initial cost and then depreciates them at the following annual rates:

Structure

Built since 1980 – New build	1.4%pa [70 years]
Built before 1979	1.7%pa [60 years]
Rehabilitated	1.7%pa [60 years]
Sheltered Accommodation	1.7%pa [60 years]

Other Major Components

Boilers and Heating systems	6.7%pa [15 years]
Roofs	1.7%pa [60 years]
Kitchens	6.7%pa [15 years]
Bathrooms	3.3%pa [30 years]
Windows	3.3%pa [30 years]
External Walls	2.2%pa [45 years]

Freehold land is not depreciated.

Leasehold properties are amortised over the life of the lease or their estimated useful economic lives in the business, if shorter.

Other tangible fixed assets

Other tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land.

The principal annual rates used for other assets are:

Office fixtures and fittings	15.0%pa reducing balance
Computer equipment	33.3%pa straight line [3 years]
Motor vehicles	33.3%pa straight line [3 years]
Major IT Project	12.5%pa straight line [8 years] from completion

Gains or losses arising on the disposal of other tangible fixed assets are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised as part of the surplus/deficit for the year.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

Properties for sale

Shared ownership first tranche sales, completed properties for outright sale and property under construction are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Provisions for liabilities

Provisions are recognised when the Association has a present obligation (legal or constructive) as a result of a past event, it is probable that the Association will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in income and expenditure in the period it arises.

Holiday pay provision

The Association 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.

Unutilised service charges/Service equipment provision

The Association also has an obligation under tenants' service agreements to fund certain expenditure relating to certain tenancies. The directors are unable to accurately estimate the timings of the utilisation of the provision, which is expected to be line with the requirements of the related services

Reserves

The Association establishes restricted reserves for specific purposes where their use is subject to external restrictions.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

Donated land reserve (Restricted)

This represents the value of the equity share retained in properties where the Association provides affordable housing under Section 106 of the local planning regulations.

Revaluation reserve

This represents the movement in the valuation of our Investment properties. The difference between the fair value of these investment properties and the historical cost carrying value is credited to the revaluation reserve.

Accommodation managed by others (Managing agents)

Government capital grants are claimed by the Association as owner of the hostels, and are included in the Statement of Financial position. The treatment of income and expenditure in respect of these hostels depends on whether the Association bears the financial risk.

Where the Association bears the financial risk, for example for losses from voids and arrears, all the hostel's income and expenditure is included in the Statement of Comprehensive Income.

Where the agent bears the financial risk, the Statement of Comprehensive Income includes only that income and expenditure that relates solely to the Association. Other income and expenditure in this category is excluded.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

3. Particulars of turnover, cost of sales, operating costs and operating surplus

	2019		
	Turnover £'000	Operating costs £'000	Operating surplus £'000
Social housing lettings			
General needs housing	9,924	8,010	1,914
Supported housing & housing for older people	4,835	3,854	981
Low cost home ownership / shared ownership	329	145	184
	15,088	12,009	3,079
Other social housing activities			
First tranche low cost home ownership / shared ownership sales	2,892	2,151	741
Supporting people	1,988	1,988	-
Other	-	344	(344)
	4,880	4,483	397
Activities other than social housing			
Student accommodation	451	52	399
Commercial property	17	38	(21)
	20,436	16,582	3,854
	2018		
	Turnover £'000	Operating costs £'000	Operating surplus £'000
Social housing lettings			
General needs housing	9,707	7,474	2,233
Supported housing & housing for older people	4,905	3,360	1,545
Low cost home ownership / Shared ownership	280	171	109
	14,892	11,005	3,887
Other social housing activities			
First tranche low cost home ownership / shared ownership sales	482	284	198
Supporting people	2,181	2,181	-
Other	-	309	(309)
	2,663	2,774	(111)
Activities other than social housing			
Student accommodation	445	314	131
Commercial property	1	4	(3)
	18,001	14,097	3,904

Operating costs represent all costs (cost of sales and operating expenditure) incurred in meeting our main aim of providing social housing

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

Particulars of income and expenditure from social housing lettings

	General needs housing	Supported housing and housing for older people	Low cost home ownership / Shared ownership	Total 2019	Total 2018
	£'000	£'000	£'000	£'000	£'000
Income					
Rent receivable net of identifiable service charges	8,831	3,843	260	12,934	12,771
Charges for support services	-	-	-	-	65
Service charge income	256	518	44	818	717
Amortised government grants	837	463	25	1,325	1,318
Government grants taken to income	-	11	-	11	21
Other grants	-	-	-	-	-
Turnover from social housing lettings	9,924	4,835	329	15,088	14,892
Operating expenditure					
Management	1,562	1,429	16	3,007	2,765
Service charge costs	307	571	3	881	810
Routine maintenance	1,951	434	2	2,387	2,171
Planned maintenance	1,488	368	3	1,859	1,611
Major repairs expenditure	313	20	-	333	214
Bad debts	51	20	-	71	79
Depreciation of housing properties	2,151	974	70	3,195	3,044
Write-off of housing property components	108	19	-	127	160
Impairment of housing properties	-	-	-	-	17
Other costs	79	19	51	149	134
Operating expenditure on social housing lettings	8,010	3,854	145	12,009	11,005
Operating surplus on social housing lettings	1,914	981	184	3,079	3,887
Void losses	54	41	1	96	119

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

4. Accommodation in management and development

At the end of the year **accommodation in management** was as follows:

	2019 No of properties	2018 No of properties
Social housing		
General needs housing:		
- social rent	1,873	1,860
- affordable rent	94	61
Supported housing	72	72
Housing for older people	774	773
Low cost home ownership / Shared ownership	213	192
Total owned and managed	<u>3,026</u>	<u>2,958</u>
Accommodation managed for others	4	4
Total managed	<u>3,030</u>	<u>2,962</u>
Social housing owned but managed by others*		
Supported housing	208	208
Total owned	<u>3,238</u>	<u>3,170</u>
Non-social housing		
Student accommodation	244	244
Commercial property	2	2
Total owned and managed	<u>246</u>	<u>246</u>
Accommodation purchased but not yet in management	0	21
Accommodation in development at the year end	<u>0</u>	<u>66</u>

***Accommodation owned but managed by others**

These properties are managed on behalf of the Association, under management agreements, by other bodies who contract with Supporting People Administering Authorities and carry the financial risk relating to the units. These managing partners currently include: Community Links; Leeds Housing Concern; Leeds Irish Health & Homes; Sign; Foundation Housing; Latch; Stonham; Wilf Ward Family Trust; United Response; Creative Support; Pennine Domestic Violence Group; Bridgwood Trust; St Anne's Community Services; Calderdale Council; Leeds City Council Social Services.

Where the Association bears the financial risk, for example for losses from voids and arrears, all the income and expenditure is included in the Statement of Comprehensive Income (SoCI). Where the agent bears the financial risk, the SoCI includes only that income and expenditure that relates solely to the Association. Other income and expenditure is excluded. The committees of the managing agents are not controlled by the Association and no management fees were paid by the Association.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

5. Operating surplus

	2019	2018
	£'000	£'000
The operating surplus is arrived at after charging:		
Depreciation of housing properties	3,195	3,071
Write-off of housing property components	127	160
Impairment of housing properties	-	17
Depreciation of other tangible fixed assets	248	342
Impairment of other tangible fixed assets	-	-
Operating lease rentals		
- land and buildings	21	25
- office equipment and computers	23	22
- vans	26	39
Auditors' remuneration (excluding VAT)		
- Audit of the financial statements	17	20
- Other services	-	-
Total audit services	<u>17</u>	<u>20</u>
- Tax compliance services	-	-
- All other services	-	-
Total non-audit services	<u>-</u>	<u>-</u>

6. Surplus on sale of fixed assets – housing properties

	2019	2018
	9 units	13 units
	£'000	£'000
Disposal proceeds	636	887
Carrying value of fixed assets	(238)	(492)
	<u>398</u>	<u>395</u>
Capital grant impact on disposal	(88)	(52)
Total surplus on sale of fixed assets	<u>310</u>	<u>343</u>

7. Interest receivable and other income

	2019	2018
	£'000	£'000
Interest receivable and similar income	7	7
Other income	62	37
	<u>69</u>	<u>44</u>

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

8. Interest and financing costs

	2019 £'000	2018 £'000
Finance leases	-	-
Defined benefit pension charge	119	35
Loans and bank overdrafts	1,960	1,765
	<u>2,079</u>	<u>1,800</u>

Finance fees incurred on new loans during the year amount to £232k (2018: £nil)

9. Employees

	2019 No.	2018 No.
Average monthly number of employees expressed as full time equivalents (calculated based on a standard working week of 37hrs):		
Finance and Resources (including Chief Executive)	24	22
Good Homes	64	55
Neighbourly Places	79	79
	<u>167</u>	<u>155</u>

The full time equivalent number of staff who received remuneration (excluding pension) (excluding directors):

	2019 No.	2018 No.
£60,001 to £70,000	-	-
£70,001 to £80,000	-	-
	<u>-</u>	<u>-</u>

	2019 £'000	2018 £'000
Employee costs:		
Wages and salaries	4,614	4,536
Social security costs	424	443
Other pension costs	206	110
Restructuring costs	-	-
	<u>5,244</u>	<u>5,089</u>

The Association's employees are members of the Social Housing Pension Scheme (SHPS). Further information on this scheme is given in note 23.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

10. Key management personnel

The Directors of the Association are the members of the Board of Management (Board members) and, for the purposes of this disclosure, the Chief Executive and the three functional directors, namely, the Director of Finance and Resources, the Director of Neighbourly Places, and the Director of Home (aggregately the Executive directors).

The emoluments of the highest paid director, the Chief Executive, excluding pension contributions, were £98,273 (2018: £96,836).

Executive directors (staff members)

	Basic salary £'000	Benefits in kind £'000	Pension contributions £'000	2019 Total £'000	2018 Total £'000
Chief Executive	97	1	4	102	101
Director of Finance & Resources	70	1	3	74	73
Director of Home	69	1	3	73	72
Director of Neighbourly Places	68	1	3	72	71
	304	5	12	321	317

The Chief Executive (as well as the three functional directors) is a member of the Social Housing Pension Scheme. She is an ordinary member of the pension scheme and no enhanced or special terms apply. The Association does not make any further contributions to an individual pension arrangement for the Chief Executive.

Board members

None of the board members received emoluments. As stated above, the emoluments of the highest paid (Executive) director, the Chief Executive, excluding pension contributions, were £98,273 (2018: £96,836).

11. Tax on surplus on ordinary activities

For taxation purposes the Association has charitable status and accordingly is exempt from corporation tax on its investment income under Sections 505 (1) (a) and (1) (g) of the Income and Corporation Taxes Act 1988.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

12. Fixed assets – housing properties

	Social housing properties held for letting	Social housing properties for letting under construction	Completed shared ownership housing properties	Shared ownership housing properties under construction	Total housing properties
Cost	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	160,720	1,031	6,259	372	168,382
Additions:					
Works to existing properties	1,601	-	-	-	1,601
Works to schemes under construction	-	4,676	-	2,949	7,625
Schemes completed	4,844	(4,844)	2,916	(2,916)	-
Disposals	(246)	-	(95)	-	(341)
Write offs	(987)	-	-	-	(987)
Transfer between categories	-	-	-	-	-
Transfer to current assets	-	-	(1,252)	-	(1,252)
At 31 March 2019	165,932	863	7,828	405	175,028
Depreciation and impairment					
At 1 April 2018	(46,122)	-	(966)	-	(47,088)
Depreciation charged in year	(3,128)	-	(66)	-	(3,194)
Impairment charged in year	-	-	-	-	-
Write offs charged in year	834	-	-	-	834
Released on disposal	83	-	32	-	115
Transfer between categories	-	-	-	-	-
Transfer to current assets	-	-	-	-	-
At 31 March 2019	(48,333)	-	(1,000)	-	(49,333)
Net book value					
At 31 March 2019	117,599	863	6,828	405	125,695
At 31 March 2018	114,598	1,031	5,293	372	121,293

Expenditure on works to existing properties

	2019	2018
	£'000	£'000
Improvement works capitalised	7,625	7,991
Components capitalised	1,601	1,450
Amounts charged to income and expenditure*	1,363	1,062
	10,589	10,503

*Cyclical planned and major repairs revenue spend on fixed assets housing properties - including abortive costs

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

12. Fixed assets – housing properties (continued)

<u>Social housing assistance</u>	2019	2018
Total accumulated social housing grant received or receivable at 31 March:	£'000	£'000
Recognised in the Statement of Comprehensive Income	30,236	29,398
Held as deferred income	58,672	59,226
	88,908	88,624
Total accumulated social housing grant received or receivable at 31 March:		
Capital Grant – SHG	78,372	
Capital Grant – Other Grant	10,536	
	88,908	

Charges over properties

The Association has a first mortgage charge over certain housing properties with a value of £1.1 million in favour of Social Housing Pension Scheme following transfer of housing properties to Connect Housing Association following the merger of The Ridings Housing Association and West Yorkshire Housing Association Limited in 2007. There are further charges over housing properties in respect of bank loans as set out in note 21.

13. Tangible fixed assets - other

	Freehold offices £'000	Electronic equipment £'000	Major IT project £'000	Fixture & fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 April 2018	2,701	3,264	48	294	112	6,419
Additions	68	24	117	-	-	209
Disposals	-	-	-	-	-	-
At 31 March 2019	2,769	3,288	165	294	112	6,628
Depreciation						
At 1 April 2018	(634)	(3,201)	-	(268)	(37)	(4,140)
Charged in the year	(169)	(59)	-	(4)	(17)	(248)
Released on disposal	-	-	-	-	-	-
At 31 March 2019	(803)	(3,260)	-	(272)	(54)	(4,388)
Net book value						
At 31 March 2019	1,966	28	165	22	58	2,240
At 31 March 2018	2,067	63	48	26	75	2,279

The net book value of other tangible fixed assets includes £nil (2018: £nil) in respect of assets under finance leases.

A major IT project to replace the majority of major IT systems within the organisation is on-going and should be completed within 2020/21. At this stage these costs are classified as work in progress until the completion of the project.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

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

	2019 £'000
At 1 April 2018	4,943
Additions	-
Increase in value	-
At 31 March 2019	<u><u>4,943</u></u>

The Associations investment properties comprise commercial units at Royal Park Flats and New York Street.

Investment properties were valued as at 13th February 2015 (Royal Park Flats) and 6th May 2014 (New York Street). Investment properties have been valued by Ryden LLP, professional external valuers. Ryden LLP is a Royal Institute of Chartered Surveyors Regulated firm. As a result, Ryden ensures its processes and valuations are fully compliant with the Professional Standards (incorporating the International Valuation Standards) January 2014. Investment properties have been valued based on the market value of the properties subject to the existing tenancies.

At 31st March 2015 the New York Street valuation was increased in line with rental increases at that scheme. No increase was applied to Royal Park Flats at that time as the valuation was recent.

In the year ending 31st March 2019 there was no revaluation applied to these properties which reflects latest movements in rent yield.

15. Properties (held) for sale

	2019 £'000	2018 £'000
Shared ownership properties:		
At 1 April	567	-
Completed properties	1,252	381
Sold in year	(1,755)	(270)
Properties developed for outright sale	-	-
Properties transferred from Housing Fixed Assets	-	456
	<u><u>64</u></u>	<u><u>567</u></u>

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

16. Debtors

	2019 £'000	2018 £'000
Due within one year		
Rent and service charges receivable	284	254
Less: provision for bad and doubtful debts	(162)	(160)
	<u>122</u>	<u>94</u>
Employee loans	21	28
Other debtors	513	319
Prepayments and accrued income	721	829
	<u>1,377</u>	<u>1,270</u>
Due after more than one year		
Loans	-	-
Employee loans	25	38
Prepayments and accrued income	388	245
	<u>413</u>	<u>283</u>
	<u>1,790</u>	<u>1,553</u>

17. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Debt (note 21)	1,900	1,139
Trade creditors	1,622	1,591
Rent and service charges received in advance	574	491
Recycled capital grant fund (note 20)	51	141
Deferred (capital) grant income (note 19)	1,372	1,745
Other taxation and social security	106	110
Other creditors	256	99
Accruals and deferred income	88	117
Interest payable	446	410
	<u>6,415</u>	<u>5,843</u>

Other (capital) grants received in advance will be utilised against capital expenditure in 2019-20.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

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

	2019 £'000	2018 £'000
Debt (note 21)	45,926	45,116
Recycled capital grant fund (note 20)	826	406
Deferred (capital) grant income (note 19)	57,300	57,481
Accruals and deferred income	-	21
	<u>104,052</u>	<u>103,024</u>

19. Deferred (capital) grant income

	2019 £'000	2018 £'000
At 1 April	(59,226)	(58,808)
Grant received in the year	(1,316)	(2,009)
Released to income in the year*	1,870	1,591
At 31 March	<u>(58,672)</u>	<u>(59,226)</u>
	2019 £'000	2018 £'000
Amounts to be released within one year (note 17)	(1,372)	(1,745)
Amounts to be released in more than one year (note 18)	<u>(57,300)</u>	<u>(57,481)</u>
	<u>(58,672)</u>	<u>(59,226)</u>

*Amount released to income includes £1,343k (2018: £1,335k) amortisation, and £528k (2018: £257k) released due to disposals

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

20. Recycled capital grant fund (RCGF)

	2019	2018
	£'000	£'000
At 1 April	547	552
Grants recycled	963	309
Interest accrued	1	-
Utilisation on schemes in the year	(635)	(314)
	877	547
Repayment of grant	-	-
At 31 March	877	547
Amount of grant due for repayment within one year (note 17)	51	141
Amount of grant due for repayment after more than one year (note 18)	826	406
	877	547

Withdrawals from the RCGF were used for the purchase and development of new housing schemes for letting.

At 31 March 2019, there are no amounts due for repayment to the Homes England.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

21. Debt analysis

	2019	2018
	£'000	£'000
Due within one year		
Bank loans	1,851	1,090
Other loans	49	49
Less: issue costs	(89)	(30)
	<u>1,811</u>	<u>1,109</u>
Due after more than one year		
Bank loans	40,843	39,985
Other loans	5,083	5,131
Less: issue costs	(377)	(234)
	<u>45,549</u>	<u>44,882</u>
Total loans	<u>47,360</u>	<u>45,991</u>

Security

Other loans are secured by fixed charges on individual properties. The bank loans are secured by a floating charge over the assets of the Association and by fixed charges on individual properties.

Terms of repayment and interest rates

The Bank Loans are repaid in quarterly or half yearly instalments, over the estimated life of the scheme on which the loan is secured, at either fixed rates of interest ranging from 1.805% to 11.82% or variable rates. The final instalments fall to be repaid in the period 2019 to 2043.

The other loans are repaid in half yearly instalments, over the estimated life of the scheme on which the loan is secured, at a fixed rate of interest of 8.75%. The final instalments fall to be repaid in the period 2019 to 2022.

At 31 March 2019 the Association had undrawn loan facilities of £32 million (2018: £4 million).

£2m Lloyds BG – Existing Facility

£15m Santander – New Facility

£15m Yorkshire Bank – New Facility

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

	2019	2018
	£'000	£'000
Within one year or on demand	1,811	1,109
One year or more but less than two years	9,129	1,099
Two years or more but less than five years	9,760	14,959
Five years or more	26,660	28,824
	<u>47,360</u>	<u>45,991</u>

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

22. Financial instruments (assets and liabilities)

The Association's approach to financial instruments is explained in more detail in note 2 Accounting policies with references to financial risks being covered in the Strategic report. However, all of the Association's loans have been classified as basic and continue to be reported at amortised cost along with all other financial liabilities, and indeed assets.

Financial assets measured at amortised cost	2019	2018
	£'000	£'000
Trade and other debtors (note 16 and SoFP)	969	1,094
Cash and cash equivalents (SoCF and SoFP)	<u>2,552</u>	<u>3,111</u>
Total	<u>3,521</u>	<u>4,205</u>
Financial liabilities measured at amortised cost	2019	2018
	£'000	£'000
Debt (Bank loans and other loans including Interest Payable) (note 17 and 18)	48,271	46,665
Deferred capital grant income (note 17 and 18)	58,672	59,226
Trade and other creditors (note 17 and 18)	<u>3,378</u>	<u>2,896</u>
Total	<u>110,321</u>	<u>108,787</u>

The amounts owed to lenders attract interest at rates between 1.805% and 11.82% p.a.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

23. Pensions

FRS 102 – Section 28 Accounting disclosures
FOR THE PERIOD ENDING 31 March 2019

COMPANY: Connect Housing Association Limited

SCHEME: The Pensions Trust (TPT) Retirement Solutions – Social Housing Pension Scheme

The company participates in the Social Housing Pension Scheme (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 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 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 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.

PRESENT VALUES OF DEFINED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND DEFINED BENEFIT ASSET (LIABILITY)

	31 March 2019	1 April 2018
	(£000s)	(£000s)
Fair value of plan assets	14,615	13,756
Present value of defined benefit obligation	18,402	18,328
Surplus (deficit) in plan	(3,787)	(4,572)
Unrecognised surplus	-	-
Defined benefit asset (liability) to be recognised	(3,787)	(4,572)
Deferred tax	-	-
Net defined benefit asset (liability) to be recognised	(3,787)	(4,572)

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

RECONCILIATION OF THE IMPACT OF THE ASSET CEILING

	Period ended 31 March 2019 (£000s)
Impact of asset ceiling at start of period	-
Effect of the asset ceiling included in net interest cost	-
Actuarial losses (gains) on asset ceiling	-
Impact of asset ceiling at end of period	-

RECONCILIATION OF OPENING AND CLOSING BALANCES OF
THE DEFINED BENEFIT OBLIGATION

	Period ended 31 March 2019 (£000s)
Defined benefit obligation at start of period	18,328
Current service cost	112
Expenses	13
Interest expense	490
Contributions by plan participants	114
Actuarial losses (gains) due to scheme experience	(993)
Actuarial losses (gains) due to changes in demographic assumptions	(250)
Actuarial losses (gains) due to changes in financial assumptions	1,131
Benefits paid and expenses	(543)
Liabilities acquired in a business combination	-
Liabilities extinguished on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Exchange rate changes	-
Defined benefit obligation at end of period	18,402

RECONCILIATION OF OPENING AND CLOSING BALANCES OF

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

THE FAIR VALUE OF PLAN ASSETS

	Period ended 31 March 2019 (£000s)
Fair value of plan assets at start of period	13,756
Interest income	371
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	466
Contributions by the employer	451
Contributions by plan participants	114
Benefits paid and expenses	(543)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rate changes	-
Fair value of plan assets at end of period	14,615

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £837,000.

DEFINED BENEFIT COSTS RECOGNISED IN STATEMENT OF
COMPREHENSIVE INCOME (SOCl)

	Period from 1 April 2018 to 31 March 2019 (£000s)
Current service cost	112
Expenses	13
Net interest expense	119
Losses (gains) on business combinations	-
Losses (gains) on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Defined benefit costs recognised in statement of comprehensive income (SoCl)	244

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

**DEFINED BENEFIT COSTS RECOGNISED IN OTHER
 COMPREHENSIVE INCOME**

	Period ended 31 March 2019 (£000s)
Experience on plan assets (excluding amounts included in net interest cost) - gain (loss)	466
Experience gains and losses arising on the plan liabilities - gain (loss)	993
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	250
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	(1,131)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	579
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in other comprehensive income - gain (loss)	579

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

ASSETS

	31 March 2019	1 April 2018
	(£000s)	(£000s)
Global Equity	2,459	2,717
Absolute Return	1,265	1,680
Alternative Risk Premia	843	522
Corporate Bond Fund	682	565
Credit Relative Value	268	-
Distressed Opportunities	266	133
Emerging Markets Debt	504	555
Fund of Hedge Funds	66	453
Infrastructure	766	353
Insurance-Linked Securities	419	361
Liability Driven Investment	5,345	5,012
Long Lease Property	215	-
Net Current Assets	28	13
Over 15 Year Gilts	-	-
Private Debt	196	122
Property	329	633
Risk Sharing	441	127
Secured Income	523	510
Total assets	14,615	13,756

None of the fair values of the assets shown above include any direct investments in the employer's own financial instruments or any property occupied by, or other assets used by, the employer

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

KEY ASSUMPTIONS

	31 March 2019	1 April 2018
	% per annum	% per annum
Discount Rate	2.50%	2.70%
Inflation (RPI)	3.10%	3.00%
Inflation (CPI)	2.10%	2.00%
Salary Growth	3.10%	3.00%
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

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

	Life expectancy at age 65 (Years)
Male retiring in 2019	21.2
Female retiring in 2019	22.9
Male retiring in 2039	22.6
Female retiring in 2039	24.0

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

24. Provisions for liabilities – other provisions

	Unutilised service charges £'000	Holiday pay £'000	Total £'000
At 1 April 2018	609	59	668
Additions	89	53	142
Utilised	(167)	(59)	(226)
Re-classification of schemes in debit balance to debtors	74	-	74
At 31 March 2019	605	53	658

Unutilised service charges/Service equipment provision

The Association also has an obligation under tenants' service agreements to fund certain expenditure relating to certain tenancies. The directors are unable to accurately estimate the timings of the utilisation of the provision, which is expected to be line with the requirements of the related services.

Holiday pay provision

The Association 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.

25. Deferred taxation

For taxation purposes the Association has charitable status and accordingly is exempt from corporation tax on its investment income under Sections 505 (1) (a) and (1) (g) of the Income and Corporation Taxes Act 1988.

26. Share capital

	2019	2018
	£	£
At 1 April	59	59
Redistribution to retained earnings	(59)	-
At 31 March	0	59

The Association is limited by guarantee and therefore has no share capital. As the Association moved to a closed membership in August 2018 only Board members are shareholders with the right to vote at general meetings , but does not provide any rights to dividends or distributions on winding up.

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

27. Cash flow from operating activities

	2019	2018
	£'000	£'000
Surplus for the year	523	2,523
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	3,598	3,589
Amortisation of grants (note 19)	(1,870)	(1,591)
Decrease/(Increase) in properties held for sale (note 15)	503	(567)
(Increase) in trade and other debtors (note 16)	(237)	(141)
(Decrease)/Increase in trade and other creditors	617	413
(Decrease)/Increase in provisions (excl SHPS obligation) (note 24)	(10)	61
Pension costs less contributions payable (SHPS obligation) (note 23)	1,425	(410)
Carrying amount of tangible fixed asset disposals (note 6)	239	492
Adjustment for investing or financing activities:		
Proceeds from the sale of tangible fixed assets (note 6)	(636)	(887)
Government grants utilised in the year	-	-
Interest payable (note 8)	2,079	1,800
Interest received (note 7)	(69)	(44)
Net cash generated from operating activities	6,162	5,440

28. Capital commitments

The Association's capital expenditure commitments are as follows:

	2019	2018
	£'000	£'000
Capital expenditure		
Expenditure contracted for but not provided in the accounts	3,253	5,075
Expenditure authorised by the Board of Management, but not contracted	-	555
	3,253	5,630

The above commitments will be financed primarily through borrowings which are available for draw-down under existing loan arrangements, with the balance funded through social housing grant and property sales.

29. Contingent assets/liabilities

The Association has no contingent assets at 31 March 2019 (2018: nil).

The Association also has no contingent liabilities at 31 March 2019 (2018: nil).

NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2019

30. Leasing commitments

The future minimum lease payments of leases are set out below. Leases relate to office equipment, office space, office car parking, vans and laundry equipment.

The Association's future minimum operating lease payments are as follows:

	2019	2018
	£'000	£'000
Within one year	27	64
Between one and five years	23	50
Beyond five years	-	-
	<u>50</u>	<u>114</u>

The Association does not have any finance leases.

31. Related parties

There was one tenant leaseholder (Jubah Miah) serving as a member of the Board throughout the year ending 31st March 2019. The tenancy is on normal commercial terms and the tenant was not able to use the position to their advantage. At 31 March 2019 total arrears for this board member was £nil (2018: £nil) and rental income of £nil (2018: £823) was received in the year.

During the year the Association made one new loan to its Directors; Martyn Broadest, Director of Home (£1,038 travel pass loan). The maximum amount outstanding in the year for Martyn Broadest in respect of all loans was £2,246 and the balance outstanding at the end of the year was £186. The maximum amount outstanding in the year for Helen Lennon, Chief Executive, in respect of all loans was £921 and there was no remaining balance outstanding at the end of the year.

Disclosures in relation to key management personnel are further detailed in note 10.