B3 LIVING

Annual Report & Financial Statements 2019

Making a Difference

To local lives

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Without the commitment of our staff to our values I wouldn't be able to present such a strong financial performance or such a positive outlook for our future.

Steve Woodcock
B3Living Chief Executive

Board Members, Executive Directors, Advisors and Bankers

Board

Chair	Sandra Royer	(until 18 September 2018)
	Anne Shearman	(from 18 September 2018)
Vice Chair	Anne Shearman	(until 18 September 2018)
	Christopher Fawcett	(from 18 September 2018)
Other Members	Karen Forbes-Jackson	Resigned 18 September 2018
	Joe Chambers	Resigned 20 November 2018
	Jaine Cresser	Appointed 18 September 2018, resigned 5 March 2019, re-appointed 29 March 2019
	Mark Davies	
	Michael Dempsey	Co-optee from 12 September 2017 - 18 September 2018, re-appointed 18 May 2019
	Christopher Fawcett	
	Christopher Herbert	
	Tony Infantino	Resigned 16 May 2018
	Trudi Kleanthous	Appointed 18 December 2018
	Rosalind Rowe	Appointed 18 December 2018
	Paul Tyrrell	Appointed 18 December 2018
	Nicci Statham	Appointed 18 September 2018
	David Biggs	Appointed 18 September 2018

Executive Directors

Chief Executive	Steve Woodcock Joe Chambers	Appointed 4 March 2019 Resigned 20 November 2018
Interim Chief Executive	Francesco Elia	Appointed 21 November 2018 - Resigned 1 March 2019
Executive Director (Finance)	Alex Shelock	Appointed 16 July 2018
Interim Finance Director	Francesco Elia	Appointed 21 December 2017 - Resigned 13 July 2018
Executive Director (Development)	Jon Hayden	Appointed 1 July 2019
Development & Asset Management Director	Steven Tarry	Resigned 16 November 2018
Executive Director (Operations)	Chris Ellison	Appointed 7 May 2019
Interim Operations Director	Francesco Elia	Appointed 16 July 2018 - Resigned 20 November 2018
Executive Director (Corporate Services)	Claire Howe	Appointed 18 December 2018
Company Secretary	Claire Howe Francesco Elia	Appointed 27 June 2018 Appointed 21 December 2017 - Resigned 27 June 2018

Board Members, Executive Directors, Advisors and Bankers

Registered Office
Scania House
17 Amwell Street, Hoddesdon, Hertfordshire
EN11 8TS

Registered Number
FCA Registration number: 29876R
Regulator of Social Housing:
Registration number: L4455

External Auditors
Beever and Struthers
St George's House, 215-219 Chester Road,
Manchester M15 4JE

Internal Auditors
Mazars
Tower Bridge House, St Katharine's Way,
London E1W 1DD

Tax Advisor
Grant Thornton UK LLP
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Birmingham B4 6AT

Financial Advisers
Savills Plc, 33 Margaret Street,
London W1G 0JD

Solicitors
Winckworth Sherwood LLP
Minerva House, 5 Montague Close,
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Anthony Collins Solicitors LLP
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Birmingham B3 2ES

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37-39 Perrymount Road, Haywards Heath,
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Investors and Funders
M&G Investment Management Ltd.
5 Laurence Pountney Hill,
London EC4R 0HH

Lloyds Bank Plc,
Corporate Banking 25 Gresham Street,
London EC2 7HN

Bankers
Lloyds Bank Plc,
Corporate Banking 25 Gresham Street,
London EC2 7HN

Message from the Chair

The last 12 months has brought about a lot of economic and political uncertainty and change.

The economy and the housing market is showing itself to be remarkably resilient in the face of the uncertainty caused by the Brexit process. At B3Living, we seek to understand risk and manage it, rather than avoid it. We have achieved this by thoroughly stress testing our business plan, introducing new robust 'financial golden rules' and by developing a number of mitigating strategies.

In this period of uncertainty, it is important for us not to regress and cut back on our commitment to deliver more homes. We are in the middle of a housing and homelessness crisis; it would go against our core values for us not to do everything we can to address this.

We are pleased that housing is near the top of the Government's agenda again and we are committed to work with Homes England, local authorities, including Broxbourne Council and Hertfordshire County Council, other housing associations and local developers, to deliver more much-needed homes.

This year has been a period of change. Our longstanding Chair, Sandra Royer, retired last year and we also said goodbye to our Chief Executive Joe Chambers and Development Director, Steven Tarry. All three were instrumental in enabling us to become a financially strong, independent housing association that is more able to address the housing crisis affecting Broxbourne.

> We will look at not just delivering more homes locally to Broxbourne, but making sure we are delivering the right types of homes for our community.

The Executive team has changed and strengthened over the last year. We now have a five strong executive team led by Steve Woodcock. The new executive team are tasked, with help from key stakeholders and the Board, to develop our purpose. This will see us not only deliver more homes to the local area, but also ensure we are delivering the right types of homes for our community. This could be, for example, more homes for the elderly, more starter homes for the young, more family homes or more temporary housing for the homeless.

We will also be looking at the services we provide for our customers, how we invest in our community and the investment requirements of our existing homes. We will aim to keep the business as simple as possible by maintaining an ethos of doing fewer things, better.

I feel confident that we have a great team of Board members, Executive and staff and a sound platform from which to further build on our strategy; we are passionately committed to making a difference despite the uncertain environment.

Anne Shearman
B3Living Chair

Welcome from the CEO

I feel privileged to have become Chief Executive at B3Living at such an opportune time.

Since joining in March 2019, I have been struck by the commitment of our staff and how they demonstrate B3Living's core values of being one team, adaptable, innovative, open and commercial. This commitment has been essential in delivering our strong financial performance and has given us a very positive outlook.

We are currently creating and developing a new strategy which will see us make a meaningful difference to the local housing crisis and deliver more than 800 new affordable homes over the next 7 years.

We will also be looking at how to increase this number through commercial opportunities. We have launched Everlea Homes Ltd, which will work with a small number of housebuilders in our local area to build homes for outright sale; the profits will be used to build more affordable homes.

We already have a track record with this approach and recently agreed to sell our shares in Wheat Quarter Ltd, a land opportunity in Welwyn Garden. The proceeds will allow us to ringfence Everlea from our social business. This reflects our approach to managing and understanding risk to maximise output, rather than avoiding it or becoming too risk-averse.

While B3Living is financially strong and generates good operating margins, we will continue to innovate and evolve to improve customer services while maintaining our value for money ethos.

To this end, we are currently half way through delivering a £3m investment in our IT infrastructure and systems to promote agile working, better customer engagement, a better digital offering for customers, better document and data management and to automate as many processes as possible.

Over the next year, we will also be making renewed efforts to make more links locally and will be working with our partners to make a real difference to our communities. Our knowledge of the local area and of our customers, and working collegiately with others, will allow us to distinguish ourselves from other housing providers in the places in which we work.

While we have delivered a huge amount over the last year, the details of which are contained within these statements, I am confident that even more will be delivered during 2019/20 and beyond.

Steve Woodcock
B3Living CEO

Report of the Board including Strategic Report

The Board is pleased to present the results of another strong financial year for B3Living (Group).

Our recent improved financial performance has left us well-placed to increase our investment in new and existing homes, without adversely affecting our financial resilience. In July 2018, B3Living's credit rating agency, Moody's, increased our rating to A3, with a stable outlook, and this rating was reaffirmed in July 2019.

Furthermore, in the year, B3Living has maintained the top Governance and Viability ratings of G1 and V1 respectively, awarded via a Regulatory In-Depth Assessment (IDA) in 2017.

Government and Viability Compliance

Governance

The Association is a public benefit entity registered with the Regulator of Social Housing (RSH) - formerly the Homes and Community Agency – as a housing association, a Registered Provider of social housing. The Association's principal activities relate to the development, acquisition and management of affordable general needs, low cost home ownership and supported social housing, for those in need, and investment in the community.

The Board (Group Board) for the Association and its subsidiaries consists of eleven members, drawn from wide backgrounds that bring together professional, commercial and local experience, who are remunerated. Board member appointments are made via an assessment of their skills, knowledge and experience against the skill matrix of the Board; to support succession planning; or to support future business and commercial activities. The Board meets nine times per financial year and is responsible for the overall strategy, direction and control of the Group. Board members and executive directors currently in post are set out on page 4.

The Board has delegated certain responsibilities to two main sub-committees: the Audit and Risk Committee, which meets three times a year, and the Development Committee, which meets four times a year. We also have a commercial development subsidiary called Everlea Homes, their Board meets four times a year.

Governance and Financial Viability Standards

Registered Providers are required by the Regulator, the RSH, to certify their compliance with the Governance and Financial Viability Standards. The Board confirms that B3Living complies in all material respects with these standards.

Following an In-Depth Assessment, in June 2017, B3Living was awarded with the highest rating for governance (G1) and for financial viability (V1) and these ratings continue to be maintained

In June 2019, B3Living completed an internal review of its performance against the Regulator's Governance and Viability Standards. This was reported to the Board, which confirmed B3Living remained compliant to these standards.

National Housing Federation (NHF) Code of Governance

The Board agreed to comply to all material aspects of the principal recommendations of the current NHF Code of Governance – 'Excellence in Governance'. B3Living is signed up to the NHF code for Mergers, Group Structure and Partnerships.

In June 2019, B3Living completed an internal review of its performance against the NHF code of Governance. This was reported to the Board, which confirmed B3Living was compliant to all of the elements within this code.

Executive Team

The Executive team comprises the Chief Executive and four executive directors, who hold no shareholding interest in the Association and act as executives within the authority delegated by the Board.

The Chief Executive and the Executive team have service contracts with notice periods ranging from three to six months.

Insurance policies indemnify Board members and officers against liability when acting for the Association and its subsidiaries. Details of executive director remuneration packages are included in note 9 to the financial statements.

Financial performance

Despite another year of rent cuts, B3Living is excited to present another strong year of financial performance. During the year, B3Living generated an operating surplus of £16.5m (2018: £13.9m). The increase in surplus was underpinned by the following factors:

- Increase in the profitability for core rental, contributing £12.7m (2018: £12.3m)
- Surpluses from shared ownership first tranche sales of £2.9m (2018: £0.9m)
- Surpluses from property disposals of £0.9m (2018: £1.0m)
- Other housing-related activities surplus/(loss) £0.0m (2018: (£0.3m)).

The core rental operating surplus of £12.6m (2018: 12.3m) is generated by the following three business segments:

- General affordable housing: £11.9m (2018: £11.6m)
- Sheltered housing: £0.2m (2018: £0.3m)
- Low cost home ownership: £0.6m (2018: £0.4m).

Summary of results for the last five years

For the year ended 31 March	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Turnover	34,664	27,781	26,489	28,949	24,567
Cost of sales	(4,865)	(1,033)	(471)	(3,256)	(577)
Operating expenditure	(14,261)	(13,816)	(14,538)	(14,978)	(14,715)
Disposal of housing property	912	1,054	595	211	450
Operating surplus	**16,450**	**13,986**	**12,075**	**10,926**	**9,725**
Share of JV profits	(206)	927	-	-	-
Net financing costs	(4,969)	(4,858)	(5,189)	(5,118)	(5,716)
Increase/decrease in valuation of investment properties	(10)	(120)	495	-	-
Surplus/(deficit) before exceptional items and tax	**11,265**	**9,935**	**7,381**	**5,808**	**4,009**
Exceptional items	-	-	-	-	(14,960)
Surplus/(deficit) before tax	**11,265**	**9,935**	**7,381**	**5,808**	**(10,951)**
Taxation	(2)	-	-	-	-
Surplus/(deficit) for the year	**11,263**	**9,935**	**7,381**	**5,808**	**(10,951)**
Actuarial (loss)/gain in respect of pension schemes	(1,018)	422	(1,086)	1,141	(874)
Total comprehensive income for the year	**10,245**	**10,357**	**6,295**	**6,949**	**(11,825)**

Analysis of five year performance

Our strong performance during the year is reflective of the trend over the last five years, with operating surpluses rising from £9.7m in 2015 to £16.5m in 2019. The current results and trend have been achieved through robust financial management, a greater emphasis on value for money, developing new homes and shared ownership first tranche sales.

The sharp increase in turnover between 2018 and 2019 has been driven by more homes brought into management and more shared ownership first tranche sales income.

In 2019, we achieved a rental income of £26m against prior year rents of £25m. Rents have increased, despite another year of 1% rent cuts (£0.3m) due to 63 affordable rent conversions, 165 new development handovers and five buy backs. 2020 is the last year of the Government-imposed rent cuts, thereafter rents will increase by CPI (normally 2%) plus 1%.

First tranche shared ownership sales income increased from £1.9m in 2018 to £7.8m in 2019. We sold 49 shared ownership homes in 2019, compared to 12 in 2018. B3Living sees shared ownership as a great and affordable way for people to get on the housing ladder and therefore it is our intention to keep, development opportunities permitting, shared ownership sales at this level into the future.

Operating expenditure was up marginally on 2018, from £13.8m to £14.3m. The main driver of this increase was a staff salary annual rise, staff bonuses, interim staff and redundancy costs associated with a restructure of our back-office function. Managing costs is a key focus for us, as this increases our capacity to invest in new and existing homes.

In 2019 B3Living's share of Joint Venture (JV) profits fell from £0.9m to (£0.2m). This movement was driven by our Wheat Quarter JV. The Wheat Quarter is large land promotion business, in the period no parcel of land were sold, hence the slight loss. However, a new planning consent was achieved in December 2018 which significantly increased the value of the land. B3Living is actively looking to sell its interest in the site as it's outside our local geography.

Net interest costs for the year were £5.0m (2018: £4.9m), which is comparable to the prior year. Net interest payments increased in the year by about £0.3m, however this was offset by the increase in interest received via the funding provided to our JV. In the year, we drew £12m of new funding from our revolving credit facilities, which is all charged at variable rates of interest.

The Group had an actuarial loss of £1,018k (2018: Gain £422k). The actuarial loss for the year is made up of two elements; the first time treatment of the Social Housing Pension Scheme (SHPS) as a defined benefit scheme resulting in an initial recognition of a liability of £407k and an actuarial loss for the year of £611k for the year. These types of pension schemes are no longer offered to new employees.

B3LIVING CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

Statement of financial position for the last five years

The table below sets out our financial position over the last five years. It shows a significant increase in financial strength between 2015 and 2019, demonstrating increased financial resilience to overcome adverse events and a capacity to capitalise on attractive opportunities for growth.

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Fixed Assets					
Housing Properties	204,630	186,596	159,541	142,772	132,809
Other Fixed Assets	3,458	3,178	3,274	3,407	1,796
Investment properties	3,230	3,240	3,277	1,620	-
Investments in JVs	3,533	3,605	2,081	-	-
Tangible fixed assets	**214,851**	**196,619**	**168,173**	**147,799**	**134,605**
Current assets					
Stock	10,586	8,052	5,898	378	1,775
Trade and other debtors	6,798	6,256	5,007	2,422	2,247
Agreement to improve existing properties	5,427	8,614	10,966	13,627	17,258
Cash and cash equivalents	5,472	1,257	2,183	18,107	21,084
	28,283	**24,179**	**24,054**	**34,534**	**42,364**
Less: Creditors: amounts falling due within one year	(7,559)	(7,877)	(5,437)	(8,846)	(7,981)
Net current assets	**20,724**	**16,302**	**18,617**	**25,688**	**34,383**
Total Assets less current liabilities	**235,575**	**212,921**	**186,790**	**173,487**	**168,988**
Creditors: amounts falling due after one year	(175,677)	(160,839)	(142,168)	(135,161)	(132,999)
Provisions for liabilities (including pensions)	(9,438)	(11,867)	(14,763)	(16,135)	(20,748)
Total net assets	**50,460**	**40,215**	**29,859**	**22,191**	**15,241**
Capital and reserves	**50,460**	**40,215**	**29,859**	**22,191**	**15,241**

At the reporting date we had tangible fixed assets with a carrying value of £215m (2018: £197m) reflecting the continuing growth trend over the last five years. Our improved financial strength was recognised by Moody's in July 2018, when it increased our credit rating from Baa1 to A3 with a stable outlook. This credit rating was reaffirmed in July 2019.

The increase in tangible fixed assets reflects our continued investment in new and existing homes for affordable and social rent, shared ownership and investment properties. We invested £24.2m (£18.5m held as fixed assets) for the provision of new homes and £4.2m investment for improving our existing homes.

Between 2015 and 2019, our tangible fixed assets' carrying value increased by £80.2m (60%). The steep increase in the carrying value is predominately due to our increased investment in new housing properties and a continued commitment to improve our existing homes.

As at 31 March 2019, we had £3.7m invested in a 42-unit commercial partnership, Elsenham, with Osprey Homes Ltd. This project is expected to mature in early 2020.

In 2018, our investment of £5m in the Wheat Quarter Ltd joint venture in 2017 was repatriated, therefore completely de-risking our position with future cash inflows forecast. In 2019, the shares were transferred from the Association to its wholly owned subsidiary Everlea Homes Ltd, our commercial subsidiary. We are actively seeking to sell these shares to a third party.

As at 31 March 2019, Everlea Homes Ltd had £2.5m invested in Farnham Road LLP, a joint venture with Bellis Homes. The joint venture is expected to deliver 35 new homes (23 for private sale and 12 affordable homes) by early 2020, with Bellis Homes being the developer.

Stock represents the first tranche element of shared ownership homes, which include homes under construction at the year end and homes held for sale. This was up from £8.1m in 2018 to £10.6m in 2019. This increase reflects the delivery of our strategy of building 800 new homes over seven years. The stock will be completed in the coming years and will be partially sold to provide cash inflows to subsidise the development of more affordable homes in the future, as we play our part in alleviating the effects of the current housing crisis.

Key Financial Performance Indicators for the last five years

Financial Golden Rules	Limit	2019	2018	2017	2016	2015
Debt to Turnover	< 5.5x	4.5x	5.4x	4.9x	3.7x	4.2x
Gearing **(covenant 80%)**	< 65%	53%	53%	56%	84%	84%
EBITDA MRI Interest Cover **(covenant 110%)**	>160%	237%	203%	223%	194%	161%
Social Housing Interest cover	>150%	203%	199%	202%	181%	138%
***Operating Margin with dev. sales**	> 35%	45%	45%	44%	39%	40%
*Operating Margin without dev. sales	> 40%	49%	47%	44%	42%	40%
Development Sales as a % of Turnover	< 30%	22%	7%	2%	13%	4%
% of HA net asset Invested in Everlea	< 10%	9%	6%	0%	0%	0%

*excludes existing asset sales surpluses

In November 2018, the B3Living Board agreed to monitor financial performance via a suite of Financial Golden Rules (FGRs). The FGRs are designed to promote the financial performance of our core activities, to maintain appropriate headroom against our covenants and to manage our exposure to the housing market.

Over the period, our operating margins have significantly improved, despite the compounding effects of three consecutive years of 1% rent cuts. Our stronger operating margins have contributed towards an improved interest coverage, which has increased our financial resilience and our capacity to build much needed homes in our local geography.

Improved development output has resulted in more of our turnover coming from shared ownership sales receipts. We see this tenure as a great way to get people on to the housing ladder but our exposure to the housing market must be managed. Therefore, no more than 30% of the Association's turnover will come from shared ownership sales.

In 2019, the Association increased its lending to Everlea Homes Ltd to 9% of its net assets. The increase from 2018 was driven by the decision to sell the Association's shares in the Wheat Quarter Ltd to Everlea Homes Ltd.

In 2020, Everlea will look to sell its shares in the Wheat Quarter Ltd to a third party. The proceeds will be used to seed the business, so it can make its own investments without being wholly reliant on the Association for funding. This strategy will help ringfence Everlea and its commercial activities, along with its risks, away from the Association.

Treasury Management

We have a robust and comprehensive Treasury Policy and Treasury Management Strategy, which are reviewed annually by our Treasury advisors, Savills, and the Board. The Board receives a quarterly treasury report that details our treasury facilities, security, liquidity, on-lending agreements, treasury policy compliance and an economic and lending market review.

We benefit from having a simple treasury portfolio, which contains straightforward loan agreements and no interest rate swaps. During 2019, we renegotiated the terms within our bank finance agreements to make them less onerous and more focused on the Association rather than the full Group. These changes help ring-fence the risk inherent with commercial market facing activities within B3Living's commercial subsidiary, Everlea Homes Ltd, away from the Association.

In June 2019, we signed a £20m "fall back" Revolving Credit Facility with Barclays. We are currently not planning to use the facility; we have secured it to provide additional liquidity, should the housing market slow and delay our shared ownership sales programme. We have a risk aware, rather than risk adverse, stance therefore we are happy to take appropriate risks to deliver on our objectives, with the assurance we have sufficient liquidity in place to safeguard the business and to protect our social assets.

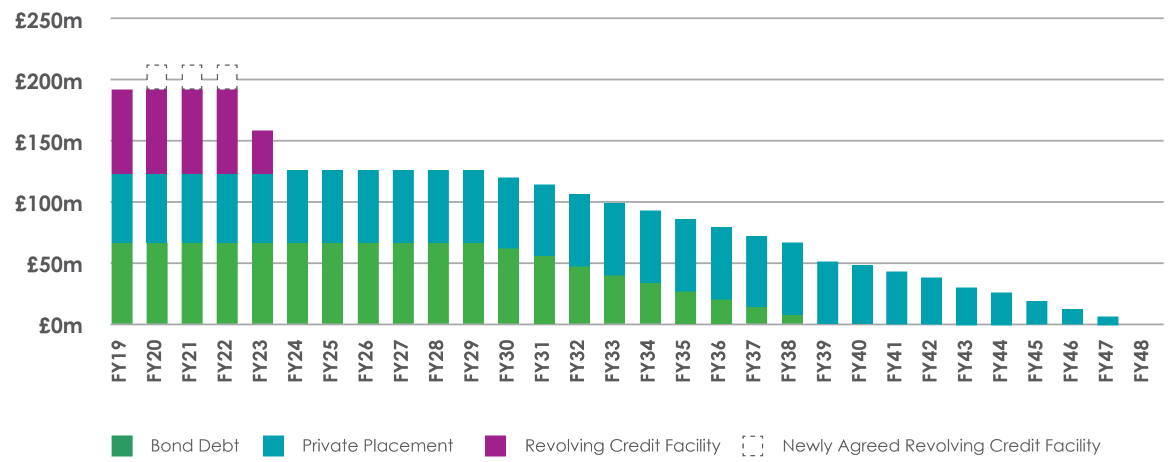
Debt and Liquidity

As at 31 March 2019, the Group has drawn debt of £162m (2018: £150m) with total loan facilities of £190m (2018: £190m) leaving a facilities headroom of £28m (2018: £40m). £125m or 77.2% (2018: £125m or 83.3%) of the drawn debt is at fixed interest rates via long term bond (£68m) and private placement (£57m). We have two revolving credit facilities with Lloyds of £30m and £35m which mature in March 2024 and April 2022 respectively; we have drawn £37m from these facilities and this debt has a variable interest rate.

The recently signed £20m revolving credit facility with Barclays is a three-year facility with an option for it to be extended by two further years.

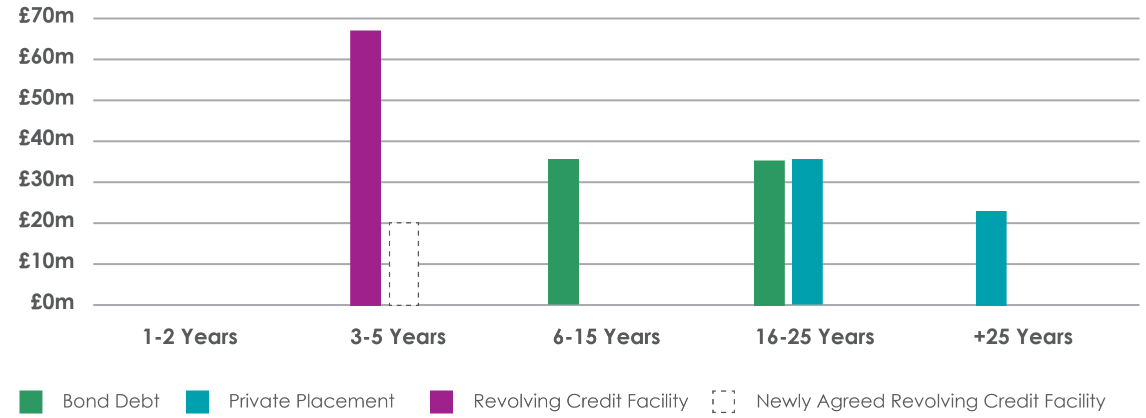
The chart below shows our sources of finance.

B3Living Funding Profile



The chart below shows our debt repayment profile

Debt Repayment Profile

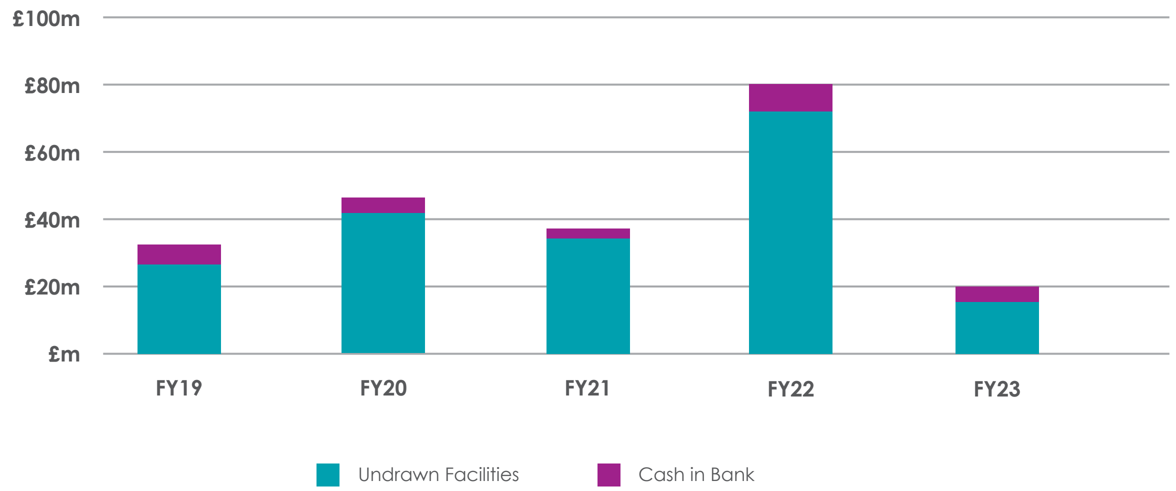


This chart shows we do not have any immediate refinancing risk. We will work closely with our treasury advisors, Savills, to best deal with the mid-term refinancing of the revolving credit facilities.

The newly agreed £20m revolving facility has an option to extend by two further years if required.

The chart below shows our mid-term forecast available liquidity.

Forecast Liquidity



In 2019, the Board approved a more rigorous liquidity policy to respond to greater uncertain economic and housing market conditions. The treasury policy has two key liquidity requirements:

1) The value of B3Living's current charged security must be 10% greater than the peak debt in the Business Plan.

2) The value of available and secured facilities is sufficient to support the anticipated borrowing requirements (net cash outflows) for at least the next 24 months.

Net cash outflows equals:
- Net operating cashflows
- 50% of sales proceeds
- 50% of JV income
- Total committed development spend including grant

Depending on the development pipeline, we may need to secure further facilities in place for FY21 to adhere to the new liquidity policy.

Financial Covenants

We have three key loan covenants with which we comfortably comply; these are:

- **EBITDA-MRI** – we have two measures of EBITDA MRI. The tightest definition measures the number of times our financing costs can be paid by our operating profit before depreciation for the year but including the costs of major repairs. For the year ending 31 March 2019, the interest cover was 2.37 times (2018: 2.03 times). The loan covenant is 1.1 times.

- **Gearing** – this is a measure of our indebtedness, relative to the EUV-SH of completed housing properties. EUV-SH is a proxy for market values of our homes and it reflects that the properties are used for social housing. As at 31 March 2019, the gearing ratio (gearing covenant) was 53% (2018: 53%) against a covenant limit of 80%.

- **Asset cover** – this is a measure of the percentage coverage of our EUV-SH of completed assets over our current debt. As at 31 March 2019, the tightest asset cover ratio was 137% (2018: 134%). The asset cover covenant is 110%.

Value for Money

What value for money means to B3Living

B3Living holds value for money at its core, by following a simple principle of making every pound count. This is reflected in our corporate objectives, decision-making and business plan.

We are proud to be part of the local community and passionate about making a real difference to people's lives. We achieve this by building more affordable homes to help combat the housing crisis in Broxbourne and by providing the support our customers need.

Value for money is achieved by realising economy, efficiency and effectiveness in every area of our business and is delivered when an optimum balance between all three have been achieved. To this end, we are focused on delivering those services that are important to our customers, as efficiently as we can and at the best possible cost.

While customers are at the heart of everything we do, we recognise the need for commerciality in all aspects of our work enabling us to be financially strong, agile and innovative and to realise further efficiencies in our operations.

We promote a value for money culture across the organisation to ensure it is inherent in every activity, whether it be appraising a new development scheme, entering into a new contractual arrangement, assessing the performance of our stock, investing in new IT systems or creating a new job vacancy.

Value for money achievements also form part of employee objectives and targets, where appropriate, and are monitored during regular one-to-ones and annual appraisals.

Board Ownership

The Board takes ownership of our value for money strategy by:

- Setting stretching key performance targets
- Setting the annual budget and business plan which include value for money targets
- Setting a robust investment policy and asset management strategy
- Including value for money in all decision-making processes
- Monitoring performance
- Setting challenging value for money targets increases our capacity to deliver on our strategic objectives:
- Delivering 800 new homes over seven years
- Investing in new technology to improve performance and customer engagement
- Developing a robust asset management strategy to ensure the long-term safety and viability of our stock
- Strengthening financial resilience.

Value for Money Overview

As outlined in the April 2018 Value for money standard and subsequent technical guidance issued by the Regulator, we have measured our performance against the Regulator's value for money metrics, our peers, the sector median and the highest performing sector quartile for each metric (Global Accounts 2018).

The value for money metrics and definitions have been provided by the Regulator and therefore sometimes differ from measures and covenants stated elsewhere in the financial statements.

To ensure our peer group offers a good comparison, we selected Large Scale Voluntary Transfer (LSVT) housing associations, local to our area and which have a low supported housing exposure - less than 1% of their stock. The peer group includes:

- Chelmer Housing Partnership Limited
- Cross Keys Homes Limited
- Greenfields Community Housing Association
- Thrive Homes Limited
- Watford Community Housing Trust.

The table below summarises our performance against our peers and the sector's median and upper quartile for each metric:

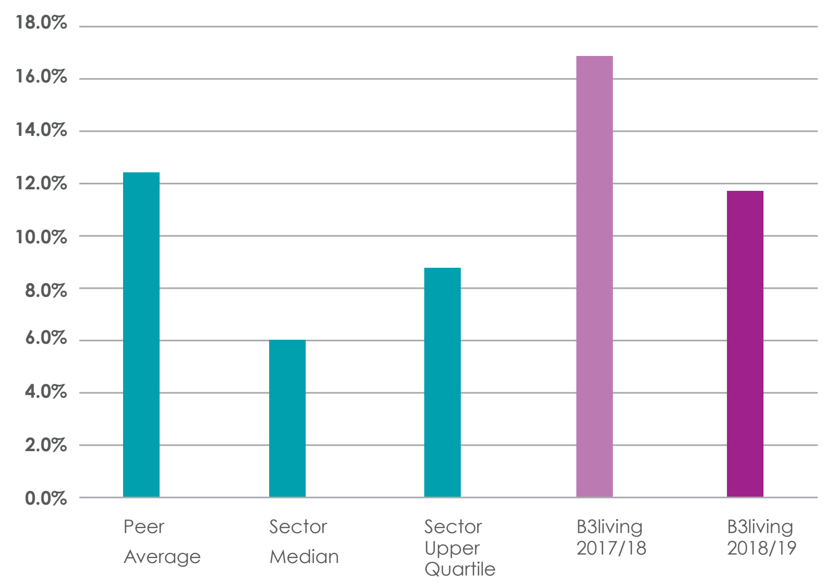
Value For Money Metrics	Chelmer Housing Partnership	Cross Keys Homes	Greenfields Community Housing	Thrive Homes	Watford Community Housing	Peer Average	Sector Median	Sector Upper Quartile	B3Living 2017/18	B3Living 2018/19
Reinvestment	10.41%	11.27%	10.82%	17.06%	11.46%	12.20%	6.03%	8.66%	16.90%	**11.70%**
New Supply (Social)	3.13%	3.93%	2.42%	1.16%	1.62%	2.45%	1.16%	2.28%	1.75%	**3.44%**
New Supply (Non-Social)	0.34%	0.00%	0.00%	0.00%	0.00%	0.07%	0.00%	0.07%	0.04%	**0.00%**
Gearing	63.99%	48.65%	49.45%	59.74%	40.88%	52.54%	42.90%	33.08%	79.39%	**76.49%**
EBITDA MRI Interest Rate Cover	168.59%	208.13%	274.30%	152.81%	246.07%	209.98%	205.68%	262.51%	202.86%	**226.07%**
Headline Social Housing Cost per unit (£k)	3.39	2.88	3.01	4.34	3.78	3.48	3.40	3.01	3.36	**3.47**
Operating Margin (SHL)	30.96%	33.22%	37.47%	34.53%	36.01%	34.44%	32.14%	37.13%	47.18%	**48.59%**
Operating Margin (Overall)	26.47%	33.01%	37.17%	31.20%	34.61%	32.49%	28.89%	34.07%	45.56%	**44.83%**
ROCE	3.2%	4.61%	5.22%	6.05%	3.61%	4.53%	4.08%	5.40%	7.78%	**6.90%**

Our value for money ethos, and our recognition that we must reinvest our surpluses in new and existing homes, resulted in us performing well against our peers, the sector's upper quartile and significantly above the sector median.

Our gearing position is forecast to improve significantly as we invest in new homes and generate surpluses greater than £10m p.a. and, as a result, we forecast that our performance should be more comparable to our peers within the next three years. Our gearing covenant is based on security value and our performance is 53% (2018: 53%) against a covenant limit of 80%.

Detailed Review of Value for Money Performance

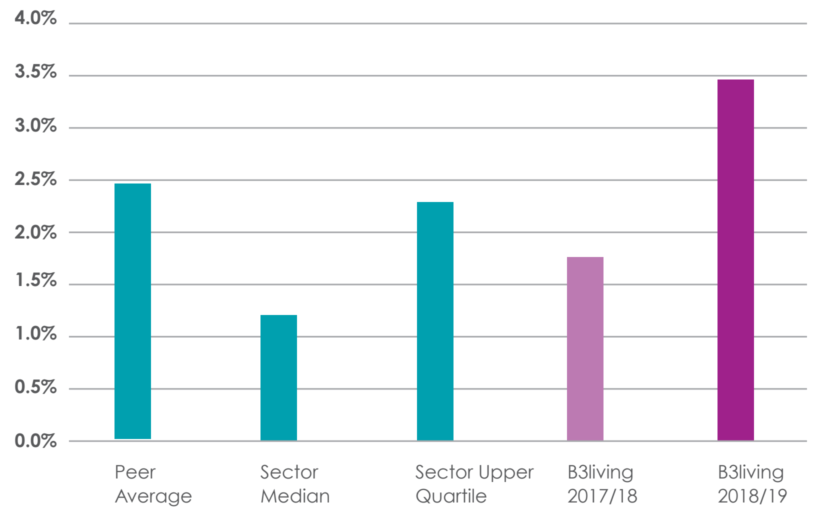
Reinvestment %



Our commitment to delivering more much needed homes within our local area is reflected in our reinvestment performance, as we have outperformed the sector's upper quartile and most of our peers.

Generating efficiency savings in our general operations has created the capacity to build more homes without adversely impacting on financial resilience. In 2019 we invested £24.5m (£18.5m fixed assets) in new and £4.1m existing homes, slightly down on the £31.2m spend in 2018.

New supply of Social Housing Units %



Our reinvestment performance is reflected in our development outputs. Again we are comfortably outperforming the sector's upper quartile and most of our peers.

In 2019 we completed 165 new homes, of which 102 were rented and 63 shared ownership. We are the only housing association building homes in our local area which means it is essential we continue to build, to alleviate the impact of Broxbourne's housing shortage.

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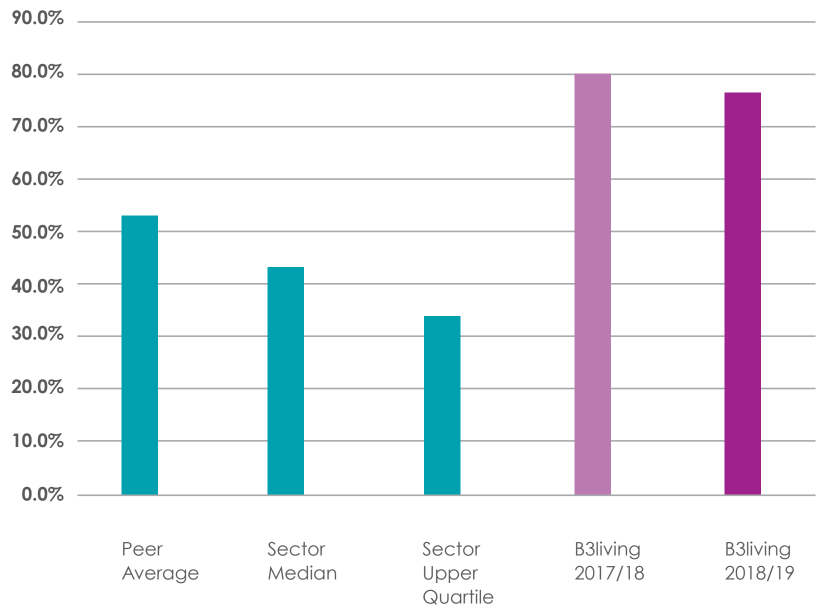
FOR THE YEAR ENDED 31 MARCH 2019

Gearing %



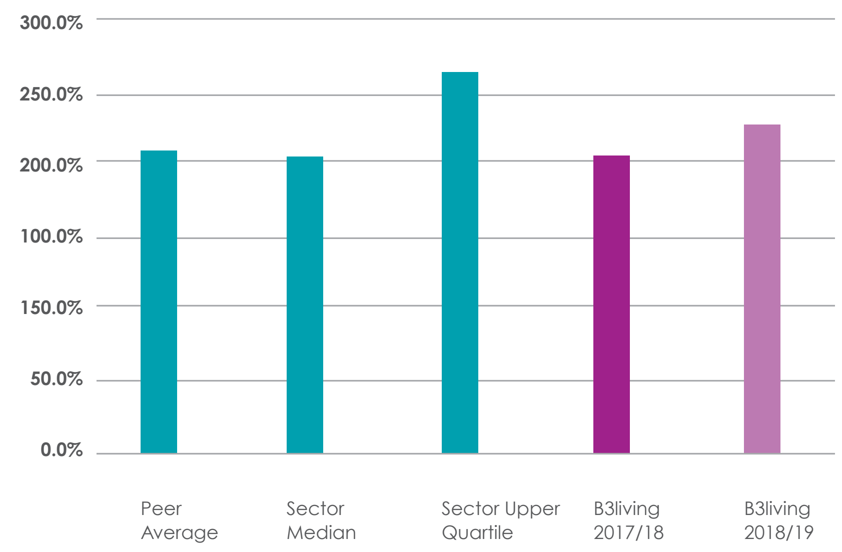
During the year, the gearing ratio – the relationship between debt and social housing assets - was down to 76.5%, from 79.7% in the previous year. This is the result of using most of our free cash flows from operations to support the growth in our social housing base.

Our gearing ratio is relatively high compared with the rest of the sector and our peers, because:

1. Historically, we have not capitalised as much of the decent home works completed after transfer as we could have done.
2. We restructured our debt portfolio in the 2014/15 financial year to remove loans with high interest costs and restrictive covenants from our capital structure. This cost the business about £15m, adding about 7% to the gearing ratio.

With strong surpluses and reinvestment plans, our gearing is forecast to improve to a more comparable level in the next three years.

EBITDA MRI Interest Coverage %



EBITDA-MRI (Earnings before Interest Tax Depreciation and Amortisation with Major Repairs Included) is a measure of our ability to cover our interest commitments from the cashflows generated by our core business. At the reporting date we had an EBITDA-MRI of 231.3% (2018: 202.9%).

Our strong EBITDA-MRI coverage reflects our excellent operating margins, which are driven by effective and efficient management of our housing stock and our decision to restructure our debt portfolio in 2015. This replace expensive and restrictive loans with low cost debt.

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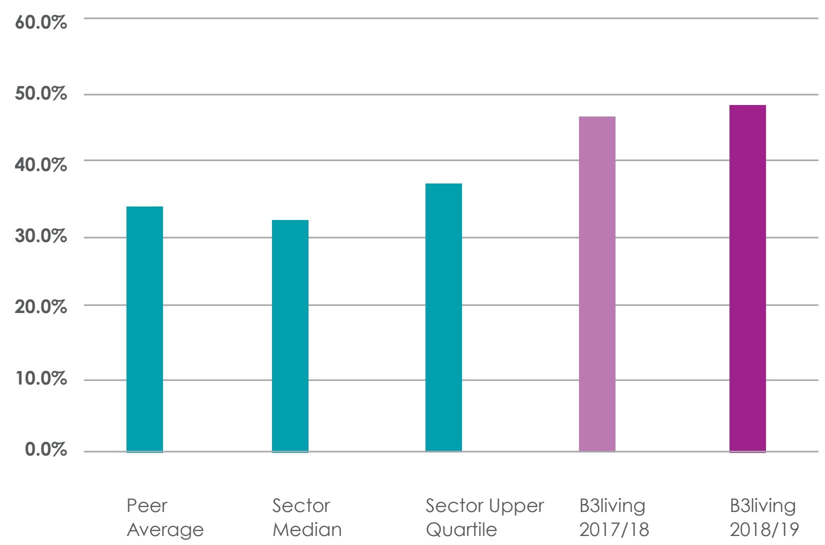
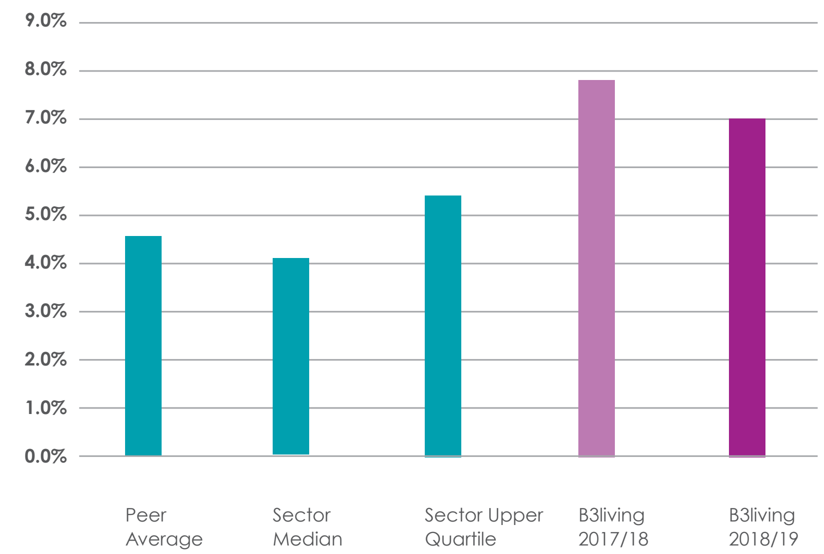
Social Housing Operating Margin %



Social Housing letting operating margins increased slightly from 47.2% in 2018 to 48.6%, which is positive, considering the compounding effect of the rent cuts. We are comfortably outperforming our peers and the sector's upper quartile. This reflects our strong operating cost control but also the amount of affordable rented homes in our stock.

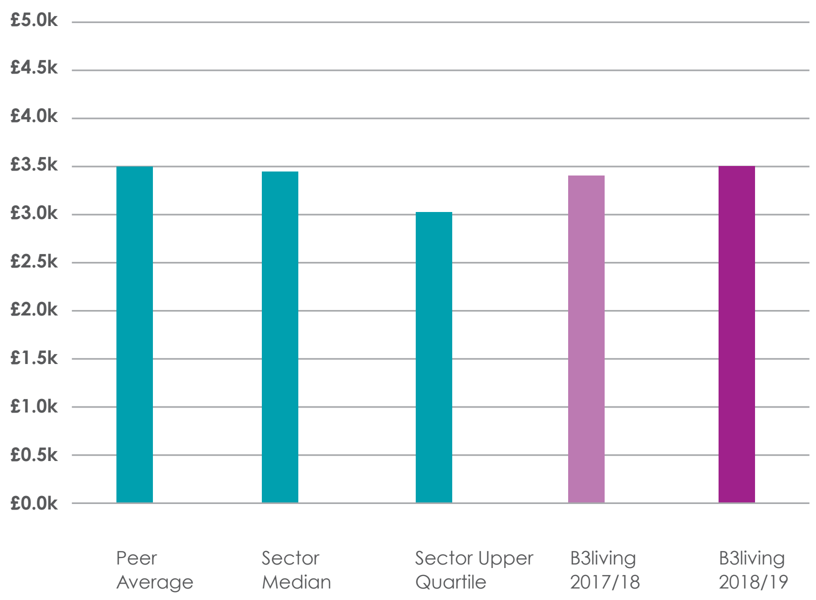
Return On Capital Employed %

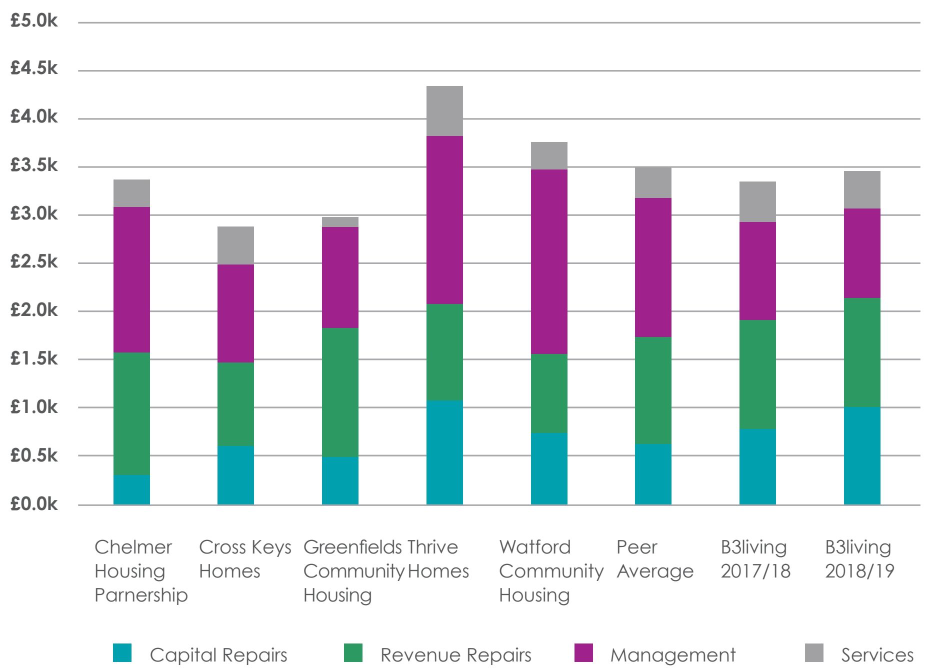


With our strong operating margins and undervalued balance sheet – as demonstrated by our gearing ratio – we are outperforming our peers and the sector's upper quartile significantly.

Our investment policy and cost focus will ensure this performance will continue to be comparable, if not better, than our peers and the sector's upper quartile.

Cost Per Unit





B3Living's cost control and value for money ethos has resulted in solid cost per unit performance, we are comparable to the sector's upper quartile and outperforming all our peers except for Cross Keys and Greenfields who invest marginally less than B3Living on capitalised repairs.

B3Living has managed to reduce its management cost below £1,000 per unit which is where we feel the efficiency savings needed to come from rather than cutting back on our repairs service because providing safe, warm and dry homes for our customers is at the centre of what we do.

B3LIVING CONSOLIDATED FINANCIAL STATEMENTS
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How We Deliver Value For Money

We have concentrated our money saving initiatives on increasing the efficiency and effectiveness of our back office and housing management and service operations.

The table below shows that over the last four years, we have continued to deliver meaningful and cashable value for money savings. These savings have allowed us to continue to invest in our stock and generate sector-leading operating margins and returns on capital employed.

Service area	2019 Amount £'000	Per home £'000	2018 Amount £'000	Per home £'000	2017 Amount £'000	Per home £'000	2016 Amount £'000	Per home £'000
Overheads	94	19	15	3	230	49	261	56
In house repairs service	17	3	56	12	18	4	15	3
Housing Management & services	144	29	173	37	277	59	160	35
Total operational VFM	**255**	**51**	**244**	**52**	**525**	**112**	**436**	**94**
Major works	-	-	-	-	46	10	3	1
Treasury & legal fees	-	-	-	-	-	-	791	170
Total VFM savings	**255**	**51**	**244**	**52**	**571**	**122**	**1,230**	**265**

We aim to generate value for money savings by following the three Es model. Below are a few examples of how we apply this model within B3Living:

Economy

Economy is the cost of providing our services, for example, salaries, material costs of repairs and fees paid to contractors and consultants without affecting the quality of services we provide. We achieve this by:

- Market testing all salaries to ensure they are set to the sector median allowing us to recruit the right staff into the business to deliver quality services to our customers without increasing the social housing costs per unit
- Having a robust procurement policy to ensure all transactions of more than £5,000 are market-tested and allows us to benefit from economies of scale.
- Investigating the use of modern methods of construction to deliver new homes at a lower cost, including off-site construction and printed homes and having partnering agreements with contractors
- Embedding value for money within our decision-making e.g. in scheme appraisals and business cases and day to day operations of the business.

Efficiency

Efficiency is a measure of productivity – how much you get out in relation to what you put in. It is the efficiency of converting resources (inputs) into results (outputs).

B3Living's efficiency objectives achieve more outputs with less resources e.g. achieving high customer satisfaction from use of fewer resources.

We achieve this by:

- Setting challenging productivity targets for our staff, including our Direct Labour Organisation
- Promoting staff empowerment to streamline decision-making
- Review of costs such as maintenance including reviewing and understanding the cost drivers
- Investment in ICT including bringing under one system called Project Fusion the housing management, repairs and asset management system.

Effective

Effectiveness is a measure of the impact achieved and can be quantitative or qualitative. It is primarily associated with the outcomes for customers and the business from the strategic decisions we take. We achieve this by:

- Narrowing our geographic growth focus so we offer a consistent customer service standard for all our residents
- Increased focus on customer feedback to ensure we are spending their rent on services that best meets their needs
- Reviewing the types of homes we build to ensure best suit the housing need in our geography
- Creating partnerships with local agencies and developers to understand how we best work together to serve our community. A partnership approach allows our to focus on the services we are best at providing.

Our Value For Money Metrics

Along with the Regulator's metrics, we also monitor our own value for money performance indicators (see the table below). These are designed to promote genuine cashable savings, while maintaining excellent customer satisfaction.

Value For Money Metrics	Target 2019	Actual 2019	Met/Not met
Revenue spend as a % of budget	< 97.5%	95.2%	✓
Interest coverage	≥ 110%	193%	✓
Rent arrears	≤ 2.5%	2.0%	✓
% of customers paying via automated methods	≥ 63%	72%	✓
Overall customer satisfaction	≥ 90%	84%	✗
Re-let period (days)	≤ 20	19	✓
Average in-house repair cost	≤ £100	£102	✗
Average jobs completed by each tradesman per day	≥ 5.5	5.4	✗
Customer satisfaction with our repairs	≥ 82%	80%	✗

We strive to generate genuine cash savings, while providing an excellent service for our customers. In 2019, we spent just 95.2% of the revenue budget by tackling ineffective expenditure, reducing overheads and making sure every pound is spent effectively. Efficiency savings have increased interest coverage, so we have the capacity to take on more risk and invest in new and existing homes.

With the impact of welfare benefit reform, our income management team is taking a proactive approach to help our customers manage their tenancies and rent accounts better. This has resulted in good rent arrears performance and more customers paying their rent via automated methods, which saves us time and money.

Customer satisfaction has dipped over the last year and we are consulting with customers to find out what we could do better to improve our services. This insight will help us focus our efforts, which may result in an increase in expenditure or mean we reallocate resources to maximise the impact and effectiveness of our spending. Either way, delivering value for money means providing an excellent service at the best possible cost.

We believe our Direct Labour Organisation (DLO) provides many benefits over and above a great repairs service. However, it must be efficient, effective and economical. We ensure an average job costs less than £100; that each DLO operative must complete an average of at least 5.5 jobs a day and that we achieve customer satisfaction of more than 82%.

Our performance in 2019 was marginally below these three targets, reflecting our approach of setting ourselves challenging targets. A full review of our repair service will be carried out in the latter part of 2020, with the aim of increasing performance and reducing costs.

Our Value For Money into the Future

The 2019 financial results reflect our commitment to value for money with our core operating margins over 40% and healthy interest coverage. The latest Financial Plan recognises that further large cuts could adversely impact on service provision however there is a commitment to deliver more efficiency savings. To this end, the Financial Plan includes £0.8m of operating savings between 2020 and 2024; of which £0.3m has been embedded within the 2020 budget. We expect to deliver these savings through:

- Better ways of working
- Increased reliance on IT
- The introduction of a new asset management strategy
- Wholesale review of B3Living's procurement process.

The table below shows B3Living's performance against the Regulator's value for money metrics with a comparison with our peers. The table shows B3Living is forecast to perform well against our peers especially in terms of reinvestment and ROCE. However, it must be acknowledged that our improved gearing and interest coverage from 2022 onwards is driven by the maturity of the Plan's development programme which is shown in the reinvestment metrics.

	2020	2021	2022	2023	2024	Peer average
Reinvestment	16.20%	14.50%	3.20%	1.60%	1.60%	12.20%
New Supply Delivered (SH Units)	2.00%	2.70%	3.30%	0.30%	0.00%	2.50%
Gearing (NBV of Housing Properties)	67.90%	66.80%	55.80%	49.40%	44.90%	52.50%
EBITDA MRI Interest Cover	236.70%	233.70%	255.50%	257.30%	299.90%	210.00%
Headline SH cost per unit	£3,214	£3,613	£3,539	£3,684	£3,712	£3,480
Operating Margin (SH Lettings only)	44.90%	44.60%	45.40%	46.10%	46.90%	34.40%
Operating Margin	41.70%	41.60%	40.90%	44.70%	47.10%	32.50%
Return on capital employed (ROCE)	9.40%	5.70%	7.60%	6.60%	6.10%	4.50%

*SH = Social Housing / NBV = Net Book Value

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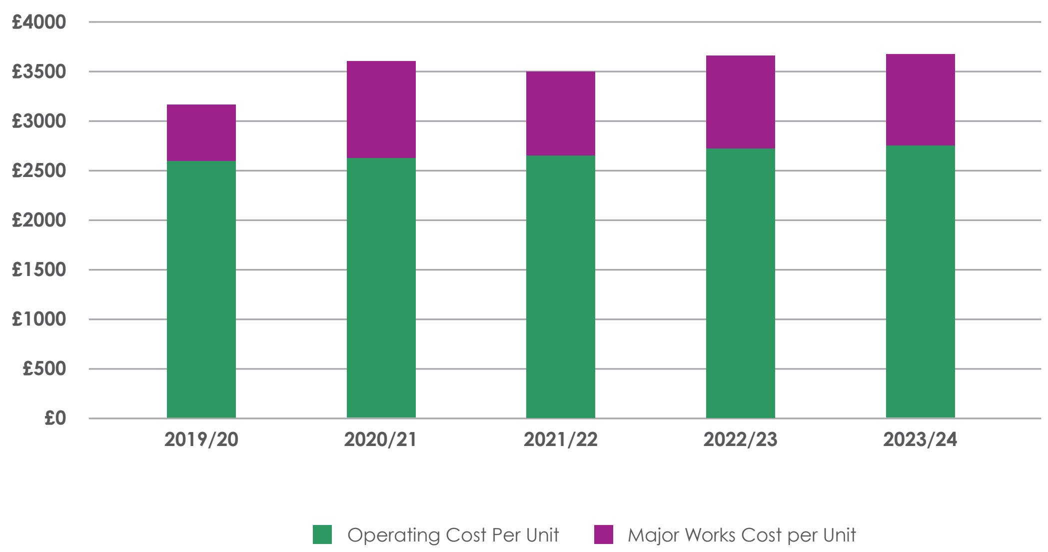
A key efficiency metric is operating cost per unit. The table shows the cost per unit increasing from £3.2k per unit to £3.6k per unit. The chart below shows that the main driver for the increase is our forecast expenditure on Major Works – in 2020 the budget is £2.6m, this is expected to increase to £4m pa based on the stock condition survey. Therefore, the underlying operating cost per unit remain stable at £2.6k.

Operating Cost Per Unit Breakdown



Internal Controls Assurance

The Board acknowledges its overall responsibility for establishing and maintaining a sound system of internal controls and for reviewing its effectiveness. Board delegates the on-going review of controls to the Audit & Risk Committee but will receive an annual report from the Audit & Risk Committee prior to the publication of the financial statements.

The Board conducts an annual review of the effectiveness of the B3Living's systems of internal controls following a more detailed examination by the Audit & Risk Committee.

The system of internal controls 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 financial loss.

The process for identifying, evaluating and managing the significant risks faced by B3Living was on-going throughout the year and beyond the date of approval of the annual report and financial statements.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the evaluation of the nature and extent of risks to which B3Living is exposed and is consistent with Turnbull principles as incorporated in circular R2-25/01: Internal Controls Assurance, as replaced by circular 07/07. Although, under the new regulatory regime, circular 07/07 no longer applies, B3Living continues to use it as a basis for measuring the quality of our internal controls.

Key elements of the control framework include:

- The board agrees corporate objectives after discussion, taking account of stakeholder input. The corporate objectives are informed by developments in the political, economic, social and technological environment - PEST);
- The Rules and Standing Orders of the Housing Association (including terms of reference for Boards and Committees);
- A set of delegated powers detailing responsibilities for expenditure and authorisation of payments;
- Risk Management Framework sets out the approach to Risk Management; this includes a Risk Management Strategy that defines Risk Appetite
- A comprehensive risk management process including; Risk registers, regular reviews of strategic risks by Audit & Risk Committee, Board and the Executive Team
- New initiatives, major projects and development schemes are subject to appropriate risk assessment;
- Insurance cover is maintained against significant risks including Public Liability, Employer's Liability and Professional Indemnity;
- Regular programme of internal audit reports;
- Regular reviews of the progress made with implementing internal audit recommendations;
- External audit reports;
- 30-year long term financial plan, appropriately stress tested including multi variant stress tests and externally validation;
- An annual budget agreed before the beginning of each financial year;
- Monthly management accounts;
- Quarterly reports to the Board and funders on all aspects of the RP's Performance;
- Reports to the Board, through Audit & Risk Committee, on any fraudulent activity;
- Staff, Resident and Board Code of Conduct;
- Register of Schedule 1 Exemptions;
- Treasury Management Policy and Strategy with loan analysis included in the quarterly finance reports to Board;
- Guidance and monitoring by professional treasury advisers;
- Minutes of the Audit & Risk Committee received by the Board;
- Self-certification by Directors in relation to Internal Controls Assurance report;
- Internal Audit reports made to Audit & Risk Committee with report back to Board;
- Annual report provided by the Internal Auditor:
- Compliance with the Regulator of Social Housing's Regulatory Framework, as confirmed elsewhere in the Board Report.

Internal Controls and Risk Management

B3Living's control framework is designed to manage and mitigate rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material mis-statement or loss.

The process for identifying, evaluating and managing the significant risks faced by B3Living is on-going and under regular review. Risk management systems and processes are in place and have been updated during the year, having been applied up to the date of this report.

B3Living continues to promote a culture of risk awareness throughout the organisation in addition to maintaining its risk registers on a continuing basis. This process takes the format of staff and member briefings and training sessions and individual involvement in the control framework which underpins the risk registers. The control framework is in place to ensure mitigating activities are carried out and monitored at all levels of the organisation.

The key risks to the B3Living can be categorised as:

- Financial risk
- Development and capital investment risk
- Operational risk
- Legislative risk
- Reputational risk
- Housing Market risk
- Counter party risk
- Brexit risk
- Health and safety
- Value for Money
- Data security.

Effectiveness of the internal control framework

During the year, no incidents of actual or attempted fraud were recorded in the Fraud Register. The Board confirms that no weaknesses were found in the operation of the internal controls during the year, which resulted in material losses, errors, or uncertainties that require disclosure in the financial statements for the year ended 31 March 2019 and up to the date of the approval of the financial statements.

Statements of compliance with the Regulator's Governance and Financial Viability Standard

The Board confirms that the Strategic Report has been prepared in accordance with the principles set out in paragraphs 4.6 and 4.7 of the 2014 SORP for registered social landlords. B3Living has undertaken an assessment of compliance with the Regulator's Governance and Financial Viability Standard for the year ended March 2019, as required by the accounting direction for social housing in England from April 2015.

The Board can confirm that during the year in question, B3Living has complied with the Governance and Financial Viability Standard.

Going concern

After making enquiries, the Board has a reasonable expectation that B3Living has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. The Board approved long term business plan that satisfies lender and investor covenants and demonstrates repayment of all debt, in accordance with contractual commitments. For these reasons, B3Living continues to adopt the going concern basis in the financial statements.

Responsibilities of the Board

The Board is responsible for preparing the report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Co-operative and Community Benefit Societies Act and registered social landlord legislation in the United Kingdom require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of B3Living at the end of the year and of the surplus or deficit of the Group and Association for the year then ended.

In preparing those financial statements the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 Group and Association to 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 2015. It has general responsibility for taking reasonable steps to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The Board is responsible for ensuring that the Report of the Board is prepared in accordance with the current Statement of Recommended Practice: "Accounting by Registered Social Landlords".

The Board is responsible for the maintenance and integrity of the corporate and financial information on the B3Living's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Board certify that there is no relevant audit information of which the B3Living's auditors are unaware and the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Annual General Meeting
The annual general meeting will be held on 10 September 2019 at Scania House, 17 Amwell Street, Hoddesdon, Hertfordshire, EN11 8TS.

The report of the Board was approved by the Board on 10 September 2019 and signed on its behalf by:

Anne Shearman
Chair of the Board of B3Living Ltd
Dated: 10 September 2019
Registered with the Mutuals Public Register of the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 (Number 29876R)

Registered with the Regulator of Social Housing (Number L4455)

Independent Auditor's Report

Our opinion is unmodified
We have audited the financial statements of B3 Living Limited (the Association) and its subsidiaries (the Group) for the year ended 31 March 2019 which comprise the Group and Association Statement of Comprehensive Income, the Group and Association Statement of Financial Position, the Group and Association Statement of Changes in Equity, the consolidated Statement of Cash Flows and the notes to the financial statements, 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 and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2019 and of the Group's surplus and the Association's surplus 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 Cooperative and Community Benefit Societies Act 2014, the Cooperative and Community Benefit Societies (Group Accounts) Regulations 1969, 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. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor of B3 Living Limited by the Board for the period ending 31 March 2007. The period of total uninterrupted engagement for the Group is for 12 financial years ending 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Association in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Conclusions relating to going concern
We have nothing to report to you 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 has 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.

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Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address these matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Properties under construction – parent Association risk
The parent Association's additions to properties under construction total £17.8m (2018: £25.1m). Refer to pages 71 (Financial disclosures) and 48 to 51 (accounting policies).

The risk – significant risk high value
Development is a significant activity for the parent Association. With the materiality of capitalised internal and external development costs, alongside the judgements as to whether the expenditure is capital or revenue this is an area that we feel had a key impact on our overall audit approach. Our overall assessment of misstatement is therefore that development is a significant risk within our audit approach.

Our response
Our procedures included:

- **Controls testing:** Testing controls over the review of received invoices and certificates and subsequent authorisation for payment.
- **Test of detail:** We agreed a sample of development additions in the year to invoice or certificate.
- **Test of detail:** We reviewed and agreed workings for capitalised interest in the year. This included a review of the Association's weighted average interest rate applied versus the actual paid for its borrowing and to ensure that capitalisation of interest ends when a development reaches practical completion. The weighted average interest applied being 3.79% (2018: 4.04%).
- **Test of detail:** We reviewed the Association's policy on overhead capitalisation and that the costs directly related to the development programme. We note that the majority of costs in this regard are the salaries of the development team.
- **Review against accounting standards:** We reviewed amounts capitalised in our sample testing versus guidance in FRS 102 and the SORP 2014.
- **Test of detail:** Our work on purchase invoices, creditors and accruals did not identify any errors in accounting for development expenditure incurred to 31 March 2019 but not invoiced.

Our results
Based on the audit procedures performed, we found the capitalisation of development costs in assets under construction to be acceptable.

Accounting Treatment of Joint Ventures – Group and parent Association
The Group has investments in two joint ventures in Wheat Quarter Limited and in Farnham Road LLP via its subsidiary company Everlea Homes Limited.
The total investment carrying amounts of the joint ventures being £3.5m in Group (2018: £3.6m) and in the parent Association nil (2018: £155k). The Group investment includes £0.7m share of profits regarding Wheat Quarter Limited for the period 2 December 2016 to 31 March 2019. The joint venture in Farnham Road LLP had no material activity as at 31 March 2019.

The Group identified a prior period adjustment and has restated the joint venture share of profits in the Wheat Quarter (see note 32).

The risk – high risk medium value
Given that the carrying amount of the Group's investment in joint ventures is material we have assessed its impact as medium value. Both joint ventures relate to property development and are dependent upon the satisfactory completion of the agreed projects. We have assessed the risk of misstatement as high given the nature of the prior period adjustment and that these are relatively new delivery vehicles for the Group. In addition, the financial results of the joint ventures is based on management information given that the Wheat Quarter Limited's statutory accounting period ends July 2019 and there has been no material activity, or subsequent reporting, for Farnham Road LLP.

Our response
Our procedures included:

- **Test of detail:** Assessing the accounting policies and results to 31 March 2019 of the Wheat Quarter Limited's management accounts, along with the joint venture agreement, to corroborate the share of profit recognised in Group accounts. This was also considered for Farnham Road LLP but the project is at such an early stage that no material profit or loss has been recognised.
- **Carrying amount of investment:** We considered the future cash flows expected from each joint venture versus the carrying amount of the investments for any indication that the investment was impaired.
- **Review against accounting standards:** We agreed management's assessment that in the entity accounts the cost model of measuring the joint venture investment be used, and in Group accounts the equity method was applied.
- **Test of detail:** We reviewed and agreed the basis and workings for the prior period adjustment regarding the statement of share of profits from the Wheat Quarter joint venture.

Our results
We found the Group's and Association's accounting treatment of its joint venture arrangements to be acceptable.

Recoverability of debtors with joint venture and joint arrangement – Group and parent Association risk
The Association has long term debtors which include a loan to its subsidiary, Everlea Homes Limited, of £4.7m (2018: £2.5m) and a loan regarding a joint arrangement of £4.7m (2018: £3.7m). On consolidation, only the loan to the joint arrangement remains. Refer to pages 47 and 55 - 56 (accounting policies) and pages 74- 76 and 98-99 (financial disclosures).

The risk – medium risk medium value
Both loans are subject to future development performance through new delivery vehicles for the Group to manage, and therefore we have assessed their recoverability as medium risk. Whilst the loans in both parent Association and Group are not significant in terms of total assets they are both material and therefore we have assessed their value as medium.

Our response
Our procedures included:
Loan to subsidiary undertaking:
- **Assessment of recoverability:** Assessing the £4.7m intercompany long-term debtor to identify whether the subsidiary has future cash flow projections which include the repayment of the debt
- **Test of detail:** Assessing the intercompany creditor recognised by the subsidiary and comparing it to the debtor recognised by the parent Association
- **Confirmation of value:** Agreeing the loan to the loan agreement and corroborating movements in the year

Loan relating to joint arrangement:
- **Assessment of recoverability:** Assessing the £4.7m long term debtor owed by the partner to the joint arrangement to identify whether it has future cash flow plans which include the repayment of the debt
- **Confirmation of value:** Agreeing the loan to the loan agreement and corroborating movements in the year.

Our results
We found the Group's and Association's assessment of the recoverability of the long-term debtor balances to be acceptable.

Our application of materiality and an overview of the scope of the audit
The materiality for the audit of the Association, regarding the Statement of Financial Position, for the year ended 31 March 2019 was £1.4m (2018: £1.1m) determined with reference to the average of the following benchmarks:
- 1% of turnover
- 5% of result before tax
- 4% of net assets
- 1% of gross assets.

Materiality for the audit of the Statement of Comprehensive Income is an average of the first two benchmarks only at £512k (2018: £355k).

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £69k (2018: £55k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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Other information
The other information comprises the information included in the Report of the Board including Strategic 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 our 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 this other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Cooperative and Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 requires us to report to you if, in our opinion:
- the information given in the Report of the Board including Strategic Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- a satisfactory system of control over transactions has not been maintained; or
- the Association has not kept adequate accounting records; or
- the Association's financial statements are not in agreement with accounting records and returns; 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 36, the Board is 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 determines 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 is responsible for assessing the Group's and 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 intends to liquidate the Group or 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 web-site at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the Board and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout out team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Use of our Report
This report is made solely to the Association's members, as a body, in accordance with section 87(2) of the Cooperative and Community Benefit Societies Act 2014. 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.

Beever and Struthers

Beever and Struthers, Statutory Auditor

St George's House
215/219 Chester Road
Manchester
M15 4JE

Date: 25 September 2019

Consolidated Statement of Comprehensive Income

		Group		Association	
	Note	2019	Restated 2018	2019	Restated 2018
		£'000	£'000	£'000	£'000
Turnover	3	34,664	27,781	34,664	27,781
Cost of sales	3	(4,865)	(1,033)	(4,865)	(1,033)
Operating expenditure	3	(14,261)	(13,816)	(14,250)	(13,810)
Gains on disposal of property, plant and equipment	3	912	1,054	912	1,054
Operating surplus	5	**16,450**	**13,986**	**16,461**	**13,992**
Share of operating surplus of joint ventures		(206)	927	1,968	-
Interest receivable	6	346	121	460	104
Interest and financing costs	7	(5,315)	(4,979)	(5,315)	(4,979)
(Decrease) in valuation of investment properties	10c	(10)	(120)	(10)	(120)
Surplus before tax		**11,265**	**9,935**	**13,564**	**8,997**
Taxation		(2)	-	-	-
Surplus for the year		**11,263**	**9,935**	**13,564**	**8,997**
Initial recognition of multi-employer defined benefit scheme	28	(407)	-	(407)	-
Actuarial (losses)/gains in respect of pension schemes	28	(611)	422	(611)	422
Total comprehensive income for the year		**10,245**	**10,357**	**12,546**	**9,419**

The financial statements were approved and authorised for issue by the Board on 10 September 2019 and were signed on its behalf by:

Anne Shearman	Christopher Fawcett	Steve Woodcock	Claire Howe
Chair of Board	**Board Member**	**Chief Executive**	**Company Secretary**

The notes on pages 47 to 99 form an integral part of the financial statements.

Registered with the Mutuals Public Register of the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 (Number 29876R) Registered with the Regulator of Social Housing (Number L4455)

Statement of Financial Position

		Group		Association	
	Note	2019	Restated 2018	2019	Restated 2018
Fixed Assets		**£'000**	**£'000**	**£'000**	**£'000**
Housing Properties at costs	10a	204,630	186,596	204,630	186,596
Other Fixed Assets	10b	3,458	3,178	3,458	3,178
Investment properties	10c	3,230	3,240	3,230	3,240
Investment in subsidiaries	10d	-	-	-	-
Investment in Joint ventures	10e	3,533	3,605	-	155
Tangible fixed assets		**214,851**	**196,619**	**211,318**	**193,169**
Current assets					
Stock	11	10,586	8,052	10,586	8,052
Trade and other debtors	12	6,798	6,256	11,715	8,757
Agreement to improve existing properties	25	5,427	8,614	5,427	8,614
Cash and cash equivalents	13	5,472	1,257	5,432	1,253
		28,283	**24,179**	**33,160**	**26,676**
Less: Creditors: amounts falling due within one year	14	(7,559)	(7,877)	(7,539)	(7,861)
Net current assets		20,724	16,302	25,621	18,815
Total assets less current liabilities		**235,575**	**212,921**	**236,939**	**211,984**
Creditors: amounts falling due after more than one year	15	(175,677)	(160,839)	(175,677)	(160,839)
Provisions for liabilities					
Agreement to improve existing properties	25	(5,427)	(8,614)	(5,427)	(8,614)
Pension provision	28	(3,694)	(2,543)	(3,694)	(2,543)
Other provision	30	(317)	(710)	(317)	(710)
		(9,438)	(11,867)	(9,438)	(11,867)
Total net assets		**50,460**	**40,215**	**51,824**	**39,278**
Reserves	25 & 32				
Non-equity share capital		-	-	-	-
Income and expenditure reserve		50,460	40,215	51,824	39,278
Total reserves		**50,460**	**40,215**	**51,824**	**39,278**

The financial statements were approved and authorised for issue by the Board on 10 September 2019 and were signed on its behalf by:

Anne Shearman	Christopher Fawcett	Steve Woodcock	Claire Howe
Chair of Board	**Board Member**	**Chief Executive**	**Company Secretary**

The notes on pages 47 to 99 form an integral part of the financial statements. Registered with the Mutuals Public Register of the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 (Number 29876R) Registered with the Regulator of Social Housing (Number L4455)

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Consolidated Statement of Changes in Equity

	Group		Association	
	Share Capital	Restated Income & Expenditure	Share Capital	Restated Income & Expenditure
	£'000	£'000	£'000	£'000
Balance as at 1 April 2017	-	**29,858**	-	29,858
Surplus for the year	-	**9,935**	-	8,997
Actuarial gain in respect of pension schemes	-	**422**	-	422
Balance as at 1 April 2018	**-**	**40,215**	**-**	**39,278**
Surplus for the year	-	**11,263**	-	13,289
Initial recognition of multi-employer pension scheme	-	**(480)**	-	(480)
Actuarial loss in respect of pension schemes	-	**(538)**	-	(538)
Balance as at 1 April 2019	**-**	**50,460**	**-**	**51,824**

The Group and Association have issued share capital of £9 (2018: £9). The Group and Association had equity at the reporting date of £50,460k (2018: £40,215k) and £51,824k (2018: £39,278k) respectively.

The notes on pages 47 to 99 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

		Group
	2019	Restated 2018
	£'000	£'000
Net cash generated from operating activities (see Note 21)	**14,978**	**14,541**
Cash flow from investing activities		
Purchase of tangible fixed assets	(23,601)	(30,878)
Proceeds from sale of tangible fixed assets	4,922	2,942
Grants received	2,006	1,067
Investments in JVs	-	(598)
Investment income received	7	2
	(16,666)	**(27,465)**
Taxation	(2)	-
Cash flow from financing activities		
Interest paid	(6,095)	(6,002)
New secured loans	12,000	18,000
Repayments of borrowings	-	-
	5,905	**11,998**
Net change in cash and cash equivalents	**4,215**	**(926)**
Cash and cash equivalents at beginning of the year	1,257	2,183
Cash and cash equivalents at end of the year	5,472	1,257
	4,215	**(926)**

The notes on pages 47 to 99 form an integral part of the consolidated financial statements.

Notes to the Financial Statements

1. Legal status

The Association is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 with registration number 29876R and is also registered with the Regulator of Social Housing as a Private Registered Provider of Social Housing with registration number L4455. The registered office is 17 Amwell Street, Hoddesdon, EN1 18TS.

The Group is a Public Benefit Entity as defined in FRS 102 section 34.

2. (a) Principal accounting policies

The Group and Association is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered with Regulator of Social Housing with effect from 1 April 2012 as a Registered Provider of social housing.

Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 - the financial reporting standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, the Statement of Recommended Practice: Accounting by Registered Social Landlords 2014 (SORP) and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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 2015.

The accounts are prepared on the historical cost basis of accounting as modified by valuation of investment properties and are presented in £'000 except where specifically stated otherwise.

Basis of consolidation

The Group's consolidated financial statements include the financial statements of the Association, all of its subsidiary undertakings and joint ventures. A subsidiary is an entity controlled by the Group and control is construed as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements have been prepared using the line by line consolidation for subsidiaries and equity method for joint ventures entities as appropriate. Group entities are detailed within note 27 to the financial statements. The results of joint ventures have been incorporated into the Financial Statements, consolidated from management accounts, as they do not share same reporting date with the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Exemptions for qualifying entities under FRS 102

The Association has elected to apply the following reduced disclosures, which are permitted in accordance with FRS 102:

- Exemption to not disclose a separate cash flow statement in accordance with FRS 102 1.12(b) as the Association is a qualifying entity and the Group prepares a consolidated cash flow statement
- The Association has taken advantage of the exemptions under FRS 102 Paragraph 33.1A not to disclose the details of related party transactions with wholly owned subsidiaries.

2. (a) Principal Accounting Policies (continued)

Turnover and revenue recognition
Turnover represents rental income receivable, service charge receivable income, amortised capital grants from government sources, revenue grants from local authorities and Homes England, income from the sale of low cost home ownership and outright property sales and other income. Turnover is recognised in relation to the period when the goods or services have been supplied and when risks and rewards of ownership have transferred to the counter party.

Rental income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion. Supporting People Income is recognised under the contractual arrangements.

Value Added Tax
The Group and 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 Group and 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.

The Association operates a VAT shelter arrangement, which was agreed in 2006 with HM Revenue and Customs. This facilitates the full recovery of VAT on expenditure falling within the agreed definition of “improvements” to property. 50% of VAT recoveries under the transfer VAT shelter arrangement are reimbursed to the Borough of Broxbourne.

A second VAT shelter was agreed in 2013 and relates to the refurbishment of properties acquired from London Borough of Haringey. The Association retains the full VAT recoveries from this VAT shelter agreement.

Related party transactions
The Group and Association have taken advantage of the exemptions in FRS 102 and have decided not to disclose transactions between regulated entities or between non-regulated entities, except as required by the Accounting Direction 2015. Disclosure requirements for transactions between regulated entities and non-regulated entities are provided in note 27.

Tangible fixed assets
Tangible fixed assets are made up of housing properties held for social housing, housing and commercial properties classified as investment properties and other fixed assets such as leasehold offices, freehold offices, furniture, fixtures and fittings, IT and office equipment, motor vehicles and plant and equipment.

Tangible fixed assets other than investment properties are stated at cost, less accumulated depreciation, less impairment where applicable. Investment properties are carried at their fair value at the reporting date.

Other than investment properties which are not depreciated, tangible fixed assets are depreciated over their useful lives, taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Housing properties
Housing properties are principally properties available for rent and low cost home ownership. They are held for social benefit purposes and are stated at net historic cost after accumulated depreciation and accumulated impairment.

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2. (a) Principal Accounting Policies (continued)

Historic costs are made up of the acquisition costs of the housing assets, plus unavoidable costs of acquisition when the asset is bought outright by B3Living.

Where B3Living develops the property, costs include the cost of acquiring land and buildings, construction costs, capitalised interest charges incurred during the development period and directly attributable development overhead costs.

Any subsequent major repairs or capital expenditure to existing properties, which replace a component that has been identified separately for depreciation purposes, along with those works that result in enhancing the economic benefits of the properties, are capitalised as improvements. Where a component is replaced the cost and related depreciation are derecognised from housing assets

Economic benefits are enhanced if work performed results in an increase in rental income, a reduction in future maintenance costs or a significant extension to the useful economic life of a property and its components.

Improvements are works which either fall within the definition of the VAT shelter works or result in an increase in the net rental income, such as a reduction in future maintenance costs, or result in a significant extension of the useful economic life of the property in the business. Only the direct overhead costs associated with new developments or improvements are capitalised.

Low cost home ownership properties are split between current and tangible fixed assets based on the anticipated first tranche sale proportion. The first tranche proportion is recognised in the current assets as stock. The remaining fixed asset proportion of low cost home ownership properties is included in housing properties at cost, less any accumulated impairment. Low cost home ownership properties are not depreciated.

Impairment of housing properties
Housing properties and other assets are subject to impairment reviews, when a potential trigger for impairment has occurred. Where there are no impairment triggers then no impairment is recognised. Any impairment will be recognised in the Statement of Comprehensive Income in the year it materialises.

Where there is evidence of impairment, the fixed assets are written down to their recoverable amount. Any such write down is charged to operating surplus. The recoverable amount is the higher of the fair value or value in use (VIU) or value in use – service potential (VIU-SP). The fair value for social housing units is the existing use value for social housing (EUV-SH). VIU is the discounted future cashflow from the housing asset. B3Living assesses VIU-SP as the amount it will cost to replace the housing asset. Impairment is assessed at income generating unit and B3Living has judged the scheme level to be its income generating unit level.

Capitalisation of interest and administration costs
Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress. Interest is capitalised based on the weighted average cost of capital and the costs incurred until practical completion.

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

2. (a) Principal accounting policies (continued)

Depreciation of housing properties
Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual useful economic life. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred. The Group and Association depreciate freehold housing properties by component on a straight-line basis over the estimated useful economic lives of the component categories.

Useful economic lives for identified components are as follows:

	Years
Structure – houses	100
Structure – flats	75
Roofs	60
Windows and doors	30
Bathrooms	30
Electrics	30
Lift	30
Adaptations	15
Kitchens	20
Heating	15
Other	15

Land is not depreciated.

The Group and Association depreciate housing properties held on long leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Other fixed tangible assets
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. A full year's depreciation is charged in the year of acquisition of the asset. No depreciation is charged in the year of disposal. The principal annual rates used for other assets are:

	Years
Freehold offices	30
Furniture, fixtures & fittings	10
Plant & equipment	10
Computers & office equipment	5
Motor vehicles	5

2. (a) Principal accounting policies (continued)

Long leasehold properties
Long leasehold properties are depreciated over the life of the lease.

Investment properties
The Association has properties that have been classified within the scope of FRS 102 section 16, such as market rented properties and one commercial building. These are carried in the Statement of Financial Position at their fair values, with the changes in fair value being recognised in Statement of Comprehensive Income where they are completed properties.

Where investment properties are work in progress, they are carried at cost less impairment. Cost includes the purchase price plus any other acquisition costs, construction costs to date plus directly attributable development overheads and capitalised interest.

The Association engages an independent valuer to determine fair value at each reporting date. The independent valuer uses a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 10c.

Donated land
Donated land from government sources, such as local authorities, is included in cost at the valuation on donation that reflects how the land will be used, with the donation treated as a capital grant. Land donated for social housing is valued on donation at the EUV-SH and land donated for non-social housing purposes is valued at the open market value. In the case of section 106 land, the valuation takes into account all the conditions of sale imposed by the local authority and its value in use to the Association.

Where land is donated by a non-government source, it is recognised as income using the performance approach.

When housing properties are to be transferred to another registered provider, the net costs, after Social Housing Grant (SHG), are dealt with in current assets. In this instance, the SHG follows the property to the Association the property is being transferred to.

Social housing and other government grants
Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in turnover over the estimated useful life of the associated asset structure (not land), under the accruals model.

SHG received for items of cost written off in the Statement of Comprehensive Income is included as part of turnover. The grant amortisation only commences when the housing asset is practically complete; therefore, grants relating to properties under construction are not amortised.

The accumulated amortised government grants recognised through the Statement of Comprehensive Income Statement represent contingent liabilities to the Group and Association. The contingent grant liability materialises when the relevant property to which the amortised grant relates to ceases to be used for social housing purposes usually due to disposal of the housing asset change in use of the asset from social housing to open market activity. If the property is disposed or there is a change in use, the grant for the asset needs to be recycled.

2. (a) Principal accounting policies (continued)

Recycled Capital Grant Fund (RCGF)
RCGF arises when a property funded or part funded by SHG, or a property from a stock transfer which was grant funded, ceases to be used for social housing purposes.

Where SHG is recycled, it is credited to a fund which appears as a creditor until used to fund the acquisition or construction of new properties. Where recycled grant is known to be repayable it is shown as a creditor within one year.

Disposal Proceeds Fund (DPF)
Receipts from the sale of SHG-funded properties less the net book value of the property and the costs of disposal are credited to the DPF. The DPF amount can be carried forward for up to three years until it is used to fund the acquisition of new social housing or paid back to the Homes England. No new funds are being put in the fund.

Holiday pay accrual
A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the year-end date.

Pensions
The Group and Association participates in two funded multi-employer defined benefit schemes: The Social Housing Pension Scheme (SHPS) and the Hertfordshire County Council Pension Fund (HCCPF). HCCPF is a local government pension scheme. The Group and Association also participate in a defined contribution scheme: The Group Personal Pension Scheme (GPPS). These schemes are now closed to new employees.

Hertfordshire County Council Pension Fund (HCCPF) and Social Housing Pension Scheme (SHPS)
For the HCCPF and SHPS, the operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned.

The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities, are recognised in the accounting period in which they arise.

The operating costs, finance costs, expected return on assets and any other changes in fair value of assets and liabilities is recognised in the Statement of Comprehensive Income.

Social Housing Pension Scheme (SHPS)
In January 2019, the Financial Reporting Council (FRC) issued FRED 71, which proposed changes to FRS 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland) to enable multi-employment pension schemes to move from defined contribution to defined benefit accounting. Historically TPT Retirement Solutions has not been able to provide sufficient information of the share of the underlaying assets and liabilities of each entity to allow defined benefit accounting to be applied.

In accordance with the requirements of FRS 102, the costs are accounted for when committed, regardless of when the benefits are deliverable. The financial statements reflect, at fair value, the assets and liabilities arising from the Group's and Association's retirement obligations.

The operating costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by the employees. The related finance costs and any other charges in value of the assets and liabilities are recognised in the accounting period in which they arise.

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2. (a) Principal accounting policies (continued)

Supported housing managed by agencies
Income and expenditure in respect of supported housing projects depends on the nature of the partnership arrangements between the Group and Association and its managing agents and on whether the Group and Association carry the financial risk. Where the Group and Association carry the financial risk, these transactions are recognised in the SOCI.

The assets and associated liabilities are included in the Group and Association's Statement of Financial Position.

Service charges
The Association operates both fixed and variable service charges on a scheme-by-scheme basis in full consultation with residents. Where variable service charges are used, the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered, they are held as creditors or debtors in the Statement of Financial Position.

Support income and costs including Supporting People income and costs
Supporting People (SP) contract income received from administering local authorities is accounted for as SP income in the turnover note 3. The related support costs are matched against this income in the same note.

Interest receivable and similar income
Interest receivable income is recognised on an accrual basis in the period it relates to using the effective interest rate method. It is included as income in the Statement of Comprehensive Income.

Interest payable and similar charges
Interest payable is recognised on an accrual basis using the effective interest method. It is included as an expense in the Statement of Comprehensive Income. The Association has elected to capitalise interest on developments under construction.

Financial instruments
FRS 102 provides for three accounting choices for accounting for financial instruments. The Association has elected to use the option to apply the requirements of FRS 102 sections 11 and 12 when accounting for financial instruments. FRS 102 classifies financial instruments into two classes – basic financial instruments and other financial instruments.

Basic financial instruments are recognised at transaction price plus transaction costs on initial recognition and subsequently they are accounted at carrying value, which is the amortised cost. Other financial instruments are recognised at transaction price plus transaction costs on initial recognition and subsequently at their fair value at each reporting date. The Association's financial instruments are classified into either financial assets or financial liabilities.

The Group and Association recognises financial instruments when it becomes party to them and when the risks and rewards of the financial instruments transfer to the Association. Financial instruments are derecognised when an extinguishment event occurs. An extinguishment event occurs when the Association is no longer party to the financial instruments and ceases to have risks or rewards associated with the financial instrument or when there are significant changes to the terms of the financial instrument.

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2. (a) Principal accounting policies (continued)

Below are the Group and Association's accounting policies for accounting for the following financial instruments:

Basic financial instruments:

Cash and cash equivalents
Cash and cash equivalents comprise of cash balances and short-term investments, which can be liquidated at short notice with no loss of capital. Bank overdrafts that are repayable on demand and form an integral part of the Association's cash management, are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

The Group and Association has identified some investments, which meet the definition of cash and cash equivalents but are restricted in their use. These investments have been classified as cash equivalents.

Trade debtors, other debtors, trade creditors and other creditors
Trade debtors, including rent arrears and other debtors, are recognised initially at their transaction price less transaction costs. Subsequent to initial recognition, these are measured at amortised cost using the effective interest method, less any impairment losses.

In the case of debtors where any arrangement constitutes a financing transaction that is it ceases to be a normal trading transaction, for example, if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Trade and other creditors are recognised initially at their transaction price plus transaction costs. Subsequent to initial recognition these financial instruments are measured at amortised cost.

Impairment of debtors
A provision for doubtful bad debt is made for the impairment of current rent debtors based on the average age profile of the relevant rent arrears. The bad debts provision is calculated to reflect the risk of default of the relative tenant arrears or trade debtor. The longer the amount remains due the higher the provision will be made for the amount owed.

Bond issues and housing loans
Bond issues and other interest bearing borrowings, such as housing loans from lenders, are recognised initially at the transaction price less transactions costs. Subsequent to initial recognition, bond issues and housing loans are stated at amortised cost using the effective interest method, less any impairment losses where applicable.

Concessionary loans
The Group and Association is party to interest free arrangements or financing arrangements that are not subject to paying or receiving the market interest rates; for example, with some tenants who are over the normal payment terms and where the Association is party to a joint arrangement agreement with a development partner.

Where an entity is a public entity member such as the Association, it can elect in line with FRS 102 section 34 to account for transactions that are not at market interest rates as concessionary loans. The Association has accounted for some tenant arrears and the interest free loan in the joint arrangement as concessionary loans and these are therefore being carried in the Statement of Financial Position at amortised cost.

2. (a) Principal accounting policies (continued)

Liquid resources
Liquid resources are readily disposable current asset investments. This policy is defined in the treasury Management Policy. Liquid resources are accounted under FRS 102 section 11 at amortised cost less transaction costs using an effective interest rate.

Other financial instruments:
Other financial instruments are financial instruments not meeting the definition of basic financial instruments in FRS 102 section 11 are recognised initially at transaction price less transaction costs. Subsequent to initial recognition, other financial instruments are measured at fair value with changes recognised through the statement of comprehensive income. At the reporting date all of the Association's financial assets and financial liabilities met the definition of basic financial instruments under FRS 102 section 11.

Loan finance issue costs
The costs relating to the raising of finance are written off evenly over the life of the related debt financial instrument such as a bond issue or housing loan. Debt financial instruments are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts of the issue costs written off. Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the Statement of Comprehensive Income in the year in which the redemption took place.

Corporation taxation
The Group has charitable status and provides services that are exempt from corporation tax; therefore, it has no taxation liability for corporation tax. The subsidiaries are non-charitable and as such are subject to corporation tax.

Stock – Properties for sale
Stock – Properties for sale include the first tranche element of low cost home ownership units and properties developed for outright sale. These are accounted as current assets in the Statement of Financial Position and they are stated at the lower of cost and fair value, less costs to complete and sell. Costs include the cost of land, construction costs, directly attributable costs, capitalised interest and direct overheads. Fair value reflects the market value of the stock at the reporting date.

Under the terms of the transfer agreement with Borough of Broxbourne (BoB), proceeds from right to buy and low cost home ownership staircasing sales are shared with BoB. On completion of a right to buy or relevant low cost home ownership sale contract, only proceeds attributable to the Association are credited to the Statement of Comprehensive Income.

Agreements to improve existing properties
Where the Association has entered into agreements to purchase property from a third party and subsequently enters into a sub-contracting agreement to carry out improvement works to the properties, the related assets and liabilities are shown at gross values unless the right of net settlement exists.

Joint arrangements that are not entities
The Group and Association is party to a joint arrangement with a development partner. The joint arrangement is for the sharing of risks, income and development costs incurred in regard to a development of a scheme. Under FRS 102, where the Group and Association is party to a joint arrangement which is not an entity, the Association's financial statements should reflect directly its share of income and expenditure, assets, liabilities and cash flows.

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2. (a) Principal accounting policies (continued)

Joint ventures
A joint venture is a contractual arrangement whereby the Group and Association undertake an economic activity, mainly development of properties with development partners such as private developers or a local authority, that is subject to joint control with these third parties. These third parties, together with the Group and Association, have rights to the net assets of the joint venture. The Association's interest in the joint venture is accounted for as an investment; however, the Group accounts for joint ventures under the equity method of accounting at cost. Under the equity method, the Group's share of profits, after taxation or losses, are included in the Statement of Comprehensive Income and its interest in net assets is included as an investment in the Statement of Financial Position.

Provisions
Provisions are recognised when the Association has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources from the Association will be required to settle the obligation, and the amount of the obligation can be estimated reliably at the reporting date.

Segmental reporting
As the Group has issued a listed bond debt which is publicly traded, it is required to disclose information about its operating segments in accordance with IFRS 8. The Chief Operating Decision Maker (CODM) has been identified as the Executive Directors.

The Executive Directors have identified the operating segments as General Needs, Sheltered Housing, Low Cost Home Ownership and other, reflecting the way in which the organisation is operated and managed.

As the Group has no activities outside of the UK, segment reporting is not required by geographical region.

General Needs and Sheltered Housing segments incorporate all of the Group's social rented housing provision activities, including both social rent and affordable rent properties. Income is derived primarily from rental income and service charges.

Low cost home ownership comprises of those properties where the Group has sold a proportion of the equity share to the occupier, while retaining the remaining equity and the freehold of the property. Income is derived from service charges in respect of the properties and from rent charged on the unsold equity element of the properties.

Other incorporates all income and costs from overhead departments, one commercial property and market rented properties.

The analysis of the Statement of Comprehensive Income by segment is provided in note 3c to these financial statements. The management reporting structure does not require analysis of assets and liabilities by segment, and these are therefore not included in the analysis of segmental reporting.

2. (b) Principal accounting policies judgements and accounting estimates
The preparation of the financial statements requires the management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the reporting date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

2. (b) Principal accounting policies judgements and accounting estimates (continued)

i) Critical judgements in applying the Association's accounting policies
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:

Classification of housing properties (Notes 10a and 10c)
The Association has undertaken a detailed review of the intended use of its housing properties portfolio. In determining the intended use, the Association has considered if the asset is held for social benefit or to earn commercial rentals. Where the Association has determined that its housing portfolio is held for social benefit purposes, it has been accounted under the requirements of FRS 102 section 17. Where the Association has deemed that the properties are not held for social benefit purposes, these properties have been classified as investment properties and therefore have been accounted for under FRS 102 section 16.

Capitalisation of property development costs (Notes 10a and 10c)
Distinguishing the point at which a project is considered to be more likely to continue, and therefore recognised as an asset, allowing capitalisation of development costs, requires judgement. After capitalisation, management monitors the project and considers whether events indicate that an impairment review is required. Where a project is considered not to continue and therefore be aborted, the costs relating to that project are expensed within the Statement of Comprehensive Income.

Determining whether an impairment review is required (Note 10a)
Indicators of impairment are applied in determining whether there is impairment in respect of an asset or association of assets owned by the Association. Indicators include: changes in government policy, a reduction in the market value of properties where the occupant has the right to acquire, a reduction in the demand for a property, obsolescence of a property or contamination of a site. Impairment is tested at income generating unit (IGU) level which is at scheme level.

Impairment is assessed by comparing the carrying value of the asset against its recoverable amount. The recoverable amount is the higher of value in use or fair value as represented by existing use value social housing (EUV-SH), value in use (VIU) or value in use service potential (VIU-SP). The EUV-SH, VIU and VIU-SP to be used require management judgement.

Determining whether a debt instrument satisfies the requirement to be treated as basic (Note 15)
Judgement is required to determine whether a debt instrument satisfies the requirements in FRS 102 Paragraph 11.9 to be treated as basic. For debt instruments to be classified as basic financial instruments, the interest must be a positive amount or positive rate, at market rates. They should not be index linked excluding RPI and the lender cannot unilaterally amend interest rates. Debt instruments are used to provide long term funding for the Association's operations and not for speculative trading. Facilities with two-way break clauses are judged to be basic. The capital structure of the Association includes bond and loan funding from lenders which are judged to be basic financial instruments.

2. (b) Principal accounting policies judgements and accounting estimates (continued)

Determining the fair value of other debt instruments (Note 15)
Financial instruments that do not meet the definition of being basic under FRS 102 have to be measured at fair value using a hierarchy of estimates which prioritises quoted prices in an active market, then recent transactions of identical assets and finally the use of valuation techniques. In applying this hierarchy, management have to apply a significant amount of judgement and, where available, deem the best estimate of fair value of any one debt instrument to be the exit prices quoted by the respective counterparty.

ii) Key accounting estimates and assumptions
The Association makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Housing property impairment
Housing properties are reviewed for impairment to determine whether an impairment trigger is deemed to have occurred. Where there is an impairment trigger and evidence of impairment, fixed assets are written down to their recoverable amount. Any such write down is charged to operating surplus. Impairment is assessed by comparing the carrying value to the recoverable amount.

The recoverable amount is the higher of: fair value less costs to sell as represented by EUV-SH, VIU, and VIU-SP. If the carrying value is greater than the recoverable amount, then an impairment charge is made. VIU and VIU-SP require management estimates of timing of cash flows, discount rate and life of the asset and EUV-SH is underpinned by judgements and estimates made by independent valuers (see Note 10a).

Depreciation of housing properties
Components of housing properties are depreciated over their useful economic lives, which are determined by the length of time the individual component will be used before it is replaced. The management judges the economic lives of the components estimates based on the historic replacement cycles and the historic component performance.

Components are determined by management using the largest elements of the properties by cost which can be separately identified as assets in their own right (see Note 10a).

Housing property cost allocation
Where a scheme under construction is a mixed tenure scheme, the total costs of the scheme are split using a suitable method, such as floor area or rental yield between the various elements, such as tangible housing asset, invest property and stock. The allocation of the cost of low cost home ownership schemes under construction between stock and housing properties is determined by looking at the predicted amount to be sold as a first tranche sale. This predicted amount is based on the likely demand for the scheme (see Note 10a).

Investment properties fair value estimation
The independent valuer uses a valuation technique based on a discounted cash flow model to ascertain the fair value. The fair value of the investment property is sensitive to annual inflation rates, the level of rent increases, the estimated yield and long term vacancy rates. The key assumptions used to determine the fair value of investment property are further explained (see note 10c).

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2. (b) Principal accounting policies judgements and accounting estimates (continued)

Other fixed assets
Other fixed assets are depreciated over their useful economic lives, which are determined by the length of time the asset is expected to be in use (see Note 10b).

Stock – Properties for sale
Stock is carried in the Statement of Financial Position at the lower of cost and fair value less costs to complete and sell. Fair value less costs to sell is based on the estimated selling price less selling costs such as marketing costs. Estimated selling prices are based on estimates of similar properties in the same location and traded in an optimum market where demand and supply assumes perfect market conditions.

3a. Group turnover, cost of sales, operating costs and operating surplus

	Group Turnover	Cost of Sales	Operating expenditure	Operating surplus 2019	Operating surplus 2018
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Social housing lettings (note 3c)	26,009	-	(13,373)	**12,636**	12,282
Other social housing activities:					
First tranche low cost home ownership sales	7,786	(4,865)	-	**2,921**	884
Supporting people	95	-	(95)	**-**	-
Leaseholders	193		(299)	**(106)**	(40)
Development costs not capitalised	-	-	(124)	**(124)**	(490)
Community Services & Resident Involvement	18		(334)	**(316)**	(251)
Total other social housing activities	**34,101**	**(4,865)**	**(14,225)**	**15,011**	**12,385**
Activities other than social housing					
Commercial rent	84	-	(12)	**72**	52
Market rent	61	-	(7)	**54**	48
Other	418	-	(17)	**401**	447
Total non-social housing activities	**563**	**-**	**(36)**	**527**	**547**
Total*	**34,664**	**(4,865)**	**(14,261)**	**15,538**	**12,932**
Gains on disposal of housing properties	**-**	**-**	**-**	**912**	**1,054**
Total	**34,664**	**(4,865)**	**(14,261)**	**16,450**	**13,986**

**During the year, we reviewed our allocation and apportionment methodology for indirect and overhead costs. Refer to note 32 for a detailed explanation.*

3b. Association turnover, cost of sales, operating costs and operating surplus

	Association Turnover	Cost of Sales	Operating expenditure	Operating surplus 2019	Operating surplus 2018
	£'000	£'000	£'000	£'000	£'000
Social housing lettings (note 3b)	26,009	-	(13,373)	**12,636**	12,286
Other social housing activities:					
First tranche low cost home ownership sales	7,786	(4,865)	-	**2,921**	884
Supporting people	95	-	(95)	**-**	-
Leaseholders	193	-	(299)	**(106)**	(40)
Development costs not capitalised	-	-	(124)	**(124)**	(487)
Resident Involvement	18	-	(334)	**(316)**	(251)
Total social housing activities	**34,101**	**(4,865)**	**(14,225)**	**15,011**	**12,392**
Activities other than social housing					
Commercial rent	84	-	(12)	**72**	52
Market rent	61	-	(7)	**54**	48
Other	418	-	(6)	**412**	446
Total non-social housing activities	**563**	**-**	**(25)**	**538**	**546**
Total	**34,664**	**(4,865)**	**(14,250)**	**15,549**	**12,938**
Gains on disposal of property, plant and equipment	**-**	**-**	**-**	**912**	**1,054**
Operating surplus	**34,664**	**(4,865)**	**(14,250)**	**16,461**	**13,992**

**During the year, we reviewed our allocation and apportionment methodology for indirect and overhead costs. Refer to note 32 for a detailed explanation.*

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3c. Income and expenditure from Social Housing Lettings

Particulars of income and expenditure - Group	General Housing	Sheltered Housing	Low cost Home ownership	Total 2019	Restated Total 2018
	£'000	£'000	£'000	£'000	£'000
Income					
Rent receivable net of identifiable service charge	22,742	1,654	664	**25,060**	23,876
Service charge income	368	414	37	**819**	825
Net rental income	**23,110**	**2,068**	**701**	**25,879**	**24,701**
Amortised government grants	107	-	23	**130**	155
Turnover	**23,217**	**2,068**	**724**	**26,009**	**24,856**
Operating expenditure					
Management Costs	(2,485)	(878)	(125)	**(3,488)**	(2,910)
Service charge costs	(1,140)	(371)	(35)	**(1,546)**	(1,345)
Responsive	(3,289)	(268)	-	**(3,557)**	(3,530)
Planned cyclical maintenance	(1,117)	(94)	-	**(1,211)**	(1,287)
Bad debts	(122)	(4)	-	**(126)**	(43)
Depreciation	(3,018)	(251)	-	**(3,269)**	(3,181)
Other costs	(174)	(1)	(1)	**(176)**	(278)
Operating expenditure*	**(11,345)**	**(1,867)**	**(161)**	**(13,373)**	**(12,574)**
Operating surplus	**11,872**	**201**	**563**	**12,636**	**12,282**
Prior period operating surplus on social housing lettings	11,602	258	423	12,282	-
Voids	**(213)**	**(60)**	**-**	**(273)**	**(290)**

**During the year, we reviewed our allocation and apportionment methodology for indirect and overhead costs. Refer to note 32 for a detailed explanation.*

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3d. Group segmental reporting

Particulars of income and expenditure - Group	General Housing	Sheltered Housing	Low cost Home ownership	Other	Total 2019	Restated Total 2018
	£'000	£'000	£'000	£'000	£'000	£'000
Income						
Rent receivable net of identifiable service charge	22,742	1,654	664	-	**25,060**	23,876
Service charge income	368	414	37	-	**819**	825
Net rental income	**23,110**	**2,068**	**701**	**-**	**25,879**	**24,701**
Amortised government grants	107	-	23	-	**130**	155
Commercial rent	-	-	-	84	**84**	67
Market rent	-	-	-	61	**61**	54
Management fees	-	-	-	436	**436**	471
Supporting people income	-	-	-	95	**95**	86
Leaseholders	-	-	-	193	**193**	330
First tranche low cost home ownership sales	-	-	7,786	-	**7,786**	1,917
Turnover	**23,217**	**2,068**	**8,510**	**869**	**34,664**	**27,781**
Operating expenditure						
Cost of Sales – Stock	-	-	(4,865)	-	**(4,865)**	(1,033)
Management Costs	(2,485)	(878)	(125)	(17)	**(3,505)**	(2,910)
Service charge costs	(1,140)	(371)	(35)	-	**(1,546)**	(1,345)
Responsive	(3,289)	(268)	-	-	**(3,557)**	(3,530)
Planned cyclical maintenance	(1,117)	(94)	-	-	**(1,211)**	(1,287)
Bad debts	(122)	(4)	-	-	**(126)**	(43)
Depreciation	(3,018)	(251)	-	-	**(3,269)**	(3,181)
Supporting people costs	-	-	-	(95)	**(95)**	(86)
Development costs not capitalised	-	-	-	(124)	**(124)**	(490)
Other costs	(174)	(1)	(1)	(652)	**(828)**	(944)
Operating expenditure*	**(11,345)**	**(1,867)**	**(5,026)**	**(888)**	**(19,126)**	**(14,849)**
Gains on disposal of property, plant and equipment (fixed assets)	866		46	-	**912**	1,054
Segmental Operating Surplus	**12,738**	**201**	**3,530**	**(19)**	**16,450**	**13,986**
Share of operating surplus of joint ventures	-	-	-	(206)	**(206)**	927
Interest receivable	-	-	-	346	**346**	121
Interest and financing costs	(4,259)	(421)	(635)	-	**(5,315)**	(4,979)
Increase/(decrease) in valuation of investment properties	-	-	-	(10)	**(10)**	(120)
Operating surplus	**8,479**	**(220)**	**2,895**	**111**	**11,265**	**9,935**
Social housing properties	163,982	16,218	24,430	-	**204,630**	186,596
Other fixed assets	2,728	270	406	54	**3,458**	3,178
Investment properties	-	-	-	3,230	**3,230**	3,240
Investment in Joint Ventures	-	-	-	3,533	**3,533**	3,605
	166,710	**16,488**	**24,836**	**6,817**	**214,851**	**196,619**

**During the year, we reviewed our allocation and apportionment methodology for indirect and overhead costs. Refer to note 32 for a detailed explanation.*

3e. Accommodation owned and in management

At the end of the year accommodation in management for each class of accommodation for both Group and Association were as follows:

	Group & Association	
	2019	**2018**
	No.	**No.**
Social housing owned and managed by Association:		
General needs housing	2,716	2,770
Affordable rent	802	634
Supported housing/housing for older people	289	311
Low cost home ownership	250	192
Leaseholders	686	676
Intermediate rented	4	4
Rent to Homebuy	2	2
Total social housing owned and managed	**4,749**	**4,589**
Social housing owned but managed by others	49	49
Total social housing owned	**4,798**	**4,638**
Non-social housing owned:		
Market rented	4	4
Leased to other Associations	103	103
Total non-social housing owned	**107**	**107**
Total housing owned and managed	**4,905**	**4,745**

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4. Gains on disposals of property, plant and equipment

	Group & Association	
	2019	2018
	£'000	£'000
Right to buy and acquire		
Proceeds	2,835	1,832
Cost of sales	(2,597)	(1,325)
Total surplus	**238**	**507**
Staircasing		
Proceeds	571	660
Cost of sales	(525)	(402)
Total surplus	**46**	**258**
Other Disposals		
Proceeds	1,152	450
Cost of sales	(524)	(161)
Total surplus	**628**	**289**
Total surplus	**912**	**1,054**

5. Operating surplus

	Group		Association	
	March 2019	Restated March 2018	March 2019	Restated March 2018
	£'000	£'000	£'000	£'000
Operating surplus (all relating to continuing activities- included within operating costs) is stated after charging/(crediting):				
Auditors' remuneration (excluding VAT):				
In their capacity as auditors	31	35	24	29
Operating lease payments	214	265	214	265
Depreciation:				
Tangible Fixed Assets - housing properties	3,269	3,384	3,269	3,384
Accelerated depreciation on component	(201)	(81)	(96)	(81)
Other fixed assets	154	160	134	160
Amortisation of grant funding	(130)	(155)	(130)	(155)
Surplus on sale of fixed assets	(912)	(1,054)	(912)	(1,054)

6. Interest receivable and similar income

	Group		Association	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Interest receivable and similar income	346	121	460	104

7. Interest and financing costs

	Group & Association	
	2019	2018
	£'000	£'000
On loans wholly or partly repayable in more than five years	6,224	5,999
Costs associated with financing	249	220
On recycled capital grant fund and disposable proceeds funds	-	1
Less: Interest capitalised***	(1,242)	(1,319)
	5,231	**4,901**
Interest on pension scheme liabilities	467	397
Expected return on employer assets	(383)	(319)
	81	**76**
Total Interest payable and similar charges	**5,315**	**4,979**

***The weighted average interest on borrowing of 3.79% (2018: 4.04%) was used for calculating capitalised interest.

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8. Tax on surplus

	Group		Association	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
(a) Analysis of tax charge in year				
UK corporation tax on surplus	(2)	-	-	-
(b) Factors affecting tax charge for the year				
Surplus before tax	**11,265**	**9,935**	**13,564**	**8,997**
Surplus multiplied by corporation tax rate in the UK of 19% (2018: 19%)	2,140	1,888	2,577	1,709
Effects of:				
Non-taxable charitable activities	(2,140)	(1,888)	(2,577)	(1,709)
In relation to prior year activities	(2)	-	-	-
Total tax charge	**(2)**	**-**	**-**	**-**

9. Employee information

Average monthly number of employees expressed in full time equivalents of 37 hours per week:

	Group & Association	
	2019	2018
	No.	No.
Executive Team	5	4
Development and Sales	11	10
Finance and IT	14	10
Facilities and Communications	7	7
Service Delivery	131	142
HR and Business Improvement	5	5
	173	**177**

Employee costs:

	Group & Association	
	2019	2018
	£'000	£'000
Wages and salaries	4,679	5,000
Social security costs	455	467
Other pension costs	605	469
Termination payment	325	256
Less: Capitalised salaries	(1,007)	(1,058)
	5,057	**5,134**

The Association's employees are members of the various pension schemes as detailed in note 28.

9. Employee Information (continued)

Aggregate number of full time equivalent staff whose remuneration exceeded £60,000:

	Group & Association	
	2019	2018
	£'000	£'000
£60,000 to £70,000	5	**5**
£70,000 to £80,000	1	**2**
£80,000 to £90,000	1	-
£130,000 to £140,000	1	**2**
£210,000 to £220,000*	1	-
	9	9

*Includes loss of office £98k for an Executive Director

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9. Board members and executive directors

Board Members		Salaries	Benefits	Pension contributions	2019 Total	2018 Total
		£'000	£'000	£'000	£'000	£'000
Anne Shearman	Chair (appointed 18 September 2018)	7	-	-	7	5
Sandra Royer	Chair (resigned 18 September 2018)	4	-	-	4	8
Christopher Fawcett	Vice chair	6	-	-	6	5
Christopher Herbert		4	-	-	4	3
Mark Davies		5	-	-	5	5
Michael Dempsey		2	-	-	2	3
Jaine Cresser	Appointed 18 September 2018	1	-	-	1	-
David Biggs	Appointed 18 September 2018	3	-	-	3	-
Nicci Statham	Appointed 18 September 2018	2	-	-	2	-
Rosalind Rowe	Appointed 18 December 2018	1	-	-	1	-
Trudi Kleanthous	Appointed 18 December 2018	1	-	-	1	-
Paul Tyrrell	Appointed 18 December 2018	1	-	-	1	-
Karen Forbes-Jackson	Resigned 18 September 2018	1	-	-	1	4
Camelia Borg	Resigned 30 March 2018	-	-	-	-	3
Tony Infantino	Resigned 16 May 2018	-	-	-	-	3
		38	**-**	**-**	**38**	**39**

9. Board members and executive directors

Executive Directors		Salaries	Benefits	Pension contributions	2019 Total	2018 Total
		£'000	£'000	£'000	£'000	£'000
Steve Woodcock	Chief Executive (appointed 4 March 2019)*	11	-	-	11	-
Joe Chambers	Chief Executive(resigned 30 November 2018)*	88	-	-	88	148
Alexander Shelock	Executive Director (Finance) (appointed 16 July 2018)	80	-	7	87	-
Joanna Moore	Finance Director	-	-	-	-	56
Paul Williams	Resources Director	-	-	-	-	35
Claire Howe	Executive Director (Corporate Services) (appointed 18 December 2018)	86	-	10	96	-
Simon Walton	Operations Director	-	-	-	-	32
Steven Tarry	Director of Development & Asset Management resigned 16 November 2018)	196	-	20	216	141
		461	**-**	**37**	**498**	**412**

The above list of Board members reflects the members during the year to 31 March 2019. Directors are defined as the members of the Board, the Chief Executive and any other person who is a member of the Senior Management Team or its equivalent, which is also the definition of key management personnel.

*The current Chief Executive joined the Group on 4 March 2019. There was an interim Chief Executive between November 2018 and March 2019. Joe Chambers, the previous Chief Executive left the organisation on 30 November 2018.

*The emoluments of the highest paid Executive Director excluding pension contributions, were £196k including loss of office payment of £98k (2018: £132k).

In the prior year the highest paid Executive Director was the previous Chief Executive. The Chief Executive is a member of the Group Personal Pension Plan. He is an ordinary member of the pension scheme and no enhanced or special terms apply. The Association did not make any further contribution to an individual pension arrangement for the previous or current Chief Executive.

The Group procured directors' services for two members (2018: one member) of the Executive team, including the through third parties. The aggregate amounts payable net of VAT during the financial year in relation to these directors' services were £142k (2018: £43k). These amounts are not included in the table above.

10a. Group and Association - Tangible fixed assets housing properties

Additions to the Group's housing properties during the year include capitalised interest of £1,241k (2018: £1,319k) and capitalised administration costs of £561k (2018: £499k).

Existing Use Value - Social Housing

As at 31 March 2019 the valuation for social housing properties on an Existing Use Value - Social Housing (EUV-SH) basis is £310m (2018: £294m). The carrying amount of these social housing properties is £303m (2018: £163m). The EUV-SH valuation includes £7m (2018: £8.1m) for garages.

					Group & Association
	Completed Social housing properties held for letting	Social housing properties under construction	Shared ownership properties under construction	Completed Shared ownership housing properties	Total 2019
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2018	163,633	24,874	8,141	7,463	**204,111**
Additions during year	719	8,032	9,791	-	**18,542**
Improvements	4,097	-	-	58	**4,155**
Interest capitalised	-	567	674	-	**1,241**
Schemes completed in year	20,128	(20,128)	(8,207)	8,207	**-**
Reclassification of assets held for sale			(1,484)		**(1,484)**
Transfers	11	-	-	(11)	**-**
Disposals	(941)	-	-	(202)	**(1,143)**
Component disposals	(208)	-	-	-	**(208)**
At 31 March 2019	**187,439**	**13,345**	**8,915**	**15,515**	**225,214**
Depreciation and impairment					
At 1 April 2018	**(19,163)**	-	-	-	**(19,163)**
Prior period adjustment	1,647	-	-	-	**1,647**
Charged in year	(3,269)	-	-	-	**(3,269)**
Transfers	3	-	-	-	**3**
Component disposals	112	-	-	-	**112**
Disposals	86	-	-	-	**86**
At 31 March 2019	**(20,584)**	**0**	**0**	**0**	**(20,584)**
Net book value					
At 31 March 2019	**166,855**	**13,345**	**8,915**	**15,515**	**204,630**
At 31 March 2018	146,118	24,874	8,141	7,463	186,596

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10a. Tangible fixed assets housing properties (continued)

Below is an analysis of the expenditure on works to existing properties:

Expenditure on works to existing properties	2019	2018
	£000	£000
Amounts capitalised	**4,155**	3,231
Amounts charged to income and expenditure account	**4,784**	3,451
Total	**8,939**	**6,682**

10b. Group and Association tangible fixed assets – Other fixed assets

	Leasehold Offices	Freehold Offices	Furniture, Fixtures & Fittings	IT & Office Equipment	Motor vehicles	Plant & Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 April 2018	**63**	**3,139**	**318**	**2,597**	**95**	**141**	**6,353**
Additions during year	-	-	-	901	-	-	**901**
Disposals	-	(487)	-	-	-	-	**(487)**
At 31 March 2019	**63**	**2,652**	**318**	**3,498**	**95**	**141**	**6,767**
Depreciation & impairment							
At 1 April 2018	(63)	(152)	(295)	(2,487)	(67)	(111)	**(3,175)**
Charged in year	-	(44)	(6)	(86)	(12)	(6)	**(154)**
Disposals	-	20	-	-	-	-	**20**
At 31 March 2019	(63)	(176)	(301)	(2,573)	(79)	(117)	**(3,309)**
Net book value							
At 31 March 2019	**-**	**2,476**	**17**	**925**	**16**	**24**	**3,458**
At 31 March 2018	**-**	**2,987**	**23**	**110**	**28**	**30**	**3,178**

10c. Group and Association tangible fixed assets – Investment properties

	Market Rented properties completed	Commercial property	Total
	£'000	£'000	£'000
At 1 April 2018	1,640	1,600	3,240
Additions during year	-	-	-
Fair value movements	(10)	-	(10)
At 31 March 2019	**1,630**	**1,600**	**3,230**

Market rented

At the reporting date, market rented properties under construction were carried at their costs to date in line with the Association's accounting policy of carrying work in progress investment properties at their development costs to date. There was no impairment trigger at year end, so there is no impairment charge recognised against market rented properties.

The completed market rented properties were transferred from social housing assets and were valued at year end by independent external valuers. Completed market rented properties were valued by Derrick Wade Waters Chartered Surveyors, in accordance with the Royal Institute of Chartered Surveyors Valuation Standards.

The market valuations have been prepared using the comparative method of valuation, which is a market-based method. This approach is consistent with the market approach iterated in IVS 230. The market-based approach used relies first, on identification of transactional evidence in the market, that is the sales and lettings; second, an interpretation of that evidence; and third, an application of that evidence, with suitable adjustment per the valuer's judgement, in the valuation of the property.

Commercial properties

Investment properties were valued at 31 March 2019 by Paul Wallace which is a professionally-qualified local independent valuer. The valuation of properties was undertaken in accordance with the Royal Institute of Chartered Surveyors Valuation Standards.

In valuing the properties, the following significant assumptions were used:

Discount rate	7%
Annual inflation rate	1%

Level of long-term rent increase

Rent increases relate solely to market value. There is an indication that office rents are increasing slightly in the foreseeable future but as yet firm evidence does not exist.

As at 31 March 2019 and 31 March 2018 there were neither restrictions on the realisability of investment property income nor on the contractual obligations relating to purchase, construction, development, repair or maintenance of investment properties.

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10d. Investment in subsidiaries

The Group and Association have two 100% owned subsidiaries; Everlea Homes Limited and B3Living Development Limited, both non-regulated bodies.

The results of these subsidiaries have been consolidated in the Group accounts. The Group's and the Association's investment into these two subsidiaries are set out below:

Expenditure on works to existing properties	2019	2018
	£	£
Everlea Homes Limited	2	2
B3Living Development Limited	2	2
	4	4

10e. Investments in joint ventures

The Group and Association have investments in two joint ventures in Wheat Quarter Ltd, a company registered by shares and incorporated in England and Wales, and Farnham LLP, a limited liability partnership incorporated in England and Wales.

Both joint ventures are not regulated by the Regulator of Social Housing. Everlea Homes Ltd owns 50% of the net assets in both joint ventures and does not control the strategic direction of the company but has joint influence in appointing directors for the company. The joint ventures have been accounted for as investments in the subsidiaries and have been accounted under equity method in the consolidated accounts.

Below is an analysis of the investment and performance of both joint ventures at the reporting date:

Joint Venture Entity	Partner(s)	Group Interest /Voting Rights	Nature of Business
Wheat Quarter Ltd	Fooks Property Company and Plutus Estates	50% owned by Everlea Homes Ltd	Develops and sell properties
Farnham Road LLP	Bellis Homes Ltd	50% owned by Everlea Homes Ltd	Develops and sell properties

10e. Investments in joint ventures (continued)

	Group	Association
Jointly controlled Entities	**£'000**	**£'000**
Costs	**£'000**	**£'000**
At 1 April 2018	2,679	155
Additions	133	45
Disposals	-	(200)
At 31 March 2019	**2,812**	**-**
Shared of retained profit		
At 1 April 2018	927	-
Loss for the year	(206)	-
At 31 March 2019	**721**	**-**
Net book value		
At 31 March 2019	**3,532**	**-**
At 31 March 2018	3,605	155

	Wheat Quarter Ltd	Farnham Road LLP	Total
	£'000	£'000	£'000
Turnover	160	-	160
Cost of sales and administration expenses	(795)	-	(795)
Surplus / (Deficit) for the year	**(635)**	**-**	**(635)**
Cumulative Surplus / (Deficit)	**-**	**-**	**-**
Share of Cumulative Surplus / (Deficit)	721	-	721
Total Everlea Investment	200	2,611	2,811
Total	**921**	**2,611**	**3,532**

11. Stock – Properties for sale

	Group		Association	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Shared ownership – completed	1,004	291	1,004	291
Shared ownership – under construction	8,263	7,761	8,263	7,761
Land held for sale	1,319	-	1,319	-
	10,586	**8,052**	**10,586**	**8,052**

Stock recognised in cost of sales as an expense was £4,865k (2018: £1,033k).

Land held for sale £1.319m, includes the original cost of £1,484k (note 10a) less impairment charge of £165k.

This reflects the fall in the valuation for sale figure. None of the stock is pledged as collateral against borrowing by the Group and Association (2018: £nil).

12. Trade debtors and debtors

	Group		Association	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Rent arrears	1,111	1,134	1,111	1,134
Less: provision for bad debts	(325)	(256)	(325)	(256)
	786	**878**	**786**	**878**
Prepayment and accrued income	681	898	610	825
Other debtors	571	735	571	735
Inter-company debtors	-	-	311	74
	2,038	**2,511**	**2,278**	**2,512**
Long term debtors				
Loan to subsidiary undertaking	-	-	4,677	2,500
Loan to joint arrangement	4,760	3,745	4,760	3,745
	6,798	**6,256**	**11,715**	**8,757**

13. Cash and cash equivalents

	Group		Association	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Cash in hand and at bank	5,268	1,098	5,228	1,094
Cash held for leaseholders and low cost home ownership	204	159	204	159
Money market deposits	-	-	-	-
Short term liquid investments	-	-	-	-
	5,472	**1,257**	**5,432**	**1,253**

Of the £5,472 (2018: £1,257) cash and cash equivalents, £204k (2018: £158k) is not available for general use. The unavailable cash is made up of the sinking fund for leaseholders' future major repairs £67k (2018: £64k) and Epping Council's share of the Open Market low cost home ownership units £137k (2018: £99k). None of the cash is held as collateral against the borrowing by the Association.

14. Creditors: Amounts falling due within one year

	Group		Association	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Trade creditors	1,912	1,975	1,910	1,973
Rent and service charges received in advance	835	1,093	835	1,093
Taxation and social security	127	121	127	121
Accruals and deferred income	4,280	3,413	4,262	3,399
Deferred grants due to be released in 1 year (note 17)	180	160	180	160
Recycled grants due to be released in 1 year (note 18)	10	-	10	-
Disposal proceeds fund (note 18b)	-	886	-	886
SHPS pension agreement plan (note 28)	-	10	-	10
Other creditors	215	219	215	219
	7,559	**7,877**	**7,539**	**7,861**

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15. Creditors: Amounts falling due after more than one year

	Group & Association	
Jointly controlled Entities	2019	2018
	£'000	£'000
Debt (note 16)	162,000	150,000
Less Issue costs	(1,885)	(1,917)
	160,115	148,083
Deferred capital grant (note 17)	15,261	12,395
Recycled capital grant fund (note 18a)	301	282
SHPS pension agreement plan (note 28)	-	79
	175,677	160,839

The Group and Association have a £65m (2018: £65m) revolving credit facility and this facility had an undrawn balance of £28m (2018: £40m) at the year end.

During the year, the Group and Association drew down £12m (2018: £18m).

16. Debt analysis

	Group & Association	
	2019	2018
Analysis of debt (Note 15)	£'000	£'000
Bond stock/issue	125,000	125,000
Revolving credit facility	37,000	25,000
	162,000	150,000

16. Debt analysis – nominal values (continued)

Group and Association

The Group and Association have a £68m amortising bond issued at 4.823% in January 2013 and a £57m amortising note purchase agreement issued at 3.778% in February 2015. The £68m bond will start to amortise from January 2029 and the £57m note purchase agreement will start to amortise from April 2039. Both will amortise on a straight-line basis.

On 6 May 2015, the Association entered into a £30m revolving credit facility agreement. The facility is fully drawn (2018: £5m) at the year end. On 6 April 2017, the Association entered into another £35m revolving credit facility agreement. The facility has £28m undrawn at the reporting date.

All loan financial instruments are secured against individual properties of the Association and all fall within the scope of FRS 102 section 11; therefore, they are all basic financial instruments. Basic financial instruments are carried at amortised cost.

Financial liabilities as at 31 March 2019

	Effective interest rate	Total Amount	Within 1 Year	2 Year	1-2 Year	2-3 Year	3-4 Year	4-5 Year	Over 5 Year
	%	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revolving credit facility	1.643	37,000	-	-	-	-	25,000	37,000	-
Bond stock									
Fixed rate	4.823	68,000	-	-	-	-	-	-	68,000
Fixed rate	3.778	57,000	-	-	-	-	-	-	57,000
		162,000	-	-	-	-	25,000	37,000	125,000

Financial liabilities as at 31 March 2018

	Effective interest rate	Total Amount	Within 1 Year	2 Year	1-2 Year	2-3 Year	3-4 Year	4-5 Year	Over 5 Year
	%	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revolving credit facility	1.643	25,000	-	-	-	-	-	25,000	-
Bond stock									
Fixed rate	4.823	68,000	-	-	-	-	-	-	68,000
Fixed rate	3.778	57,000	-	-	-	-	-	-	57,000
		150,000	-	-	-	-	-	25,000	125,000

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17. Deferred capital grant

As at 31 March 2019, £130k of capital grants had been amortised (2018: £155k) in the year.

	Group & Association	
	2019	2018
Analysis of debt (Note 15)	**£'000**	**£'000**
At start of the year	**12,554**	11,681
Grant received in the year	2,104	1,217
Transfers from recycled capital grants and disposal proceeds funds	886	-
Transfers to recycled capital grants and disposal proceeds funds	(63)	(199)
Amortised during the year	(130)	(155)
Reclassification	-	-
Other	90	10
At the end of the year	**15,441**	**12,554**
Amount due to be released < 1 year (note 14)	180	160
Amount due to be released > 1 year (note 15)	15,261	12,394
	15,441	**12,554**

18 a) Recycled capital grant fund

	Group & Association	
	2019	2018
	£'000	**£'000**
At start of the year	282	10
Inputs to RCGF:		
Grants recycled	63	199
Transfer from contingent grants (Stock transfer)	41	72
Other adjustments	(75)	-
Interest accrued	-	1
At the end of the year	**311**	**282**
Recycling of grant:		
New build	-	-
At the end of the year	**311**	**282**
Amount due to be released < 1 year (note 14)	10	-
Amount due to be released > 1 year (note 15)	301	282
	311	**282**

18b) Disposal proceeds fund

	Group & Association	
	2019	2018
	£'000	**£'000**
At start of the year	886	886
Inputs to DPF:		
Net Right to buy receipts	-	-
Interest accrued	-	-
	886	**886**
Use/allocation of funds:		
New build	(886)	-
At end of year	**-**	**886**
Amount due to be released < 1 year (note 14)	-	-
Amount due to be released > 1 year (note 15)	-	886
	-	**886**
Amounts three years old or older where repayment may be required	**-**	**-**

19. Capital Commitments

	Group & Association	
	2019	2018
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	34,409	31,598
Capital expenditure that has been authorised by the Board but has not yet been contracted for	23,014	40,979
	57,423	**72,577**
The Association expects these commitments to be financed by:		
Social Housing Grant	6,630	8,748
Proceeds from the sales of properties	30,310	54,177
Committed loan facilities	20,483	9,652
	57,423	**72,577**

The expenditure authorised by the Board but not contracted is in respect of new build housing.

The Group and Association expect that these commitments will be financed internally from cash generated from trading and grant funding, with the balance coming from the revolving credit facility. The Group and Association has sufficient funding headroom to meet all its obligations and commitments.

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20. Operating leases

The Group and Association had commitments of future minimum lease payments as follows:

	Group & Association	
	2019	2018
	£'000	£'000
Land and buildings		
Less than one year	4	4
More than one year and less than five years	5	-
In five years or more	-	-
	9	**4**
Others:		
Less than one year	8	161
In two years or more and less than five years	367	260
In five years or more	-	-
	375	**421**

The lease on buildings relates to Holdbrook Court, and this is due to expire in 2021.

The operating leases relate to various head office machinery and equipment.

21. Group reconciliation of operating surplus to net cash inflow from operating activities

	2019	Restated 2018
	£'000	£'000
Comprehensive income for the year	10,245	10,357
Adjustment for non-cash items:		
Depreciation of tangible fixed assets	3,423	3,340
Write offs and disposals	(201)	(117)
(Increase) in stock	(2,534)	(2,154)
Decrease trade and other debtors	2,645	1,191
Decrease / (increase) in trade and other creditors	(316)	(415)
Increase /(decrease) in provisions	(3,580)	(81)
Pensions gains (losses)	1,151	(422)
Movement on disposals and sales	(902)	(934)
Government grants utilised in the year	(130)	(155)
Shared joint venture profits	206	(927)
Interest payable	5,315	4,979
Interest received	(346)	(121)
Taxation	2	-
Net cash generated from operating activities	**14,978**	**14,541**

22. Reconciliation of net cash flow to movement in net debt

	Group & Association	
	2019	2018
	£'000	£'000
Decrease in cash	4,215	10,357
Cash inflow from increase in net debt and lease finance	(12,000)	
Increase in net debt from cash flows	**(7,785)**	**(18,926)**
Total changes in net debt for the period:		
Net debt at 1 April	(148,743)	(129,817)
Net debt at 31 March	**(156,528)**	**(148,743)**

23. Analysis of net debt

	Group & Association		
	1 April 2018	Cash flow	31 March 2019
	£'000	£'000	£'000
Cash at bank and in hand	1,257	4,215	**5,472**
Bank overdraft	-	-	-
Changes in cash	1,257	4,215	**5,472**
Bond Issue	(125,000)	-	**(125,000)**
Revolving credit facility	(25,000)	(12,000)	**(37,000)**
Changes in debt	(150,000)	(12,000)	**(162,000)**
Changes in net debt	**(156,528)**	**(7,785)**	**(148,743)**

24. Financial liabilities

Borrowing facilities

The facilities available at 31 March 2019 in respect of which all conditions precedent had been met were as follows:

	Group		Association	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Expiring in one year or less	-	-	-	-
Expiring after more than one year but not more than two years	-	-	-	-
Expiring in more than two years	162,000	150,000	162,000	150,000
	162,000	**150,000**	**162,000**	**150,000**

At the reporting date the Group and Association's loan drawn down facilities and bond issued were £162m (2018: £150m). This is made up of £57m bond raised in January 2013, £68m note purchase agreement raised in February 2015 and £37m revolving credit facility drawn down over the last three years.

25. Group VAT development agreement

The Association was party to a stock transfer agreement of 3,500 housing properties from Broxbourne Borough Council on 23 January 2006 and 91 properties from London Borough of Haringey on 25th March 2013.

Broxbourne Borough Council

As part of the transfer agreement, the Council made a commitment to the Association to have the properties refurbished and modernised and brought into a good state of repair. Immediately prior to the transfer, the Council contracted with the Association to carry out the refurbishment works on its behalf. The Council's obligation to carry out the works is in effect matched by the Association's obligations to bring the properties into a good state of repair. As a result, both an asset and a liability has been recognised in the statement of financial position on an amortising basis until the end of the transfer arrangement.

At 31 March 2019 the gross values of the balances that had been offset, have been reduced to £3,871k (March 2018: £7,059k). VAT arising on the works during the period totalled £587k (March 2018: £384k).

London Borough of Haringey

The Association was party to a transfer of 91 of housing properties from London Borough of Haringey on 25 March 2013, with an obligation to carry out works pursuant to the development. At the point of the transfer of the properties the gross values of the balances of £3,581k have been recognised as both an asset and liability in the statement of financial position. At 31 March 2019 the gross values of the balances is similar to last year £1,556k (March 2018: £1,556k) with VAT arising on the works during the period totalling £166k (March 2018: £45k).

26. Share Capital

	Group		Association	
	2019	2018	2019	2018
	No.	No.	No.	No.
Shares of £1 each issued and fully paid				
At start of year	9	9	9	9
Issued during year	1	1	1	1
Redeemed	(1)	(1)	(1)	(1)
At end of year	**9**	**9**	**9**	**9**

The shares do not have a right to any dividend or distribution in a winding-up. Each share has full voting rights.

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27. Subsidiaries and related undertakings related party transactions

All the subsidies and joint venture entities are non-regulated bodies. The only regulated body in the Group is the parent entity B3Living Limited.

The related undertakings whose results or financial performance principally affect the figures shown in the consolidated financial statements are as follows:

Name of subsidiary Undertaking	Principal activity	Interest	Legal status
B3Living Development Limited	A company with non-charitable status undertaking design and build on behalf of the B3Living and its subsidiaries	Wholly owned subsidiary	Company registered by shares and incorporated in England and Wales
Everlea Homes Ltd	A company with non-charitable status undertaking market rent and outright sales activities	Wholly owned subsidiary	Company registered by shares and incorporated in England and Wales.
WheatQuarter Ltd (WGC)	A partnership building social and outright sale housing. During the year B3Living sold its full holding in Wheat Quarter to Everlea Homes Ltd	Joint Venture 50% interest by Everlea Homes Ltd	Company registered by shares and incorporated in England and Wales
Farnham Road LLP	A partnership building social and outright sale housing	Joint Venture 50%	Limited Liability Partnership incorporated in England and Wales

The Association provides management services, other services and loans at arm length to its subsidiaries. There were no trading activities in both Everlea Homes Ltd and B3Living Development Limited, therefore no management fees were charged for the year.

The Board had nil (2018: one) tenant member during part of the year who hold tenancy agreements on normal terms and cannot use their position to their advantage. Total rent charged to the Tenant Board member was nil (2018: £4.1k).
There were no arrears on their tenancies during the reporting period ending 2019 (2018: £nil).

28. Pensions

The Group participates in two funded multi-employer defined benefit schemes: The Social Housing Pension Scheme (SHPS) and the Hertfordshire County Council Pension Fund (HCCPF). The Association also participates in the Group Personal Pension Scheme, which is a defined contribution scheme.

Social Housing Pension Scheme (SHPS)

The Group participates in the Social Housing Pension Scheme (SHPS).

The scheme is funded and is contracted out of the State Pension scheme. In previous years it was not possible, in the normal course of events, to identify on a consistent and reasonable basis, the share of underlying assets and liabilities belonging to individual participating employers. This scheme is no longer offered to new employees to B3Living.

Below is the net pension provision provided in the Statement of Financial Position.

	Group & Association
Analysis of the net pension liabilities	**2019**
	£'000
Fair value of plan assets	1,585
Present value of defined benefit obligation	(2,196)
Net pension (deficit)	**(611)**

Analysis of the amount charged to the Statement of Comprehensive Income	**2019**
	£'000
Current service cost	(79)
Expenses	(3)
Past service cost	-
Total operating charge	**(82)**

Analysis of net interest charged to the Statement of Comprehensive Income	**2019**
	£'000
Expected return on pension scheme assets	38
Interest on pension liabilities	(51)
Net interest charge	**(13)**

Analysis of the amounts recognised in Other Comprehensive Income	**2019**
	£'000
Actuarial gains on pension scheme assets	98
Actuarial (losses) on scheme liabilities	(171)
Actuarial (loss) recognised in Other Comprehensive Income	**(73)**

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28. Pensions - Social Housing Pension Scheme (SHPS) (continued)

	Group & Association
Movement in surplus/(deficit) during the year	**2019**
	£'000
Initial recognition of Association's share of scheme deficit at beginning year	(496)
Current service cost	(79)
Past service cost (including curtailments)	-
Employer contributions	9
Expenses	(3)
Net interest charge	(14)
Actuarial losses/(gains)	(28)
Association's share of scheme deficit at end of year	**(611)**

	Group & Association
Changes in present value of defined benefit obligation are as follows	**2019**
	£'000
Opening defined benefit obligation	-
Defined benefit obligation	1,917
Current service cost	79
Past service cost	-
Interest cost	51
Expenses	3
Employee contributions	23
Actuarial losses/(gains)	130
Benefits paid	(7)
Closing defined benefit obligation	**2,196**

	Group & Association
Changes in the fair value of plan assets are as follows	**2019**
	£'000
Opening fair value of plan assets fair value of plan assets	1,421
Expected return on assets	37
Contributions by members	23
Contributions by employer	9
Actuarial losses/(gains)	102
Benefits paid	(7)
Closing fair value of plan assets	**1,585**

28. Pensions - Social Housing Pension Scheme (SHPS) (continued)

Assets	Group & Association 2019
	£'000
Global equity	267
Absolute return	137
Distressed opportunities	29
Credit relative value	29
Alternative risk premia	91
Fund of hedge funds	7
Emerging markets debt	55
Risk sharing	48
Insurance-linked securities	45
Property	36
Infrastructure	83
Private debt	21
Corporate bond fund	74
Long lease property	23
Secured income	57
Over 15 year gilts	-
Liability-driven investment	580
Net current assets	3
Total assets	**1,585**

Key assumptions	2019 % p.a
Discount rate	**2.36%**
Inflation (RPI)	3.24%
Inflation (CPI)	2.24%
Salary growth	3.24%

Allowance for commutation of pension for cash at retirement 75% of maximum allowance

Life expectancy at age 65	(Years)
Male retiring in 2019	21.8
Female retiring in 2019	23.5
Male retiring in 2039	23.2
Female retiring in 2039	24.7

28. Pensions - (continued)

Hertfordshire County Council Pension Fund (HCCPF)

The HCCPF is a multi-employer scheme, administered by Hertfordshire County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

B3Living Limited participates in the LGPS. This scheme is no longer offered to new employees to B3Living.

Below is the net pension provisions provided in the Statement of Financial Position:

	Group and Association 2019	2018	2017
	£'000	£'000	£'000
Present value of defined benefit obligation	(16,854)	(15,350)	(15,212)
Fair value of scheme assets	13,771	12,807	12,206
Net pension (deficit)	**(3,083)**	**(2,543)**	**(3,006)**

Financial assumptions	2019 % p.a	2018 % p.a
Pension increase rate (CPI)	2.50%	2.40%
Salary increase rate	2.60%	2.50%
Discount rate	2.40%	2.70%

Mortality assumptions	Males	Females
Current pensioners	22.5 years	24.9 years
Future pensioners*	24.1 years	26.7 years

* Figures assume members aged 45 as at the last formal valuation date.

Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 March 2019:	Approximate % increase to employer liability	Approximate monetary amount £'000
0.5% decrease in real discount rate	9%	1,583
0.5% decrease in real discount rate	2%	258
0.5% increase in the pension increase rate (CPI)	8%	1,297

28. Pensions - Hertfordshire County Council Pension Fund (HCCPF) (continued)

	Group & Association	
Actual return on plan assets	**2019**	**2018**
	£'000	**£'000**
Interest income on plan assets	345	319
Return on plan assets excluding amounts included in net interest	623	149
Actual return on plan assets	968	468

The major categories of plan assets as a percentage of total plan assets	**2019**	**2018**
	£'000	**£'000**
Equities	50%	59%
Bonds	38%	28%
Property	8%	8%
Cash	4%	5%

	Group & Association	
Analysis of the amount charged to the Statement of Comprehensive Income	**2019**	**2018**
	£'000	**£'000**
Current service cost	247	308
Past service cost (including curtailments)	25	16
Total operating charge	**272**	**324**

	Group & Association	
Analysis of the amount charged to the Statement of Comprehensive Income	**2019**	**2018**
	£'000	**£'000**
Expected return on pension scheme assets	345	319
Interest on pension liabilities	(413)	(395)
Net interest charge	**(68)**	**(76)**

	Group & Association	
Analysis of the amounts recognised in Other Comprehensive Income	**2019**	**2018**
	£'000	**£'000**
Actuarial gains on pension scheme assets	623	149
Actuarial gains/(losses) on scheme liabilities	(1,161)	273
Actuarial (loss)/ gain recognised in Other Comprehensive Income	**(538)**	**422**

28. Pensions - Hertfordshire County Council Pension Fund (HCCPF) (continued)

	Group & Association	
Movement in surplus/(deficit) during the year	**2019**	**2018**
	£'000	**£'000**
Association's share of scheme deficit at beginning of year	**(2,543)**	**(3,006)**
Movement in year		
Current service cost	(247)	(308)
Past service cost (including curtailments)	(25)	(16)
Employer contributions	338	441
Net interest charge	(68)	(76)
Actuarial (losses)/ gains	(538)	422
Association's share of scheme deficit at end of year	**(3,083)**	**(2,543)**

	Group & Association	
Changes in present value of defined benefit obligation are as follows:	**2019**	**2018**
	£'000	**£'000**
Opening defined benefit obligation	15,350	15,212
Current service cost	247	308
Past service cost	25	16
Interest cost	413	395
Employee contributions	42	54
Actuarial losses/(gains)	1,161	(273)
Benefits paid	(384)	(362)
Closing defined benefit obligation	**16,854**	**15,350**

	Group & Association	
Changes in the fair value of plan assets are as follows:	**2019**	**2018**
	£'000	**£'000**
Opening fair value of plan assets	12,807	12,206
Expected return on assets	345	319
Contributions by members	42	54
Contributions by employer	338	441
Actuarial losses	623	149
Benefits paid	(384)	(362)
Closing fair value of plan assets	**13,771**	**12,807**

The above figures are for the funded obligations only and do not include any unfunded pensioner liabilities. The durations are as they stood at the previous formal valuation as at 31 March 2018.

29. Other Provisions

The Group and Association have two other provisions for liabilities and they are analysed as follows:

	Group & Association			
	Utilities	Onerous Contract	Total 2019	Total 2018
	£'000	£'000	£'000	£'000
At start of year	477	314	**791**	**791**
Provided during the year	-	-	**-**	**-**
Released during the year	(274)	(200)	**(474)**	**(81)**
At the end of the year	**203**	**114**	**317**	**710**

Utilities - The Group and Association have a utility contract, which has similar characteristics to a case which had an unfavourable court ruling. The Association recognised a potential liability based on the precedent resulting from the court ruling. The provision only relates to past activity and is not applicable to future activities.

Onerous contract - The Group and Association made a provision in the prior year for an onerous contract under an operating lease entered into in prior years. The contract is no longer expected to generate the economic benefits anticipated at the inception of the lease agreement.

30. Contingent liabilities

The Group and Association has two classes of contingent liabilities which are: obligation under the Social Housing Pension Scheme in the event of a cessation and contingent liabilities arising from amortisation of government grants.

Obligation under the Social Housing Pension Scheme in the event of a cessation

The Group and Association have an obligation under the Social Housing Pension Scheme as at 30 September 2014, the latest triennial valuation, of an estimated employer debt of £1.3m, in the event of a cessation. No security has been provided for by the Association in connection with this liability.

Contingent liabilities arising from amortisation of government grants

The Group and Association receives financial assistance from the Homes England and Broxbourne Borough Council, in the form of government grants. These government grants are accounted for as deferred income and as long-term liabilities in the Statement of Financial Position and are amortised annually to the Statement of Comprehensive Income, based on the life of the build structure or building fabric that they relate to.

The amount amortised represents a contingent liability to the Group and will be recognised as a liability when the properties funded by the relevant government grant are disposed of or when the property ceases to be used for social housing purposes.

30. Contingent liabilities (continued)

Below is the analysis of the assistance from government sources in the form of government grants:

	Group & Association	
	2019	2018
	£'000	£'000
Government funding received to date	13,347	13,357
Grant amortised to date (contingent liabilities)	(924)	(803)
Grants via stock transfer from another Registered Provider	2,500	2,541
Contingent grants via stock transfer	(2,500)	(2,541)
Net grant (Note 17)	**12,423**	**12,554**

31. Financial instruments and financial management

	Group		Association	
	2019	2018	2019	2018
Financial assets measured at amortised cost	£'000	£'000	£'000	£'000
Cash and cash equivalents (Note 13)	**5,472**	1,257	**5,432**	1,253
Rent arrears (Note 12)	**786**	878	**786**	878
Loan to joint arrangement (Note 12)	**4,760**	3,745	**4,760**	3,745
Other debtors (Note 12)	**573**	735	**571**	735
Prepayment and accrued income (Note 12)	**331**	465	**331**	465
Total financial assets measured at amortised cost	**6,450**	**5,823**	**6,448**	**5,823**
Total financial assets	**11,922**	**7,080**	**11,880**	**7,076**
Financial liabilities measured at amortised costs				
Trade creditors (note 14)	**1,912**	**1,975**	**1,907**	**1,973**
Rent and services charges received in advance (note 14)	**835**	**1,093**	**835**	**1,093**
Other creditors	**215**	**219**	**215**	**219**
Accruals and deferred income (note14)	**4,280**	3,413	**4,262**	3,399
Recycled capital grant fund (note 18.a)	**311**	282	**311**	283
Disposal proceeds fund	**-**	886	**-**	886
Debt (note 15)	**160,115**	148,083	**160,115**	148,083
Total financial liabilities measured at amortised costs	**167,668**	**155,951**	**167,645**	**155,936**
Total financial liabilities	**167,668**	**155,951**	**167,645**	**155,936**

The Group does not have financial liabilities measured at fair value, as all financial liabilities meet the definition of basic financial instruments as per FRS 102 section 11.

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FOR THE YEAR ENDED 31 MARCH 2019

31. Financial instruments and financial management (continued)

Financial management

The Group's treasury function is responsible for the management of the funds and control of the associated risks. Its activities are governed in accordance with the Board approved treasury policy. The risks related to the Group are detailed in the Report of the Board.

The Group transacts in financial instruments (both financial assets and financial liabilities) and as a result of transacting in these financial instruments there are some inherent risks associated with the transactions. These risks have both upside and downside implications to the Association.

The Group actively manages the risks arising from financial instruments and the main risks from these financial instruments are:

- Interest rate risk
- Liquidity risk
- Counter party risk
- Customer credit exposure.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument such as a loan will fluctuate due to changes in market interest rates.

The Group borrows from bond holders or lenders using long term financial instruments, such as the use of bond issues or housing loans. The borrowing is undertaken based on the Association's long term business plans and the Board's assessment of both current and future macro-economic environments: for instance, the Board's view of the future direction of interest rate, future direction of the costs of running the business, assessment of demand and assessment of the political and legal environment.

To mitigate against interest risk exposure, the Group ensures it has the right balance between fixed and variable loans in its debt portfolio.

The Group has also removed some of the variability in interest rates by employing bond finance as part of the capital structure. As a result of this, the Group is not heavily exposed to fluctuations in interest rates, as the loans and bond finance are currently on a fixed rate of interest.

Liquidity risk

The purpose of managing liquidity risk is to ensure that the Group and Association has sufficient cash resources to meet its financial obligations, as and when they fall due, to meet the contracted development commitments and also to ensure the Group and Association does not forgo attractive business opportunities due to lack of liquid resources or lack of cash headroom. As part of liquidity management, the Group and Association ensures it has enough cash headroom in line with its treasury policy, to fund financial obligations and to take advantage of opportunities when they arise.

The Group and Association meets its financial obligations through cash flows from operating activities, such as the underlying cash from rental income streams, grants from government sources and through long term borrowing from lenders and bond issues. The Group and Association has a treasury policy which is updated annually and approved by the Board. The treasury policy addresses issues such as funding, gearing, liquidity risk, covenant compliance and investment policy.

Cash flows are monitored on a routine basis and remedial action is taken well in advance of adverse events occurring.

31. Financial instruments and financial management (continued)

Counter party risk

The Group and Association's treasury management policy sets minimum credit ratings for counter parties on investments to reduce loss from counter party risk of default. The Group and Association uses its primary banker Lloyds, investment counterparties or money market funds. The treasury policy is reviewed annually by the Board.

The Group and Association is also exposed to counter party risk from the potential risk of default by our development partners or joint arrangement or joint venture partners. The Group and Association has a procurement policy, strict investment limits and also uses development arrangements that mitigate this risk. The Group and Association also conducts due diligence exercise on joint arrangement and joint venture partners.

Customer credit exposure

The Group and Association is exposed to the possibility of some of its tenants not paying their rents in time or defaulting altogether. To mitigate this risk, the Group and Association monitors arrears on a monthly basis and engages with tenants. The Group and Association also collects deposits from tenants when they take out their tenancy agreements to mitigate this exposure.

32. Prior year re-statements

The following prior year re-statements have been applied to the comparatives to these accounts;

- Depreciation
- Allocation and apportionment of overheads to all business streams
- Joint venture

				Association
		Reserves 01-Apr-17	Surplus/ year end 31-Mar-18	Reserves as at 31-Mar-18
Prior year adjustment	**Notes**	**£'000**	**£'000**	**£'000**
As previously stated		28,486	9,144	**37,630**
Decrease in depreciation of housing properties	10(a)	1,373	275	1,647
Restated reserves		**29,859**	**9,419**	**39,278**

				Group
		Reserves 01-Apr-17	Surplus/ year end 31-Mar-18	reserves as at 31-Mar-18
Prior year adjustment	**Notes**	**£'000**	**£'000**	**£'000**
As previously stated		28,486	12,030	**40,516**
Decrease in depreciation of housing properties	10(a)	1,373	(1,674)	(301)
Restated reserves		**29,859**	**10,356**	**40,215**

The reasons for the prior year adjustments and the impact on the accounts are outlined below;

Depreciation

The Group and Association have reviewed the calculation process by our accounting systems of depreciation and that the useful economic lives are consistently applied across the same components.
This resulted in a prior year adjustment of £1.6m. The effect is an increase to the carrying cost of housing properties £1.6m and an increase in the surplus for the year ended 31 March 2018 of £275k; reserves brought forward for 2017 increased by £1,372k. The table below reflects these changes:

Allocation and apportionment of overheads to all business streams

To ensure comparability and alignment with our sector's approach to allocation and apportionment of indirect costs and overheads we have introduced a new methodology of allocating these costs to business streams. As part of this process we have also added new reporting lines such as leaseholders and community services in note 3(a) of the accounts to align with the reporting requirements of the Housing SORP and for transparency reasons.

In prior years indirect and overheads costs were all allocated to the general needs business stream and under the new methodology we have allocated and apportioned costs to business streams such as market rent, commercial, shared ownership, community services and development.

32. Prior year re-statements (continued)

In the past no such costs were allocated to these business streams which inflated the results of these business streams whilst suppressing the results of the general needs business stream. The new methodology means the performance of these business streams now fully reflects some of the indirect and overhead costs incurred across the whole business. The exercise also ensures that indirect and overhead costs are fairly allocated and apportioned to all business streams rather than only to the general needs business stream.

We have allocated costs based on key cost drivers. Allocation and apportionments have been done using either unit numbers or staff numbers depending on what the key driver of the relevant cost concerned is. The allocation of costs also ensures that an accurate performance of business streams is reflected by these accounts. This new methodology has been applied retrospectively to prior year numbers to ensure comparability with current year numbers.

The re-allocation of costs exercise did not change the overall result as this was a reclassification exercise between SOCI items. It just means a true and fair view of the performance of these business streams is now reflected. The change in operating surplus of £275k from £12,932k to £12,657k in prior year comparatives is due to depreciation recalculation and not due to allocation and apportionment of costs between business streams.

Joint venture

The Group has restated the JV share of profits in the prior year. Last year's JV results were consolidated into the Group accounts based on the management accounts of the JV for the 12 months to March 2018, which is the same as the year end of the Group. These management accounts are prepared by the counter party to the JV who is responsible for managing the financial and accounting affairs of the JV.

The sole purpose of these management accounts was to provide information to management about the JV.

Management accounts for the JV are prepared without following the requirement of accounting standards like FRS 102 or the Housing SORP. The JV has a year end of 31 July and when it prepared its statutory accounts it followed the income, costs, asset and liability recognition as per the requirements of accounting standards, which is not the case when it prepares management accounts; therefore, both income and costs recognition was deferred in the statutory accounts pending a future crystallisation date when risks and rewards have fully transferred to the JV. As a result, there were material differences between management accounts that are prepared for internal use by management to inform their decision making and the statutory financial statements that are filed with Companies House as these are prepared accounting to the requirements of accounting standards and company law.

The impact of the restatement is a reduction in the prior year's share of the JV profits by £1.9m. The JV is not in financial difficulties and is operating as a going concern and the Group's expectation of future cash flows from the JV have not changed. As a result, there is no impairment of the JV as the adjustment is basically to align the recognition of share of JV profits to when the risks and rewards have fully transferred and also to align the reported results of the JV which are prepared based on accounting standards to what we report in our financial statements.

33. Post balance sheet events

On 29 August 2019, Everlea Homes sold its investment in Wheat Quarter joint venture for £11m, which comprises of £5.5m cash and £5.5m loan notes. This is a non adjusting post balance sheet event.

The sale will create a £9m increase in the Group's Statement of Financial Position and a corresponding £9m return on investment in joint venture in the Group's Statement of Comprehensive Income in 2019/20.

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Annual Report & Financial Statements 2019

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Co-operative and community benefit societies act registration No. 29876R
HM Revenue and Customs (Charities Division Number XR92753)

Making a Difference
To local lives

We comply with the National Housing Federation Code of Governance and are regulated by the Regulator of Social Housing (RSH).