Financial Statements
for the year ended
31 March 2019

Paragon Asra
PA Housing

Paragon Asra Housing Limited
Community Benefit Society Registration Number 7536
Homes and Communities Agency Registration Number 4849

2018/19 Highlights

Turnover
£160m

Housing assets
£1.6bn

Absolute relet time:
28.7 Days

Average calls received per month
40,000

Overall arrears:
3.8%

Customer Satisfaction with repairs:
91.1%

Interest cover
208%

23,059
Homes owned and/ or managed

Emergency repairs completed on time:
99.71%

Drawn debt
£712m

39%
Operating margin including asset sales

Over
1,400
people/ families housed

327
new homes built

Free cash generated from operations
£15m

Gearing
40%

Debt per owned property
£34,083

Void loss:
1.1%

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Board and Directors

Members of the Board

Group Chair	Hattie Llewelyn–Davies OBE	Appointed 01/10/18
	Aman Dalvi OBE	Resigned 30/09/18
Other Members	Stephen Amos	
	Chris Cheshire	
	David Edwards	
	David Hunter	
	Curtis Juman	
	Dilip Kavi	
	Katherine Lyons	
	Wayne Morris	
	Gemma Safhill	Resigned 30/09/18
	Anne Turner	

Executive Team

Chief Executive	Dilip Kavi	
Chief Operating Officer	Matt Cooney	Resigned 01/05/19
Executive Director of Finance	Simon Hatchman	
Executive Director of Business Development and Sales	Chris Whelan	
Executive Director of Governance and Company Secretary	Marion Hall	
Executive Director of Assets	Ian Watts	
Executive Director of Customer Services	Patrick Taylor	

Registered Office

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Auditors

KPMG LLP
1 Snow Hill
Snow Hill Queensway
Birmingham
B4 6GH

Solicitors

Devonshires Solicitors LLP
30 Finsbury Circus
London
EC2M 7DT

Chair and Chief Executive Statements

Chair and Chief Executive Statements

Chair's statement

Welcome to our 2019 Annual Report and Financial Statements, which reflect another year of strong financial performance and progress towards delivery of our corporate objectives. I took over as Chair in September 2018 following the retirement of Aman Dalvi. Aman and the Board have worked with our executive team to ensure that PA has established solid foundations since its formation in 2017. He leaves behind a strong legacy, and I am very grateful for the support he provided to ensure a smooth transition.

As a newcomer to PA I have spent a good deal of time getting to know how the organisation operates, and I have travelled around our various offices and estates to meet staff in all areas of the business. This has given me valuable insight into our service delivery models, the good things that we do and some of the challenges that we face. It has also given me assurance that PA is firmly heading in the right direction. We have a sound infrastructure, we have staff who are fully committed to delivering brilliant customer service, and we have a clear plan to move the business forward which is being implemented. Of course there is still so much more to do, but the Board has confidence that we will achieve our goals.

PA has three headline aims which are articulated in our Corporate Plan. Put simply, these are to achieve the highest levels of customer service, to use our financial strength to build more homes for people in need, and to underpin everything with strong ways of working. The 2018/19 financial year saw significant progress in each of these areas.

To deliver our customer service ambitions, during the year the Board approved an additional £1m investment in directly customer facing staff, utilising some of the efficiency savings achieved through the creation of PA. This investment has allowed the recruitment of 30 new team members with a remit to manage our neighbourhoods proactively and strengthen our relations with customers. Early signs are that this new approach is already having a positive impact on customer satisfaction levels.

On the growth side, we have geared up our Development team to deliver an expanded new build programme. Our target is to complete 5,700 homes in the 10 years from 2018. This programme is now gathering momentum, with 400 homes completed in the 2018/19 financial year and a further 700 in the firm pipeline. We remain focused on social and affordable rented and shared ownership homes, with market sales not being a significant element of our core programme.

Our underlying business infrastructure has been improved in a number of areas. We successfully completed the PA Integration Project in March 2019. This was a major piece of work with a number of components, the most significant of which was to bring all our legacy IT systems onto a common platform. We have completed this work on budget and 12 months ahead of the original schedule. During the year we completed the sale of 664 homes in peripheral areas of our operations to other housing associations. This has improved the efficiency of our operations, but importantly it also means the residents in those homes will benefit from service provision by local landlords who are better equipped to meet their needs. Finally, we have embarked upon ‘The PA Way’, a project which is designed to instil a strongly customer-focused culture in all areas of the business. This project is being led by our staff and it’s a crucial element of our service delivery plans.

Of course not everything goes to plan, and one major disappointment for the Board during the year was our inability to meet budget targets in respect of our expanded capital planned maintenance programme. This spend relates to the modernisation of major components in our homes, such as kitchens and bathrooms. The work was delayed by procurement and delivery problems, and we ended the year some £6m behind schedule. We know how important this investment is to our residents, and we have put measures in place to get the programme back on track in the new financial year.

Everything we do and every decision we make is supported and influenced by our finances. In this respect I am pleased to report another strong year. Results are consistent with expectations, and we maintain a stable and resilient financial position. The Board has examined our financial outlook, and how this links back to our corporate objectives. We have built a strong understanding of our value for money journey and we have tested this rigorously to ensure that it is right for PA and our customers.

Looking briefly at the world around us, the extreme political uncertainty in the UK continues to present risks to our planning and service delivery. We have considered Brexit from a number of angles – the impact on our residents, risks to our supply chain, and potential shocks in the financial markets. Where appropriate and feasible, we have put measures in place to mitigate these risks. More broadly, our hope is that the political agenda can eventually focus back on the core issues affecting society. This of course includes affordable housing provision, where there has been a growing political consensus about the valuable role played by social housing providers.

Chair and Chief Executive Statements

Finally, I would like to thank my fellow Board members, the executive team and the wider PA staff team – primarily for all the important and good work they have completed during the year, but also for making me feel so welcome since I arrived last October.

Hattie Llewelyn-Davies
Chair
19 September 2019

Chair and Chief Executive Statements

Chief Executive's statement

It has been another busy and enjoyable year at PA. We have made some key decisions about how we deliver our customer services, as we continue our journey towards brilliance in this area. We are building many hundreds of new homes in our core operational areas, and we have ample financial capacity to do more. And we have continued to improve our internal business infrastructure in a number of ways, so that we can operate as a modern and progressive organisation.

The most important thing to me as Chief Executive is to ensure that we are doing our very best for our customers, and to have assurance that our service standards are at the highest level. At the moment our services are good, but we want to do better. In fact we want to be brilliant. Our Board has approved significant investment to support this ambition, and work is underway to put our plans into action. I will not be satisfied until I know that our customers overwhelmingly feel that we are brilliant at what we do.

We have some wonderful partners at PA, including local authorities, lenders and suppliers. We continue to build on these relationships, which are crucial as we work towards our goals. I am very grateful for the help and support provided by our partner organisations.

In April 2018 we received the welcome news from our regulator that we had achieved the highest possible G1-V1 regulatory grades following an In Depth Assessment visit. This is a strong foundation but we want to keep on moving forward, and during the year we carried out further work on both our governance arrangements and our financial structure to ensure that everything is at the best possible standard.

None of our plans and ambitions would be possible without strong finances. We make no bones about generating healthy surpluses – this money is needed for reinvestment in our services and to support our programme to build much-needed new homes. We promote a cautious financial culture which is predicated on risk awareness and mitigation wherever possible. However we also fully appreciate our obligation to deliver value for money to our customers – so we invest where we need to in order to improve services, and we try to make sure that we spend wisely in all that we do.

We have brilliant staff working for us at PA, they have done some amazing things over the last year and I know there is so much more to come. It is an absolute pleasure to work with them. My thanks go to all of our staff, our Board members and our stakeholders, all of whom have played their part in a very successful year.

Dilip Kavi

Dilip Kavi
Chief Executive
19 September 2019

Strategic Report

Strategic Report: Strategy, Vision and Values

Our vision

To become widely recognised as a social enterprise with a reputation for providing quality homes and services within the next five years.

Our values

Our values underpin everything we do, and our culture and behaviours define how we do things:

Always do the right thing

- We offer the best quality service that we can
- We are dedicated to our people
- We are honest, open and responsible
- We challenge ourselves to be the best
- We always look for best value

There when you need us

- We always offer solutions
- We listen and take action
- We deliver on our promises
- You can count on us
- We treat people as we would want to be treated

We never give up

- We are ambitious
- We are unashamedly bold
- We work together to make a difference
- We welcome innovation
- We show courage in our pursuit of growth
- We create an appealing and inclusive culture

Our strategic objectives

Our approach for the next five years is underpinned by clear objectives, each with measurable goals.

1. We will continue to focus on customer services to improve customer satisfaction
2. We will harmonise our culture and structures and improve our effectiveness
3. We will grow to provide more homes and will rationalise our stock holdings

Our goals

To provide a consistent and high standard of customer service

To provide safe and pleasant neighbourhoods where people have pride in their homes and surroundings

To raise our profile nationally and at a local level

To create a new PA Housing culture

To recruit and retain good quality staff

To make sure our systems and processes are efficient, effective and accurate

To deliver our value for money strategy so that we can build at least 500 new homes a year

To rationalise our assets in order to create more new homes and provide better services

To ensure high service levels at all stages in the customer life cycle.

Strategic Report: Strategic Risks

PA has an established Risk Management Framework which is regularly reviewed by our Board. It sets out the ways in which we manage and monitor business risk, incorporating the following key facets:

- Risk appetite
- Risk register
- Early warning monitoring

Our approach to risk management is explicitly linked to our financial planning regime, so that identified key risks can be thoroughly tested.

Our key risks and how we manage them

Our main business risks are reviewed at every Board meeting, and the Audit and Risk Committee undertakes more detailed risk management work on behalf of the Board. The Board's current view of key risks is summarised below.

Risk area	Possible impacts	Controls and mitigations in place	Sources of assurance
Fire within properties	Risk to life and limb Damage to buildings Financial loss Reputational damage	Fire risk assessment programme Equipment testing / servicing regime Additional resource allocation Fire safety standards Monitoring of changing environment	Board reporting Performance monitoring Internal audit Financial planning People management
Significant failure of lifting equipment	Risk to life and limb Financial loss Customer dissatisfaction Reputational damage	Inspections regime Servicing regime Defects rectification regime Contractor management	Board reporting Performance monitoring Internal audit Independent inspections
Low customer satisfaction	Reputational damage Demand for services Rent collection Staff morale	Investment in customer services Satisfaction data analysis Resident engagement / scrutiny Complaints learning	Board reporting Performance reporting Customer Services Committee Internal audit
Poor stock condition	Customer experience Reputational damage Financial loss Weakened asset base	Adequate provisions in financial plan Active asset management regime Asset Management Strategy Stock condition surveys	Board reporting Performance reporting Internal audit Independent stock valuations
ICT security shortfalls	Loss of data System outages GDPR non-compliance Weakened internal controls	Cyber essentials certification Specialist in-house resource and controls Cyber security insurance Disaster recovery planning	Daily monitoring Performance reporting Audit & Risk Committee scrutiny Internal audit Penetration testing
Poor value for money	Reduced resources Low service standards Customer dissatisfaction Reputational damage Staff morale	Value For Money Strategy Cost and quality benchmarking Budgetary control Procurement Policy Resident engagement	Audit & Risk Committee scrutiny Benchmarking Internal audit Feedback from residents
Universal Credit	Rent collection Tenancy sustainment Resident quality of life and impact on communities Management costs	Welfare reform action plan Specialist in-house resource Relationships with local authorities Data analysis Staff training Hardship fund	Performance reporting Customer Services Committee Internal audit Liaison with other Housing Associations
Property sales	Financial loss Vacant homes Reputational damage	Golden rule cap on sales activity Exit strategies Housing market monitoring Relationships with local authorities	Board reporting Performance reporting Independent research Internal audit
Brexit	Housing market downturn Financial markets volatility Cost inflation Social hardship	Sales programme management and exit strategies Additional liquidity Support to residents	Board reporting Performance reporting

Operating and Financial Review

Early warning triggers

We have identified a range of indicators which may provide early warning that a significant risk scenario is starting to crystallise. These indicators are monitored every month, to assess whether a trigger point has been reached and / or if the future outlook suggests an increasingly risky environment.

The table below sets out some examples of the early warning triggers we have in place. Each of these have specific trigger points identified, beyond which action to mitigate the risk would need to be considered.

Risk area	Triggers
Asset management	Deteriorating stock condition spend requirements Disrepair cases on an increasing trend
ICT security	Malware / virus attack frequencies Core systems downtime
Property sales	Reducing house prices in core operating areas Increasing incidence of properties unsold for more than six months
Welfare reform	Escalating rent arrears Adverse government policy changes are proposed
Brexit	High cost inflation Adverse movements in the financial markets

Operating and Financial Review

Strategic Report: Our Assets

23,059 properties owned or managed

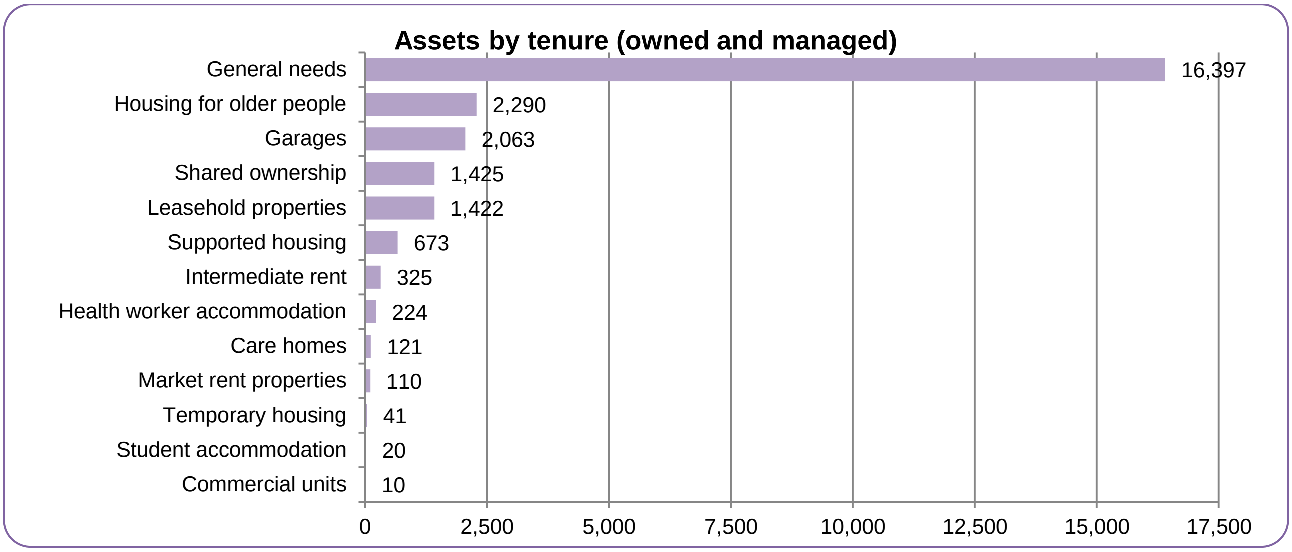
£13.7m invested in improvements to our stock

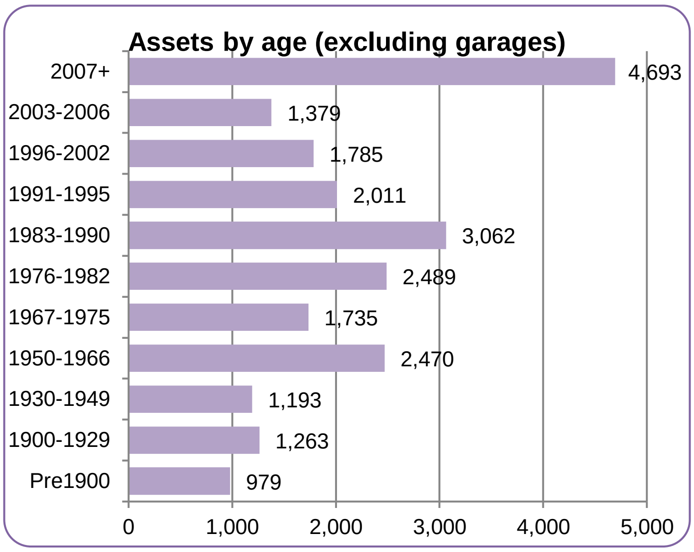
Over 2,000 homes improved

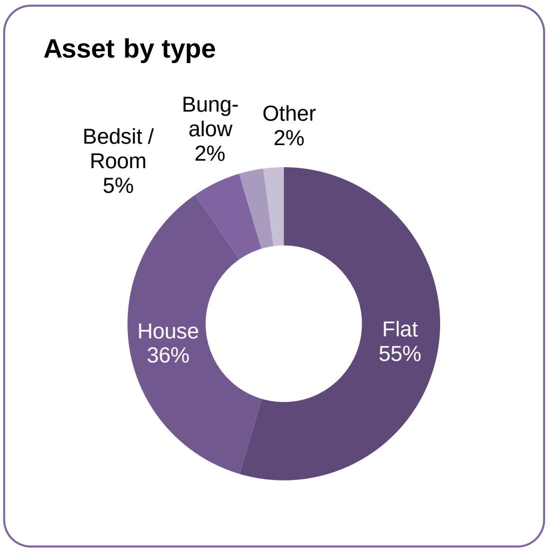
£10.4m spent on health and safety

What our stock looks like

PA’s property portfolio encompasses a range of tenures, type, and age.





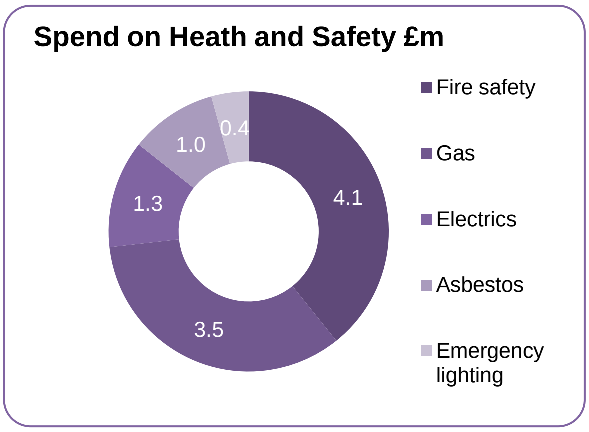


What we invested in 2018/19

During the year we spent a total of £42.7m (2018: £38.6m) on responsive and planned maintenance. Our Board remains fully committed to investing whatever resources are necessary in ensuring the highest possible standards of comfort, health and safety for residents in our homes. This is something we do not compromise on, and within our financial planning we prioritise investment requirements for our existing homes before considering what capacity we have to build new homes.

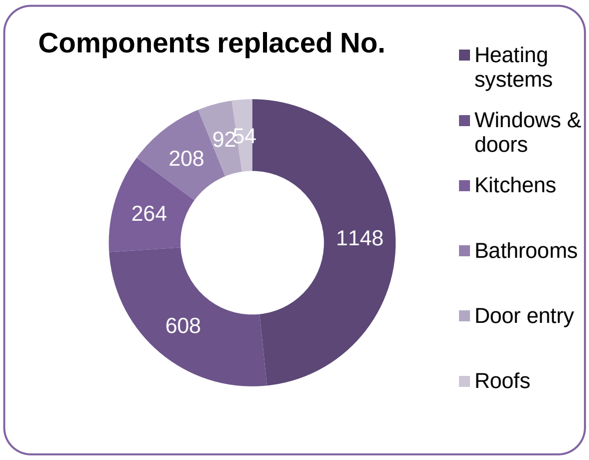
Operating and Financial Review

Health and Safety



This work includes a range of programmes aimed at ensuring that our homes remain safe places to live, in line with all relevant legislation and standards. Total spend on these programmes during the year was £10.3m.

Investment in existing stock



In 2018/19 we commenced our expanded programme of capital investment in new components within our homes. This programme had been approved by the Board in order to ensure that all of our residents benefit from modern living standards, recognising that some elements of our stock required additional investment to make this a reality. Our capital investment did increase by £1.3m (10 per cent) in the year, but total spend was below budget. This was caused by procurement delays and then contractor performance issues on some of our component contracts. The Board was disappointed by this outcome, and corrective action has been taken to get the programme back on track during 2019/20. In the year ahead we plan to spend £18.4m (2019: £13.7m) on capital components.

Our revenue planned maintenance works also included cyclical decorations to 1,957 homes.

Return on assets

We continue to regularly analyse the performance of our property assets portfolio. This work informs active asset management decision making, and during the year we concluded our major programme to divest ourselves of relatively poorly performing assets in peripheral geographic operating localities. Total sales under this programme in the year were of 664 units which were sold to three housing associations. The sales generated proceeds of £25.9m and a surplus on disposal of £3.3m. These properties are now owned by local landlords who are better placed to meet the service needs of the residents, who expressed overwhelming support for the proposals during the consultation phase of the project.

In addition, we operate a small scale ongoing programme of asset disposals where our analysis evidences that it is not cost-effective to invest further in these properties. This programme resulted in 19 sales in the year, with proceeds of £1.7m and a surplus on disposal of £1.0m.

We review our own net present value analysis alongside external valuations of our properties charged as loan security and broader market data to form a rounded view as to stock performance and potential. This data is examined from a number of different angles to ensure that appropriate investment / divestment decisions are made. Divestment considerations focus either on properties which are currently loss-making (459 units as at 31 March 2019), or those with a combination of high maintenance / remodelling requirement and significant market value where disposal might release sufficient funds to reinvest back into a number of core properties.

Strategic Report: Our People

627 colleagues across PA

385 Female

242 Male

We believe that our colleagues are at the heart of providing brilliant customer service. In June 2018 we held our first internal PA conference; this was attended by all our colleagues and provided the opportunity to attend workshops, for teams to showcase what they do, to network with other colleagues and to engage in a question and answer session with the Executive Team. The event was a success and we have built on this throughout the year in a number of ways.

Learning and development

Career and skills development is encouraged and funded. 500 colleagues were engaged in some form of training in 2018/19, and 30 are undertaking external courses leading to a professional qualification.

Colleagues at all levels have taken up coaching and mentoring opportunities offered by local and national bodies. All heads of service will participate in a leadership development programme in 2019/20.

We have fully utilised the Apprenticeship Levy. 17 colleagues started apprenticeships in 2018/19 and 19 will commence in 2019/20. Three new apprentices have been recruited and a further four will join our Assets and Property Services teams in 2019/20. We have also started to run graduate trainee programmes to attract high-calibre early career staff.

From the summer of 2019 we have begun to offer work experience placements for the families of our staff and residents.

10 per cent of colleagues were promoted or took sideways moves to widen their experience in 2018/19, a direct outcome of our learning and development activity.

We launched our talent management strategy in March 2019 with the aim of creating a high quality workforce which will provide brilliant services, move the organisation forward and enable succession planning. Because no one size fits all, we intend to develop our people according to their performance and aspiration. We will also identify those with high potential at any level who can be developed to become future leaders.

Our values and the PA Way

We have aligned our culture and behaviours to our values and developed them over the past year so that they define the ‘PA Way’.

We used the feedback from our residents’ event in April 2018 and the colleague conference which followed shortly after, to really understand what our residents and staff want. We then asked groups of colleagues to consider what type of attitude, perspective or approach would encourage more of what’s right and less of what’s wrong. At further sessions we agreed the guiding principles for the PA Way:

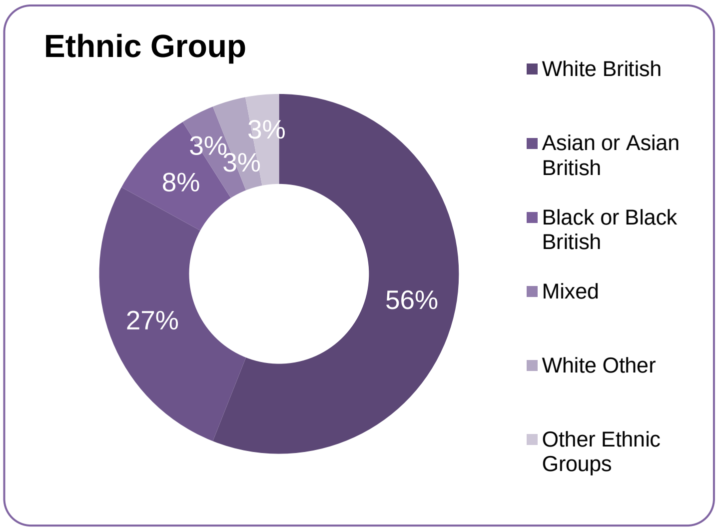
- Doing the right thing – Do we listen to what our customers want?
- Never forgetting the impact – Are we working together towards a common goal?
- Being in this together – Are we building the relationships we need to succeed?
- Looking at the bigger picture – Are we considering how our part affects the whole?
- Never stop learning – Are we always learning and finding better ways?

Our managers are using these principles in their everyday work to align the focus of their teams. This enables each team to reflect on what’s going well, what could be better and what needs attention.

It is early days, but feedback from residents so far shows that we have started to embed our values and the expansion of our frontline services should improve this even further.

Operating and Financial Review

Diversity



PA Housing's heritage is in part linked to the Black and Minority Ethnic housing movement. This is an important element of our legacy and we are proud of the work we continue to do in this field. We have a highly ethnically diverse colleague group which is hugely beneficial in considering how our service offering should be shaped. More broadly, it makes PA Housing a vibrant and interesting place to work where people from different backgrounds and cultures are respected and celebrated. Nearly half of our staff are from a non white British background.

Gender pay gap and our people strategy

Our median pay gap is 8.4%. We have an action plan to tackle the gap and we acknowledge that we have more work to do.

We undertook an early 2018 gender pay analysis to ascertain the impact of our harmonisation of terms and conditions of employment and the comprehensive review of salaries, which addressed historical differences. We gained useful insight from the analysis, since it showed that although these reviews achieved equality and fairness across the organisation, they had only a marginal effect on the gender pay gap.

The main influence on our pay gap was shown to be the low proportion of male staff in areas of our work which traditionally attract lower quartile salaries. This has highlighted a gap that we did not intend to cause. Current low turnover in these areas means that we can only expect any change to happen over time. Our continued focus has been on good practice in recruitment and selection, and the encouragement of training and development to aid career progression. This has delivered the following results:

- Equal numbers of males and females studying to obtain professional qualifications.
- A high take-up of apprenticeships amongst existing employees. 73% of those being trained through the Apprenticeship Levy are female.
- A higher proportion of females recruited, but vacancies so far have not been for senior positions. We have yet to be able to apply our target of 50% of shortlisted candidates for senior positions to be women.
- Since April 2018 10% of employees have been promoted or have taken sideways moves to widen their experience. 66% of these are women, but the jobs on offer have been at the more junior level.

We have started major recruitment campaigns to employ more staff following our Board's agreement to invest a further £1m in frontline services and due to the expansion of our development programme. This is an ideal opportunity to monitor whether our processes are effective in recruiting diverse staff at all levels and there will be a statistical analysis of each stage of recruitment. We will be able to report on the outcomes next year.

We have undertaken a review of our HR policies and procedures, with consultation through our staff committee. We now have a full set of family friendly policies.

Our Talent Management programme will be launched shortly and other activities planned include a Senior Leadership Development programme; the encouragement of job swaps and work shadowing; and mentoring opportunities to support career progression.

PA Housing is committed to having a diverse workforce and our aim is to have a workforce that is reflective of the make up of our customers and geographical areas we serve.

Operating and Financial Review

Strategic Report: Growth

327 new homes in 2018/19

£11.2m shared ownership sales

Over £30m to be invested in Woolwich / regeneration

Over 1,000 new homes in the pipeline

5,700 new homes to be delivered across 10 years

Our development portfolio is expanding and we have over 1,000 homes in development with an appetite to deliver 5,700 homes over the 10 year period starting from 2018/19.

We delivered 327 affordable homes in 2018/19, 237 of which were rented homes and 90 shared ownership homes. PA Housing is committed to its social responsibility to provide genuinely affordable homes. We work to keep service charge costs fair and affordable for our residents, and we have kept rent levels as close to social rent as possible to maximise affordability in high cost rental areas such as London and Surrey.

To further our commitment to providing more affordable homes, our growth plan is weighted towards our core social housing products (55% social or affordable rent and 40% shared ownership), with the balance of 5% being new homes built for the private sector. The surpluses generated from these sales will enable further investment in affordable homes.

Regeneration

We are working in partnership with the Royal Borough of Greenwich and Lovell Partnerships Limited to regenerate three housing estates in Woolwich, South East London. The regeneration will deliver over 1,500 mixed tenure homes in total, of which approximately 525 will be affordable homes delivered by PA Housing.

We have successfully completed 133 new homes in Phase 1. 84 of these homes were let at a range of affordable rent levels, with 49 provided for shared ownership, and residents moved in during the early part of 2018. A further 105 affordable homes are currently under construction in Phases 2 and 3, and these are due to complete in spring 2020.

We continue to work with our partners to progress plans to regenerate the adjoining estates, where we anticipate delivering around 300 more affordable homes in coming years.

We have rejuvenated an existing estate in Elmbridge, replacing lower quality properties with more modern and energy-efficient homes. The redevelopment has allowed for more units, some of which are used as short stay accommodation in support of local authority statutory obligations.

Woolwich Phase 1(CGI)

Sandra & Radnor (CGI)

Operating and Financial Review

Land

Supporting our development plan, our Board has approved a budget to enable us to buy carefully identified sites with future development potential in key local authority areas.

Sales

While the current property climate has become more challenging, we are confident that there are no significant risks with our current sales programme. We have a range of sites in strong locations around outer London and Surrey where sales values have proved to be better insulated from wider market decline. Our robust management of sales risk and vigorous stress testing of our development programme means we are in a good position to identify and mitigate any effects arising from potential adverse market conditions. In 2018/19 we continued to achieve strong returns from our shared ownership first tranche sales activities.

Environment

From building to living in our new homes, PA Housing is committed to moving towards making our homes more sustainable and environmentally friendly. We are achieving this through using responsibly sourced building materials and recycling of site waste, and by ensuring our homes are designed with quality insulation and high efficiency heating systems to help with reducing carbon emissions and energy bills for our residents.

Voluntary Right to Buy

PA Housing is participating in the Voluntary Right to Buy pilot in the Midlands which will enable our customers in this area to buy their home with a discount against market value. We have established a team to manage enquires and the associated administration. We are expecting around 50 homes to be sold in 2019/20 with all proceeds being reinvested in developing new homes. One home was sold under the pilot in March 2019.

Strategic Report: Value for Money

Introduction

We have a responsibility to spend our income wisely, and we aim to provide the best possible balance between cost and quality in all that we do. Our customers expect good quality services from us at a fair price, represented by the rent and service charges they pay. Equally, we are challenged by our corporate stakeholders to manage our finances efficiently and prudently while still achieving high service standards.

Our work in this area is underpinned by our VFM Strategy, which identifies six high level targets:

	Target	Achievements in 2018/19	Outcomes
1	Deliver the £3m recurring operating cost efficiency savings targeted at amalgamation	Recurring savings of £3.9m have been achieved. The IT systems integration project was completed one year ahead of schedule, and in line with the approved project budget. We have established robust procurement processes to maximise the prospects of achieving VFM through future procurement exercises.	Operational efficiencies have been achieved compared to the costs associated with the pre amalgamation entities. This equates to both financial savings and improved and consistent ways of working, with our teams motivated to drive further improvements in the future. The savings have enabled us to further invest in our customer services, a programme which was driven by our ambition to put our customers first.
2	Develop VFM decision support avenues and tools	Return on assets analysis and benchmarking tools continue to be used to drive VFM discussions and decisions. The Finance team continued its progression towards service excellence, and it achieved a 'team of the year' nomination at the NHF Housing Finance Awards in March 2019.	Stock divestment took place where analysis showed that it was appropriate, generating cash returns for reinvestment back into the core business. The Finance team has increased its reach into the business, thus providing VFM decision support in key areas such as remodelling of the Housing Services teams and evaluation of options to expand our Direct Labour Operation.
3	Promote business practices which take VFM good practice principles into account at all times	We have invested in our colleagues' learning and development to embed VFM into to our everyday activities. This includes consideration of VFM within job interviews and as part of performance management across the business. In June 2018 we held our first all colleague conference to promote better ways of working and we have subsequently launched our PA Way initiative. This work is intrinsically linked to the quality aspect of VFM, with the focus on delivering brilliant services to our customers.	All staff have enhanced awareness of VFM and this is leading to better decision making. Customer satisfaction is starting to increase. VFM is an explicit consideration for key customer facing contracts such as grounds maintenance.

Operating and Financial Review

	Target	Achievements in 2018/19	Outcomes
4	Strengthen customer and stakeholder involvement in and awareness of our VFM activities	We involve residents in procurement processes which will have an impact on the services they receive. We have instigated a major project to modernise our approach to service charges; this will include work to improve the VFM of our charges. We are working to develop VFM reporting to our involved residents, so they can assess the cost and quality of all PA services.	A new Customer Experience Team has been established to work with our residents, ensuring that we listen to their views and feed the information into our decision making process. This, along with our investment in additional front line staff, is already paying dividends through an increased awareness of what our residents really want from our services. We have also worked to enhance opportunities for residents to get involved in procurement of the services we provide to them. This will be an important component of key exercises in the year ahead to procure new cleaning and grounds maintenance contractors. Our resident scrutiny panel examines our end to end processes and considers how these could be enhanced to improve the customer experience. This has delivered a number of VFM enhancements.
5	Progress operating model options and opportunities which can enhance VFM for the business	We have reviewed a number of key areas of our operating model, in particular looking at the geographic areas in which we operate. We have considered options for delivery of key services to customers, with a view to improving the VFM of the service offering.	Operational efficiency through the disposal of peripheral stock to other not for profit Registered Providers. This is also expected to achieve better service outcomes for residents of these homes, who will now be serviced by more local landlords. We switched to a new responsive and voids maintenance contractor for our London stock, in order to improve customer service standards. We also began a review of our Direct Labour Organisation, with a view to future expansion once an appropriate supporting infrastructure has been established.
6	Develop analysis of the social impact delivered by our services and partnership working	Social impact reporting is in place, and we have embedded social impact considerations within our procurement processes. A new procurement hub is in development which will be used to gather insight and analysis on both our social impact and how we contribute to the wider communities in which we operate. We have fully utilised the Apprenticeship Levy	We have targeted investment to improve the wellbeing of people and places, including employment, financial inclusion, homelessness and housing. Our teams run workshops and drop in sessions targeting specific groups for support, for example tackling fuel poverty, and we work in partnership with other agencies to help residents start their own businesses. We have developed a social mapping tool to capture the impact of our activities; this has been shared with our community partners 17 Apprentices now work at PA and our main contractors are expected to employ apprentices and provide value added activities through additional offers such as training days, courses in home maintenance and involvement in estate action days.

Target 1 above has been completed. The remaining targets, supported by a detailed action plan, are on track for completion by the time the VFM Strategy is due for renewal in late 2019.

Operating and Financial Review

Links to corporate objectives

VFM work cannot be undertaken in isolation. VFM is a cross-cutting theme which supports achievement of our corporate objectives. The VFM activities we carry out therefore have to be delivered with these objectives in mind. Our Board takes a view on the VFM direction of travel over time, taking into account how decisions made today may impact in the future.

Within this context, delivery of our headline corporate objectives is expected to have the following VFM impacts:

Investment to achieve brilliant customer services	Improved customer satisfaction More efficient operational performance (e.g. faster re-lets) Modest downward pressure on margins, interest cover, return on capital employed Increased reinvestment rates Short term increase to unit costs
Build 5,700 new homes over 10 years	Greater housing supply in core operating areas Increased reinvestment and new supply rates Increased gearing Long term increase to return on capital employed Long term reduction to unit costs
Create an efficient and fully integrated business	Indirect positive impact on operational performance and customer satisfaction Short term unit cost increases due to disposal of peripheral stock, but opportunities to maintain strong margins and improve unit costs into the long term Efficient treasury operations, translating into appropriate gearing and interest cover results Strong staff morale and engagement, with positive impact on operations Good business reputation and attractive to investors

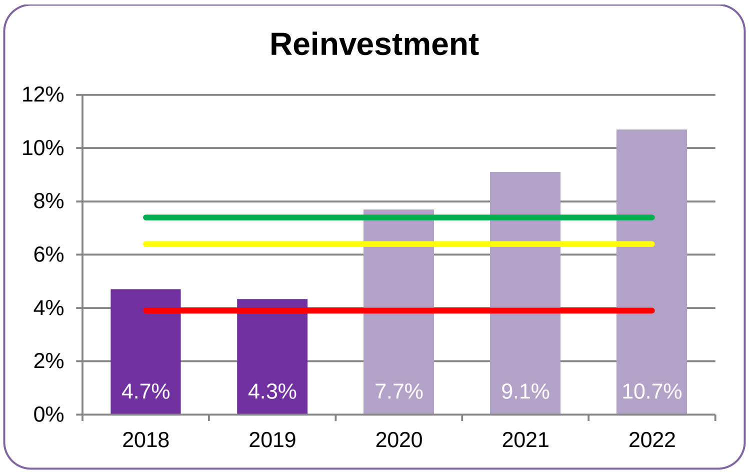
Value for Money metrics

Our financial planning reporting to Board incorporates the regulatory VFM metrics, and these are also referred to whenever significant financial decisions are made. As such, the above table illustrates how we are able to articulate our VFM journey alongside consideration of our broader corporate strategy.

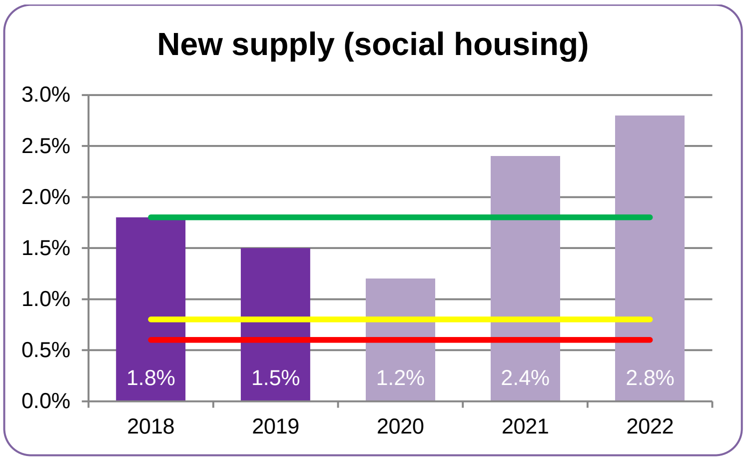
The summary table and graphs below set out our actual and forecast results against the regulatory VFM metrics for the five years from 2017/18 to 2021/22. Forecasts are based on our approved budget and business plan. It should be noted that our business plan is built on a conservative set of assumptions which we would seek to outperform, therefore these VFM projections should themselves be regarded as prudent. The graphs compare PA's performance to a peer group of 18 other housing associations which like PA manage between 20,000 and 30,000 homes, using 2018 data published by the Regulator of Social Housing. For comparative purposes we assume static peer group performance levels over time.

[Note: The below results exclude new supply of non-social housing, which is not a material consideration for PA. For the record, in 2018 we did not complete any non-social homes and in 2019 we completed three homes (0.01 per cent of total social homes in management).]

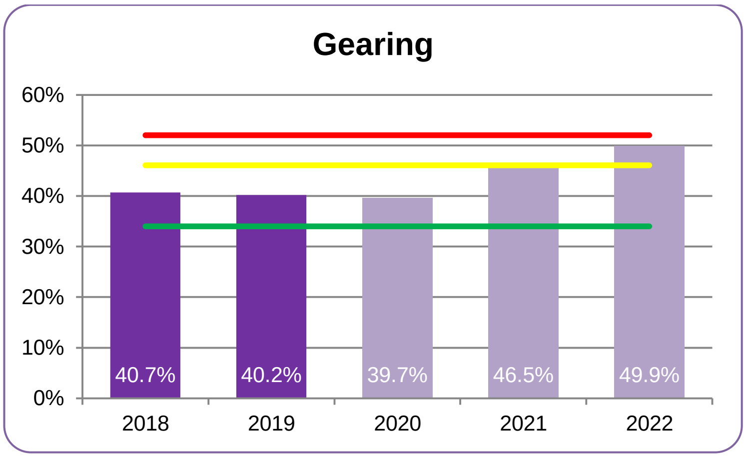
	2019	2018	Peer group median 2018
Reinvestment	4.3%	4.7%	6.4%
New supply delivered (social housing)	1.5%	1.8%	0.8%
Gearing	40.2%	40.7%	46.1%
EBITDA (inc Major Repairs)	169.0%	167.7%	211.0%
Social Housing Cost per unit (£)	4,213	3,900	3,310
Operating margin - Overall	33.8%	34.6%	28.9%
Operating margin - Social Housing lettings	33.3%	36.3%	34.3%
Return on Capital Employed	3.6%	3.9%	4.0%



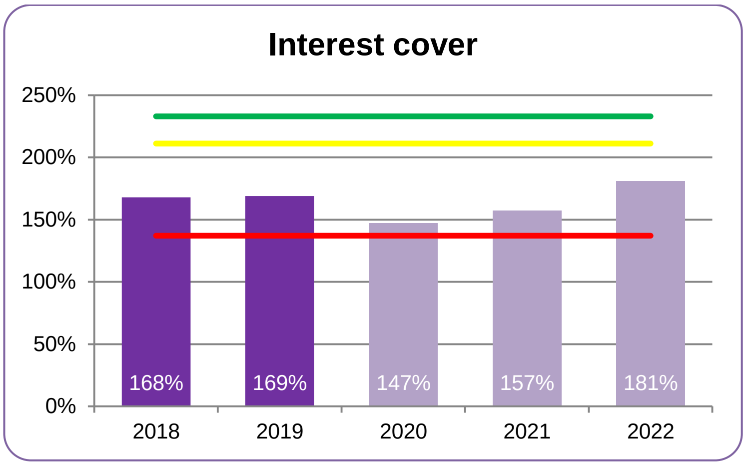
In 2019 we fell short against our reinvestment target due to budget underspends on both new build and planned maintenance activities. We expect new build investment in particular to increase significantly over the next few years, in line with our corporate objective to deliver 5,700 new homes over 10 years.



Yearly results are influenced by scheme completion timings within our overall development pipeline. However, we expect future results to be on an increasing trend and we will achieve a long term average new supply rate of c.2.5 per cent if we hit our 5,700 new homes target.



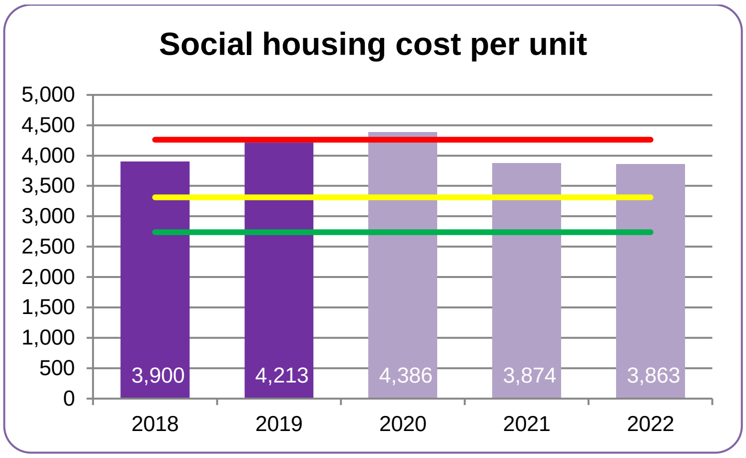
We expect gearing to steadily increase over the next few years, as we draw down from loan facilities to fund our growth plan. This will be undertaken in a controlled way to ensure continued adherence to our financial golden rules and business plan forecasts.



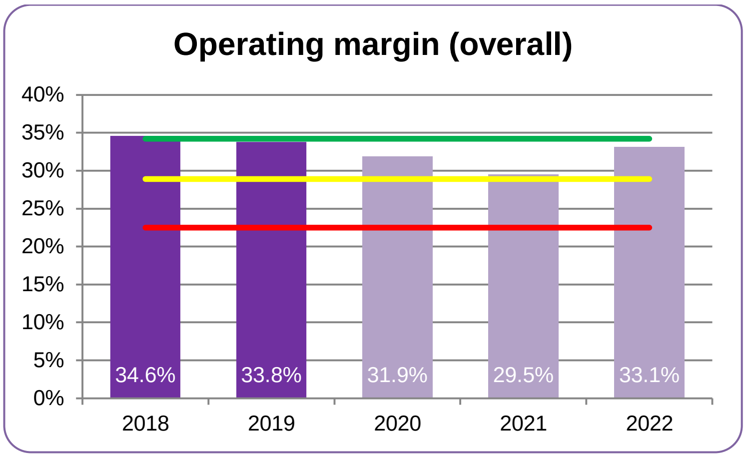
Interest cover has achieved third quartile performance levels in 2018 and 2019, and we project a continuation of this trend over the next three years. This reflects an expectation of steadily rising interest costs as a consequence of increased indebtedness to fund growth.

PA actual result | PA forecast | Peer group top quartile | Peer group median | Peer group bottom quartile

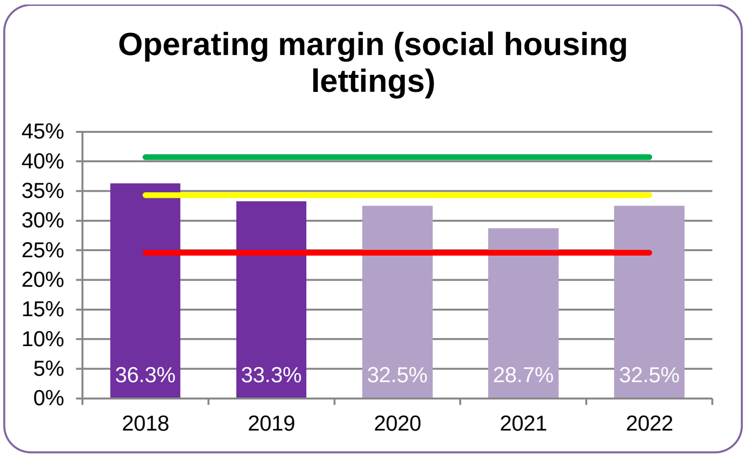
Operating and Financial Review



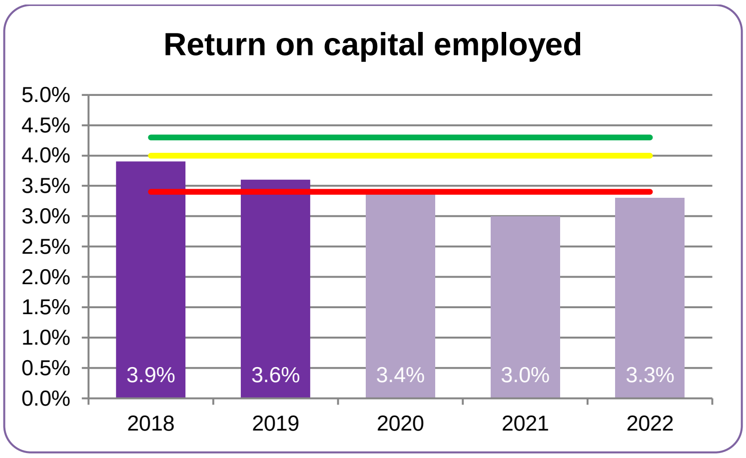
In the short term, our unit costs are increasing as a consequence of (a) additional investment in customer services in order to enhance satisfaction levels; (b) reductions to the number of units in management due to a planned stock disposal programme. We expect unit costs to start reducing from 2021 onwards, due to ongoing cost efficiency work and the effect of spreading our fixed costs across a larger number of units in management as our growth programme rolls out.



Our 2018 and 2019 operating margin results are in line with upper quartile levels. Our projections show a modest reduction in performance over the next couple of years due to the additional investment in customer services, but a return to current levels in 2022 as the rental income from our growth programme starts to kick in.



The trend for this metric is very similar to the overall operating margin metric, for the same reasons. Relative to peer group results, our performance is slightly worse than for overall operating margin but we expect to broadly meet median performance levels in the longer term



The declining trend for this metric is a reflection of our growth programme. We are in the early stages of ratcheting up investment in new build. This activity feeds into the balance sheet as soon as spend is incurred, but returns in the form of rental income will lag behind. We therefore expect the trend to be inverted in the longer term. Many of our peer HAs are undertaking similar growth programmes, so this is one area where a static peer comparison may be unrealistic.

PA actual result | PA forecast | Peer group top quartile | Peer group median | Peer group bottom quartile

Operating and Financial Review

Operational performance

Our operational key performance indicators give insight into the quality aspect of the VFM spectrum. As explained above, we have undertaken additional financial investment in customer services in order to drive up service levels, achieve efficiency of operations and reach high levels of customer satisfaction.

The table below sets out our key operational KPI results for the past two years, our targets for the year ahead and benchmark results taken from our membership of performance improvement clubs.

Indicator	2018 result	2019 result	2020 target	Bench-mark	Comments
Overall customer satisfaction	74%	87%	85%	88%	We have agreed to invest £1m in additional customer facing staff to drive sustained improvements in this area, coupled with significant investment in our homes and improved contractor performance and management
Void rent loss	1.4%	1.1%	1.0%	0.7%	Small pockets of stock faced challenges during the year, including a high volume of units awaiting sale and a high volume of major works voids (28% of all relets)
Average relet days	29.8	28.7	28.0	25.8	Performance improved during the year, although the number of void properties requiring major works impacted on results
Rent arrears	3.6%	3.7%	3.6%	4.0%	Future performance will be influenced by the ongoing rollout of Universal Credit, but to date we are achieving reasonable rent collection rates with these customers
Routine repairs within target	92.7%	95.0%	97.6%	No data	Performance improved over the year, particularly in the last two months in London following appointment of a new contractor
Emergency repairs within target	99.5%	99.7%	100%	100%	Performance improved over the year and is very close to target
Gas safety compliance	99.97%	99.91%	100%	100%	During the year we achieved full compliance except for a very small number of properties with access issues, where legal action was taken
Fire risk assessment compliance	100%	92.6%	100%	100%	During the year we implemented a new Fire Safety Policy which requires all FRAs to be reviewed every one or two years based on risk. This will be fully implemented by March 2020
Complaints to Ombudsman	23	32	n/a	n/a	There has been an increase in ombudsman cases during the year. The £1m invested in customer facing staff and other improvements to our repairs services will improve the proactive services we offer. We expect this to reduce complaints volumes over time
Enforcement notices	15	11	n/a	n/a	Proactive property management and improved assets services will reduce enforcement notices over time

Achieving high levels of customer satisfaction is our overriding service priority. To this end, our Board has approved significant additional investment in key service areas and has accepted that in the short term, this will necessitate some compromise in respect of performance against the regulatory VFM metrics. We regard this as a worthwhile investment to ensure that our customers receive excellent services for the rent and service charges they pay.

Finance Director's report

Finance Director's report

Introduction

PA's second year of operations has delivered another strong set of financial results. We continue to run the business within strict financial control parameters, but we allow room for deviations from plan where there is a demonstrable business benefit in doing so. We work to a plan, but we are not slaves to it because we understand that the world in which we operate changes in unpredictable ways.

This culture is illustrated by the Board's decision in September 2018 to approve an additional £1m investment in our Housing Services teams, in order to bolster presence out on our estates and strengthen customer relations. We believe this investment will accrue a number of benefits in future years, by enabling us to identify and act upon emerging customer service issues more swiftly and decisively. Ultimately, this will lead to higher levels of customer satisfaction and stronger operating performance results. Our Board took this decision in the full knowledge that, in the short term at least, this investment would have a modest detrimental impact on some of our financial metrics.

We continue to focus on our liquidity position, both to ensure that our business growth plans are appropriately funded and to protect the business against a range of risk scenarios. In this respect, Brexit remains a key consideration and the ongoing uncertainty as to the timing and nature of the UK's exit from the European Union raises financial planning challenges.

In direct response to this, we ended the financial year with abnormally high cash holdings in order to mitigate financial markets risks as at the originally planned Brexit date of 29 March 2019. Overall, our liquidity position remains robust with ample financing in place to fund at least the next two years of growth. During the year this was supplemented with an additional £50m of new bank debt facilities. We are now starting to formulate our thoughts as to the next phase of financing requirement beyond that time horizon. This will underpin our growth plans, which we are well placed to deliver. Our Board has approved a range of measures in support of the growth strategy, including the establishment of a land bank budget to further enhance delivery.

Our financial golden rules are non-negotiable and in 2018/19 we again met them across the board. Taken together, these rules underpin our financial strategy and they help us steer a steady path with capacity to absorb external shocks should they arise. In the current environment, our attitude towards property sales risk is particularly worthy of note. Our golden rule here stipulates that no more than 25 per cent of total turnover in any given year should come from sales proceeds. Within this, we concentrate almost exclusively on shared ownership sales and we have little interest in pursuing significant market sales opportunities. Our long-established track record with shared ownership gives us assurance that we have a firm grip on the associated risks, and we have considered exit strategies in the event of a serious market downturn.

Overall then, PA remains in rude financial health and the outlook is positive. We continue to position ourselves as a traditional housing association which sticks to the things it knows well and resists the temptation to engage in diverse activities or novel financial structures. This means that we have good financial resilience and we are well placed to respond to the many challenges faced within the social housing sector.

Simon Hatchman
Finance Director
19 September 2019

Operating and Financial Review

Our financial golden rules

At amalgamation in 2017 our Board agreed a set of golden rules which underpin our approach to financial management. They have remained unaltered in the intervening two years. Through our long term financial planning work, we ensure that these rules are harmonised with our broader corporate objectives so that in effect, they comprise the building blocks of our financial strategy. This approach helps us to preserve financial resilience into the long term.

The graphic below sets out our nine financial golden rules, and summarises how we performed against them in 2018/19. Figures are shown on a Group basis. All golden rule targets were met.

RULE	TARGET	RESULT
Operating margin (all activities)	At least 35 per cent	39 per cent
Free cash	At least £10m	£15m
Interest cover	At least 150 per cent	208 per cent
Gearing	No more than 55 per cent	40 per cent
Hedged debt	At least 50 per cent	76 per cent
Liquidity	At least 18 months	24 months
Social Housing Grant	No reliance in financial planning	Zero new SHG assumed in approved business plan
Property sales turnover	No more than 25 per cent of total turnover	7 per cent
Outright sales margin	At least 30 per cent	not applicable*

*Although we sold three units which have been classified within the accounts as outright sales in the year, these properties were sold at a planned discount to another charitable organisation.

Notes
Free cash is a measure of the ability of the existing core business to generate cash. It excludes development and sales activity and major accounting adjustments. It includes capital spend on existing assets and loan interest costs.
Interest cover and gearing calculations are based on our most restrictive loan covenants.

Operating and Financial Review

Summary results 2018/19

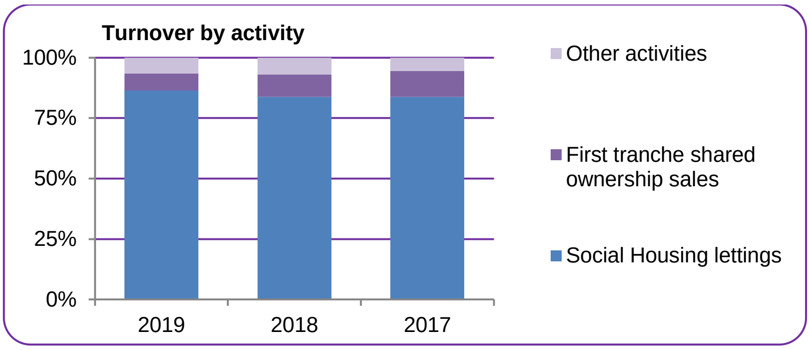
The table below reports our key financial results for PA's first two years of trading. For comparison purposes, the equivalent combined results achieved by Paragon Community Housing Limited and asra Housing Group Limited in 2017 are also reported. All results reflect Group-wide performance.

	PA Housing 2019	PA Housing 2018	Paragon / asra 2017
Group statement of comprehensive income	£m	£m	£m
Turnover	159.5	164.7	163.4
Operating surplus	62.0	65.1	57.2
Net interest payable	29.9	33.5	26.6
Net surplus	38.8	32.9	26.6
Net surplus excluding property sales	27.0	17.2	14.4
Group statement of financial position	£m	£m	£m
Property fixed assets net of depreciation and impairment	1,642	1,637	1,624
Capital grants	420	443	452
Net current assets	45	16	70
Long-term creditors	1,180	1,181	1,258
Reserves	506	488	449
Statistics			
Operating margin	39%	40%	35%
Net surplus %	24%	20%	16%
Gearing (debt versus housing assets)	43%	39%	43%
Debt to turnover ratio	4.4:1	4.3:1	4.6:1
Debt per owned rented / shared ownership property £	£34,078	£32,597	£35,700
Accommodation owned and managed	No.	No.	No.
Rented	19,380	19,910	19,159
Shared ownership	1,425	1,376	1,100
Managed units	2,254	2,219	3,709
Total stock	23,059	23,505	23,968

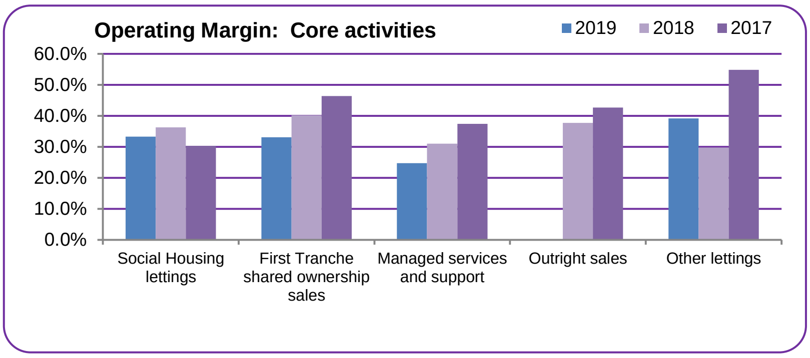
Operating and Financial Review

Financial Review

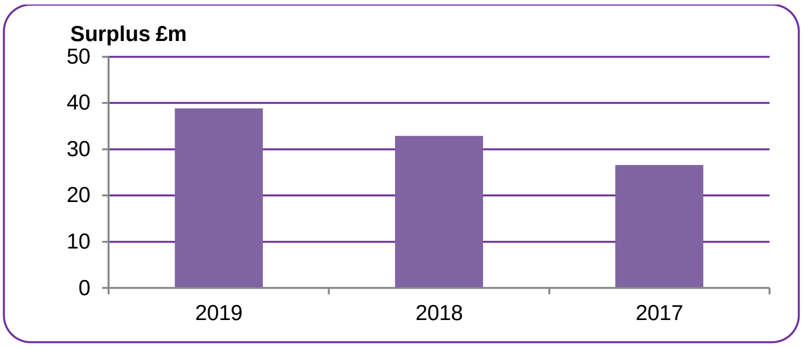
Turnover
£160m



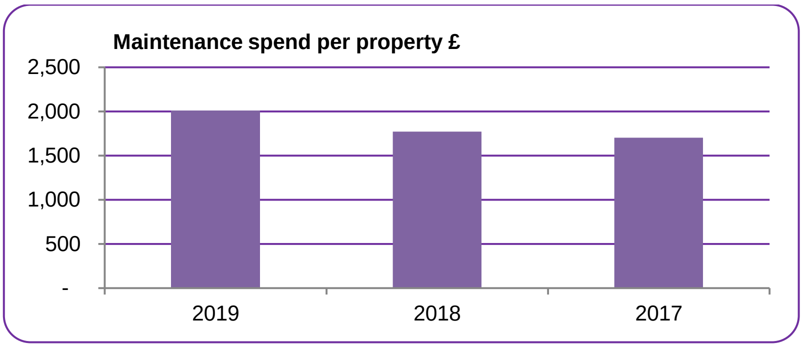
Operating Margin
39%



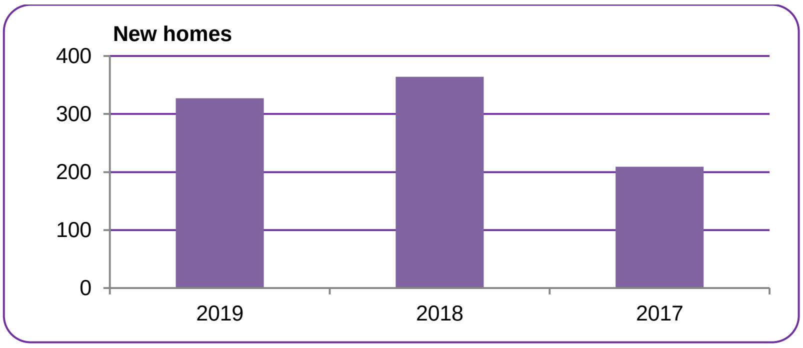
Surplus
£39m



Maintenance spend
£43m



327
New homes



Operating and Financial Review

The surplus before tax for the year is £38.8m (2018: £32.9m). The financial results of our core business of social lettings are in line with our expectations with the exception of under-delivering on our capital planned maintenance programme. This was delayed by procurement and delivery problems, which we have now addressed.

Turnover and operating surplus by activity	Turnover 2019	2018	Operating surplus / (deficit) 2019	2018
	£m	£m	£m	£m
Social housing lettings	137.9	138.1	45.9	50.1
First tranche shared ownership sales	11.2	15.2	3.7	6.1
Managed services and support	1.3	1.7	0.3	0.5
Outright sales	0.6	3.6	-	1.4
Other social / non social housing activities	7.8	5.5	3.8	(1.6)
Market rent	0.7	0.6	0.2	0.4
Other property sales surplus	-	-	8.1	8.2
	159.5	**164.7**	**62.0**	**65.1**

Turnover from social housing lettings is £137.9m (2018: £138.1m). The reduction of 0.2 per cent is a result of the continuation of the government's 1 per cent per annum rent cut policy in 2018/19 and planned stock disposals. However, the full impact of this was offset by our development programme which added new stock to boost our overall rental income.

Overall turnover has decreased from £164.7m to £159.5m. In 2018 income from the sale of shared ownership and market sales was £18.8m, in 2019 this reduced to £11.8m. Whilst this was below our sales expectations for the year the reduced turnover was due to the timing of our new developments being completed. At the end of the year £3.5m (cost) of completed new homes was held with a further £28.8m of new homes for sale under construction. The sales pipeline remains buoyant despite a levelling off in market conditions in our core growth localities.

Turnover from other activities and non social lettings remained consistent with 2018.

Whilst we have seen a reduction in our social housing operating margin from 36.3% to 33.3%, this is as a result of further investment in delivery of customer services and an increase in our routine repairs and void property maintenance costs. The repairs and maintenance cost increases were as a result of re-aligning our service to meet the needs of our customers across the geographic areas in which we operate. Our overall investment in maintaining the homes of our customers was £42.7m in the year, including our capital programme.

Results from our other housing activities include:

- A surplus of £3.7m from shared ownership first tranche sales. Despite a more challenging market we have achieved our expected sales values and margins.
- A surplus of £8.1m from disposal of housing assets. This includes a surplus of £3.3m from the sales of 664 properties to other Registered Providers and a surplus of £2.8m from our existing customers purchasing further equity in their shared ownership homes.
- A surplus of £1.3m from our non social activities. In 2018/19 three outright property sales were made. The margin was below that typically expected as the sales were made at a discount to another charitable organisation. Rental income from our non social portfolio remains relatively minimal as our core focus is on our social activities.

Our revenue interest and financing costs were £29.9m. Our overall borrowing has remained relatively stable in the year. £8.2m of interest was payable on our £225m bond and £21.7m due on our other housing loans portfolio. Interest of £3.1m was capitalised on new developments.

PA Housing uses a portfolio of interest rate swaps to hedge against interest rate risk on its borrowings. These are valued at fair value based on the mark to market position and are accounted for dependent on the effectiveness of the hedge. At 31 March 2019 the mark to market liability was £54.0m, an increase of £2.4m from the closing position at 31 March 2018.

Operating and Financial Review

The movement is disclosed in the statement of comprehensive income through a combination of a fair value movement through revenue (surplus £6.3m), Other Comprehensive Income (charge of £6.3m) and revenue interest (charge £2.4m).

The accounting of the movement in fair value is based upon the effectiveness of the swap. An effective swap is accounted for through Other Comprehensive Income whilst any ineffective part of the swap is accounted for through revenue. The effectiveness of a swap changes over time and in 2019 a number of the swaps were re-categorised between effective and ineffective; this has resulted in the surplus and charges in each category.

Furthermore during 2019 there was a change in accounting methodology for the amortisation of interest rate swaps on inception. The charge of £2.4m in revenue interest reflects the disaggregation of the inception mark to market liability, which will be amortised over future years. The 2019 charge captures the full amortisation from inception.

A change in accounting rules for the Social Housing Pension Scheme liability has resulted in a charge to other comprehensive income of £13.7m. This includes an adjustment for the initial recognition under the new accounting rules of £8.6m and an actuarial loss of £5.1m in the year.

The gross value of housing properties is £1.64bn. £56.7m has been invested in developing new homes and a further £13.7m invested in making improvements to existing properties. Properties with a cost value of £28.9m were disposed of in the year including those sold to other Registered Providers. At the end of the year the unsold equity value on newly developed shared ownership properties was £5.1m.

£4.2m was invested in other fixed assets; this includes both the investment in communal furniture equipment in our schemes and investment in IT and our customer facing digital strategy. The year saw successful completion of our integration project following the 2017 amalgamation, and all of our core IT systems are now fully harmonised.

Movements on debtors and creditors relating to our core activities remained stable. Other movements relate to the change in accounting for the Social Housing Pension Scheme and changes to our loans and financial instruments managed under our treasury policy.

Total cash balances, including ring fenced funds, at the end of the year were £49.9m; this is a higher position than normally held as it reflects the decision to maintain additional cash balances during the Brexit period in order to manage liquidity risk.

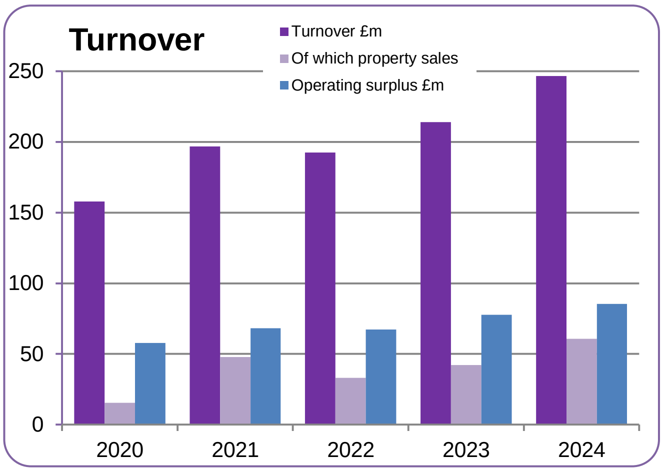
Operating and Financial Review

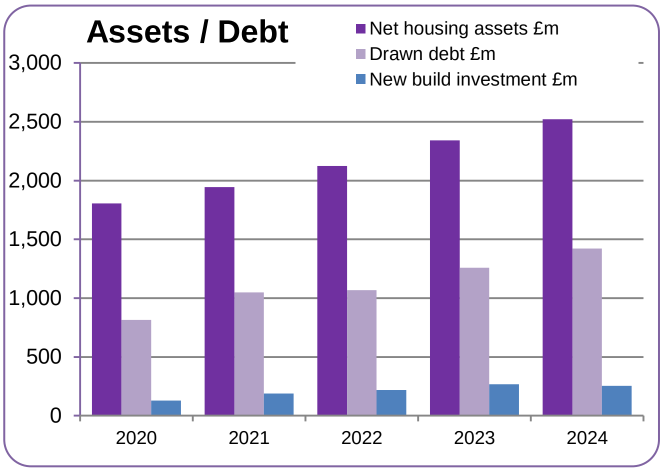
Financial outlook

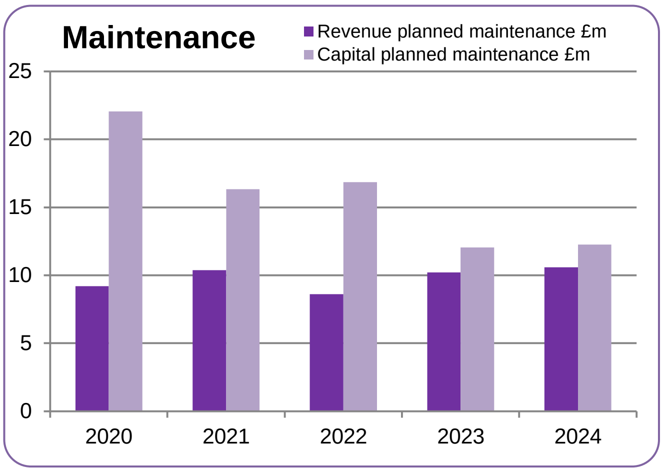
We continue to regard financial strength and resilience as the essential bedrock from which our corporate plans can be delivered. Financial capacity and financial impacts are key components of all Board strategy discussions and decisions. Our business plan sets out our overall financial direction of travel, and we rigorously test this against a range of risk-based adverse scenarios to assess our ability to weather financial headwinds. At a more detailed level, we have embedded intrinsic links between operational and financial planning to ensure that the business moves forward in a consistent and predictable manner.

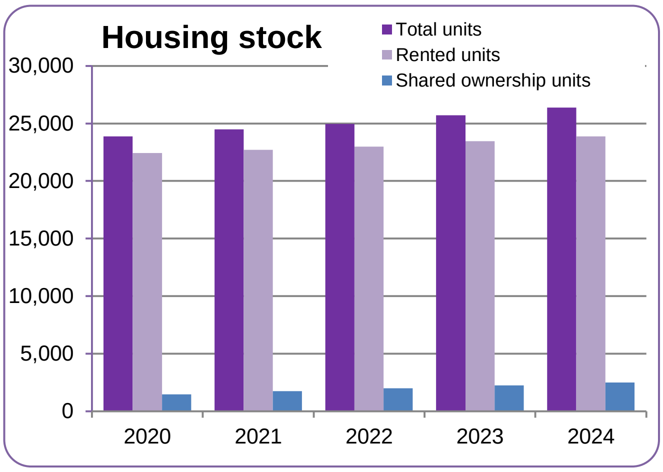
That said, we have an ambitious set of corporate objectives to deliver. This will require investment, in particular to support growth. As such, we plan to continue utilising our capacity in order to steadily increase indebtedness. As always, this will be undertaken carefully and the controls we have in place (for example, in relation to property sales activity) will limit our exposures to potential shocks. We always aim to make decisions about funding and liquidity from a position of strength and choice.

The projections below, taken from our current approved business plan, aim to provide an illustration of our expected financial outlook. It should be noted that our business plan is subject to regular review and update as our operating environment changes, and the projections should therefore only be taken as a broad guide.









Our focus on sound financial management remains very strong. We continue to value clarity and simplicity as cornerstones of our financial structures, and we are confident that we will be able to deliver controlled expansion of the business without detriment to our key financial metrics. We work with a number of financial partners and investors to turn our plans into reality, and we are grateful for their continued support.

Operating and Financial Review

Treasury and Liquidity

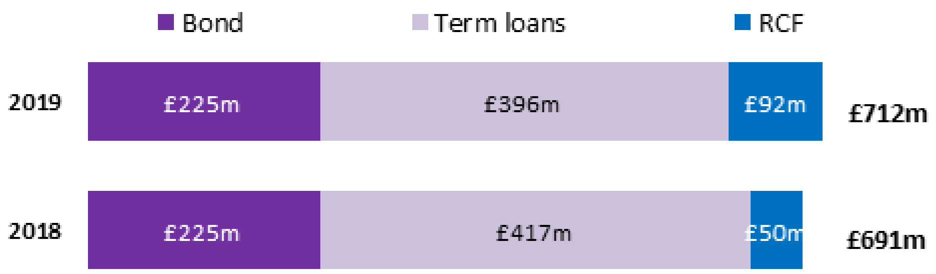
Treasury management

We operate a centralised treasury function, with responsibility for the management of liquidity, interest rate risk and counterparty risk. The treasury policy and annual strategy that underpin these responsibilities are approved each year by the Board.

We take a risk-based approach to liquidity and interest rate management, with the overriding objective being the avoidance of unacceptable risk. Surplus cash is invested with approved counterparties (banks and money market funds) in line with treasury policy that defines credit quality criteria and maximum exposure limits. Although we take a commercial approach, our focus is on preservation of capital more than maximisation of returns; we follow best practice guidelines of security, liquidity then yield.

How we are funded

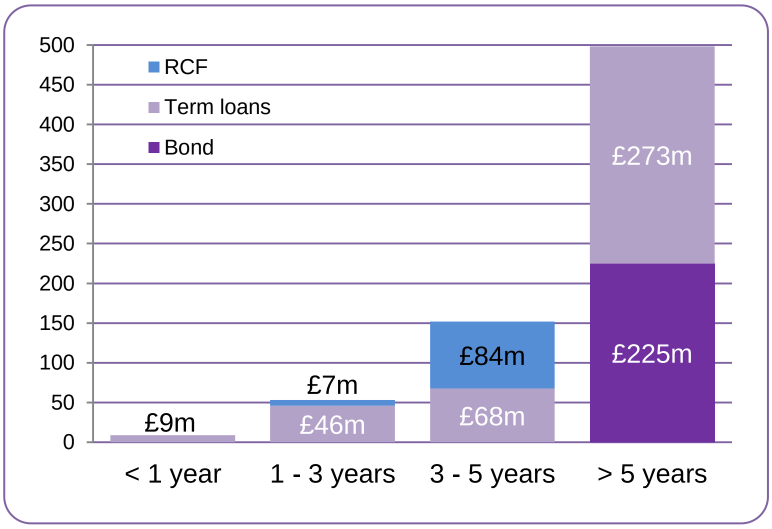
We fund the business in pounds sterling, using a mix of external borrowings (bank loans and capital markets), retained earnings and grant provided by government agencies. External borrowings at year-end were as follows:



PA Housing is the main borrowing vehicle for bank loan borrowings, while our wholly owned subsidiary Paragon Treasury Plc has issued a £250m bond (of which £225m has been drawn) which was on-lent to PA Housing.

RCF = Revolving Credit Facilities

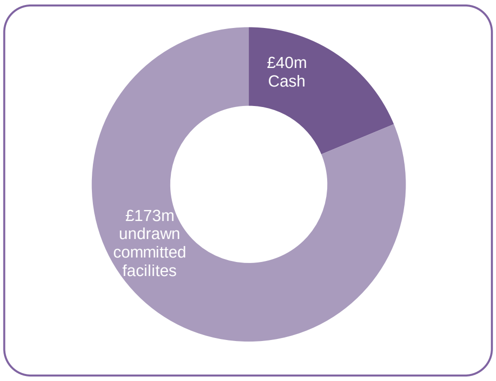
Maturity of debt



The weighted average cost of our borrowings was 4.2 per cent (2018: 4.3 per cent).

Operating and Financial Review

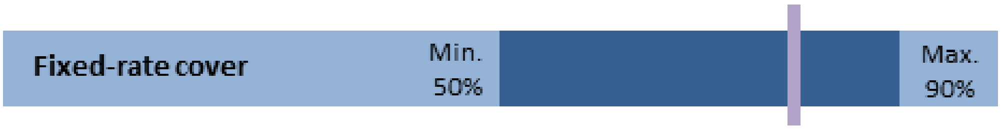
Liquidity



At the year end we held liquidity (comprising treasury cash balances, and undrawn committed loan facilities available for immediate drawing) of £213m. We also had access to £25m of retained bonds. This is sufficient to cover more than two years of forecast business activities, including the development programme over this timeframe. Cash balances of £40m were at higher than normal levels as a result of mitigating Brexit uncertainty around the financial year end date, and we will continue to maintain generally higher levels of cash until the outlook is clarified.

All our borrowings are provided by UK-domiciled counterparties, and we do not expect Brexit to affect our access to undrawn committed facilities (although we have formulated contingency plans should this prove to be an issue). Additionally, we have ample available assets to cover future debt issuance in order to fund our longer term development programme.

Exposure to interest rate movements



Fixed rate cover was 76 per cent at March 2019 (2018: 81 per cent), comfortably within the permitted range set by our treasury policy. This was achieved through a mixture of fixed-coupon borrowings, embedded swaps within loan facility agreements and standalone interest rate swaps. We had £160m of standalone interest rate swaps as at March 2019 (2018: £160m), with an aggregate value when marked-to-market of £54.0m negative (2018: £51.6m negative). Our mark-to-market exposure is fully secured by pledged property and cash. The deterioration in market value reflects the weaker interest rate outlook prevailing at the March 2019 year end.

Financial covenants

Our primary financial covenants are based on interest cover, asset cover and gearing ratios. All were met comfortably at the March 2019 test date, and our business plan indicates comfortable headroom going forwards.

Corporate Governance

Report of the Board of Management

Corporate Governance

Legal Status

Paragon Asra Housing Limited is incorporated in the United Kingdom and registered with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and with the Regulator of Social Housing as a social housing provider.

Paragon Asra Housing Limited trades as, and is known as PA Housing (UK trade mark).

Paragon Asra Housing Limited is a Public Benefit Entity, as defined in Financial Reporting Standard 102 and applies the relevant paragraphs of FRS 102 for Public Benefit Entities.

Principal activities

The principal activity of the Group is the management and development of social housing, operating in London, Surrey and the Midlands.

Group Structure

PA Housing's governance arrangements are built around a simple organisational structure. PA Housing is the main asset holding entity. Other active entities apart from our joint venture company are two construction companies which deliver property construction services to the parent company, and Paragon Treasury Plc which has accessed bond finance from the capital markets and has on-lent the proceeds to PA Housing. Some dormant companies are retained for possible future use.

Paragon Asra Housing Limited

Parent Company
Registered Provider of Social Housing

Asra Construction Services Limited	Paragon Development and Construction Limited	Paragon Treasury Plc	Asra Housing Group Limited	Sandy Hill (Woolwich) Limited	Newlight Properties Limited	Franklands Park Limited
Design and build services	Design and build services	Group borrowing vehicle	Dormant	Dormant	Dormant	Management of Property
Private Company Limited by shares	Private Company Limited by shares	Public Limited Company	Community Benefit Society	Private Company Limited by shares	Private Company Limited by shares	Private Company Limited by guarantee
			Former parent company			50% holding with Accent Housing Limited

The principal activity of Franklands Park Limited is the management of an estate in Addlestone. A share of the company's results has not been included in the Group figures on the grounds of materiality. Franklands Park Limited's latest published results for the year ended 31 March 2019 show a profit for the year of £2k (2018: £nil) and net assets of £251k (2018: £249k).

Code of governance

The Board is committed to ensuring that it has effective governance arrangements that deliver its aims and objectives in an effective, transparent and accountable manner.

The Rules of the Association remain its principal document of constitution and they regulate various matters including the Board, its powers and its role. The Board has adopted standing orders, scheme of delegations, code of conduct and financial regulations and has in place Committee terms of reference. A formal review of these documents took place during the year as part of a governance review.

The Board complies with the 2015 National Housing Federation Governance Code: Promoting Board Excellence for Housing Associations and the National Housing Federation's 2012 Code of Conduct. The Board meets frequently to determine policy and to monitor the performance of PA Housing.

Report of the Board of Management

Board

Composition

PA Housing is governed by a Board of between five and 12 non executive Board members and the Chief Executive. Each Board member holds one fully paid up share of £1 except the Chief Executive, who is not a shareholder. There are five shareholders who are not Board members

Board members are paid a fee for their services. The Nominations and Remuneration Committee (formerly the Governance and Remuneration Committee) has sole responsibility for recommending to the Board the structure and level of fees and it takes advice from suitably qualified and experienced independent advisors as required when undertaking reviews of the fees structure. These reviews are benchmarked against levels for comparable organisations and are designed to ensure that PA Housing is able to recruit and retain high calibre Board members.

Board Effectiveness

The Board is committed to the highest standards of governance and is responsible for setting the strategic direction and to govern, control and scrutinise the financial management of the Group.

The Board completed its annual review of combined and individual Board member performance during the year. The outcomes have been agreed by the Board. The Board members undertake training and development activity to consider wider issues such as succession planning, housing development and political consequences on the business. Individual members frequently undertake training or development activity as identified by them or in their annual appraisal.

The Board and its Committees comprise members from a diverse range of backgrounds and with the range of skills, knowledge and experiences appropriate for their needs. Following the most recent review of Board performance and effectiveness, membership of the Board and its mix of skills, knowledge and experience is considered to remain appropriate for PA Housing to deliver its Corporate Plan.

PA Housing is committed to developing a culture in which equality and diversity is integral to all of its activities, including the recruitment and development of Board and Committee members. PA Housing aims to achieve an inclusive culture that respects and values differences and eliminates discrimination in all areas.

All Board and Committee members are required to declare any interests annually and otherwise at meetings where potential issues may arise.

The Group maintains Directors' and Officers' liability insurance for its Board members and officers, which is renewed annually. The Board is given access to independent professional advice when the Board so requires.

Committees

During the year the Board delegated authority to five committees. Roles, responsibilities and accountabilities are set out in standing orders and scheme of delegations, reviewed and approved annually by the Board.

Board				
Audit and Risk Committee	Development and Assets Committee	Customer Services Committee	Governance and Remuneration Committee	Treasury Committee

Audit and Risk Committee

Oversees internal control and risk management procedures as well as reviewing the financial statements. It also provides challenge and scrutiny, ensuring fair and balanced financial management, and a risk profile that is managed in accordance with our strategy and risk appetite. The Committee comprises four non-executive Board members and it met five times this year.

Development and Assets Committee

Oversees and scrutinises the development programme and investment in our existing assets. The Committee reviews progress and performance on all aspects of housing development and sales and marketing activity. It approves development schemes and asset investment appraisals within its delegations. The Committee comprises four non-executive Board members and it met four times this year.

Customer Services Committee

Focuses on all aspects of the effective and efficient operational delivery of services, ensuring feedback from residents and other stakeholders and promoting high standards. The Committee comprises three non-executive Board members, two independent members and three resident members and it met four times this year.

Governance and Remuneration Committee

Considers Board structures and appointment and the working arrangements and remuneration of the Board, Chief Executive and Executive Directors. It provides scrutiny and support in reviewing all people and governance related policies and strategies. The Committee comprises five non-executive Board members and it met four times this year. At the start of the 2019/20 financial year the terms of reference for this Committee were adjusted by the Board, and it was renamed as the Nominations and Remuneration Committee.

Treasury Committee

Oversees treasury and funding activities, ensuring sufficient liquidity is available to support agreed strategy, and providing challenge and scrutiny of the treasury strategy and risk management. It also considers business planning assumptions and stress tests. The Committee comprised four non-executive Board members and it met four times this year. The Committee was disbanded at the start of the 2019/20 financial year as a consequence of the governance review. Routine work has now been retained by the Board. The Board also reserves the right to convene a task and finish group to oversee major treasury projects.

Meetings, attendance and remuneration

Attendance records of the non-executive Board and Committee members at meetings during the year are shown below. For retired members, the record shows attendance versus the maximum number of meetings each member could have attended before retirement. Current Board member remuneration is £20,000 for the Chair, £15,500 for the Deputy Chair, £13,000 per Committee Chair and £11,000 per member, per annum. Remuneration shown in the table below is inclusive of expenses paid. Total expenses of £6,708 (2018: £4,847) were reimbursed to non-executive Board members during the year. Remuneration of committee members who are not Board members is not disclosed. The remuneration of the Chief Executive who is also a Board member is included in note 7 to the financial statements.

	Board	Audit & Risk Committee	Development & Assets Committee	Governance & Remuneration Committee	Customer Service Committee	Treasury Committee	Remuneration 2018/19 £	Remuneration 2017/18 £
Board Members								
Stephen Amos	5 of 5	5 of 5	-	-	-	4 of 4	13,300	13,427
Christopher Cheshire	5 of 5	-	3 of 4	-	4 of 4	-	13,286	13,000
David Edwards	5 of 5	-	4 of 4	4 of 4	-	-	16,324	17,177
David Hunter	5 of 5	-	4 of 4	-	-	3 of 4	13,000	14,149
Curtis Juman	5 of 5	3 of 5		3 of 4	-	2 of 4	11,327	11,827
Hattie Llewelyn-Davies	3 of 3	-	-	2 of 2	-	-	10,326	-
Katherine Lyons	5 of 5	5 of 5	-	4 of 4	-	-	12,084	11,424
Wayne Morris	4 of 5	-	1 of 1	4 of 4	3 of 4	-	14,755	13,466
Anne Turner	5 of 5	5 of 5	-	-	4 of 4	4 of 4	13,808	13,557
Retired								
Aman Dalvi (30/09/18)	2 of 2	-	-	-	-	-	12,750	23,790
Gemma Saffhill (30/09/18)	2 of 2	-	2 of 2	-	-	-	6,500	13,750
Committee Members								
Kim Francis (resident)					3 of 4			
Joan Swift (resident)					4 of 4			
Ruth Mitchell (independent)					2 of 4			
Sam Thompson (resident)					2 of 4			
Stephen Cooper (independent)					2 of 4			
Retired								
Chikaire Exeru (16/04/18)					0 of 0			

Report of the Board of Management

Compliance with the Governance and Financial Viability Standard

The Board is committed to integrity and accountability in the stewardship of PA Housing's affairs. An annual self-assessment of the compliance with the Governance and Financial Viability Standard was approved by the Board on 19 September 2019. Following an extensive In-Depth Assessment carried out by the Regulator of Social Housing, the Group was awarded the highest possible Governance and Viability ratings of G1 and V1. The result was published in April 2018.

PA Housing confirms its compliance with the Governance and Financial Viability Standard of the Regulator of Social Housing. The Board has assessed its compliance with the standard at least once during the year with reference to the current position of the Group.

Statement of Internal Control Assurance

The PA Housing Board has overall responsibility for establishing and maintaining the system of internal control. As with all systems of internal control, it is designed to manage rather than eliminate all risk of failure to achieve business objectives and can therefore provide reasonable and not absolute assurance against material misstatement or loss. The system of internal control is subject to continuing review and development.

Annual Review of the effectiveness of the System of Internal Control

The Board delegates responsibility for the annual review of the effectiveness of the system of internal control to the Audit & Risk Committee ('ARC'). ARC takes account of any changes needed to maintain the effectiveness of the management and control process for risk and fraud. ARC met five times during the course of the year. Assurance over the control environment was obtained from the following main sources.

Risk Management

An effective risk management framework sits at the heart of the system of internal control. The Board confirms that the process for identifying, evaluating and managing the significant risks faced by the organisation is ongoing, the process has been in place throughout the year and up to the date of approval of the annual report and accounts and is regularly reviewed by the Board.

ARC receives risk management reports at each meeting and approves the risk register on behalf of the Board. Risk Management reports include the top strategic risks, operating environment analysis, a risk trigger report and a risk assurance report. Board Committees receive risk management reports tailored to their specific business requirements.

The credit rating process in support of PA's public bond issue also takes into account the strength of our governance and risk management arrangements. During the year Moody's reconfirmed an A3 stable rating.

Internal Audit Service

The prime responsibility of the internal audit service is to provide the Board with assurance on the adequacy and effectiveness of the internal control system, including risk management and governance. Internal audit also plays a valuable role in helping management to improve systems of internal control and so to reduce the potential effects of any significant risks faced. Internal Audit is delivered by the in-house team with an element of external support. The Internal Auditors have direct access to ARC and meet the Committee and Committee Chair privately.

ARC reviews the findings arising from all Internal Audit Reports and is provided with progress reports on the implementation of all agreed recommendations for improvement to the point of conclusion.

The Head of Risk Management provides an annual report and overall assurance opinion on the system of internal control based on the Internal Audit work performed during the year and management response to that work. The 2018/19 Internal Audit annual report identified no material concerns.

Fraud Management

There is an established policy for integrity and bribery and PA Housing operates a zero tolerance approach to any instances of fraud or corruption. There is an Anti-Fraud Policy in place covering prevention, detection and reporting of fraud and the recovery of assets. A Fraud Response Plan is also maintained along with a register of identified incidents. There were no material issues identified during the year.

The Anti-Fraud Policy includes publication of an externally hosted confidential whistleblowing hotline service that colleagues can use to report any concerns of an act of fraud of corruption. There were no material issues reported during the year.

ARC reviews the fraud and loss register and reflects the information contained within it in its assessment of the control environment.

Information and Financial Reporting Systems

Financial reporting procedures include a long-term financial plan, detailed annual budgets, detailed treasury reports, value for money reporting and regular management accounts which are reviewed by the Board.

Any issues raised in the external audit management letter issued at conclusion of the annual audit are dealt with to the satisfaction of both the external auditors and ARC with progress tracked to the point of conclusion.

Key performance indicators and business objectives set as part of the performance management framework are regularly reviewed by the Board to assess progress and outcomes.

Director and Leadership Self Assessment and Certification

The Executive Team provides assurance that internal controls and risk management are operating effectively in their directorate through completion of an annual assurance statement and self assessment against a range of internal controls. The Leadership Team also undertakes a twice-yearly self assessment and certification of the key control environment on a departmental basis.

Control Environment and Procedures

Governance arrangements are subject to continuing review and development to ensure they remain fit for purpose. Board and Committee membership is reviewed annually. Compliance with the adopted code of governance and the Regulatory Framework is reviewed annually. During the year an action plan devised following an external governance review has been implemented to further strengthen arrangements from the baseline G1 / V1 position.

The Board retains responsibility for a defined range of issues covering strategic, operational, financial, and compliance matters and new investment projects. The Board disseminates its requirements to employees through a framework of policies and procedures.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by PA Housing and for preventing, detecting, investigating and insuring against fraud. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board.

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

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

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

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

In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

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

Approved by the Board and signed on its behalf by:

MJHall

Marion Hall
Company Secretary
19 September 2019

Independent auditor's report to Paragon Asra Housing Limited

Opinion

We have audited the financial statements of Paragon Asra Housing Limited ("the association") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves, Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the group and the association as at 31 March 2019 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

Brexit

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

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

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Board's conclusions, we considered the inherent risks to the group business model, including the impact of Brexit, and analysed how those risks might affect the group and association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

Independent auditor's report to Paragon Asra Housing Limited

Other information

The association's Board is responsible for the other information, which comprises Chair and Chief Executive Statements, Strategic Report, Finance Directors Report, and Corporate Governance. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over transactions; or
- the financial statements are not in agreement with the association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

Board's responsibilities

As more fully explained in their statement set out on page 41, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group 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 it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it 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 as a body, for our audit work, for this report, or for the opinions we have formed.

SBrown

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

25 September 2019

Financial Statements

Financial Statements

Statement of Comprehensive Income

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Turnover	2	159,549	164,666	159,824	164,962
Less: Cost of sales	2	(8,063)	(11,340)	(8,063)	(11,340)
Less: Operating costs	2	(97,571)	(96,389)	(97,546)	(96,359)
Surplus on disposal of housing fixed assets	6	8,084	8,146	8,084	8,146
Operating Surplus	2	61,999	65,083	62,299	65,409
Surplus on sale of other fixed assets		7	108	7	108
Interest receivable	9	148	109	147	109
Interest and financing costs	10	(29,855)	(33,515)	(29,855)	(33,515)
Movement in fair value of financial instruments	27	6,359	554	6,359	554
Movement in fair value of investment properties	15	59	920	59	920
Gift aid receivable		-	-	285	821
Surplus before tax		38,717	33,259	39,301	34,406
Taxation	11	68	(393)	63	(294)
Surplus for the year		38,785	32,866	39,364	34,112
Movement in fair value of hedged financial instruments	27	(6,285)	5,737	(6,285)	5,737
Adjustment on initial recognition of Social Housing Pension Scheme liability	34	(8,602)	-	(8,602)	-
Actuarial (loss) / gain on defined benefit pension schemes	34	(5,240)	350	(5,240)	350
Total comprehensive income for the year		18,658	38,953	19,237	40,199

The turnover and operating surplus for the current year all relate to continuing activities.

Financial Statements

Statement of Financial Position

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Fixed Assets					
Intangible assets and goodwill	12	(8,422)	(13,245)	(8,422)	(13,245)
Tangible fixed assets – housing properties	13	1,641,590	1,636,876	1,644,979	1,639,849
Tangible fixed assets – other	14	13,471	10,171	13,471	10,171
Investment properties	15	21,320	20,420	21,320	20,420
Investments	16	458	510	458	510
Investment in subsidiaries	17	-	-	13	13
		1,668,417	1,654,732	1,671,819	1,657,718
Current Assets					
Stock	18	38,296	45,517	33,770	40,953
Debtors	19	7,758	11,592	15,431	16,658
Current asset investments	20	4,497	3,814	4,497	3,814
Cash and cash equivalents		49,936	22,636	48,365	21,523
		100,487	83,559	102,063	82,948
Less: Creditors: amounts falling due within one year	21	(55,178)	(67,612)	(56,632)	(67,042)
Net current assets		45,309	15,947	45,431	15,906
Total assets less current liabilities		1,713,726	1,670,679	1,717,250	1,673,624
Creditors: amounts falling due after more than one year	22	(1,180,258)	(1,181,322)	(1,180,258)	(1,181,322)
Provision for liabilities	33	(322)	(508)	(322)	(508)
Net assets excluding pension liability		533,146	488,849	536,670	491,794
Pension liability	34	(26,746)	(1,107)	(26,746)	(1,107)
Total net assets		506,400	487,742	509,924	490,687
Capital and Reserves					
Called up share capital	32	-	-	-	-
Income and expenditure reserve		291,462	264,841	294,986	267,786
Cash Flow Hedge reserve		(28,245)	(21,960)	(28,245)	(21,960)
Revaluation reserve		243,105	244,783	243,105	244,783
Restricted reserve		78	78	78	78
		506,400	487,742	509,924	490,687

The financial statements on pages 45 to 90 were approved by the Board on 19 September 2019 and signed on its behalf by:

Hattie Llewelyn-Davies
Chair

Anne Turner
Chair of Audit and Risk Committee

Marion Hall
Company Secretary

Financial Statements

Consolidated Statement of Changes in Reserves

Group	Income and exp. reserve £'000	Cash Flow Hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2018	264,841	(21,960)	244,783	78	487,742
Surplus for the year	38,785	-	-	-	38,785
Transfer of restricted expenditure to income and expenditure reserve	-	-	-	-	-
Change in fair value of hedged financial instruments	-	(6,285)	-	-	(6,285)
Adjustment on initial recognition of Social Housing Pension Scheme Liability	(8,602)				(8,602)
Actuarial (loss) on defined benefit pension scheme	(5,240)	-	-	-	(5,240)
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,184	-	(1,184)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	494	-	(494)	-	-
At 31 March 2019	291,462	(28,245)	243,105	78	506,400

Group	Income and exp. reserve £'000	Cash Flow Hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2017	229,221	(27,697)	247,187	77	448,788
Surplus for the year	32,866	-	-	-	32,866
Transfer of restricted expenditure to income and expenditure reserve	-	-	-	1	1
Change in fair value of hedged financial instruments	-	5,737	-	-	5,737
Actuarial gain on defined benefit pension scheme	350	-	-	-	350
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,226	-	(1,226)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	1,178	-	(1,178)	-	-
At 31 March 2018	264,841	(21,960)	244,783	78	487,742

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Association Statement of Changes in Reserves

Association	Income and exp. reserve £'000	Cash Flow Hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2018	267,786	(21,960)	244,783	78	490,687
Surplus for the year	39,364	-	-	-	39,364
Transfer of restricted expenditure to income and expenditure reserve	-	-	-	-	-
Change in fair value of hedged financial instruments	-	(6,285)	-	-	(6,285)
Adjustment on initial recognition of Social Housing Pension Scheme Liability	(8,602)				(8,602)
Actuarial (loss) on defined benefit pension scheme	(5,240)	-	-	-	(5,240)
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,184	-	(1,184)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	494	-	(494)	-	-
At 31 March 2019	294,986	(28,245)	243,105	78	509,924

Association	Income and exp. reserve £'000	Cash Flow Hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2017	230,920	(27,697)	247,187	77	450,487
Surplus for the year	34,112	-	-	-	34,112
Transfer of restricted expenditure to income and expenditure reserve	-	-	-	1	1
Change in fair value of hedged financial instruments	-	5,737	-	-	5,737
Actuarial gain on defined benefit pension scheme	350	-	-	-	350
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,226	-	(1,226)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	1,178	-	(1,178)	-	-
At 31 March 2018	267,786	(21,960)	244,783	78	490,687

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Consolidated Statement of Cash Flow

	Note	2019 £'000	2018 £'000
Net cash generated from operating activities	30	98,549	61,486
Cash flow from investing activities			
Interest received		148	109
Grants received		778	817
Purchase and enhancement of housing properties		(57,339)	(42,060)
Purchase of other tangible fixed assets		(4,235)	(896)
Proceeds from sale of other tangible fixed assets		13	95
		37,914	19,551
Cash flow from financing activities			
Taxation paid		(297)	(148)
Interest paid		(30,362)	(36,395)
Other financing cost paid		-	(214)
Current asset investments released		(619)	2,400
Financing			
Housing loans and bond finance received	31	59,500	45,000
Housing loans repaid	31	(38,836)	(94,375)
Net change in cash and cash equivalents		27,300	(64,181)
Cash and cash equivalents at beginning of the year		22,636	86,817
Cash and cash equivalents at end of year		49,936	22,636

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

1 Accounting Policies

1.1 Basis of Accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) and comply with the Statement of Recommended Practice for registered social housing providers 2014 (SORP), the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2015.

The financial statements have been prepared under the historical cost convention, except for the modification to fair value for certain financial instruments and housing properties and the annual valuation of commercial and market rent properties as specified within these accounting policies.

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent company would be identical;
- no cash flow statement has been presented for the parent company.

The financial statements are presented in pounds sterling and reported in £'000s.

The following principal accounting policies have been applied:

1.2 Basis of consolidation

The Group accounts comprise those of Paragon Asra Housing Limited (the association) together with its subsidiaries, in accordance with the requirements of FRS 102. Intercompany transactions and balances between Group companies are therefore eliminated in full. A list of subsidiary undertakings of the association is included in the notes to these financial statements.

1.3 Segmental reporting

There are publically traded securities across all of the geographical locations the association operates within and therefore there is a requirement to disclose information about the Group operating segments under IFRS 8. Segmental information is disclosed in note 3 and as part of the analysis of housing properties in note 13. Information about income, expenditure and assets attributable to material operating segments is presented on the basis of the nature and function of housing assets held by the Group rather than by geographical location. As permitted by IFRS 8 this is appropriate on the basis of the similarity of the services provided, the nature of the risks associated, the type and class of customer and the nature of the regulatory environment across all of the geographical locations where the association operates. The Board does not routinely receive segmental information disaggregated by geographical location or segmental information of income or costs below operating surplus.

1.4 Going Concern

The Group's activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to credit, liquidity and cash flow risk are described in the strategic report.

The Board has considered the areas which could give rise to significant financial exposure, and is satisfied that no material or significant exposures exist other than as reflected in these financial statements and that, whilst noting the risks and uncertainties in the current environment, PA has adequate resources to continue its operations for the foreseeable future. The Board's review of these risks and uncertainties has included a consideration of potential impacts arising from Brexit, including in relation to supply chain costs, availability of labour, access to finance and impact on customers. For these reasons the going concern basis has been adopted in preparing these accounts.

1.5 Turnover

Turnover is measured at the fair value of the consideration received or receivable and excludes Value Added Tax (where applicable).

Rental income

Rental income (net of void loss) is recognised on an accruals basis for the period to which it relates as opposed to the date on which the rent is charged. For schemes managed by agents, income is shown as rent receivable and management fees payable to agents are included in operating costs.

Notes to the Financial Statements

Supporting People

Where the association receives Supporting People grants from London boroughs and county councils, grants received and costs incurred in the provision of support services have been included in the Statement of Comprehensive Income. Any excess of cost over the grant received is borne by the association where it is not recoverable from tenants.

Service charges receivable

The association operates both fixed and variable methods for calculating and charging service charges to its tenants and leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

Managed services

Management fees receivable and reimbursed expenses are shown as income and included in management services. Costs of carrying out the management contracts and rechargeable expenses are included in operating costs.

First tranche sales of low-cost home ownership housing properties developed for sale

Income from first tranche sales is recognised at the point of legal completion of the sale.

Proceeds from the sale of land and property

Income from land and property disposals is recognised at the point of legal completion of the sale.

1.6 Supported housing schemes

In respect of supported housing schemes owned by the Group where the managing agents suffer the risks and have control of benefits, the income and expenditure and related current assets and liabilities are not included in these financial statements.

1.7 Pensions

Defined contribution pension scheme

The association participates in the defined contribution scheme of the Social Housing Pension Scheme. The assets of the scheme are held separately from those of the Association in an independently administered fund. Contributions to the defined contribution pension scheme are charged to the Statement of Comprehensive Income in the year in which they become payable.

Defined benefit pension scheme

The association has previously participated in two defined benefit pension schemes which are now closed to new members. The disclosure in the accounts follows the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes.

Local Government Pension Scheme (LGPS) - Elmbridge Borough Council

Under the terms of the transfer agreement with Elmbridge Borough Council, PA Housing makes additional payments each year as its contribution to the past service deficit at 31 March 1998. These are recognised as a liability on the Statement of Financial Position at the net present value of future payments. The unwinding of the discount is recognised as finance cost in the Statement of Comprehensive Income in the period it arises.

Local Government Pension Scheme (LGPS) - Surrey County Council

The Surrey County Council Pension Fund is a multi-employer scheme administered by Surrey County Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme.

The assets of the scheme are held separately from those of the association. The difference between the fair value of the assets held in the defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method is recognised in the Statement of Financial Position as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the association is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Social Housing Pension Scheme (SHPS)

SHPS is a multi-employer scheme which provides benefits to non-associated employers. The scheme is classified as a defined benefit scheme. At 31 March 2018 it was not possible for the association to obtain sufficient information to account for the liability on a full FRS 102 valuation basis so it was accounted for as a defined contribution scheme where the net present value of the deficit contributions were recognised in the accounts as creditors falling within and more than one year.

As a result of additional information, SHPS are now able to split the pension liability by employer which has resulted in the scheme liability being accounted for adopting a full FRS 102 valuation at 31 March 2019. In accordance with FRED 71, no restatement of prior year figures has been made in these accounts with the opening balance adjustment being recorded through Other Comprehensive Income.

1.8 Interest Payable

Interest payable is charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount

Interest is capitalised on borrowing to finance developments to the extent that it accrues in respect of the period of development if it represents either:

- interest on borrowings specifically financing the development programme after deduction of interest on social housing grant in advance; or
- interest on borrowings of the association as a whole after deduction of interest on social housing grant in advance to the extent that they can be deemed to be financing the development programme.

Other interest payable is charged to the Statement of Comprehensive Income in the period it relates to.

1.9 Finance issue costs

Arrangement fees (and other up front direct transaction costs), for both fixed and floating facilities, are calculated at facility level and are apportioned across all interest periods using the effective interest rate method. FRS 102 paragraph 11.20 requires that the unamortised fee balance is netted off against the loan liability.

1.10 Taxation

The tax expense for the period comprises current and deferred tax.

The charge for taxation is based on surpluses arising on certain activities which are liable to tax. The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date. All taxation charges are in line with UK tax legislation.

Deferred tax balances are recognised in respect of all timing differences that have originated, but not reversed by the Statement of Financial Position date, except:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits
- any deferred tax balances are reversed, if and when all conditions for retaining associated tax allowances have been met; and
- where timing differences relate to interests in subsidiaries and joint venture and the Group can control their reversal, and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

1.11 Value added tax (VAT)

Members of the Group are independently registered for VAT as required.

VAT is charged on some income and the Group is able to only partly recover VAT it incurs on expenditure. Thus irrecoverable VAT is a cost to the Group and consequently the financial statements include VAT to the extent it is suffered by the Group and not recoverable from HM Revenue and Customs. VAT recovered is included within expenditure and is credited to the Statement of Comprehensive Income.

1.12 Negative Goodwill on fair value exchanges

Negative goodwill, being the excess of fair value of the underlying separable net assets over the fair value of the consideration, is shown as part of intangible fixed assets.

An amount equal to the fair value of the non-monetary assets acquired is released to the Statement of Comprehensive Income commensurately with the recovery of the non-monetary assets acquired, whether through depreciation or sale.

Notes to the Financial Statements

1.13 Goodwill and Negative Goodwill on non-exchange transactions

For non-exchange transactions (acquisitions in the social housing sector that are in substance a gift of one business to another), the fair value of the gifted recognised assets and liabilities is recognised as a gain or loss in the Statement of Comprehensive Income in the year of transaction.

1.14 Housing properties and depreciation

General needs properties, sheltered housing and shared ownership properties are stated at cost or deemed cost valuation less depreciation.

Cost for housing properties includes the cost of acquiring land and buildings, construction costs including internal equipment and fittings, directly attributable development administration costs, cost of capital employed during the development period and expenditure incurred in respect of improvements to and extension of existing properties to the extent that it enhances the economic benefit derived from the assets. Directly attributable development administration costs are the labour costs of the Group’s own employees arising directly from the construction or acquisition of the property and the incremental costs that would have been avoided, only if the property had not been constructed or acquired.

Expenditure on major refurbishment to properties is capitalised where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the net rental income, a reduction in future maintenance costs, or a subsequent extension in the life of the property. All other repair and replacement expenditure arising through normal wear and tear to properties is charged to the Statement of Comprehensive Income in the year in which it occurs.

1.15 Deemed cost

From 1 April 2014, Paragon Community Housing Group as a predecessor organisation to Paragon Asra Housing Limited changed its accounting policy from recording housing properties at valuation or cost, to being recorded at historic cost. Paragon Asra Housing Limited took the FRS 102 transition option to elect to measure certain items of property, plant and equipment (PPE) at fair value and use that fair value as the deemed cost of those assets at that date. For these items there is a revaluation reserve and any unamortised grant was released to reserves as this constitutes a revaluation that triggered the performance method of grant recognition to be used.

To determine the deemed cost at 31 March 2014, Paragon Community Housing Group engaged independent valuation specialist Savills UK Limited to value housing properties on an EUV-SH basis.

1.16 Depreciation of housing property

Housing land and property is split between land, structure and other major components that are expected to require replacement over time.

The useful economic life of a property has been deemed to commence at:

- the completion of major refurbishment work after purchase; or
- completion of building work for new build properties; or
- date of purchase if no major refurbishment works take place

Land is not depreciated on account of its indefinite useful economic life.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefit is expected to be consumed.

The Group separately identifies the major components which comprise its housing properties, and charges depreciation to write down the cost of each component to its estimated residual value, on a straight line basis, over its estimated useful economic life. Components are depreciated from the year following replacement.

The major components of its housing properties and their useful economic lives are as follows:

Building structure	60-125 years
Roofs	50 years
Kitchens	20-25 years
Bathrooms	30-37 years
Windows and doors	30-40 years
Heating and boilers	15-25 years
Rewiring	30 years
Enveloping works	50 years

Notes to the Financial Statements

Leasehold properties are depreciated over the length of the lease, except where the expected useful economic life of properties is shorter than the lease. In these instances the lease and building elements are depreciated separately over their expected useful economic lives.

Any difference between historic cost depreciation and depreciation calculated on deemed cost is transferred between the revaluation reserve and income and expenditure reserve.

1.17 Shared ownership properties and staircasing

Under low cost homeownership arrangements, the association disposes of a long lease on low-cost homeownership housing units for a share ranging between 25% and 75% of value. The buyer has the right to purchase further proportions, and up to 100%, based on the market valuation of the property at the time each purchase transaction is completed.

Low cost homeownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds, included in turnover. The remaining element, 'staircasing element', is classed as PPE and included in completed housing property at cost less any provision for impairment. Sales of subsequent tranches are treated as a part disposal of PPE. Such staircasing sales may result in capital grant being deferred or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

1.18 Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure, costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

1.19 Impairment

An assessment of whether indicators of impairment exist is carried out at each reporting date. If such an indicator exists as defined in FRS 102.27 'Impairment of Assets', an assessment is carried out to determine if an impairment is required. Any impairment in an income generating unit is recognised by a charge to the Statement of Comprehensive Income.

An impairment loss occurs when the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The recoverable amount is taken to be the higher of the fair value, less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets, or cash generating units concerned, or the present value of future cash flows to be derived from them, appropriately adjusted to account for any restrictions on their use.

Cash generating units are defined as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger cash generating units.

1.20 Other tangible fixed assets

Other tangible fixed assets, other than investment properties, are stated at historic cost or deemed cost valuation less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Costs are added to the carrying amount of an item of fixed assets if the replacement part is expected to provide incremental future benefits. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Statement of Comprehensive Income during the period in which they are incurred.

1.21 Depreciation of other tangible fixed assets

Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range is as follows:

Freehold office premises	10-50 years
Leasehold office premises	10-25 years
Plant and machinery	2-4 years
Fixtures and fittings	2-25 years
IT equipment	3-4 years
Motor vehicles	3-5 years

Depreciation commences at the start of the first full year after the asset comes into economic use and a full year is depreciated in the year of disposal.

Notes to the Financial Statements

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

The asset category of freehold office premises has certain assets recorded at deemed cost, as the association took the FRS 102 transition option to elect to measure this class of PPE at fair value at 31 March 2014 and use that fair value as the deemed cost of those assets at that date. To determine the deemed cost at 31 March 2014, Savills UK Limited was engaged as independent valuation specialists.

1.22 Investment properties

Properties that are held to earn commercial/market rate rentals or for capital appreciation, or both, and not held for social benefit are treated as investment properties and accounted for in accordance with Section 16 of FRS 102. Investment properties are accounted for at fair value and are valued at each reporting date and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided for investment properties under construction as they are stated at cost. Changes in fair value are recognised in the Statement of Comprehensive Income.

1.23 Investments

Investments are stated at fair value.

1.24 Stock

Stock represents work in progress and completed shared ownership properties and properties for outright sale. Shared ownership properties are split between fixed and current assets, with the element relating to the expected first tranche sale being treated as a current asset along with completed properties for outright sale. Stock is stated at the lower of cost and net realisable value. Cost comprises acquisition costs, materials, direct labour, direct development overheads and capitalised interest. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

1.25 Basic financial instruments

Debtors

Rent and service charge debtors and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, it is measured at the present value of future payments discounted at a market rate. At the end of each reporting period the recoverable value of rental and other receivables is assessed for objective evidence of impairment. When assessing the amount to impair it reviews the age profile of the debt and the class of debt. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in operating costs.

Creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing 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.

Holiday pay accrual

A holiday pay accrual is recognised to the extent of any unused holiday entitlement which has accrued at the reporting date and is carried forward to future periods. This is measured at the undiscounted salary cost of future holiday entitlement accrued at the reporting date. An asset, calculated in a similar manner, is recognised to the extent that holiday entitlement accrued at the reporting date is exceeded by the holiday taken.

Sinking Funds

Unexpended amounts collected from leaseholders for major repairs on leasehold schemes and any interest received are included as leasehold sinking funds in creditors.

Loans and short term deposits

All loans and short term deposits held by the association meet the criteria to be classified as basic financial instruments as set out in accordance with FRS 102. These instruments are initially recorded at the transaction price, less any transaction costs (historic cost) and subsequently measured at amortised cost, using the effective interest rate method so that the amount recognised is at a constant on the carrying amount. If the adjustment is not material the financial instruments are stated on the Statement of Financial Position at historic cost. Loans that are payable or receivable within one year are not discounted.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

1.26 Government and other grants

Grants received in relation to completed assets that were presented at deemed cost on 31 March 2014 have been accounted for using the performance model as required by the Housing SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

Grant received from 1 April 2014 in relation to newly acquired or existing housing properties and those housing properties remaining at historic cost are accounted for using the accrual model as set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the Statement of Financial Position and released to the Statement of Comprehensive Income on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of housing property structure, at 100-125 years, has been selected. Where a grant is received specifically for components of a housing property, the grant is recognised in income over the expected useful life of the component.

Where Social Housing Grant funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund or disposal proceeds fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets, any unamortised grant remaining within creditors is released and recognised as income within the Statement of Comprehensive Income.

All other government grants are recognised using the accrual model and are classed as either a grant relating to revenue or a grant relating to assets. Grants relating to revenue are recognised in income on a systematic basis over the period in which related costs for which the grant is intended to compensate are recognised. Where a grant is receivable as compensation for expense or losses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised as revenue in the period in which it becomes receivable.

Grants received from non-government sources are recognised as revenue using the performance model.

1.27 Recycled Capital Grant Fund

The Group has the option to recycle social housing grant, which would otherwise be repayable, for re-use on new developments. If unused within a three year period, it will be repayable to the either the Homes and Communities Agency or Greater London Authority (for London grant) with interest. Any unused recycled capital grant held within the fund which is older than two years is disclosed in the Statement of Financial Position under 'creditors due within one year'. The remainder is disclosed under 'creditors due after more than one year'.

1.28 Disposal Proceeds Fund

From 7 April 2017, no new net proceeds of disposals have been recognised in the Disposals Proceeds Fund (DPF). The balance held in the fund will be used in accordance with the DPF requirements until at the latest 6 April 2020. Balances held in the fund will remain as a liability and disclosed in the Statement of Financial Position until spent or repaid.

1.29 Hedge accounting

Interest rate swaps relate to fixing variable rate interest and are therefore designated as cash flow hedges.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable transaction, which could affect profit or loss. They are measured at fair value at each reporting date. Gains and losses on cash flow hedges which are highly effective are recognised in other comprehensive income and accumulated in the cash flow hedge reserve. Any ineffective portion of a gain or loss on cash flow hedges is recognised in surplus or deficit.

Notes to the Financial Statements

In order to apply hedge accounting, an economic relationship must exist between the hedged item and the hedging instrument. The Group must formally designate and document the hedging relationship at inception so that the risk being hedged, the hedged item, the hedging instrument and the risk management objective for undertaking the hedge are clearly identified. It is also required to determine and document the causes of hedge ineffectiveness.

In a cash flow hedge, if the hedged future cash flows are no longer expected to occur, the amount that has been accumulated in the cash flow hedge reserve is reclassified from the cash flow hedge reserve to surplus or deficit immediately.

All of the Group's stand-alone swaps satisfy the above criteria and the Group has chosen to test the effectiveness of its hedges annually. For ineffective hedges the movement in fair value has been recognised in the surplus or deficit.

1.30 Provisions

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

1.31 Onerous leases

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision has been made for the present value of the obligations under the lease.

1.32 Reserves

Cash Flow Hedge reserve

The cash flow hedge reserve represents the hedged cash flows that are expected to affect surplus or deficit over the period to maturity of the interest rate swaps.

Revaluation reserve

The revaluation reserve is created from surpluses on asset revaluations on use of deemed cost at 31 March 2014.

Restricted reserve

The restricted reserves are reserves to be spent for the sheltered tenants' benefit.

1.33 Leases

Operating lease rentals are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

1.34 Contingent liabilities

A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation exists which could lead to an outflow of resources, or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation, or when a sufficiently reliable estimate of the amount cannot be made.

A contingent liability exists on grant repayment which is dependent on the disposal of related property.

1.35 Key estimates and judgments

In preparing these financial statements, key judgments have been made in respect of the following:

Impairment

Factors taken into consideration in reaching the decision as to whether there are indicators of impairment of tangible assets were:

- Evidence from the governance monitoring of schemes throughout the planning and construction stage, including supplier and contractor viability issues, site contamination and major enabling works.
- Evidence of changes from financial monitoring of scheme performance from its inception (in terms of IRR, NPV analysis and comparison of spend to budget) until the economic benefits are realised.
- Evidence from the Asset Management team for completed schemes under management, including works required from stock condition surveys, identification of obsolescence and circumstances such as long term voids.

Notes to the Financial Statements

- Changes in political and other macro-economic environment with direct or indirect impact on the asset and the expected future financial performance of the asset. This would include a change in government policy, a reduction in market value of a property where a resident has a right to acquire and a reduction in the demand for a property.
- Triggers for impairment have been identified for specific cash generating units and an impairment review has been performed and further detail is provided in note 13. The trigger of the one percent per annum social housing rent reduction until 2019/20 is not considered to be a new event for impairment purposes and a full impairment review was performed as at 31 March 2016.

Recoverability of the cost of properties for sale

The anticipated cost to complete on a development scheme is based on anticipated construction costs, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete the recoverability of the cost of properties for sale is then determined. This judgment is also based on the best estimate of sales value based on economic conditions within the area of development. The source of these calculations is taken from internal investment appraisals produced from the knowledge and experience of the Development team and reviewed and approved by the Development and Assets Committee.

Defined benefit pension obligation

The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation have the ability to significantly influence the value of the liability recorded and the annual defined benefit expense. Underlying assumptions include the standard rates of inflation, mortality, discount rate and anticipated future salary and pension increases.

Apportionment of costs on a property basis for disposal of properties.

The allocation of costs that cannot be assigned to a specific property is based on proportion of floor area of the property.

Allocation of shared ownership costs between current and fixed assets

The allocation is calculated based on the estimated first tranche sales percentage from the schemes investment appraisal.

Categorisation of fixed assets

The categorisation of fixed assets as housing properties, investment properties and other fixed assets is based on the use of the asset.

Basis of capitalisation for projects

Costs capitalised include direct staff costs and associated costs of development. Indirect central costs incurred are capitalised and estimated based on the costs that would not have been incurred had there been no development. Decisions on whether to capitalise costs include whether income will be generated or increased, and if the life of the assets is extended.

Depreciation

Tangible fixed assets, other than investment properties, 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 information surrounding the condition of the asset, annual stock survey results, historic investment, resident feedback, comparative information such as the Decent Homes Standard and future use of the asset are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

Investment properties

Investment properties are valued annually using a yield methodology. This uses market rental values capitalised at a market capitalisation rate. There is an inevitable degree of judgment involved in that each property is unique and value can only ultimately be reliably tested in the market itself. Key inputs into the valuations are:

- Rental arrears
- Yields
- Location and condition of the property
- Redevelopment opportunities

Rental and other trade receivables

The estimate for receivables relates to the recoverability of the balances outstanding at the reporting date. A review is performed on an individual debtor basis to consider whether each debt is recoverable. For rental related balances, experience shows that the longer a debt is outstanding the greater likelihood it is that the debt will not be recovered in full. A sliding scale of impairment of the carrying value of the debt is applied according to the relationship between the individual amount of the debt and the weekly charges for occupation of the home.

Other Debtors

Other debtors are provided on a case by case basis when evidence of impairment exists. When assessing impairment management consider factors including current credit rating of the debtor, the ageing profile of debtors and historic experience of cash collection and future expected losses.

Notes to the Financial Statements

2 Turnover, cost of sales, operating costs and operating surplus

Group 2019	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Surplus on assets £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	137,918	-	(92,050)	-	45,868
Other social housing activities					
First tranche shared ownership sales	11,152	(7,461)	-	-	3,691
Managed services	1,139	-	(801)	-	338
Charges for support services	191	-	(201)	-	(10)
Goodwill amortisation	4,823	-	-	-	4,823
Other	957	-	(3,101)	-	(2,144)
Surplus on disposal of housing fixed assets	-	-	-	8,084	8,084
	156,180	(7,461)	(96,153)	8,084	60,650
Non-social housing activities					
Outright property sales	637	(602)	-	-	35
Market rented	673	-	(493)	-	180
Other non social housing lettings	865	-	(466)	-	399
Impairment	-	-	-	-	-
Commercial properties	537	-	(303)	-	234
Other	657	-	(156)	-	501
	3,369	(602)	(1,418)	-	1,349
Total	159,549	(8,063)	(97,571)	8,084	61,999

Group 2018	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Surplus on assets £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	138,052	-	(87,949)	-	50,103
Other social housing activities					
First tranche shared ownership sales	15,231	(9,108)	-	-	6,123
Managed services	1,337	-	(1,030)	-	307
Charges for support services	403	-	(171)	-	232
Goodwill amortisation	685	-	-	-	685
Other	2,900	-	(5,552)	-	(2,652)
Surplus on disposal of housing fixed assets	-	-	-	8,146	8,146
	158,608	(9,108)	(94,702)	8,146	62,944
Non-social housing activities					
Outright property sales	3,580	(2,232)	-	-	1,348
Market rented	646	-	(473)	-	173
Other non social housing lettings	811	-	(538)	-	273
Impairment	-	-	(240)	-	(240)
Commercial properties	196	-	(151)	-	45
Other	825	-	(285)	-	540
	6,058	(2,232)	(1,687)	-	2,139
Total	164,666	(11,340)	(96,389)	8,146	65,083

Notes to the Financial Statements

2 Turnover, cost of sales, operating costs and operating surplus (continued)

Association 2019	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Surplus on assets £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	137,918	-	(92,050)	-	45,868
Other social housing activities					
First tranche shared ownership sales	11,152	(7,461)	-	-	3,691
Managed services	1,139	-	(801)	-	338
Charges for support services	191	-	(201)	-	(10)
Goodwill amortisation	4,823	-	-	-	4,823
Other	1,232	-	(3,076)	-	(1,844)
Surplus on disposal of housing fixed assets	-	-	-	8,084	8,084
	156,455	(7,461)	(96,128)	8,084	60,950
Non-social housing activities					
Outright property sales	637	(602)	-	-	35
Market rented	673	-	(493)	-	180
Other non social housing lettings	865	-	(466)	-	399
Impairment	-	-	-	-	-
Commercial properties	537	-	(303)	-	234
Other	657	-	(156)	-	501
	3,369	(602)	(1,418)	-	1,349
Total	159,824	(8,063)	(97,546)	8,084	62,299

Association 2018	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Surplus on assets £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	138,052	-	(87,949)	-	50,103
Other social housing activities					
First tranche shared ownership sales	15,231	(9,108)	-	-	6,123
Managed services	1,337	-	(1,030)	-	307
Charges for support services	403	-	(171)	-	232
Goodwill amortisation	685	-	-	-	685
Other	3,196	-	(5,524)	-	(2,328)
Surplus on disposal of housing fixed assets	-	-	-	8,146	8,146
	158,904	(9,108)	(94,674)	8,146	63,268
Non-social housing activities					
Outright property sales	3,580	(2,232)	-	-	1,348
Market rented	646	-	(472)	-	173
Other non social housing lettings	811	-	(538)	-	273
Impairment	-	-	(240)	-	(240)
Commercial properties	196	-	(151)	-	45
Other	825	-	(285)	-	540
	6,058	(2,232)	(1,685)	-	2,141
Total	164,962	(11,340)	(96,359)	8,146	65,409

Notes to the Financial Statements

3 Income and expenditure from lettings

Group and Association	General needs £'000	Supported housing & housing for older people £'000	Shared ownership £'000	2019 £'000	2018 £'000
Income from social housing lettings activities					
Rents receivable net of identifiable service charges	100,530	13,801	6,845	121,176	121,359
Service charges receivable	4,618	4,433	2,296	11,347	11,509
Amortisation of social housing grant	4,056	823	516	5,395	5,184
	109,204	19,057	9,657	137,918	138,052
Expenditure on social housing lettings activities					
Services	8,035	3,764	1,166	12,965	12,274
Management	28,916	432	383	29,731	26,243
Routine Maintenance	14,822	2,328	285	17,435	15,383
Planned maintenance	11,079	482	46	11,607	10,399
Rent losses from bad debts	454	(37)	30	447	1,470
Depreciation of housing properties	16,687	1,939	18	18,644	19,591
Impairment	-	-	-	-	(242)
Write off of components	1,127	30	-	1,157	1,754
Other costs	64	-	-	64	1,077
Total expenditure on social housing lettings activities	81,184	8,938	1,928	92,050	87,949
Operating surplus from social housing lettings activities	28,020	10,119	7,729	45,868	50,103
Rent losses from voids	948	334	132	1,414	1,820

Notes to the Financial Statements

4 Units of stock

Group and Association	2019 Number	2018 Number (restated)
Social housing properties		
General needs: Social rent	13,131	13,692
General Needs: Affordable rent	2,203	2,114
Intermediate rent	290	314
Supported housing: Social rent	69	72
Supported housing: Affordable rent	163	64
Shared ownership	1,425	1,376
Housing for older people	2,290	2,425
Temporary housing	41	37
Social housing: Owned and managed	19,612	20,094
Leaseholder properties	1,422	1,387
Managed on behalf of others	832	832
Social housing: Managed not owned	2,254	2,219
Social housing: Total managed	21,866	22,313
General needs: Social rent	167	167
General Needs: Affordable rent	64	64
Intermediate rent	35	35
Supported housing	441	441
Care homes	121	121
Social housing: Owned but managed by others	828	828
Non-social housing		
Student accommodation	20	20
Market rent	110	108
Commercial rent	10	11
Health worker accommodation	224	224
Non social housing: Owned and managed	364	363
Non social housing: Owned but managed by others	1	1
All accommodation		
Owned and managed	19,976	20,457
Managed	2,254	2,219
Total managed	22,230	22,676
Total owned but managed by others	829	829
Total stock	23,059	23,505
Homes under construction	535	765
Garages	2,063	1,909

Notes to the Financial Statements

5 Operating surplus on ordinary activities before taxation

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Operating surplus on ordinary activities before taxation is after charging/(crediting):				
Depreciation of housing properties (note 3)	18,644	19,591	18,644	19,591
Write off of replaced components (note 3)	1,158	1,754	1,158	1,754
Depreciation of other tangible fixed assets (note 15)	929	875	929	875
Amortisation of social housing grant (note 2 & 3)	(5,395)	(5,184)	(5,395)	(5,184)
Impairment of properties (note 2 & 3)	-	2	-	2
Operating lease payments	314	379	314	379
Auditor's remuneration:				
In their capacity as auditors	69	85	52	64
In respect of other services	9	9	9	9

6 Surplus on disposal of housing fixed assets

Group and Association	Shared ownership subsequent tranches £'000	Other sales £'000	Sales to other registered providers £'000	Total 2019 £'000	Total 2018 £'000
Proceeds of sale	7,170	4,148	25,835	37,153	23,443
Less: cost of sale	(4,266)	(2,046)	(22,560)	(28,872)	(14,625)
Grant recycled	(75)	(122)	-	(197)	(672)
Surplus	2,829	1,980	3,275	8,084	8,146

Notes to the Financial Statements

7 Directors and senior staff emoluments

The directors are defined as the Chief Executive and the Directorate Team.

Group and Association Directors (including former directors)	**2019** **£'000**	**2018** **£'000**
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind):		
Executive Directors	1,195	1,083
Executive Directors: pension contributions	95	85
Non-Executive directors	131	161
Compensation payable to directors in respect of loss of office	129	141
Total emoluments	1,550	1,470
Emoluments paid to the highest paid Director (excluding pension contributions, but including benefits in kind)	227	185

The highest paid director refers to Dilip Kavi, Chief Executive. The amount includes basic salary of £204,000 plus a car allowance. (2018: £160,000 plus car allowance).

The Chief Executive is an ordinary member of the defined contribution Social Housing Pension Scheme on the same basis as that available to all staff. No contributions were made to any individual pension arrangements.

Group and Association Staff emoluments (includes redundancy payments)	**2019** **number**	**2018** **number**
Full time equivalent number of staff (including directors) whose remuneration payable (including compensation for loss of office, benefits in kind and pension contributions) was between:		
£60,000 to £70,000	8	12
£70,001 to £80,000	14	8
£80,001 to £90,000	4	2
£90,001 to £100,000	-	1
£100,001 to £110,000	-	3
£110,001 to £120,000	-	-
£120,001 to £130,000	-	-
£130,001 to £140,000	1	3
£140,001 to £150,000	1	1
£150,001 to £160,000	-	1
£160,001 to £170,000	-	1
£170,001 to £180,000	2	-
£180,001 to £190,000	-	1
£230,001 to £240,000	1	-
£240,001 to £250,000	1	-
£310,001 to £320,000	1	-
Total	33	33
Included above due to redundancy	2	11

Notes to the Financial Statements

8 Employee information

Group and Association	2019 £'000	2018 £'000
Staff costs including directors:		
Wages and salaries	18,143	17,985
Social security costs	1,835	1,679
Costs of defined contribution scheme	1,305	852
Pension deficit reduction charge	2,211	2,182
	23,494	22,698
	Number	**Number**
Average number of full time equivalent persons (including the directors) employed during the year:	549	538

The average number of full time equivalent persons employed is calculated by comparing the contracted hours to a standard working week on a monthly basis.

9 Interest receivable and similar income

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Interest receivable and similar income	148	109	147	109

10 Interest payable and financing costs

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Housing loans interest	17,070	20,634	17,070	20,634
Amortisation of debt issue fees	133	2,205	133	2,205
Pension unwinding cost	28	-	28	-
Interest rate swap obligation	4,526	5,448	4,526	5,448
Amortisation of inception element of swaps	2,363	-	2,363	-
Net interest on net defined benefit liability	563	132	563	132
Other loans and finance costs	-	114		114
Bond interest	8,210	8,208	-	-
Other loans from Group undertakings	-	-	8,210	8,208
RCGF Interest	51	34	51	34
DPF Interest	5	8	5	8
	32,949	36,783	32,949	36,783
Less: Capitalised	(3,094)	(3,268)	(3,094)	(3,268)
	29,855	33,515	29,855	33,515
Non cash accounting transactions under FRS102 included above	2,477	3,279	2,477	3,279

Interest rates charged on housing loans varied between 0.77% and 12.02% including lending margins.

Interest is capitalised on properties under construction using the weighted average interest rate for the debt portfolio as a whole (and after the effect of interest rate derivatives) of 4.2% (2018: 4.3%)

In 2018 amortisation of debt issue fees includes £2.0m of debt issue fees written off following the Group's refinancing of its committed bank facilities in May 2017.

Notes to the Financial Statements

11 Taxation

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Analysis of charge in year				
Current tax:				
UK corporation tax on surplus for year	(68)	393	(63)	294
Total current tax (see below)	(68)	393	(63)	294
Total tax charge	(68)	393	(63)	294
Factors affecting the tax charge for the year				
Surplus before taxation	38,717	33,259	39,301	34,406
Tax charge at 20% (2018: 20%)	7,356	6,652	7,467	6,881
Exempt charitable income	(7,328)	(6,259)	(7,439)	(6,587)
Tax refunds	(96)	-	(91)	-
	(68)	393	(63)	294

12 Intangible assets and goodwill

Group and Association	**Negative goodwill £'000**
At 1 April 2018	13,245
Amortisation of goodwill	(755)
Disposals	(4,068)
At 31 March 2019	8,422

Negative goodwill arose when the fair value of assets arising from the acquisition of a business was in excess of the fair value of the consideration given. An amount equal to the fair value of the non-monetary assets acquired is being released to the profit and loss account commensurately with the recovery of the non-monetary assets acquired, whether through depreciation or sale.

Notes to the Financial Statements

13 Tangible fixed assets: Housing properties

Group	Housing properties held for letting £'000	Housing properties in the course of construction £'000	Completed shared ownership housing properties £'000	Shared ownership in the course of construction £'000	Total £'000
Cost or valuation					
At 1 April 2018	1,511,737	81,131	140,518	31,098	1,764,484
Reclassification	1,124	4,377	(5,794)	293	-
Additions	-	16,157	-	40,505	56,662
Enhancement	1,854	-	(1,006)	-	848
Transfer to/from current assets/stock	(1,020)	-	(105)	(13,276)	(14,401)
Transfer from investment property	293	-	-	-	293
Disposals	(24,469)	-	(5,622)	-	(30,091)
Component replacement	13,704	-	-	-	13,704
Components write off	(2,233)	-	-	-	(2,233)
Write offs	(6,308)	-	-	-	(6,308)
Schemes completed	37,826	(37,826)	21,708	(21,708)	-
At 31 March 2019	1,532,508	63,839	149,699	36,912	1,782,958
Depreciation					
At 1 April 2018	119,072	-	3,847	-	122,919
Charge for the period	18,625	-	19	-	18,644
Reclassification	(8)	-	8	-	-
Transfer to current assets	(83)	-	-	-	(83)
Eliminated on disposal	(3,481)	-	(258)	-	(3,739)
Components write off	(1,056)	-	-	-	(1,056)
At 31 March 2019	133,069	-	3,616	-	136,685
Impairment					
At 1 April 2018	1,834	1,906	-	949	4,689
Reclassification	937	(937)	-	-	-
Adjustment	-	(6)	-	-	(6)
At 31 March 2019	2,771	963	-	949	4,683
Net book value					
At 31 March 2019	1,396,668	62,876	146,083	35,963	1,641,590
At 31 March 2018	1,390,831	79,225	136,671	30,149	1,636,876

Notes to the Financial Statements

13 Tangible fixed assets: Housing properties (continued)

Association	Housing properties held for letting £'000	Housing properties in the course of construction £'000	Completed shared ownership housing properties £'000	Shared ownership in the course of construction £'000	Total £'000
Cost or valuation					
At 1 April 2018	1,512,674	81,537	140,518	31,503	1,766,232
Reclassification	1,124	4,377	(5,794)	293	-
Additions	-	16,459	-	40,619	57,078
Enhancement	1,854	-	(1,006)	-	848
Transfer to/from current assets/stock	(1,020)	-	(105)	(13,276)	(14,401)
Transfer from investment property	293	-	-	-	293
Disposals	(24,469)	-	(5,622)	-	(30,091)
Component replacement	13,704	-	-	-	13,704
Components write off	(2,233)	-	-	-	(2,233)
Write offs	(6,308)	-	-	-	(6,308)
Schemes completed	37,826	(37,826)	21,708	(21,708)	-
At 31 March 2019	1,533,445	64,547	149,699	37,431	1,785,122
Depreciation					
At 1 April 2018	117,847	-	3,847	-	121,694
Charge for the period	18,625	-	19	-	18,644
Reclassification	(8)	-	8	-	-
Transfer to current assets	(83)	-	-	-	(83)
Eliminated on disposal	(3,481)	-	(258)	-	(3,739)
Components write off	(1,056)	-	-	-	(1,056)
At 31 March 2019	131,844	-	3,616	-	135,460
Impairment					
At 1 April 2018	1,834	1,906	-	949	4,689
Reclassification	937	(937)	-	-	-
Adjustment	-	(6)	-	-	(6)
At 31 March 2019	2,771	963	-	949	4,683
Net book value					
At 31 March 2019	1,398,830	63,584	146,083	36,482	1,644,979
At 31 March 2018	1,392,993	79,631	136,671	30,554	1,639,849

	Group 2019 £'000	Association 2019 £'000	Group 2018 £'000	Association 2018 £'000
The net book value of housing properties may be further analysed:				
Freehold	1,508,903	1,512,292	1,462,890	1,465,863
Long leaseholds	131,232	131,232	168,966	168,966
Short leaseholds	1,456	1,456	5,020	5,020

Notes to the Financial Statements

13 Tangible fixed assets: Housing properties (continued)

Group and Association	2019 £'000	2018 £'000
Work to properties:		
Improvements to existing properties capitalised	13,704	12,413
Planned maintenance expenditure included in the Statement of Comprehensive Income	11,607	10,399

Interest capitalisation:		
Interest capitalised in the year	3,094	3,268
Cumulative interest capitalised	25,500	21,906
Rate used for capitalisation	4.18%	4.27%

Certain of the Group's properties, totalling 16,007 units (2018: 16,878 units), have been pledged to secure borrowings of the Group. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity without the prior consent of the relevant lender.

Impairment

An assessment of impairment is performed annually at 31 March. The Group considers each scheme to represent a cash generating unit when assessing for impairment in accordance with the requirements of FRS 102 and SORP 2014. This has been determined based on an assessment of how schemes are appraised for development purposes, how decisions are made about assets and how results are reported.

As a result of the assessment, no additional impairment is required to be recognised in 2019. (2018: £2k)

14 Tangible fixed assets: Other

Group and Association	Freehold offices £'000	Leasehold office £'000	Furniture fixtures and fittings £'000	Computers and office equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 April 2018	9,692	626	1,351	4,519	461	16,649
Reclassification	-	-	23	(23)	-	-
Additions	618	48	1,864	1,705	-	4,235
Write offs	-	-	(766)	(666)	(59)	(1,491)
At 31 March 2019	10,310	674	2,472	5,535	402	19,393
Depreciation						
At 1 April 2018	1,275	329	948	3,550	376	6,478
Reclassification	-	-	(12)	12	-	-
Charge for year	152	41	135	569	32	929
Write offs			(766)	(666)	(53)	(1,485)
At 31 March 2019	1,427	370	305	3,465	355	5,922
Net book value						
At 31 March 2019	8,883	304	2,167	2,070	47	13,471
At 31 March 2018	8,417	297	405	969	85	10,171

Notes to the Financial Statements

15 Investment properties

Group and Association	Market Rent £'000	Commercial £'000	Total £'000
At 1 April 2018	18,425	1,995	20,420
Transfer to housing properties	(293)	-	(293)
Additions	-	399	399
Under construction	618	117	735
Revaluations	228	(169)	59
At 31 March 2019	18,978	2,342	21,320

New commercial properties were professionally valued by Brett Gardner Chartered Surveyors, independent valuer to fair value at 31st March 2019. Other commercial properties were revalued at 31 March 2019 to fair value using a desktop model derived from the current market rent and investment yields for comparable properties adjusted for any difference in the nature, location or condition of the asset.

Market rent properties, which are all freehold or long leasehold, were valued to fair value at 31 March 2019 based on a desktop valuation using data produced by the Office of National Statistics

16 Investments

Group and Association	2019 £'000	2018 £'000
Other loans	458	510
	458	510

The above investments have been provided as a mortgage to an NHS Trust as part of joint partnership arrangements. They are measured at fair value with the future cash receipts discounted to net present value.

17 Investments in subsidiaries

Association	2019 £'000	2018 £'000
Cost at 1 April and 31 March	13	13
	13	13

Notes to the Financial Statements

18 Stock

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Completed				
Housing stock for sale	5,117	22,169	591	17,605
Shared ownership completed units	3,525	1,091	3,525	1,091
	8,642	23,260	4,116	18,696
Under construction				
Shared ownership properties	28,780	17,086	28,780	17,086
Commercial properties	874	1,638	874	1,638
Impairment on Commercial under construction	-	(615)	-	(615)
Outright sale properties	-	4,148	-	4,148
	29,654	22,257	29,654	22,257
Total	38,296	45,517	33,770	40,953

In 2018 housing stock for sale included 253 properties to be sold to other registered providers as part of a stock rationalisation programme.

19 Debtors

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Due within one year:				
Rent and service charge arrears	7,877	8,146	7,877	8,146
Less: provision for bad debts	(4,280)	(4,544)	(4,280)	(4,544)
	3,597	3,602	3,597	3,602
Other debtors	1,284	6,872	1,135	6,838
Prepayments and accrued income	2,877	1,118	2,769	1,118
Amounts owed by Group undertakings	-	-	7,930	5,100
	7,758	11,592	15,431	16,658

The recoverable amount of debtors and other trade receivables is equivalent to the cash amount.

20 Current asset investments

Group and Association	2019 £000	2018 £000
Collateral	4,497	3,814

At 31 March 2019, at the request of the counterparties, cash collateral of £4,497k (2018: £3,814k) has been lodged with Lloyds, Santander and The Royal Bank of Scotland to secure mark to market positions with swap counterparties.

Notes to the Financial Statements

21 Creditors: amounts falling due within one year

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Loans and borrowings (note 26)	8,619	21,318	8,619	21,318
Trade creditors	2,221	5,521	2,130	5,096
Corporation tax	28	393	28	294
Taxation and social security	494	461	494	461
Accruals and deferred income	27,359	21,701	25,603	19,333
Recycled capital grant fund (note 24)	3,459	3,654	3,459	3,654
Disposal proceeds fund (note 25)	1,677	1,289	1,677	1,289
Pension deficit contributions	89	2,131	89	2,131
Deferred capital grant (note 23)	5,400	5,195	5,400	5,195
Amounts owed to Group undertakings	-	-	3,301	2,322
Other creditors	382	832	382	832
Rent and service charges received in advance	5,450	5,117	5,450	5,117
	55,178	67,612	56,632	67,042

The average time taken to pay trade creditors is 38 days (2018: 39 days).

22 Creditors: amounts falling due after more than one year

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Loans and borrowings (note 26)	700,441	667,318	700,441	667,318
Loan premium	44	60	44	60
Pension deficit contributions (note 34)	724	11,901	724	11,901
Recycled capital grant fund (note 24)	4,378	6,512	4,378	6,512
Disposal proceeds fund (note 25)	486	869	486	869
Deferred capital grant (note 23)	414,648	437,864	414,648	437,864
Sinking fund balances	5,098	4,741	5,098	4,741
Other creditors	424	457	424	457
Derivative financial instruments (note 28)	54,015	51,600	54,015	51,600
	1,180,258	1,181,322	1,180,258	1,181.322

Notes to the Financial Statements

23 Deferred Capital Grant

Group and Association	2019 £'000	2018 £'000
At 1 April 2018	443,059	452,322
Grants received during the year	4,178	1,064
Grants recycled to the RCGF and DPF (notes 24 and 25)	(934)	(1,438)
Grants utilised	819	-
Grant transferred to other registered providers	(21,674)	(3,694)
Released to income during the year	(5,400)	(5,195)
At 31 March 2019	420,048	443,059
Social Housing Grant under UK GAAP		
At 1 April	690,745	694,813
Received net of recycling	3,244	(374)
Eliminated on disposal	(21,674)	(3,694)
At 31 March 2019	672,315	690,745
Amount recognised in the Statement of Comprehensive Income	74,710	69,310

Deferred capital grants were government grants received from Homes England and predecessor organisations and other local authorities.

24 Recycled Capital Grant Fund

Group and Association	2019 £'000	2018 £'000
At 1 April 2018	10,166	8,716
Grants utilised	(819)	-
Grants recycled	1,208	1,663
Interest accrued	51	34
Allocated to new build developments	(2,769)	-
Repaid	-	(247)
At 31 March 2019	7,837	10,166
Grant due for repayment	3,459	3,654

25 Disposal Proceeds Fund

Group and Association	2019 £'000	2018 £'000
At 1 April 2018	2,158	2,150
Interest accrued	5	8
At 31 March 2019	2,163	2,158
Grant due for repayment	1,677	1,289

Notes to the Financial Statements

26 Loans and borrowings

Maturity of debt:

Group and Association	2019 £'000	2018 £'000
Bank Loans		
Between one year and two years	21,647	7,743
Between two years and five years	161,507	111,479
In more than five years	256,902	286,410
Total (note 22)	440,056	405,632
In one year or less, or on demand (note 21)	7,558	20,111
	447,614	425,743
Other loans		
Between one year and two years	1,036	1,112
Between two years and five years	21,046	6,295
In more than five years	16,428	31,853
Total (note 22)	38,510	39,260
In one year or less, or on demand (note 21)	1,061	1,207
	39,571	40,467
Bonds		
In more than five years	225,000	225,000
Total (note 22)	225,000	225,000
Total loans and borrowings	712,185	691,210
Unamortised debt issue costs and adjustments for FRS 102 reporting	(3,089)	(2,536)
Total loans and borrowings under FRS 102	709,096	688,674

Net debt at 31 March 2019 was £659.2m (2018: £666.1m) after adjusting for loan premium of £44k (2018: £60k), bond discount of £35k credit (2018: £36k credit) and deducting liquid asset balances held of £49.9m (2018: £22.6m).

The Group has committed borrowing facilities of £885.2m (2018: £881.2m) primarily raised through the debt and capital markets. As at 31 March 2019, £712.2m (2018: £691.2m) was drawn.

Loans are secured by specific charges on housing properties granted to the relevant lenders.

At 31 March 2019 undrawn committed loan facilities were £173.0m (2018: £165.0m) plus a retained bond of £25.0m (2018: £25.0m). Of the drawn loan facilities, £543.0m (76 per cent) (2018: £559.0m, 81 per cent) was borrowed at fixed rates including the effect of interest rate swaps as detailed in note 28.

The weighted average cost of drawn borrowings was 4.2% (2018: 4.3%).

Notes to the Financial Statements

27 Financial Instruments

The carrying values of the financial assets and liabilities are summarised by category below:

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Financial Assets				
Measured at fair value through the Statement of Comprehensive Income:				
- Cash and cash equivalents	49,936	22,636	48,365	21,523
Measured at discounted amount receivable:				
-Fixed asset investments (note 16)	458	509	458	509
Measured at undiscounted amount receivable:				
-Rent arrears and other debtors (note 19)	7,758	11,592	15,431	16,658
Total	58,152	34,737	64,254	38,690

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Financial liabilities				
Measured at fair value and designated in a hedging relationship (note 28)	54,015	51,600	54,015	51,600
Financial liabilities measured at fair value at amortised cost	1,129,108	1,131,695	1,129,108	1,131,695
Financial liabilities measured at fair value through the Statement of Comprehensive Income	51,789	64,786	53,243	64,316
Total	1,234,912	1,248,081	1,236,366	1,247,611

Financial assets comprise cash and cash equivalents, tenant debtors, amounts owed by Group undertakings and other debtors. Financial liabilities comprise bank loans, trade creditors, accruals, amounts owed to Group undertakings, sinking fund balances, taxation and social security and other creditors.

Financial assets and liabilities measured at amortised cost comprise housing loans and bond issuance.

PA Housing's objectives, policies and processes for managing capital are included in the Report of the Board of management.

Risks arising on financial instruments

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and market risk.

Credit risk

Credit risk is managed by the treasury team in accordance with the Board approved treasury management policy. The security of principal sums invested ranks above seeking the highest possible return on the investment. Surplus funds are invested only with approved counterparties that meet minimum credit rating thresholds detailed in the treasury management policy, with maximum exposure levels set for each counterparty.

Housing loans are secured by specific charges on housing properties and are repayable at varying rates of interest.

Notes to the Financial Statements

27 Financial Instruments (continued)

Liquidity risk

Liquidity risk is managed by the treasury team in accordance with the Board approved treasury management policy. The policy is to maintain sufficient cash to cover the next two months' net cash requirement and sufficient liquidity to cover the next 18 months' net liquidity requirement.

The treasury team monitors available liquidity resources on an ongoing basis to ensure compliance with its liquidity policy goals as well as the longer-term growth aspirations of the business. Apart from its working capital and capital expenditure requirements, the nature of the Group's debt portfolio requires regular repayments of bank term loan principal to certain lenders. It is considered that PA Housing has sufficient financial resources to make these repayments, and therefore the risk of being unable to meet its financial obligations to these lenders is considered to be low.

The maturity profile of debt has been structured to reflect the long term nature of the assets and to achieve a balanced profile of scheduled repayments of loan principal. As at the 31 March 2019 70% (2018: 79%) of borrowings were due to mature in more than five years.

Interest rate risk

Operations are financed through a mixture of retained reserves, government grant, other public subsidies to support development activities and loan borrowings.

The interest rate strategy is reviewed annually and aims to achieve a conservative balance between fixed and variable debt at an acceptable level of risk and cost.

Covenant compliance and sensitivity analysis of interest rates are monitored on a regular basis.

Market risk

The treasury management function is responsible for developing and implementing an appropriate financial strategy to ensure the business holds the required level of liquidity to fund its capital investment programme and day to day operating activities.

Close monitoring of financial covenants against the business plan to assess risk scenarios is completed on a regular basis.

Disaggregation of the Statement of Financial Position

Given the nature of the Group's operations the key assets are housing properties and stocks. These assets are connected to the loans and borrowings, as they are secured against these financial liabilities (note 26).

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	2019 £'000	2018 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	148	109
Total interest expense for financial liabilities at amortised cost	(29,855)	(33,515)
Fair value gains and losses		
On financial assets (including listed investments) measured at fair value:		
Gain on fair value of financial instruments	6,359	554
Loss on fair value of hedged financial instruments	(6,285)	5,737

Notes to the Financial Statements

28 Derivative Financial Instruments

Group and Association	Current 2019 £'000	Current 2018 £'000	Non Current 2019 £'000	Non Current 2018 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Liabilities				
Interest rate swaps	395	291	25,207	18,913
Non-hedged instruments carried at fair value				
Liabilities				
Interest rate swaps	-	62	28,413	32,333
	395	353	53,620	51,246

Interest rate swaps are valued at present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Interest Rate Swap Contracts

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at 31 March:

Interest rate swap contracts designated as hedges of variable interest rate risk recognised financial liabilities

	Average contract fixed interest rate		Notional principal value		Fair value effective hedges		Fair value ineffective hedges	
	2019 %	2018 %	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Outstanding receive floating rate pay fixed contracts								
0 - 1 years	-	-	-	-	-	-	-	-
1 - 5 years	1.41	1.41	50,000	50,000	395	291	-	62
Over 5 years	4.5	4.5	110,000	110,000	25,207	18,914	28,413	32,333
At 31 March	3.45	3.45	160,000	160,000	25,602	19,205	28,413	32,395

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All the Group's interest rate swap contracts are designated as hedges against variable rate interest rate risk associated with the Group's floating rate borrowings in accordance with FRS102, with varying degrees of effectiveness. The hedged cash flows are expected to occur and to affect surplus or deficit over the period to maturity of the interest rate swaps.

Notes to the Financial Statements

28 Derivative Financial Instruments (continued)

Losses of £6,285k (2018: gain £5,737k) were recognised in other comprehensive income representing the effective component of the swap. The ineffective components of £6,359k gain (2018: gain £554k) representing the excess of the fair value of hedging instruments over the change in the fair value of expected cash flows were recognised in surplus or deficit.

As at 31 March 2019 the Group had nine (2018: nine) cash flow hedges. The hedge relationships are consistent with the entity's risk management objectives for undertaking hedges.

The Group considers that an economic relationship exists between the hedging instrument (interest rate swap) and the hedged item (floating rate loan) in that the values of the hedged item and hedging instrument are expected typically to move in opposite directions in response to movements in the same risk, the hedged risk, over the life of the hedge.

The objective of the hedge is to mitigate the changes in the future cash flows stemming from the floating rate interest payments related to the floating rate loan entered into by the group.

In accordance with chapter 12 of FRS 102, hedge accounting has been applied to the following swap contracts:

	2019	**2018**
	£'000	**£'000**
Lloyds £50m 1.413% 12 October 2020	394	353
Santander £10m 4.84% 25 June 2026	2,647	2,700
Lloyds £20m 4.48% 26 February 2032	7,891	7,580
Lloyds £10m 4.70% 5 October 2032	4,385	4,226
Lloyds £20m 4.79% 4 January 2036	10,777	10,331
Lloyds £15m 4.39% 5 November 2037	7,811	7,403
Lloyds £15m 4.44% 13 May 2038	8,111	7,693
Santander £10m 4.32% 4 July 2038	5,241	4,955
RBS £10m 3.90% 4 October 2050	6,758	6,359
	54,015	51,600

Notes to the Financial Statements

29 Cash flow from operating activities

	2019 £'000	2018 £'000
Surplus for the financial year	38,785	32,866
Adjustments for:		
Surplus on sale of other fixed assets	(7)	(108)
Interest payable	29,855	33,515
Interest receivable	(148)	(109)
Net fair value gain recognised in the SoCI	(6,419)	4,263
Revaluation	-	(2,405)
Other finance liabilities	-	(25,272)
Depreciation charge on other fixed assets	928	875
Depreciation charge on housing properties	19,801	21,345
Add back cost of sale movement - sale of housing	38,632	10,378
Impairment of housing properties	-	(2)
Amortisation of grant on housing properties	(5,400)	(5,184)
Amortisation negative goodwill	(4,823)	(685)
Taxation	(68)	393
(Decrease) / increase in bad debt provision	(265)	1,462
Adjustment for pension funding	(1,477)	(1,350)
Decrease / (increase) in debtors	5,103	(3,210)
(Decrease) / increase in creditors	(22,977)	(5,177)
Decrease in stock	7,215	-
Other provisions	(186)	(109)
Net cash generated from operating activities	98,549	61,486

30 Reconciliation of net cash flow to movement in net debt

	2019 £'000	2018 £'000
(Increase) / decrease in cash in the year	(27,300)	64,181
Other changes	493	3,459
Loans and bond finance received	59,500	45,000
Loans repaid	(38,836)	(94,375)
Loan arrangement fees	(750)	(1,358)
Change in net debt	(6,893)	16,907
Net debt at 1 April	666,062	649,155
Net debt at 31 March	659,169	666,062

Notes to the Financial Statements

31 Analysis of changes in net debt

	At beginning of the year £'000	Cash Flows £'000	Other Changes £'000	At the end of the year £'000
Cash at bank and in hand	(22,636)	(27,300)	-	(49,936)
Housing loans due within one year	21,318	(21,318)	8,619	8,619
Housing loans due after one year	444,892	41,982	(8,308)	478,566
Bond finance	225,000	-	-	225,000
Loan and bond arrangement fees	(2,536)	(750)	197	(3,089)
Loan premium	60	-	(16)	44
Bond discount	(36)	-	1	(35)
	666,062	(7,386)	493	659,169

32 Called up share capital

Association	2019 Number	2018 Number
Allotted, issued and fully paid:		
At 1 April	15	24
Cancelled during the year	-	(9)
At 31 March	15	15

The shares of the Association, each of £1.00 nominal value, carry no rights to a dividend or provision for redemption or a distribution on winding up. The members are entitled to a vote at annual and special meetings of the Association.

33 Provisions

Group and Association	Onerous contract £'000
Balance at 1 April 2018	508
Provisions used during the year	(186)
Balance at 31 March 2019	322

Notes to the Financial Statements

34 Pension Schemes

The Group participates in the defined contribution pension scheme of the Social Housing Pension Scheme and has previously participated in defined benefit pension schemes which are now closed to new members.

Summary statement of pension scheme disclosures Group and Association	2019 £'000	2018 £'000
Creditors due within one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	89	86
Defined Benefit – Social Housing Pension Scheme	-	2,045
	89	2,131
Creditors due after more than one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	724	762
Defined Benefit – Social Housing Pension Scheme	-	11,139
	724	11,901
Pension Liability		
Defined Benefit – Surrey County Council	1,240	1,107
Defined Benefit – Social Housing Pension Scheme	25,506	-
	26,746	1,107
Statement of Comprehensive Income		
Defined Contribution - Social Housing Pension Scheme Contributions	1,298	851
Finance Costs:		
Surrey County Council - Net Interest Cost	28	38
Social Housing Pension Scheme - Net Interest Cost	535	-
Surrey County Council (Elmbridge Borough Council) - Finance Cost	28	(3)
	591	35
Operating Costs:		
Social Housing Pension Scheme - Expenses	73	-
Surrey County Council (Elmbridge Borough Council) - Operating Cost	26	34
	99	34
Other Comprehensive Income		
Surrey County Council - Actuarial (loss) / gain	(165)	350
Social Housing Pension Scheme - Actuarial (loss)	(5,075)	-
	(5,240)	350
Adjustment on initial recognition of Social Housing Pension Scheme	(8,602)	-
	(13,842)	350

Notes to the Financial Statements

34a Defined Contribution Scheme

The Group participates in the defined contribution scheme of the Social Housing Pension Scheme (SHPS) which all colleagues are eligible to join. This is also used as the Auto Enrolment scheme for colleagues. Members contribute a minimum of 3% of salary and the employer contributes twice the member rate up to a maximum of 10%.

Group and Association	2019 £'000	2018 £'000
Contributions	1,298	851

34b Defined Benefit Scheme: Surrey County Council Pension Fund (Elmbridge Borough Council) (Closed to New members)

Under the terms of the transfer agreement with Elmbridge Borough Council (EBC), PA Housing makes additional payments each year as its contribution to the past service deficit as at 31 March 1998.

Payments are adjusted annually on 1 April in line with the increase specified in the Pensions Increase (Review) Order and are payable until March 2030. Contributions paid in the year were £89,083 (2018: £86,488) By making these payments to EBC the Council accepts responsibility for meeting PA Housing's payments due to the Pension Fund in respect of that past service deficit.

As the scheme is in deficit and PA Housing has agreed to a payment to EBC to contribute to funding the deficit PA Housing recognised a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate which is equal to the interest rate for PA Housing's bond. The unwinding of the discount rate is recognised as a finance cost.

Reconciliation of opening and closing creditors	**2019**	**2018**
Group and Association	**£'000**	**£'000**
At 1 April	848	903
Contributions paid	(89)	(86)
Operating charge	26	34
Finance charge	28	(3)
At 31 March	813	848
Net Present Value of creditor		
Due within one year	89	86
Due after more than one year	724	762
	813	848

Assumptions	2019 % per annum	2018 % per annum
Rate of discount	3.69	3.69

Notes to the Financial Statements

34c Defined Benefit Scheme: Surrey County Council Pension Fund (Closed to new members)

The Surrey County Council Pension Fund is a multi-employer scheme administered by Surrey County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme. The most recent comprehensive actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 March 2019. PA Housing's contribution to the LGPS was £60,000 (2018: £60,000).

	2019 £'000	2018 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	13,726	14,199
Interest cost on defined benefit obligations	352	351
Changes in financial assumptions	740	(486)
Benefits paid	(331)	(338)
At the end of the year	14,487	13,726
Reconciliation of fair value of plan assets		
At the beginning of the year	12,619	12,682
Interest income on plan assets	324	313
Return on assets excluding amounts included in net interest	575	(98)
Employer contributions	60	60
Benefits paid	(331)	(338)
At the end of the year	13,247	12,619
Composition of plan assets		
Equities	9,140	9,842
Bonds	2,782	1,262
Property	927	1,010
Cash	398	505
Total plan assets	13,247	12,619
Equities	69%	78%
Bonds	21%	10%
Property	7%	8%
Cash	3%	4%

Principal actuarial assumptions used at the reporting date	2019 % pa	2018 % pa
Pension increase rate	2.5%	2.4%
Salary increase rate	2.8%	2.7%
Discount rate	2.4%	2.4%

Mortality	Males (years)	Females (years)
Current Pensioners	22.5	24.6
Future Pensioners*	24.1	26.4

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

Notes to the Financial Statements

34c Defined Benefit Scheme: Surrey County Council Pension Fund (Closed to new members) (continued)

	2019 £'000	2018 £'000
Amounts recognised in the Statement of Financial Position		
Fair value of plan assets	13,247	12,619
Present value of plan liabilities	(14,487)	(13,726)
Net pension scheme liability	(1,240)	(1,107)
Amounts recognised in the Statement of Comprehensive Income		
Interest cost on defined benefit obligations	352	351
Interest income on plan assets	(324)	(313)
	28	38
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	575	(98)
Changes in assumptions underlying the present value of the scheme liabilities	(740)	486
	(165)	388

34d Defined Benefit Scheme: Social Housing Pension Scheme (Closed to new members)

PA Housing participates in the Social Housing Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 500 non-associated employers. The Scheme is a defined benefit scheme in the UK.

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

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

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

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

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

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

Notes to the Financial Statements

34d Defined Benefit Scheme: Social Housing Pension Scheme (Closed to new members) (continued)

Reconciliation of opening and closing creditors	**2019**	**2018**
Group and Association	**£'000**	**£'000**
At 1 April	13,201	15,185
De-recognition	(13,201)	-
Contributions paid	-	(1,987)
Operating charge	-	(192)
Finance charge	-	195
At 31 March	-	13,201
Net Present Value of creditor		
Due within one year	-	2,045
Due after more than one year	-	11,156
	-	13,201

SHPS Pension Reconciliation	**£'000**
Liability as previously calculated based on the net present value of deficit contributions payable	13,201
Opening balance creditor adjustment	148
Adjustment on initial recognition of Social Housing Pension Scheme	8,602
Liability re- stated using the full valuation method at 31st March 2018	21,951

	2019 £'000
Reconciliation of present value of plan liabilities	
At the beginning of the year	93,365
Expenses	74
Interest cost on defined benefit obligations	2,348
Actuarial (gains) due to scheme experience	(230)
Actuarial losses due to change in demographic assumptions	279
Actuarial losses sue to changes in financial assumptions	6,131
Benefits paid	(3,238)
At the end of the year	98,729
Reconciliation of fair value of plan assets	
At the beginning of the year	71,414
Interest income on plan assets	1,813
Return on assets excluding amounts included in net interest	1,105
Employer contributions	2,129
Benefits paid	(3,238)
At the end of the year	73,223

34d Defined Benefit Scheme: Social Housing Pension Scheme (Closed to new members) (continued)

Composition of plan assets	2019 £'000	2018 £'000
Absolute Return	6,336	8,724
Alternative Risk Premia	4,223	2,708
Corporate Bond Fund	3,416	2,933
Credit Relative Value	1,340	-
Distressed Opportunities	1,331	690
Emerging Markets Debt	2,526	2,880
Fund of Hedge Funds	330	2,352
Global Equity	12,321	14,105
Infrastructure	3,840	1,831
Insurance-Linked Securities	2,100	1,876
Liability Driven Investment	26,778	26,017
Long Lease Property	1,077	-
Net Current Assets	141	67
Private Debt	983	636
Property	1,648	3,287
Risk Sharing	2,211	661
Secured Income	2,622	2,647
Total plan assets	73,223	71,414

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

Principal actuarial assumptions used at the reporting date	2019 % pa	2018 % pa
Discount rate	2.31	2.56
Inflation (RPI)	3.29	3.19
Inflation (CPI)	2.29	2.19
Salary growth	3.29	3.19
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

Mortality assumptions adopted at 31 March 2019 imply the following life expectancies:	Males (years)	Females (years)
Retiring in 2019	21.8	23.5
Retiring in 2039	23.2	24.7

Notes to the Financial Statements

34d Defined Benefit Scheme: Social Housing Pension Scheme (Closed to new members) (continued)

	2019 £'000	2018 £'000
Present values of defined benefit obligation, fair value of assets and defined benefit liability		
Fair value of plan assets	73,223	71,414
Present value of plan liabilities	(98,729)	(93,365)
Net pension scheme liability	(25,506)	(21,951)
Amounts recognised in the Statement of Comprehensive Income		
Net interest expense	535	-
Expenses	74	-
	609	-
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income		
Experience on plan assets (excluding amounts included in net interest cost)	1,105	-
Experience on the plan liabilities	230	-
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation	(279)	-
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation	(6,131)	-
	(5,075)	-

34e Other Pension Information

In October 2018 the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions ('GMP'). This has consequently been assessed against the Group's defined benefit schemes.

Local government pension schemes:

The Group has reviewed the impact of GMP Equalisation in respect of its Local Government Pension Scheme. The Actuary's default approach has been to make no explicit allowance in the 31 March 2019 accounting reports for the potential impact of the McCloud judgment or GMP equalisation. No further adjustments have been made to the present value of obligations as the effect is not considered material.

In December 2018 the Court of Appeal ruled that 'transitional arrangements' protection in respect of benefit changes to the Judicial and Fire Fighter Pension scheme amounted to unlawful discrimination ('McCloud case'). Due to similar pension reforms to the LGPS in benefits the judgement is expected to be applicable to the LGPS. Whilst the judgement might be appealed by the Government in the Supreme Court it is generally considered unlikely that this will be successful.

The Actuary's default approach was to not make any allowance within employer's 31 March 2019 IAS19/FRS102 reports for potential outcomes of this judgement. No additional liability has been recognised and the directors are satisfied that when fully accounted in the financial statements the impact will not be material to the Group or Association Financial Statements as at 31 March 2019.

Notes to the Financial Statements

35 Operating lease obligations

At 31 March 2019 the Group was committed to non-cancellable operating lease minimum future payments for each of the following periods:

Group and Association	Land and buildings 2019 £'000	Land and buildings 2018 £'000
Operating leases which expire:		
Less than 1 year	331	293
Within 1 to 5 years	1,161	1,320
After 5 years	1,678	1,847
	3,170	3,460

36 Capital Commitments

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Expenditure contracted for but not provided in the financial statements	57,171	31,478	39,636	20,087
Expenditure authorised by Board but not contracted for	81,426	112,122	69,445	106,284
	138,597	143,600	109,081	126,371
Commitments to be financed with:				
Cash reserves	61,649	82,157	31,767	64,510
Bank loans	76,948	61,443	77,314	61,861
	138,597	143,600	109,081	126,371

Commitments will be further funded by Social Housing Grant and proceeds from sales receipts on shared ownership sales. Grant receivable will be transferred from balances held in the Recycled Capital Grant Fund and Disposals Proceeds Fund. No reliance is placed on sales receipts in meeting the commitments.

37 Contingent Liabilities

PA Housing receives grant from Homes England and from the Greater London Authority, which is used to fund the acquisition and development of housing properties and their components. At the year end, the value of grant received in respect of these properties that had not been disposed of was £420.0m (2018: £443.1m).

The grants are accounted as deferred income and amortised to the Statement of Comprehensive Income over the life of the asset. The amount amortised represents a contingent liability and will be recognised as a liability when the properties funded by grant are disposed or when the properties cease to be funded by social housing. Grants amortised to date at 31 March 2019 are £74.7m (2018: £69.3m)

Notes to the Financial Statements

38 Related Party Transactions

Other related parties

Key management personnel are considered to be the Executive Management Team and the non-executive Board members. All transactions with these parties have been disclosed within Note 7 and the Corporate Governance Section of the Report.

Board members' remuneration has been disclosed within the Corporate Governance Section of the Report.

The Pension Trust, as administrator of the Social Housing Pension Scheme, and Surrey County Council, as administrator of the Local Government Pension Scheme, are both considered to be related parties. Transactions with these entities are as set out in note 34.

Anne Turner (Board member) is also a member of the Social Housing Pension Scheme Employer Committee nominated and elected by participating employers. PA Housing participates in the scheme.

Transactions with non-regulated entities

Asra Construction Services Limited (ACSL) and Paragon Development and Construction Services Limited (PDCSL) provide design and build development services to PA Housing. They are not registered providers and are therefore classified by the Regulator of Social Housing as non-regulated entities.

Service Level and Framework Agreements are in place between PA Housing and, ACSL and PDCSL. Development services are provided by ACSL and PDCSL to PA Housing. Finance services are provided by PA Housing. These are recharged by PA Housing at cost with an appropriate transfer pricing mark-up applied.

ACSL and PDCSL recharge PA Housing with design and build costs for development services carried out. ACSL and PDCSL have no employees.

Paragon Treasury Plc (PTP) has secured funding through the capital markets and on-lends these funds to PA Housing. All intra-group transactions have taken place in the normal course of business.

Aggregate costs recharged for the year ended 31 March 2019 are as follows:

	2019				2018			
	ACSL £'000	PDCSL £'000	PTP £'000	PAH £'000	ACSL £'000	PDCSL £'000	PTP £'000	PAH £'000
ACSL recharges	-	-	-	5,604	-	-	-	13,179
PAH development recharge	-	96	-	-	-	89	-	-
PAH finance recharge	179	-	-	-	181	-	-	-
PDCSL recharges	-	-	-	5,951	-	-	-	2,421
PTP interest recharge	-	-	-	8,210	-	-	-	8,208
PTP cost recharge	-	-	-	17	-	-	-	8
Debtor/(Creditor) balances	1,169	(5,768)	-	4,599	2,365	(5,150)	-	2,785

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