Financial Statements

for the year ended
31 March 2020

Paragon Asra
PA Housing

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

2019/20 Highlights

Turnover
£150m

Housing assets
£1.74bn

Liquidity
£223m

Overall arrears
4.4%

Repairs and maintenance expenditure
£48.8m

22,733
Homes owned and/ or managed

Emergency repairs completed on time
99.8%

Drawn debt
£801m

37%
Operating margin including asset sales

249
new homes built

82%
Customer satisfaction

Gearing
43%

Reinvestment in new supply
7.1%

Void loss
2.1%

Contents

Board members, Executive and Advisors

Group Chair
Hattie Llewelyn–Davies OBE

Other Members
Stephen Amos

Chris Cheshire

David Edwards

David Hunter

Curtis Juman

Dilip Kavi

Katherine Lyons

Wayne Morris (resigned 03/01/20)

Seetle Patel (appointed 01/10/19)

Anne Turner

Executive Team
Dilip Kavi - Chief Executive

Matt Cooney - Chief Operating Officer (resigned (01/05/19)

Simon Hatchman - Executive Director – Resources and Company Secretary

Chris Whelan - Executive Director of Business Development and Sales

Marion Hall - Executive Director of Governance and Company Secretary (retired 30/09/19)

Ian Watts - Executive Director of Assets

Patrick Taylor - Executive Director of Customer Services (resigned 31/03/20)

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Chair and Chief Executive Statements

Chair's statement

It is right that I begin this year by talking about Covid-19 and the massive impact it is having on people's lives. We are in the middle of an unprecedented public health emergency which has raised significant immediate and longer term implications for everyone.

Our number one priority at PA has been to do everything we can to protect the safety of our residents, our staff and the partners we work with. Inevitably, the lockdown conditions imposed in the early weeks of the national response to Covid-19 caused major disruption to our services. However, we managed to keep our most important services operational. This ensured that emergency repairs and essential health and safety checks were performed. We were also able to offer support to many residents who needed it due to changes in their own circumstances.

Since the beginning of June we have been working hard to gradually restore as full a range of normal services as possible. All the time, the onus has been on preserving safety and minimising risk. And behind the scenes, we have worked to ensure that our business resilience arrangements are appropriate for the situation we face.

I would like to place on record my heartfelt thanks to all who have been involved in this huge effort – our residents for showing patience and working with us while services were reduced, our staff for the dedication and spirit they have displayed, and our corporate partners for their support and co-operation. Adversity tends to bind us closer together and test how strong our values really are. There has been no bigger test than this – we have responded well so far but we know the challenge is far from over.

The majority of the period covered by these Financial Statements pre-dates the huge Covid-19 impact. We were able to achieve much in the year.

"Our number one priority at PA has been to do everything we can to protect the safety of our residents, our staff and the partners we work with"

We brought our capital stock investment programme back on track, as we resolved the procurement and delivery issues which hampered our progress in the previous year. We also allocated additional resources for investment into some of our key London estates, to improve the standard of accommodation and the wider estate environment for residents.

We continue to build much needed new homes in our core southern operating areas, and we have begun to rebuild our presence as an active developer in the East Midlands. Our development focus remains firmly on rented and shared ownership tenures, and we have an active programme of 2,000 homes either on site or in the near pipeline. Our ambition to deliver genuinely affordable homes was boosted through a £25m allocation of grant funding from the Greater London Authority – this is allowing us to build a number of new homes at social rent levels.

Our business infrastructure remains robust, with a number of projects through the year targeting incremental improvements to our financial strength, our IT systems, and our ways of working. These financial statements demonstrate the resilience we hold as a business.

As always there is much more to be done, but we are fully focussed on delivery of our strategic objectives. My fellow Board members play a critical role in all this, supporting and challenging the executive to ensure that we remain on track.

Chair's statement

This year sees some changes to our Board membership. We have welcomed Seetle Patel as Designate Board Member. Wayne Morris has resigned from the Board, and David Hunter and David Edwards will reach the end of their terms of office in September. We are currently recruiting new members with the skills needed to replace Wayne, David and David. All three have made an immense contribution to the development of PA and its predecessor organisations, and I thank them for all their dedication over the years.

I want to finish by saying a more wide-ranging thank you – to our residents, our staff and Board, and all partners who are connected to PA. More than ever before we need to work together and support each other through these difficult times. I am confident that we will continue to do this, and that PA will emerge a stronger organisation as a result of the brilliant work we are all doing.

Hattie Llewelyn-Davies
Group Chair
23 July 2020

Paragon Asra
PA Housing

Chief Executive's statement

"Now, more so than ever, we must focus on using our resources in the best possible way to support the communities we serve"

The 2019/20 financial year saw good progress for PA in a number of important areas, and the presented results tell a story of strong investment alongside sensible financial control. I am particularly pleased to report that the first year of operations for 'Team Purple' – our revamped model for delivery of housing services out on our estates – has seen us make very promising progress.

We invested £1m to bring in 30 new people in this vital area of the business, reflecting our Board's view that high quality service delivery is an absolute priority. Team Purple is forging stronger day to day relations with our residents and helping us to manage common estate issues more proactively. Over time we firmly believe that these activities will produce a stronger bond of mutual trust and respect, not only between PA and our residents but also amongst residents themselves. As a result we can all play our part in building communities of which we can be proud.

My ambition remains to deliver brilliant services to our residents – this is a long term goal but we are on the right track and making positive progress.

The past few months following the outbreak of Covid-19 have been extremely worrying and difficult for everyone. PA's services have been affected but we continue to do all we can to support our residents and work in compliance with government safety guidelines. This challenging period will continue for a while yet, but I am proud of how we and our residents have pulled together in a time of great need. We have been able to implement new ways of working quickly and effectively, utilising our strong business infrastructure, and our people have shown great dedication and flexibility to ensure that services were targeted at those who most needed our help.

Initiatives such as benefits advice, welfare phone calls and food parcel deliveries illustrate the reach we have in our communities and epitomise the ethos of the whole social housing sector.

Our ability to respond to Covid-19 directly reflects the strategic path we have travelled since PA was formed in 2017. Our Board has always been very careful to ensure that our ambitions to deliver brilliant services and more homes are balanced with the need to preserve sound business fundamentals. This means that we don't over-stretch ourselves, we always prioritise financial resilience, and we keep our governance arrangements robust.

As a result we have been able to absorb the operational and financial shocks caused by Covid-19 to date. There must be some compromise to our financial planning in the short term, while we work to keep our residents safe and our services up and running as best we can. But our longer term strategic objectives remain relevant and valid, and we are working to make sure we can gradually shift our effort back towards achievement of these once a new form of normal working starts to bed in.

In fact now more so than ever we must focus on using our resources in the best possible way to support the communities we serve. This means continuing to develop brilliant and innovative services for our existing residents, and building genuinely affordable high quality new homes for new residents.

Chief Executive's statement

Our sector is likely to play a key role in helping to restart the UK economy in the new Covid-19 environment. The resilience measures we have taken leave us well placed to contribute to this agenda, whilst remaining vigilant to the various risks we face in this challenging environment. In addition to Covid-19 and its wide-ranging impacts, the Brexit process and its aftermath remains an unknown quantity which is likely to influence the UK economy for a number of years.

Looking even further ahead, the government's environmental sustainability ambitions have far-reaching implications for all housing providers. We have started to examine our financial and organisational capacity for positive change in this area, and the work will become increasingly important to our core vision over the next few years.

So many people have contributed to PA's achievements over the past 12 months. My thanks go to our staff and Board for all their hard work, and also to all the corporate partners and stakeholders who have played their part. We really value these relationships and we know how crucial they are to our long term success in these challenging times.

Dilip Kavi
Chief Executive
23 July 2020

The impact of Covid-19

- The completion of 120 new homes was delayed
- We were unable to complete our planned maintenance programme, with the outstanding work carried forward into the new financial year
- Our rent arrears have increased gradually as some residents have been faced with challenging circumstances
- We were unable to complete the sales of some new shared ownership homes

Our response to Covid-19

- ✓ We have supported local foodbanks and delivered food parcels
- ✓ We have applied credits to services charge accounts where services stopped
- ✓ We have made regular welfare calls to our residents
- ✓ We have continued to market our homes for sale by video viewings
- ✓ We have taken action against Anti Social Behaviour
- ✓ We held our annual PA in Bloom gardening competition – virtually!
- ✓ We supported our suppliers by paying all invoices ahead of due dates and offered payments in advance
- ✓ We offered tenancy sustainment advice to a large number of residents facing financial challenges

Our outlook on Covid-19

- + We will continue to put the safety of our residents and colleagues first
- + We will adapt to the new challenges to provide an even better service for our customers
- + We will use our financial strength to continue to grow and invest in our residents' homes

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

We're 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.

We will continue to focus on customer services to improve customer satisfaction

We will harmonise our culture and structures and improve our effectiveness

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 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

Strategic Report: Strategic Risks

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. In the current environment our risk register has been adapted to reflect the critical risks to our operations brought about by Covid-19. We have adjusted our risk framework to ensure appropriate management and monitoring of these risks

Risk area	Possible impacts	Controls and mitigations in place	Sources of assurance
Strategic theme: Health and Safety			
Gas	Risk to life and property Financial loss Reputational damage Regulatory intervention	Ongoing servicing programme Escalate cases falling out of time Publicity to residents Monthly reporting in to the Regulator	Board reporting Performance monitoring Daily service monitoring People management
Fire and electrical	Risk to life and limb Damage to buildings Financial loss Reputational damage	Fire risk assessment programme Testing / servicing / inspections regime being maintained Additional resource allocation Monitoring of changing environment	Board reporting Performance monitoring Internal audit Financial planning People management
Colleague wellbeing	Reduced resources Low morale Inappropriate working environment Reduced productivity	Intensive communication with staff Supportive home working environment Office restrictions in line with national guidance	Daily Triage Team meetings Board reporting Staff surveys Sector intelligence Management arrangements
Strategic theme: Financial resilience			
Empty properties	Financial loss Estates security and ASB Reputational damage	Mobilise services as quickly as conditions allow Relationships with local authorities Management monitoring	Performance reporting Internal audit Customer Services Committee
Rent arrears	Reduced cash flow Tenancy sustainment Resident quality of life and impact on communities Management costs	Work with affected residents Relationships with paying agencies Training on gov't support packages Hardship fund Additional tenancy sustainment work	Performance reporting Liaison with other Housing Associations
Capital spend	Financial strain Weakened balance sheet Loss of standing with lenders / investors	Reduced development pipeline flow Contractor monitoring Tenure switch options Adapted sales approach	Board reporting Performance monitoring Credit check services Market monitoring
Cash flow and liquidity	Poor liquidity Reduced capacity for growth Breach of golden rules Reputational damage	Additional liquidity secured Detailed cash flow scenario analysis Temporary golden rule adjustments agreed by Board	Board reporting Cash flow monitoring Business planning work Sector intelligence
Strategic theme: Service delivery and reputation			
Customer service delivery	Lower satisfaction Deteriorating condition of properties and estates Increased ASB Reduced income collection	Work to deliver services in line with national restrictions Regular communication with residents Appropriate decisions on rent / service charge collection	Daily service monitoring Covid KPIs Sector monitoring Increased liaison with involved residents
Brand damage	PA brand damaged due to reduced / poor service delivery	Triage Team managing services Communication with residents and stakeholders Adjusted Board reporting	Board reporting Covid KPIs Regulatory survey results Involved residents
Strategic theme: Governance and security			
Cyber security	Loss of data / GDPR breaches Unavailability of systems Financial loss Reduced operational efficiency	Cyber Essential Plus in progress Enhanced control of mobile devices Increased support for remote working Training for all staff	Systems monitoring Third party testing Specific reporting to Audit & Risk Committee
Governance	Poor business performance Controls breakdowns Loss of stakeholder confidence	Adapted approach through Covid Health check in progress New member recruitment ongoing Close liaison with executive	Board reporting Performance reporting Third party review

Strategic Report: Strategic Risks

Our Risk Management Framework

PA has an established Risk Management Framework which is regularly reviewed by our Board. Our approach to risk management is explicitly linked to our financial planning regime, so that identified key risks can be thoroughly tested. The framework sets out the ways in which we manage and monitor business risk, incorporating the key components shown.

- Risk Appetite
- Operating environment review
- Risk register
- Risk triggers and early warning monitoring

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	Trigger
Asset management	Deteriorating stock condition spend requirements Disrepair cases on an increasing trend Response repair volumes
Customer service failures	Performance trends Complaints Management cost trends
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
Value for money	Staffing establishment increases New build unit costs Response repair volumes and cost per job Letting and rent collection KPIs
Adverse operating environment	Cost inflation trends Loan margin trends within the sector Market interest rates
Stock investment pressures	Stability of stock investment data, including impacts from changing legislation Repairs and maintenance inflation

Going concern

The groups going concern position is discussed in note 1.4 to the financial statements (page 61).

Strategic Report: Our Assets

£17.3m on capital maintenance

£13.2m on planned / compliance works

£18.3m on responsive and void repairs

Our overall investment of £30.5m in revenue and capital planned works during the year represents an uplift of £5.2m (20 per cent) on the previous year. Our Board is fully committed to maximising investment in our stock without compromise.

Responsive and void repairs

2019/20 saw the first full year of our new repairs service arrangements across London and the South East, following a change to the contractual arrangements in early 2019. The service has bedded in well and our contractor is achieving good results against the agreed contract key performance indicators.

In our East Midlands region, we have undertaken gradual expansion of our in-house repairs team alongside continuation of our well established contractor relationship. The in-house team achieves excellent customer satisfaction results and we are examining the potential for further steady expansion, subject to investment in supporting infrastructure.

The Covid-19 lockdown disrupted our repairs service from March through to June. We continued delivering emergency repairs throughout this period, and are now working with our contractors to clear the backlog of general repairs.

Capital maintenance

Our focus during the year was on re-establishing a full maintenance programme, following disruption in the previous year caused by procurement and delivery issues with one of our key contracts. This was achieved, and our total investment in the year of £17.3m (2019: £13.7m) was only £1.1m below budget with some slippage in the final month of the year due to Covid-19.

Accordingly, the volume of component replacements we delivered was significantly increased:

	2020	2019
Roofs	45	3
Bathrooms	378	151
Kitchens	498	190
Windows and doors	841	533
Heating and boilers	956	719

We are working to fully refresh our stock condition survey data in order to inform future investment needs, although we know that our business plan has capacity to deliver the evolving expenditure requirements. We have also carried out some initial work to assess the longer term impact of moving our stock towards carbon neutrality, in line with national objectives. As is the case with other housing associations, these costs will be significant but again, we expect that our long term financial plan will contain sufficient resilience to accommodate this additional requirement.

Planned and compliance works

The safety of our residents in their homes remains critical. We spent £8.3m in the year (2019: £8.5m) across our health and safety compliance programmes. The change from the previous year reflects some reduction in fire safety expenditure requirement, in line with our plans. However, within this year's financial statements we have also provided for £1.5m of necessary future spend at one of our high rise estates in London, in order to upgrade the fire safety arrangements in line with requirements now and into the future.

Other notable work streams during the year included £1.5m (2019: £2.4m) on a full cyclical redecorations programme, and £0.3m (2019: £0.3m) on adaptations to make our homes suitable for people with disabilities.

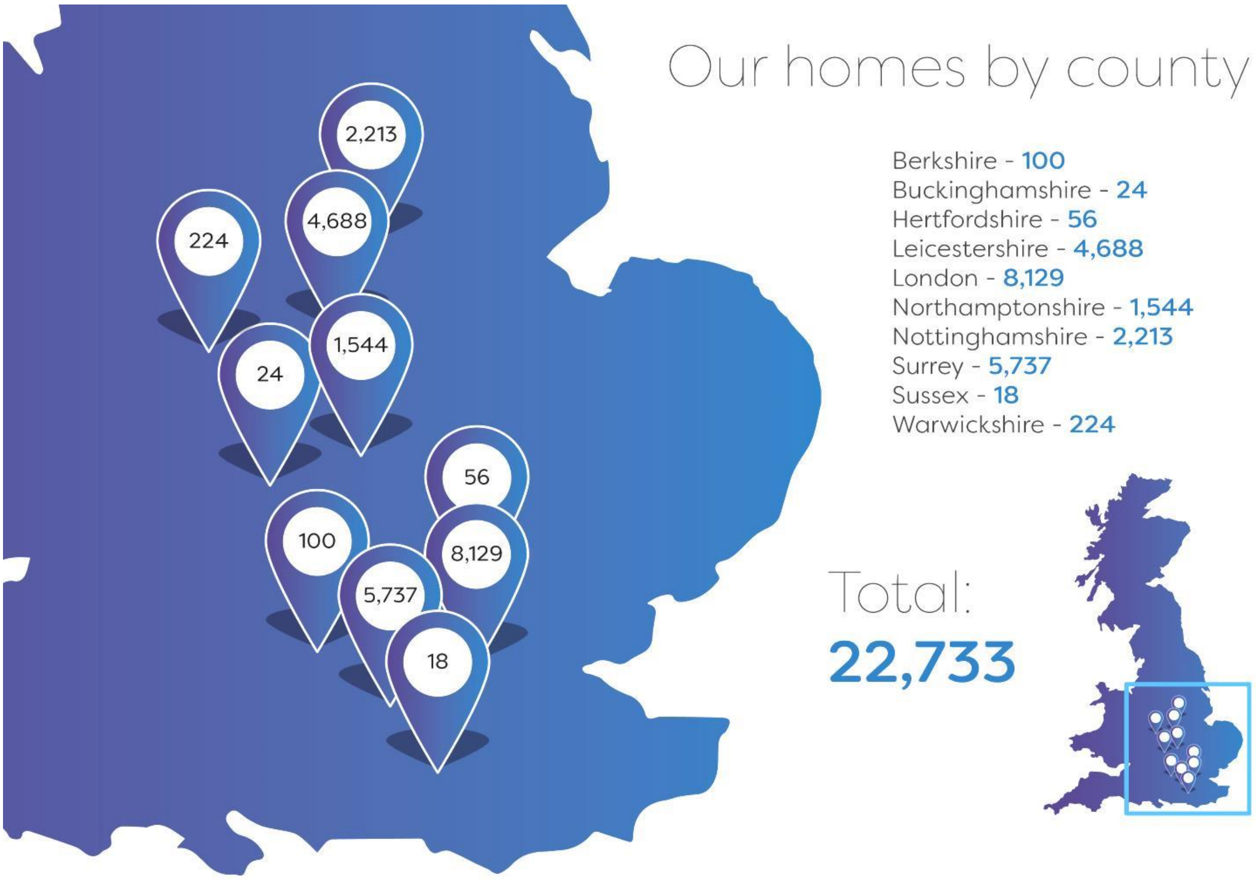
Strategic Report: Our Assets

Active asset management

We continue to actively review our portfolio of homes and make appropriate investment versus divestment decisions based on agreed criteria. We have a number of older properties in very high market value localities, which would be expensive to bring up to modern energy efficiency standards. When these homes fall vacant it can often make sense for us to dispose of these homes on the open market and use the proceeds for reinvestment in either our existing stock or in replacement homes. In the East Midlands we will also consider disposal for management reasons based on a combination of stock investment needs, geography and fit with our and our local authority partners strategies.

This activity is small scale and for strategic management reasons. Our financial plans have no reliance on proceeds from these disposals. During the year we disposed of 14 properties through this programme, generating proceeds of £5.1m and total profit on disposal of £3.6m (2019: 19 properties, £1.7m proceeds, £1.0m profit).

Where we operate



Strategic Report: Our People

Over 650 people employed

£0.5m spent on learning and development

134 internal promotions

"We strive to ensure talented individuals are able to fulfil their full potential, regardless of gender or other personal circumstances"

Investing in our people

We have a clear commitment to deliver excellent customer services and this is demonstrated through the investment in our people.

The focus in 2019/20 has been on our culture and further building on the successful formation of PA in 2017. Through our "PA Way" and "Hearts and Minds" initiatives we engaged with all colleagues across the organisation to make everyone feel part of a fully inclusive team.

We are also committed to developing individual skills and we supported over 700 current and former colleagues in both personal and technical development during 2019/20. 212 ad-hoc training requests were met and we have supported 26 colleagues in their journey to a professional qualification. In addition, we have had a further 13 colleagues enrolled on an apprenticeship during the year.

Health and financial wellbeing

The health and financial wellbeing of our colleagues is an area we continue to focus on. We provide support and access to services to ensure the mental and physical health of our colleagues. Our front-line staff receive full training to ensure they are equipped to carry out their duties.

We continue to review the benefits we provide to our colleagues and in 2019/20 introduced a further defined contribution pension scheme. This has ensured we give choice and flexibility to all colleagues and are fully inclusive in our pension offerings. We also provide access to an independent review for colleagues' retirement planning.

We have a dedicated team of wellbeing champions who organise a programme of activities throughout the year.

Engaging with our community

As part of our social responsibility we are committed to offering work experience to the friends and families of our colleagues and customers. This has given over 20 people the opportunity to experience first-hand an area of their choice in the organisation.

The participants welcomed the opportunity to understand the world of work and the housing sector and a number who undertook the summer 2019 work placement programme gained employment afterwards, citing the programme as having been a major contributory factor.

Strategic Report: Our People

Gender pay gap

We are committed to equality, diversity and inclusion, and we value every colleague as a unique individual.

Our analysis shows that the gender pay gap at PA is not an equal pay issue, but it does reflect a lack of female representation at senior levels of the organisation.

12.7% median gender pay gap

19.1% mean gender pay gap

The main factor influencing our gender pay gap results continues to be the high proportion of female staff in areas of our work which attract lower quartile salaries.

Between April 2019 and April 2020, 63% of our new starters were female, and 37% were male. Broadly speaking, the roles for which we appointed more female applicants were those that receive lower salaries. Two new services accounted for the bulk of these positions: the first was the opening of our new repairs reporting service in Walton-on-Thames in Surrey, which required the creation of Contact Centre Advisor positions; and the second was the launch of our new extra care scheme, Visram House in North West London, which required new care and support roles.

PA Housing's recruitment and selection processes ensure that, when shortlisting candidates, managers do not have access to information about applicants' protected characteristics, including their gender. Successful candidates are those who best fulfil the criteria for their particular position.

When looking only at roles attracting a salary of £30k or more, nine of the 21 colleagues who joined us between April 2019 and April 2020 were female.

Here are some more results from our analysis:

- In April 2019, we set the aspirational target that 50% of shortlisted candidates for senior positions should be female. During 2019, we recruited 14 vacancies with an advertised salary of £40k or more. Twenty-one of the candidates invited to interview for these roles were female, equating to 37%. We have not yet met our target, but this does represent an improvement on the previous year.
- Since April 2019, 134 colleagues have transferred positions within the business, mostly to better paid roles – 63% of them are female.
- There continues to be equal numbers of male and female team members studying to obtain professional qualifications.
- There has been a strong take-up of apprenticeships amongst employees. Eighteen colleagues have enrolled since April 2019 and 83% of those being trained through the Apprenticeship Levy are female.

We continue to strive to ensure that talented individuals within PA Housing are able to fulfil their potential with us, regardless of their gender or other personal characteristics.

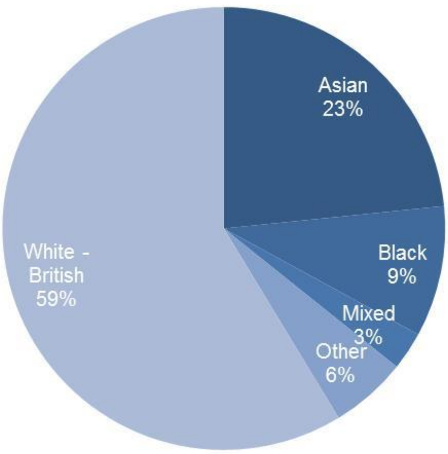
Strategic Report: Our People

Diversity

Our heritage is linked to the Black and Minority Ethnic housing movement and is an important part of our legacy which we continue to celebrate.

Our colleague group is ethnically diverse which makes PA a vibrant and culturally aware place to work, bringing benefits to our activities in the wider community.

Over 40% of our colleagues are from a non white British background.



Our plans for 2020/21

Our new Shadowing Scheme was launched in May 2020; this will allow colleagues to broaden their knowledge and gain experience in a particular area of the organisation. In June 2020 we are launched our PA Leadership Academy to upskill new and existing managers in order to meet organisational objectives and promote progression within PA.

We are looking to expand our engagement with the community in the coming year through the Naumann Initiative, a partnership with Kingdom Housing Association which will see the direct recruitment of people who have experienced homelessness.

Other areas of focus for Learning and Development in 2020/21 are:

- Revising the induction approach to drive engagement, reduce attrition and minimise the learning curve in terms of proficiency and performance in role.
- Establishing an internal mentoring and coaching programme to identify and nurture high potential women and BAME colleagues to be competitive at senior and executive levels.
- Creating a PA Housing graduate trainee scheme to attract into the business talented young people who want to pursue a career in the sector.
- Developing our apprentice and professional qualification approach to maximise the return on investment made by the business through an alignment of qualifications to job role type.
- Investing in our Senior Leadership Team through a new development programme.
- Developing a curriculum of learning for each job ‘family’, mapped to behavioural and technical job role requirements. This will allow ready access to learning that can be delivered in a more cost effective manner.

Strategic Report: Our Growth

249 new homes provided

£132m invested in new development

53 new homes sold

Our growth

Our organic growth plan is to build 5,700 new homes over the first 10 years of PA's life. To date we have completed 576 quality new affordable homes. 327 were completed in 2018/19 and 249 completed in 2019/20 before site closures due to the Covid-19 pandemic. Of the 576, 382 are rented homes, 178 shared ownership homes and 16 market rent.

We are sensitive to the housing crisis and to the ongoing demand for quality new homes that are affordable for our customers in the communities we serve. We aim to provide as much housing at social rent or London Affordable Rent levels as funding streams will allow.

Sales

Providing affordable homes for shared ownership means that we can support the aspirations of those who want that opportunity to own their home. The surpluses we earn from shared ownership sales help to increase our overall capacity for delivery of core business objectives.

Shared ownership sales of £8.4m were achieved in 2019/20 from the sale of 53 homes, generating an average sales margin of 42 per cent.

Post Brexit we had seen an upturn in viewings and reservations, particularly at our schemes in Battersea and Kingston, and despite restrictions introduced in March as a result of Covid-19 we continue to receive a good number of enquiries.

Summary of Performance	2020	2019
New homes completed:		
Rented	145	237
Shared ownership	88	90
Market rent	16	0
Total	**249**	**327**
Homes commenced	624	323
Homes approved by Board / Committee	875	249
Homes in construction	832	612
Shared Ownership homes sold	53	95
Shared ownership revenues (£m)	£8.4m	£11.1m

Strategic Report: Our Growth

Land and pipeline

Our strategy is to bring forward a mix of rented and shared ownership homes through land led, Section 106 and package contracts across London, Surrey and the East Midlands. While most of the sites purchased during the year either had or were subject to planning, we also purchased land without planning and our design teams worked with Local Authorities to secure consents for affordable homes.

In the past year the number of new homes approved has increased from 249 to 845 in line with the ambition to deliver 5,700 homes over ten years.

Covid-19 will bring new challenges and opportunities. PA retains sufficient flexibility and dynamism to maximise opportunities for purchase of land that will deliver new affordable homes for its customers.

Regeneration

Through our successful partnership with Lovell and the Royal Borough of Greenwich we completed 77 much needed affordable homes for local people in the year through the One Woolwich regeneration programme. A further 28 homes were almost complete as at the year end date. We have also been working to progress a further 300 affordable homes in future phases of the scheme, which will start during 2021.

Our commitment to the Woolwich community is not just in homes but also enabling our residents to thrive in them. We are supporting residents through employment training initiatives, welfare benefits guidance through our Universal Credit Hub, provision of employment opportunities via our contractors network, and working with residents associations to bring the whole community together in the new development.

We are also working with a West London Local Authority partner to explore how we can develop our land holdings in partnership to transform a former industrial area into a high quality residential neighbourhood. Together, we're looking to build more than 500 new homes through an exemplary affordable-housing led scheme that aims for the highest environmental standards and will provide high quality public spaces and vibrant community facilities that support local employment.

This year we have also achieved planning consent for a small scheme in Elmbridge where, working in partnership with the Local Authority, we will rejuvenate a former community facility which has been disused for a decade into a new scheme providing a modern community centre along with 10 affordable homes to rent. We have also submitted a planning application to redevelop our ageing existing building at Thames View House in Walton-on-Thames to provide 97 high quality new homes with another new community facility to support our customers and neighbouring residents.

High Quality, Sustainable Development

We recognise that our programme of new developments is an ideal place to start when considering how we can reduce the carbon footprint of our homes, and which technologies we can use to best advantage. With that in mind, this year we have carried out a complete review of our specification to ensure that we provide new homes of the highest standard consistently across our programme which are time and cost effective to manage and maintain.

We have implemented a new system of reviews for completed developments to make sure that we capture feedback from our customers and colleagues, learn what we could improve, and build on what works well.

We have also started modelling our first Passivhaus standard homes which we plan to start delivering in the next couple of years, and we are formulating plans for developing all homes to high environmental standards in the coming years.


Selfie with my Neighbourhood Coordinator
@pa_housing
#teampurple
PA Housing
Oakley

Strategic Report: Value for Money

"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. We aim to manage our finances efficiently and prudently while still achieving high service standards."

Our corporate objectives

Value for money work cannot be taken in isolation. It is a cross cutting theme which supports the achievement of our corporate objectives. The value for money activities are therefore set and delivered with those objectives in mind. Our Board monitors our value for money direction of travel and ensures decisions are aligned to our corporate plan.

Investment to achieve brilliant customer services

82% customer satisfaction

We have built on the success of the "Team Purple" frontline service delivery model and our "Neighbourhoods on tour" initiative which enables our customers to meet our teams and chat about any issues they are encountering within their neighbourhood. The investment of over £1m in the service has increased our presence in our communities and this has enabled us to identify areas where further investment has been required, particularly in addressing stock condition in London but also improving our estate services which has had a direct impact on our customers' homes and the areas in which they live.

Our customer satisfaction with the grounds maintenance service ranges between 82% and 87% depending on location. Satisfaction with the cleaning service has however been lower at between 66% and 83%, with the service in the Midlands and London not meeting expectations. Robust contract management arrangements have been put in place to address this, although due to Covid-19 we have delayed the re-procurement of the service.

Our overall satisfaction with the repairs service is 86%. Our internal repairs service (DLO) has achieved 99% satisfaction levels.

We have reviewed the delivery of many of our repairs and maintenance services and during the year expanded the provision of the DLO in the Midlands for works to void properties. The DLO also provides day to day maintenance services and our performance indicators demonstrate an improved service compared to our external contractors. We have also invested in in-house teams to carry out routine safety checks and other additional services at no extra cost.

Whilst our overall customer satisfaction result of 82% for all services did not meet our target of 85%, we believe we are moving firmly in the right direction to exceed this in the future.

Strategic Report: Value for Money

We continue to drive forward our digital strategy which enables our customers to self-serve on the most common processes and view key information 24/7. We also ensure we engage with our more digitally excluded groups and run sessions in partnership with other organisations to enable access to all. Registrations to our on-line portal have continued to increase throughout the year with nearly 10,000 registered users and £10m of payments being made through our "My PA" app in the year.

Our tenancy sustainability teams actively work with our customers to ensure they are in receipt of all benefits due to them and we have exceeded our target of £3.5m in additional benefits that would have otherwise not have been received. This has ensured 1,158 customers have sustained their tenancy and not fallen into arrears. We also support our customers directly through hardship and community funds which have assisted over 500 customers. Over £500k has been allocated to our community initiatives, including enabling community cohesiveness, match funding a local initiative to support a mental health project, tackling social isolation and supporting people back into work.

Build 5,700 new homes over 10 years

New supply 1.1%

Our ambition is to develop 5,700 homes over 10 years, to provide quality new housing in our core operating areas. This will not only create housing where it is most needed but will improve our efficiency and lower our unit costs.

Delivery of our treasury strategy has ensured that we have the funding in place to deliver this growth ambition. During the year we fell short of our 400 homes delivery target, in part due to the impact of Covid-19 at the end of the year as our programme was weighted toward completions in the final few weeks of the year. However, our commitment to providing safe and quality housing without compromise has also led to decisions not to pursue certain opportunities.

During the year however, our Board has approved 875 new homes to be completed, 624 new homes have started on site and 832 are in progress. Our expenditure on new development was £132m (including land) and we received £16m of grant funding in the year.

Create an efficient and fully integrated business

Cost per unit £4,632

It is now three years since the creation of PA Housing and 2019/20 saw the bedding in of our integrated systems and processes. Our IT strategy ensures we operate on single platforms and our teams have been structured accordingly to deliver the right functions in the right geographical areas.

Our overall cost per unit has increased in 2020 and is above our target of £4,390 per unit. This is due to our decision to invest in improving the quality of our homes and the safety of our residents, particularly addressing fire risk in our residents' homes. We made these additional investment decisions after assessing our financial capacity to do more, in line with good value for money principles.

Strategic Report: Value for Money

How have we performed against our strategy?

In 2017 we implemented a three year value for money strategy with six targets to underpin our approach. 2019/20 was the last year of the strategy and our achievements in the year were:

Target	Achievements	Outcomes
Deliver the £3m of recurring operating efficiency savings from amalgamation	Delivered ahead of schedule in 2018/19 Further savings through procurement as one entity An efficient team structure to deliver services	Ongoing savings reinvested in front line services to drive improvement in customer satisfaction Systems and processes designed to improve the customer journey at a reduced cost
Develop VFM decision support avenues and tools	Integrated management teams and structures for decision making bedded in New business analysis and insight team established Data quality improvements for better decision making	Expansion of DLO and provision of services by in house teams Customer segmentation analysis to influence provision of services Use of benchmarking data to pinpoint areas of VFM focus, e.g. re-let times
Promote business practices which take VFM good practice principles into account at all times	Expanded the procurement team to further enhance the corporate approach to procurement and contract management, and drive VFM improvements. VFM sub group established with clear reporting and accountability	VFM embedded within staff recruitment and performance management practices New 2020 three year Value for Money strategy in place Clear outcomes for customers embedded into decision making processes
Strengthen customer and stakeholder involvement in and awareness of our VFM activities	Established customer groups and increased resident engagement activity Open and transparent scrutiny by our involved residents	Key procurement decisions directly influenced by input from customers Customer journey mapping established to ensure processes meet the needs of our customers Residents involved in ongoing project to improve evidence of VFM within service charges
Progress operating model options and opportunities which can enhance VFM for the business	Review of team structures across function and geographical areas Expansion of contact centre operations to our Walton office One year anniversary of award winning “Team Purple”	Teams more closely aligned to customer needs and expectations Cost savings and quality enhancements delivered through measured expansion of DLO operations Tenancy sustainment work delivered over £3.5m income for residents, at the same time protecting PA’s income stream
Develop analysis of social impact delivered by our services and partnership working	Social impact now embedded in re - procurement process Board consideration of PA strategy beyond our core traditional housing offer Investing in the communities in which we operate	Wellbeing campaign with tenants throughout the Covid-19 pandemic Commitment to the Naumann initiative to recruit people who have experienced homelessness. £500k invested in our communities

Strategic Report: Value for Money

Our operational performance

.Indicator	2019 result	2020 result	2020 target	Trend	2021 target*
Overall customer satisfaction	82%	82%	85%	←	80%
Void rent loss (core social homes)	1.0%	2.1%	1.0%	↓	2.0%
Average re-let days	28.7	56.0	28.0	↓	35.0
Rent arrears	3.7%	4.4%	3.6%	↓	4.5%
Routine repairs within target	95.0%	97.1%	97.6%	↑	95.0%
Emergency repairs within target	99.7%	99.8%	100%	↑	100%
Gas safety compliance	99.9%	99.7%	100%	←	100%
Fire risk assessment compliance	92.6%	81.8%	100%	↓	100%

*2021 targets take into account Covid-19 impacts

Where do we need to improve?

Our operational key performance indicators give insight into our performance in the year and areas which we need to improve.

Our performance on the re-let of properties and associated void loss has fallen below our targets and we acknowledge this is an area that requires improvement. A number of factors have contributed to this including significant major works required on properties in the Midlands, extended void periods whilst we assess the safety of the properties, and a specific scheme of 99 new build supported housing flats where we are working with the local authority to gradually move to full occupancy. We have developed a new “move in, move on, move out” approach which will be fully implemented in 2020/21 with a view to reversing the trend. However, due to the impact of Covid-19 in the early part of 2020/21 our void loss has remained above target.

Rent arrears have increased during the year to 4.4%. We saw a peak in arrears in early 2020 as a result of the increasing numbers of Universal Credit (UC) claimants.

Whilst we were able to improve the position, in early March the outbreak of Covid-19 and subsequent realignment of our income collection processes to increase the focus on support to residents led to a year end position above our forecast and target. Our specialist UC Hub supports residents through the transition to UC and we are targeting a reduction in arrears once the immediate Covid-19 issues have been addressed.

We did not achieve our target of gas safety compliance due to access issues with a small number of properties as a result of Covid-19.

Full fire risk assessment compliance is progressing more slowly than expected due to Covid-19. There were however no outstanding critical fire actions.

Strategic Report: Value for Money

Value for money metrics

We have incorporated the Regulator of Social Housing's Value for Money metrics into our routine financial reporting, financial planning, decision making, and reporting to Board.

The following table and graphs illustrate our journey and forecasts which link to our broader corporate strategy. Forecasts are based on our current business plan, which has been prepared in response to Covid-19. It should be borne in mind that this is built on a conservative set of assumptions which we would generally expect to outperform. During the current Covid-19 we accept that there is uncertainty and business plan forecasts remain under continuous review by our Board. The graphs compare our performance to a peer group of 14 other housing associations which manage between 20,000 and 30,000 homes in total, using data published by the Regulator of Social Housing for periods ending March 2019. We have assumed a static peer group position based on these 2019 results, but in reality our peer group results will be influenced by similar pressures and priorities to those which impact on PA.

We have not reported on the supply of new non-social housing as this is not a material consideration for PA.

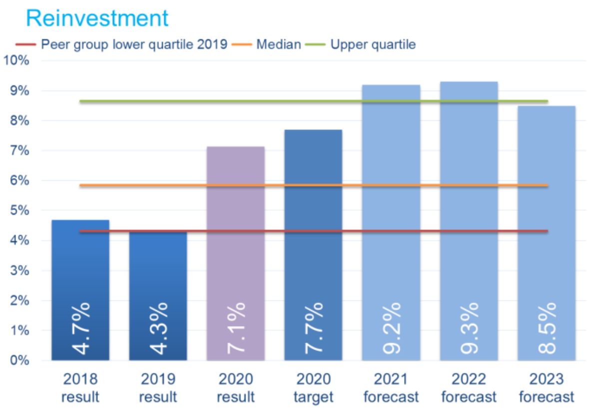
	2020 result	2020 target	2019 result	2018 result
Group				
Reinvestment	7.1%	7.7%	4.3%	4.7%
New supply (Social Housing)	1.1%	1.2%	1.5%	1.8%
Gearing	43.2%	39.7%	40.2%	40.7%
EBITDA MRI interest cover	131.1%	147.0%	169.0%	167.7%
Social housing cost per unit	£4,632	£4,390	£4,213	£3,900
Operating margin – Social Housing Lettings	25.7%	32.5%	33.3%	36.3%
Operating margin – Overall	26.2%	31.9%	33.8%	34.6%
Return on capital employed	3.0%	3.4%	3.6%	3.9%

How we have performed against our targets and how do we compare to our peers?

Reinvestment in new supply

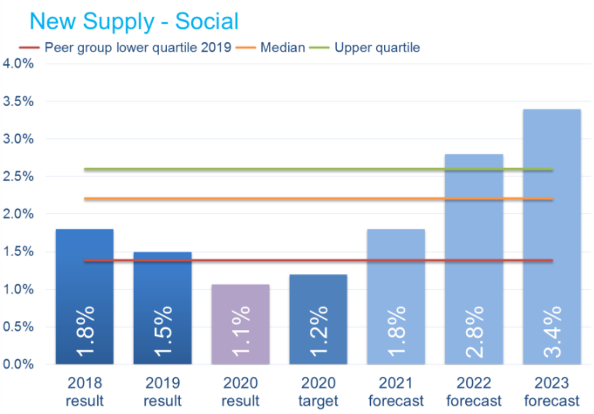
We invested £106m in the provision of affordable new homes and £17m in our existing stock. Our reinvestment metric of 7.1% is a significant increase on our previous two years results but falls short of our targeted figure due to our response to Covid-19 and having to put our programmes on hold in the final few weeks of the year.

Our reinvestment ambition indicates further growth in 2020/21, supported by a strong financial position and access to arranged loan facilities. This investment will place us above the top quartile average of our peer group results for 2019.



Strategic Report: Value for Money

Our initial target for the completion of 270 new homes was conservative and our revised ambition in the year was to deliver in excess of 400 as the programme gathered pace. A number of completions were delayed in the final month of the year due to Covid-19 and 233 new affordable housing homes were ultimately completed, with over 120 completions delayed into early 2020/21.

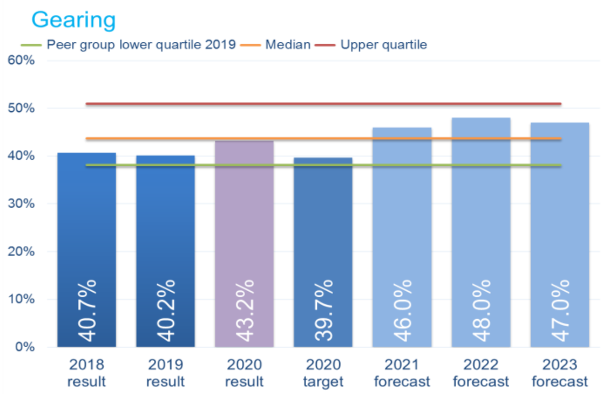


Whilst we remain adrift of our peer group for the supply of new homes, our business plan targets growth as we build on the momentum of our development programme. Sites have already remobilised following the peak of the Covid-19 outbreak and whilst we are optimistic that we will achieve our targets we will be flexible and adaptable in the ongoing uncertainty.

Debt

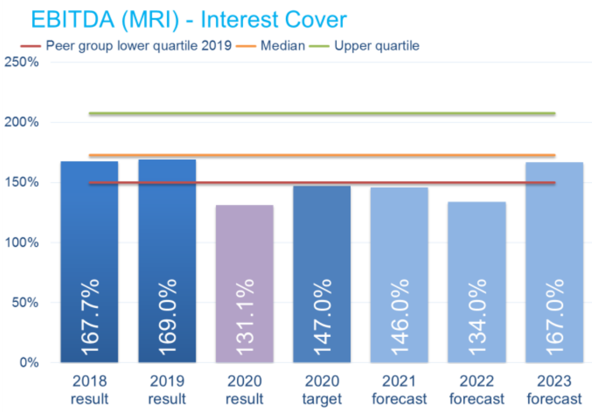
Our gearing ratio has increased to 43% as we have accessed additional funding to support our development. We are in line with the median for our peer group. We expect our gearing to further increase as we continue with our ambitious development programme and it is likely that the peer group comparisons will evolve in a similar way. Our credit rating with Moody's is A3 stable and subsequent to the year end we obtained a second rating with Standard and Poors of A Stable.

We remain in a strong position to leverage our balance sheet and we arrange funding ahead of need, in line with treasury policy parameters and the forecast of our future development programme. Our business plan is continually stress tested in order to ensure we do not over commit on the programme particularly given the current uncertainty in the timing of the provision of new homes.



Interest costs have remained static compared to 2019. We have absorbed the cost of our additional borrowing through a combination of a more favourable interest rate environment and some adjustments to our hedging portfolio.

The increase in our operating costs, as a result of decisions to further invest in the quality and safety of our services and stock, has reduced our operating surplus and in turn reduced our overall interest cover. There is however significant headroom against our loan covenants and although results are below others in our peer group, our Board is comfortable with the result and positive future outlook.

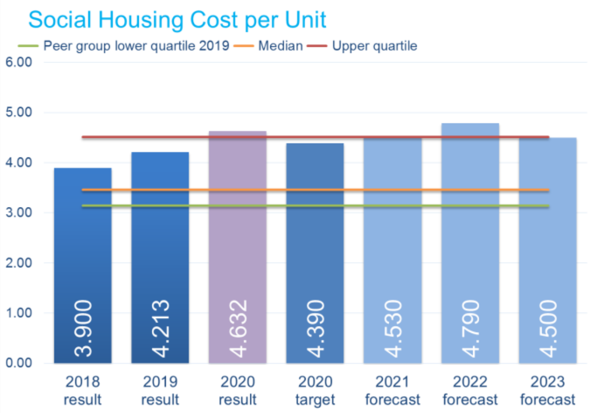


Unit costs

Our headline social housing cost per unit has increased by 9.5%. Overall costs have increased by £7.1m compared to 2019. £6.1m of this reflects increased costs on repairs and maintenance, in part reflecting an underspend against planned maintenance budgets in the prior year. £1.5m of this

Strategic Report: Value for Money

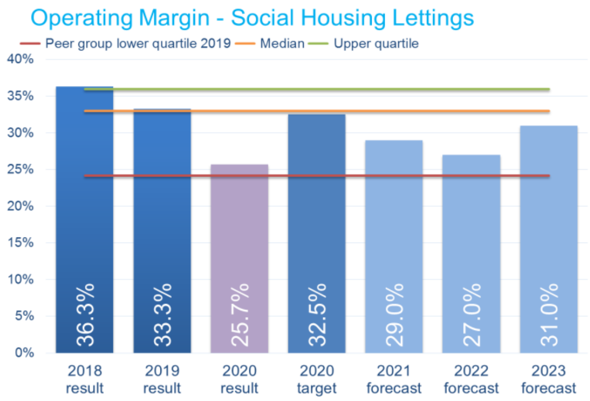
increase represents a provision for future years fire safety improvement costs at one of our London estates. Overall, cost control remained strong through the year, and the result reflects a combination of budgeted spend or in year decisions to increase investment in our stock.



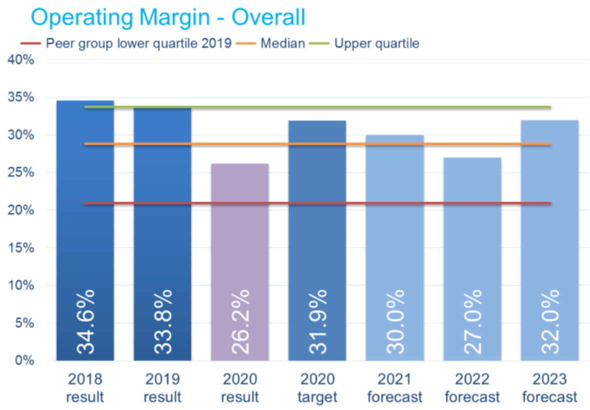
Whilst our cost per unit is high compared to our peer group further analysis shows our unit costs are comparable to associations working in similar geographical locations. Our stock in management (not owned) also fell compared to 2019 as a result of our partnership working arrangement in Woolwich on a specific regeneration project. Our outlook remains positive, although there will no doubt be some volatility from the impact of Covid-19 but overall we expect our cost base to stabilise and our stock numbers to grow.

Efficiency

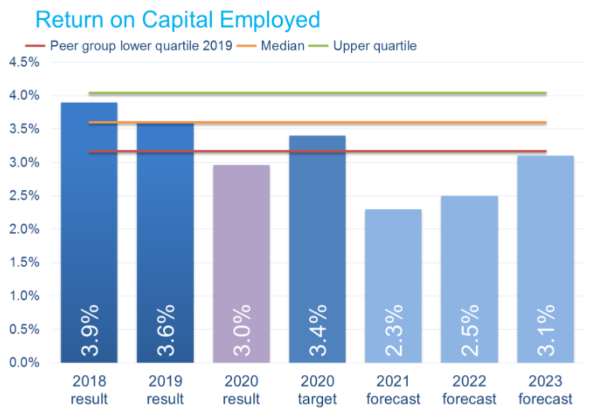
The operating margin on social housing lettings has fallen and is below our targeted figure. Our in year decisions to invest further in our stock together with provisions for future fire safety costs and write off of obsolete components are the key drivers behind the reduction. Excluding these costs our operating margin would be 29.2%.We have also experienced a reduction in our income compared to our target, particularly from losses on voids which has been noted as an area for improvement. Our business plan forecasts take a conservative view on future results.



Our overall margin shows a slight improvement from the social lettings margin as a result of a strong margin on shared ownership sales. This is also lower than our forecast however, for the reasons above.



Return on capital employed is both lower than our target and behind the sector averages. Our returns from rental income are currently lagging behind our increase in assets whilst development activity is on an upward trend, this coupled with the higher costs and lower margin have had a negative impact on the result for the year. Our business plan takes a conservative view over the next three years.



Strategic Report: Value for Money

Our future strategy

We reviewed our value for money strategy at the end of 2019 and the Board has agreed the following high level targets for the next three years. Each target is supported by a detailed action plan against which we will measure our progress.

1. Enhance the value added activities to our customers
2. Improve the customer experience
3. Fully understand our assets and neighbourhoods and direct our investment to drive value
4. Further develop the strategic drivers behind our financial metrics, operational performance indicators and benchmarking activities
5. Obtain value through robust procurement processes and contract management
6. Deliver our ambition to provide quality and affordable homes to meet our customers' needs
7. Engage with our customers to improve our service offer and make them an integral part of decision making

Resources Director's Report

Resources Director's Report

"These financial statements reflect another strong year when all financial golden rule limits were again fully adhered to"

Last year I introduced my report by explaining that, whilst we always have a robust financial plan in place, we cannot be slaves to it due to the unpredictability of the world around us. Over recent months this has been put to the test in the most extreme circumstances, as Covid-19 took hold around the globe.

PA's response to Covid-19 has dominated our financial management approach since early 2020. This has been carried out hand in glove with our wider organisational management in a time of crisis, taking into account our overriding priority to do all we can to keep our residents and staff as safe and secure as possible.

The effort throughout our business has been phenomenal, and I am full of admiration for the various ways in which our staff have worked constructively with residents to maintain essential services and provide support where it is needed the most.

I am pleased to be able to confirm that PA has passed this severe test of our financial and operational resilience. This is testament to the work we have put in over the years to ensure that financial strength and control are hard-baked into our ways of working, with the entire business recognising that these disciplines are enablers of a healthy and vibrant organisation which seeks to deliver positive change to the communities it serves.

These financial statements reflect another strong year when all golden rule limits were again fully adhered to. Our key value for money metrics have also progressed in line with expectation (albeit with some Covid-19 disruption late in the year), demonstrating that we are a mature business which delivers what it sets out to in a stable and consistent fashion.

During the year we made good progress with our financing plans for future growth. A further £260m of bank and bond funding was put in place, and we have also laid the building blocks for future capital markets issuance on a larger scale. As such, our liquidity position remains very strong and we are well placed to hit the ground running once the wider environment is able to accommodate house building at something close to pre-Covid scale. The demand for affordable new homes has certainly not diminished, and indeed it seems likely that the economic ramifications of Covid-19 will further increase future demand in the social housing sector.

I recently marked 25 years of working in this sector. I have seen a lot of evolution and at times revolution over that period in respect of how housing associations are financially managed and structured. The direction of travel has generally been towards a more challenging and commercial environment – I remember the days of close to 100 per cent grant rates for new development, bank lending margins at not very much above zero, and freedom (within reason) for HAs to set their own rent levels and increases. Commerciality is of course no bad thing, and the increasing focus on financial issues within the sector has helped to create an environment where everyone understands how crucial it is to keep things on a solid financial footing. But we must never lose sight of what PA and other housing associations are here to achieve – the homes and services we deliver make a massive difference to people's lives and we must continue to use our financial strength to maximise our impact within communities.

Simon Hatchman
Executive Director - Resources and Company Secretary
23 July 2020

Resources Director's Report

Our financial golden rules

Our Board has agreed a set of golden rules which underpin our approach to financial management.

Through our long term financial planning, 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 in the long term, enabling us to cope with any shocks which come our way such as Covid-19.

During the year key decisions were made to increase the investment in our London stock in order to ensure we are providing quality homes, and also to further invest in the safety of our residents, particularly in respect of fire risk. Whilst in some areas this has placed downward pressure on the golden rules, our financial controls and planning have enabled us to again meet all golden rules.

Our free cash rule demonstrates our ability to generate cash and drive value from our core business. The calculation is before the additional investment in fire safety.

In order to improve our financial control and monitoring moving forward, the Board has agreed to replace the overall operating golden rule, which is inclusive of the surplus from property sales, with the operating margin on social lettings only. This provides a clear link to our value for money metrics for decision making. It also eliminates any fluctuations caused by timing differences on sales activity, which can have the effect of distorting results between financial years.

The Board has also decided to remove the rule relating to margins on outright sale activities, on the grounds that this tenure is no longer part of our core growth plan. These changes apply from the start of the 2020/21 financial year.

The Board recognises that Covid-19 will have a short term impact on financial performance, and this may compromise ability to hit all of our golden rules during 2020/21. The potential implications have been assessed, and forecast performance against the rules will be closely monitored as we work through the year. We remain fully committed to our standard golden rules longer term, as soon as the Covid-19 impacts have been worked through.

All rules are on a Group basis.

Rule	Target	Result	Met
Operating Margin	>35%	**36.5%**	✓
Free Cash	>£10m	**£10.7m**	✓
Interest Cover (loan covenant basis)	>150%	**200%**	✓
Gearing	<55%	**43%**	✓
Hedged Debt	>55%	**77%**	✓
Liquidity	18 months	**24 months +**	✓
Social Housing Grant	No reliance	**No reliance**	✓
Property Sales as % of turnover	< 25%	**5.6%**	✓

Resources Director's Report

Summary results 2019/20

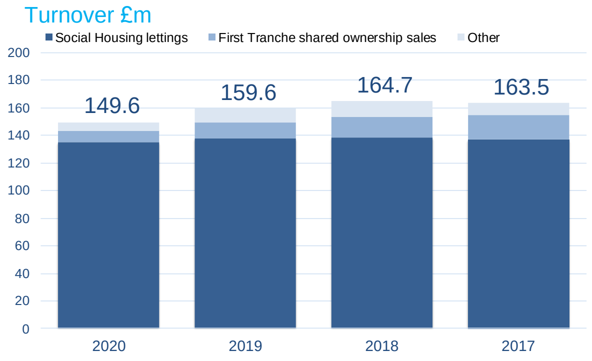
Our key financial results are shown below. For comparison purposes, the equivalent combined results achieved by Paragon Community Housing Limited and asra Housing Group Limited in 2017 are also reported*. All results reflect Group-wide performance.

	2020	2019	2018	2017*
Group statement of comprehensive income	£m	£m	£m	£m
Turnover	149.6	159.6	164.7	163.5
Operating surplus	54.6	62.0	65.1	57.2
Net interest payable	27.3	29.9	33.5	26.6
Net surplus	28.5	38.8	32.9	26.6
Net surplus excluding property sales	10.0	27.0	17.2	14.4
Group statement of financial position	£m	£m	£m	£m
Property fixed assets net of depreciation and impairment	1,736	1,642	1,637	1,624
Capital grants	430	420	443	452
Net current assets	65	45	16	70
Long-term creditors	1,281	1,180	1,181	1,258
Reserves	535	506	488	449
Statistics				
Operating margin (all activities)	37%	39%	40%	35%
Net surplus %	19%	24%	20%	16%
Gearing (debt versus housing assets)	43%	40%	39%	43%
Debt to turnover ratio	5.3:1	4.4:1	4.3:1	4.6:1
Debt per owned property £000	£38.3	£34.1	£32.6	£35.7
Accommodation owned and managed	No.	No.	No.	No.
Rented	19,301	19,370	19,910	19,159
Shared ownership	1,463	1,425	1,376	1,100
Managed units	1,969	2,254	2,219	3,709
Total stock	22,733	23,049	23,505	23,968

Resources Director's Report

Financial Review (Group results)

Turnover



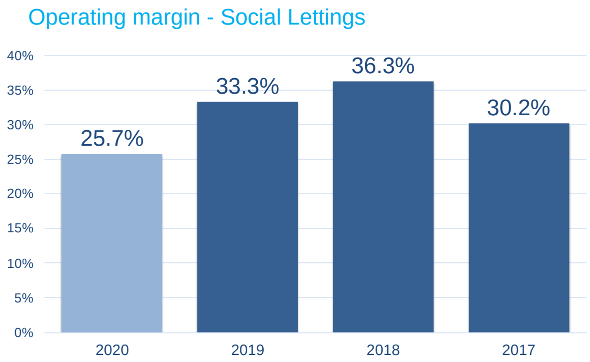
Overall turnover has decreased to £149.6m from £159.6m.

Turnover from social housing lettings net of void loss is £135.2m (2019: £137.9m). The reduction of 2.0 per cent is a result of the one per cent rent reduction, the impact of stock sales in the previous and current financial year and an increase in void losses. This in part is compensated by additional rental income from our new developments.

In 2020, income from the sale of shared ownership homes was £8.4m, a reduction from £11.2m in 2019.

In 2019, other turnover included an additional £3.8m of negative goodwill amortisation arising on property sales.

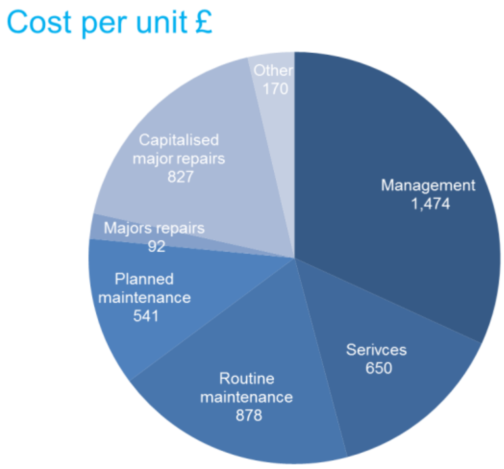
Operating Margin



During the year we have made additional investment in maintaining the quality of homes and in the safety of our residents. Our investment in repairs and maintenance was over £31m excluding capital programme (2019: £29m). This includes extensive fire risk assessments, works undertaken, waking watch, and a provision for the costs of future works. The total cost of this additional investment is £3.5m. A write off of £1.3m for obsolete cladding is also included in operating costs.

Our operating margin excluding these additional costs is 29.2%

Our costs



Our overall expenditure on repairs and maintenance is £48.8m, accounting for 50% of our overall cost per unit (2019: 48%)

Investment through our planned capital programme has increased by £3.5m compared to 2019.

We have also seen growth in our management costs which is a reflection of our increased investment in our frontline services. Costs have increased by £1.0m from 2019.

Property Sales

A surplus of £3.5m (2019: £3.7m) has been made from the sale of 53 shared ownership sales. Unavoidable delays in the programme together with the impact of Covid-19 on sales completions in the final quarter resulted in sales falling short of our forecast sales volumes. However, margins on sales remained strong despite a challenging market.

Resources Director's Report

A surplus of £15.0m (2019: £8.0m) has been made from the sale of other properties. This includes the sales of 88 homes to tenants under the Voluntary Right to Buy Scheme. The surplus, including government compensation, of £8.6m will be reinvested in the supply of new social housing. 66 homeowners further invested in a share of their home, generating a surplus of £2.7m (2019: £2.8m).

53 shared ownership sales

88 Voluntary Right to Buy Sales

66 shared owners staircased

19 other sales

Whilst the surpluses from property sales have been strong in the year, we are not reliant these to support our social housing lettings activities.

At the end of the year £9.2m (2019: £3.5m) of completed new homes were held for sale with a further £29.6m (2019: £28.8m) of new homes for sale under construction.

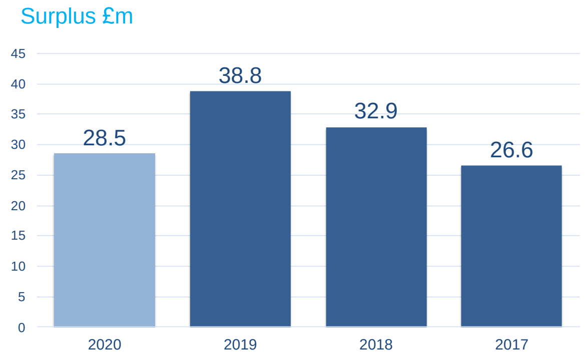
Financing

Interest charges after capitalisation were £27.3m (2019: £29.9m). Interest rates fell over the year, with the market outlook at close of the financial year being particularly weak. This led to an increase in the position of our interest rate derivatives portfolio when marked to market. As a result, we recognised an adverse £12.6m movement in fair value of financial instruments in the income statement, and we provided additional cash collateral of £9m to counterparties to cover their increased exposure.

Surplus

The surplus before tax for the year is £28.5m (2019: £38.8m). The financial results of our core business of social lettings are in line with forecasts although we have seen an increase of £8m in our operating costs in the year.

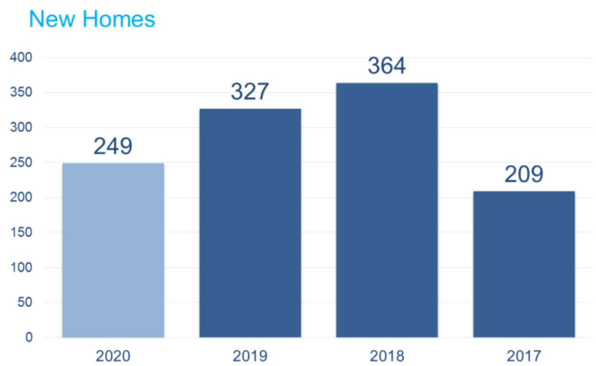
Decisions taken in the year to further invest in our stock and continue our without compromise approach to fire safety have increased the direct maintenance costs compared to budget by £2.5m. As a result of our increased capital maintenance programme based on stock condition data, we have also experienced an increase in the accelerated depreciation of components being replaced of £4.0m.



Our overall commitment to customer service is demonstrated through our investment in front line services and our commitment to support our residents over and above providing them with a safe and affordable home with a further £1.0m invested this year.

We have however experienced an increase in our provision for bad debts of £1.0m. Arrears increased steadily throughout the year due to the impact of Universal Credit, and there was further upward pressure in March arising from the impact of Covid-19 on residents.

Reinvestment and new homes



The strength of our new development pipeline has enabled us to invest £132m in the delivery of new homes including land held in the subsidiary company. This was supported by new grant of £16m and drawing on borrowing facilities of £98m.

Resources Director's Report

Despite this investment we did fall short of our stretched target to complete over 400 new homes in the year, in part due to the programme stalling in March, but also in ensuring our absolute commitment to delivering quality and safe homes and taking decisions not to proceed unless these were met.

Financial Position

The value of our housing properties has increased to £1.74bn. £107m has been invested in the provision of new homes for rent and ownership, £17m invested in our existing stock and a further £12m on the purchase of land for future development which is held as stock.

Cash balances, including ringfenced funds were £46m. We positioned ourselves to maintain higher than normal cash balances in the year to manage liquidity risk from Brexit and at the end of the year due to Covid-19.

The movement in our debtors and creditors relating to core activities remains stable.

Total loans and borrowings at the end of the year were £801m. £126m additional funds were drawn and £34m repaid in the year.

A provision of £1.5m has been recognised for fire safety works costs and the removal of cladding on a high-rise block in London. These works along with the replacement of the cladding and associated works will be completed over the following two years.

The liability on our legacy defined benefit pension schemes has fallen from £26.7m to £11.8m as a result of a significant decrease in the Social Housing Pension Scheme liability.

Financial outlook

The Board has reviewed our financial plan and outlook referencing the impact of Covid-19, with particular attention to the next accounting period ending 31 March 2021. A number of scenarios have been modelled to test our financial resilience in this period of uncertainty. The Board will continue to re-assess and remodel as required.

Understandably our actual performance in the first quarter of 2020-21 contrasted from our original plan in some key areas. Our repairs and maintenance programme stalled as did the delivery of our new development and sales. We experienced a rise in empty property costs and additional costs were incurred as we ensured we maintained communication with and supported the welfare and safety of our tenants and colleagues. On the income side, sales transactions slowed although interest in our properties has remained strong, and rent arrears has incrementally increased in line with changes in circumstances for many of our residents.

Our strong financial position has enabled us to provide financial support to tenants, our suppliers, and colleagues alike. As we emerged from lockdown we were able to quickly re-mobilise many of our services, although it is anticipated it will take longer for us to restore our full service provision. In particular, the social distancing rules still in place have slowed the pace of build at our new development sites. Our service provision will be continually reviewed and reshaped to meet the challenges ahead.

We are cautiously optimistic for the year ahead. Sales of our new homes recommenced in June and July, retaining the values of the pre Covid-19 position, and we are working with our contractors to catch up on maintenance to our residents' homes, and re-schedule reinvestment and major works.

Our scenario testing has forecast some reduction in rent and service charge income, increased losses from empty properties and an increase in bad debts. Operating costs are forecast to increase by a relatively modest amount, but capital investment in our estates may fall due to the delays experienced. We currently expect the net cash position on existing core business expenditure to be broadly neutral. The delays to new build capital expenditure, coupled with some reduction to borrowing rates, may reduce our forecast interest charges.

Resources Director's Report

It is likely that our first tranche sales will fall compared to the original business plan. We have tested a range of scenarios with varying degrees of pessimism here due to the extreme uncertainty in the market. All scenarios can be accommodated without undue compromise on profitability or liquidity.

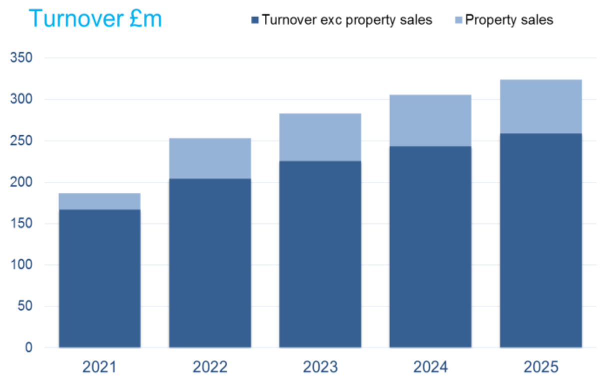
We have forecast that our overall operating margin could deteriorate somewhat against our original approved budget. We will, however, still comfortably comply with our bank covenants.

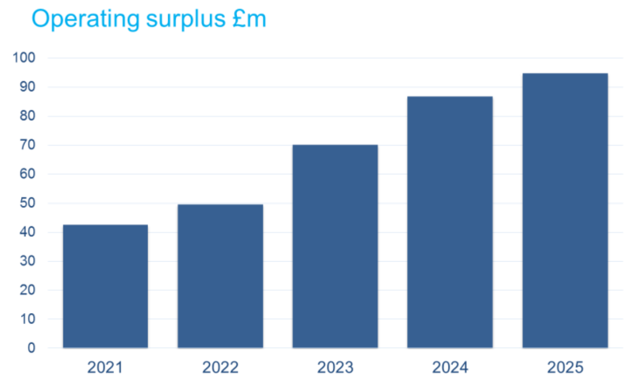
Our Board has reviewed our financial golden rules, in light of the reality that the financial landscape has been altered significantly by Covid-19. The rules remain an appropriate bedrock of our financial strategy into the longer term, but for 2020/21 the Board accepts that current circumstances may compromise our ability to achieve full compliance, as has been the case in each year since PA was formed in 2017.

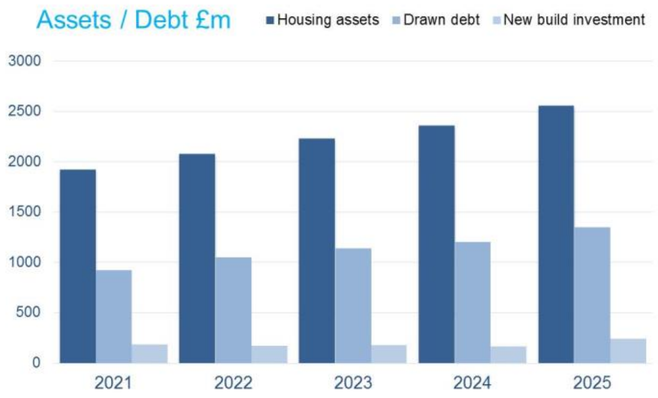
During the first quarter of 2020/21 we have continued to meet our original golden rules, further demonstrating our financial resilience, but we accept that the outlook remains highly uncertain and we will continue to closely monitor our forecast position versus the agreed rules.

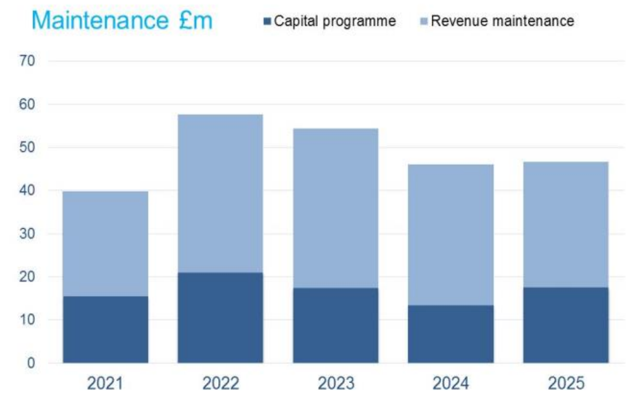
Our projections below encompass our scenario testing and adjustments to our business plan post Covid-19, and give an illustration of our ambition of continued growth. Given the levels of uncertainty and that our business plan is subject to regular review and update as the operating environment changes, these projections should only be taken as a broad guide

Our projected growth









Resources Director's Report

Our Environmental, Social and Governance activities

PA exists to deliver social value to the communities which we serve. Our core business and number one priority is to provide high quality homes and associated services to people who cannot afford to buy or rent on the open market. This objective is underpinned by our governance arrangements, which are designed to ensure ongoing effective service delivery within an appropriate controls assurance framework. We are also increasingly conscious of our environmental impact, and the key role that housing associations must play in working towards national and global targets for a brighter environmental future.

This summary gives a flavour of the many activities and outcomes we work to deliver across these key environmental, social and governance themes (commonly referred to as ESG). We recognise that it's important for our partners to understand the ESG work we are doing. We support current sector moves to formalise and standardise ESG reporting in order to aid review and comparison, and we will align ourselves to whatever is agreed as the final reporting format using the internal reporting we already have in place.

Environmental Activities

During 2019/20, we:

- ✓ Established our new Sustainability Strategy, built around three key themes of Property, People and Partners
- ✓ Invested £7m in programmes to upgrade windows, doors and central heating in order to improve the energy efficiency of 1,500 homes
- ✓ Increased investment into some of our key London estates and their surrounding environments, in order to improve quality of life for our residents
- ✓ Continued our ongoing programme to install energy efficient LED lighting in the communal areas of all our properties

Moving forward, we are:

- + Delivering the objectives identified within our Sustainability Strategy
- + Introducing schemes to promote more sustainable travel to our offices for our staff
- + Continuing work programmes to improve the average energy efficiency of our stock (2020/21 budget: £9m), including options appraisal to dispose of our least efficient properties if this can generate funds for additional investment elsewhere
- + Completing an assessment of PA's overall carbon footprint and priority areas for improvement

Resources Director's Report

Social Activities

During 2019/20, we:

- ✓ Secured £24m of additional grant funding to enable delivery of 186 new homes in London at social rent levels
- ✓ Delivered £4m of additional income for our residents through the work of our Tenancy Sustainment Team
- ✓ Invested £35,000 from our ongoing Community Fund budget in measures to enhance community engagement and cohesiveness
- ✓ Provided £33,000 of community investment grants to support resident proposals for estate enhancements, social activities and welfare initiatives
- ✓ Utilised our Hardship Fund to support over 500 residents facing fuel or food poverty
- ✓ Helped over 30 residents into employment or formal training through a combination of financial support and access to advice and guidance
- ✓ Made 12 changes to how we deliver our services, arising from scrutiny work performed by our involved residents
- ✓ Signed up to the Vercida recruitment platform, which promotes employment opportunities to candidates from a range of diverse backgrounds
- ✓ Implemented a work experience scheme for children of our staff and residents
- ✓ Supported 10 staff through a mentoring programme operated by the Housing Diversity Network
- ✓ Maintained our status as an accredited living wage employer
- ✓ Continued our proud heritage of supporting and celebrating diversity within our communities, underpinned by our Everybody Is Unique programme

Moving forward, we are:

- + Providing additional financial support to our residents through Covid-19, including an additional hardship fund of £50,000
- + Delivering intensive tenancy sustainment guidance to those faced with changes in their financial circumstances due to Covid-19, with nearly 2,000 residents assisted in the first four weeks of lockdown
- + Continuing to deliver all of our well established social value activities, as illustrated by the 2019/20 outcomes presented above

Governance Activities

During 2019/20, we:

- ✓ Established and recruited to a new Designate Board Member post, which has been designed to specifically address the national under-representation of people from minority ethnic backgrounds who serve on Boards
- ✓ Reviewed our Board succession plan to ensure ongoing fit to business need
- ✓ Facilitated over 130 internal promotions, secondments and transfers to enhance career progression opportunities for our staff
- ✓ Refreshed and enhanced our risk management framework, which governs our approach to risk throughout the organisation
- ✓ Overhauled our data privacy arrangements and put in place an action plan to ensure that we maintain the highest standards of GDPR compliance
- ✓ Maintained our top G1 governance rating with the Regulator of Social Housing
- ✓ Maintained our A3 Stable rating with Moody’s

Moving forward, we are:

- + Working to recruit a resident Board member in the 2020/21 financial year
- + Recruiting into other upcoming Board member vacancies arising due to maximum terms of office being reached
- + Undertaking a governance health check led by external experts, to ensure that our governance arrangements remain at the highest level
- + Working with external experts to receive independent validation of our approach to GDPR compliance
- + Working to achieve Cyber Essentials Plus accreditation to underpin our data security arrangements

Resources Director's Report

Sustainability Strategy

Our new Sustainability Strategy sets out a number of actions for delivery against the following work streams:

Property

New Homes

Renewable energy

Water saving

Vehicle charging

Existing Homes

Improving SAP ratings in the short term

Achieving carbon neutrality longer term

Recycling facilities

Vehicle charging

Community initiatives

Offices

Sustainable office refurbishment

Agile working

Green commuting / business travel

People

PA colleagues

Behavioural change

Access to green initiatives Incentivising sustainable thinking

PA customers

Tackling fuel poverty

Providing access to sustainability initiatives Championing green ways of living

Partners

Contractors

Reducing environmental impact

Delivering environmental benefits through procurement

Other partners

Accessing funding streams to support sustainability measures

Partnering with other HAs to drive value through procurement

Exchange best practice and innovation

Resources Director's Report

Treasury and Liquidity

Treasury management

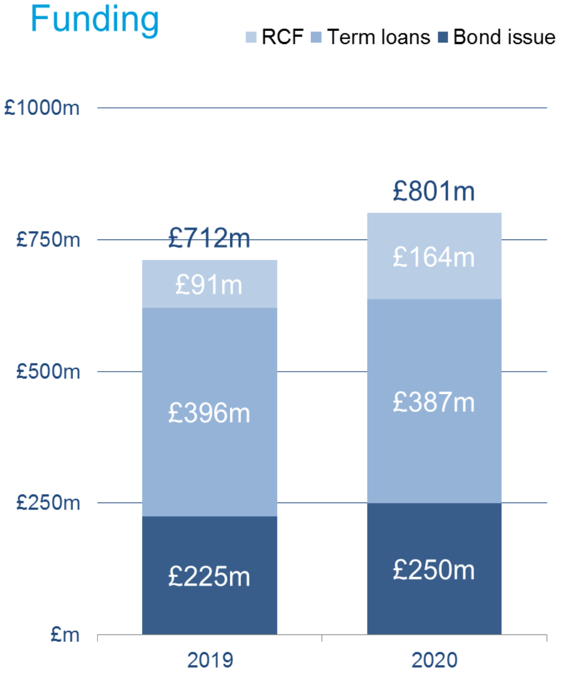
We operate a centralised treasury function which has responsibility for managing our liquidity, interest rate risk and counterparty risk. The treasury policy and annual strategy that underpin these responsibilities are approved each year by the Board.

Our treasury policy takes a risk-based approach to liquidity and interest rate management, with the overriding objective being the avoidance of unacceptable exposure. Surplus cash is invested with approved counterparties (banks and money market funds) in line with strict criteria governing acceptable credit quality and maximum exposure limits, and in line with best practice guidelines of security, liquidity then yield.

How we are funded

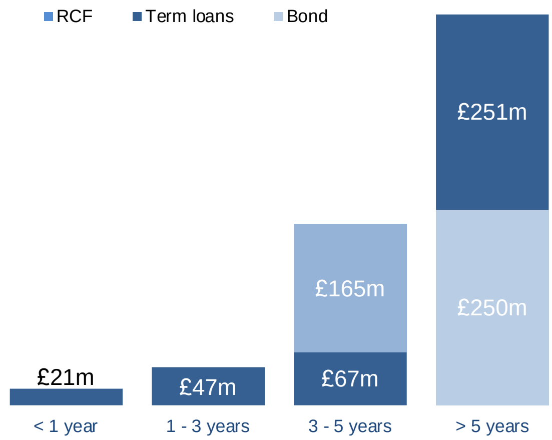
The business is funded in pounds sterling through external borrowings (bank loans and capital markets), retained earnings and grant provided by government agencies. We took on more debt during the year to fund cash outflows associated with our growing development programme, and at year-end external borrowings were as follows:

Funding



PA Housing is the main borrowing vehicle for bank loan borrowings. Our wholly owned subsidiary Paragon Treasury Plc has issued a £250m bond which is on lent to PA Housing.

Maturity of drawn debt



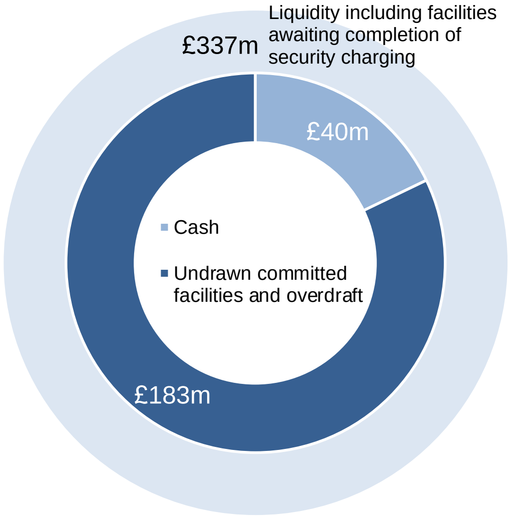
Liquidity

At the year end we held liquidity (comprising treasury cash balances, and undrawn committed loan facilities available for immediate drawing) of £223m. A further £155m of loan facilities were available pending finalisation of security charging arrangements expected to complete during the first half of 2020/21. Cash balances were £39.3m.

Throughout the year we maintained higher than normal levels of cash, initially to mitigate Brexit uncertainty, and more latterly as a response to the impact of Covid-19. More broadly, maintaining sufficient overall liquidity has been a strong theme for the business this year, as cash outflows have grown as our development programme gained pace. To this end we took advantage of benign funding conditions to add or refinance bank facilities totalling c£285m within the year, as well as issuing £25m of retained bonds from our original 2015 bond issue.

Resources Director's Report

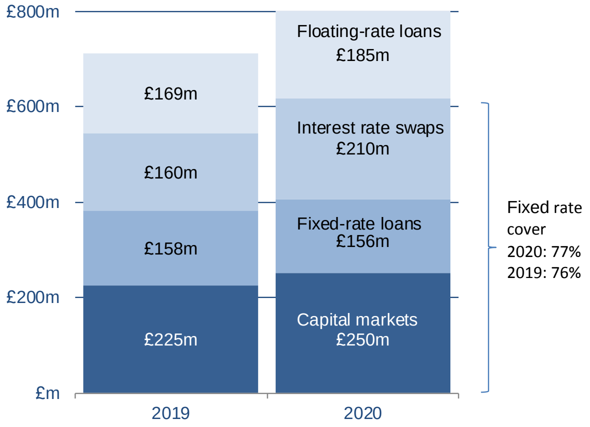
We test our liquidity capacity monthly under a range of scenarios, but as at the year end date Covid-19 had rendered much of the standard scenario modelling redundant. Its effect on our cash flows continues to evolve, and in particular there is distinct margin for error in forecasting the timing and pace at which our development and sales activities regain traction. Nevertheless, our year end liquidity position is sufficient to cover over two years of forecast business activities, including the group's development programme over this timeframe.



Exposure to interest rate movements

Our outstanding borrowings give us limited exposure to interest rate movements, with fixed rate cover of 77 per cent at March 2020 (2019: 76 per cent) comfortably within the permitted range set by our treasury policy. This included £210m of standalone interest rate swaps as at March 2020 (2019: £160m), with an aggregate value when marked-to-market of £67.4m negative (2019: £54.6m negative). The deterioration in market value reflects the especially weak interest rate outlook prevailing at the March 2020 year-end date. The weighted average cost of our outstanding borrowings at 31 March 2020 fell to 3.7 per cent (2019: 4.0 per cent).

Interest rate risk



Financial covenants

Our primary financial covenants are based on interest cover, asset cover and gearing ratios.

All were met comfortably at the March 2020 test date, and our business plan indicates comfortable headroom going forward.

Value for Money

Efficient treasury operations directly support our aim to provide quality new homes that are affordable for our customers in the communities we serve.

During the year we entered into additional interest rate hedging, refinanced existing bank facilities and arranged new funding that together have reduced interest costs, whilst ensuring the business retains a strong financial footing to sustain its growth ambitions.

Covid Corporate Financing Facility (CCFF)

After the year end date we successfully applied for additional funding via the Bank of England's CCFF, introduced to support the UK economy through Covid-19. This additional funding line further bolsters our liquidity position, helping PA to guard against threats in an uncertain environment and enabling us to fully participate in growth opportunities as construction restrictions start to lift.

Corporate Governance

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 trademark).

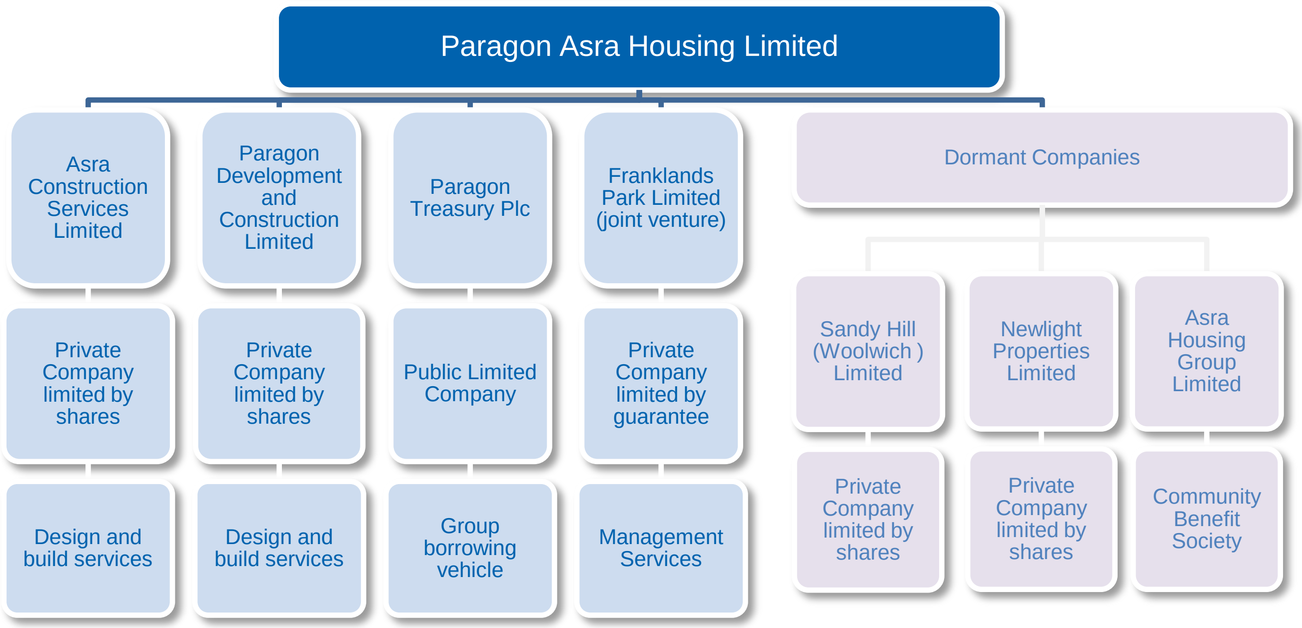
Paragon Asra Housing Limited is a Public Benefit Entity, as defined in Financial Reporting Standard 102 and applies the relevant paragraphs of FRS 102 for Public Benefit Entities.

Principal activities

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



Franklands Park Limited is a joint venture company in which PA Housing retains a 50 per cent interest. 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 2020 show a profit for the year of £2k (2019: £2k) and net assets of £253k (2019: £251k).

Corporate Governance

Code of governance

The Board is committed to effective governance arrangements that deliver its aims and objectives in a 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 approves annually standing orders, scheme of delegations, code of conduct, financial regulations and Committee terms of reference.

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.

Board

Composition

PA Housing is governed by a Board of between five and 12 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. Five shareholders are not Board members

Board members are paid a fee for their services. The Nominations and Remuneration Committee has sole responsibility for recommending to the Board the structure and level of fee and takes advice from independent advisors as required when undertaking reviews of the fee 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.

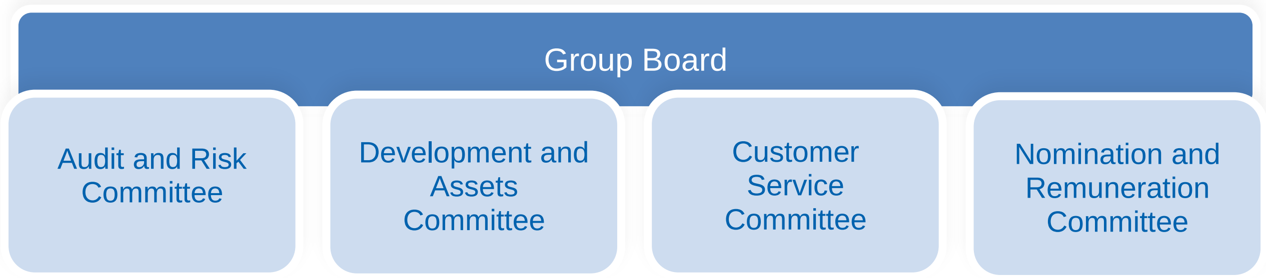
All Board and Committee members are required to declare any interests annually and otherwise at meetings where potential issues may arise.

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.

Corporate Governance

Committees

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



Audit and Risk Committee

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

Nominations and Remuneration Committee

Considers Board structures and appointments, working arrangements and remuneration of Board members, the Chief Executive and Executive Directors. It provides scrutiny and support in reviewing all people related policies and strategies. The Committee comprises four non-executive Board members and it met four times this year.

Financing Group

Financing Group is not a permanent sub-committee of the Board and it has no decision making authority. It was established during the year to perform a scrutiny and monitoring role on behalf of the Board in respect of PA Housing’s ongoing financing project in support of growth plans. Financing Group comprises four non-executive Board members and it met twice this year.

Corporate Governance

Meetings, attendance and remuneration

Attendance records of the non-executive Board and Committee members at meetings during the year are shown below. For members who either retired or were appointed during the year, the record shows attendance versus the maximum number of meetings each member could have attended. Current Board member annual remuneration is £20,000 for the Chair, £15,500 for the Deputy Chair, £13,000 per Committee Chair, £11,000 per member and £6,900 per Designate Board member. Remuneration shown in the table below is inclusive of expenses paid. Total expenses of £7,222 (2019: £6,708) 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 notes to the financial statements.

	Board	Audit & Risk Committee	Development & Assets Committee	Nomination & Remuneration Committee	Customer Service Committee	Remuneration 2019/20 £	Remuneration 2018/19 £
Board Members							
Stephen Amos	4 of 6	4 of 4				11,795	13,300
Christopher Cheshire	6 of 6		3 of 3		3 of 3	13,000	13,286
David Edwards	5 of 6		3 of 3	3 of 3		16,124	16,324
David Hunter	6 of 6		3 of 3			13,545	13,000
Curtis Juman	6 of 6	4 of 4		3 of 3		11,462	11,327
Hattie Llewelyn-Davies	5 of 6			3 of 3		20,989	10,326
Katherine Lyons	6 of 6	4 of 4		3 of 3		12,541	12,084
Seetle Patel	3 of 3					3,735	-
Anne Turner	6 of 6	4 of 4			2 of 3	14,233	13,808
Retired							
Wayne Morris	4 of 4		2 of 2		1 of 1	10,223	14,755
Committee Members							
Kim Francis (resident)					3 of 3		
Joan Swift (resident)					3 of 3		
Ruth Mitchell (independent)					1 of 3		
Stephen Cooper (independent)					1 of 3		
Retired							
Sam Thompson					1 of 1		

Corporate Governance

Compliance with the Governance and Financial Viability Standard

The Group maintains the highest possible Governance and Viability ratings of G1 and V1.

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). The ARC receives the Chief Executives annual report on internal controls. ARC takes account of any changes needed to maintain the effectiveness of the management and control process for risk and fraud. ARC met four 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 receive risk management reports tailored to their specific business requirements. During the year the ARC reviewed and updated the risk appetite, the business plan stress testing scenarios (linked to the strategic risks and risk trigger report) and approved a revised Risk Management Policy.

The Moody's 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 outsourced support. The Internal Auditors have direct access to ARC and meet with 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 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 2019-20 Internal Audit annual report identified no material concerns.

Corporate Governance

Fraud Management

There is an established code 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.

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 through this service 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 Management 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 sub-Committee membership is reviewed annually in line with the membership policy terms. Compliance with the chosen code of governance and the Regulatory Framework is reviewed annually. The highest possible regulatory assessment of G1 / V1 has been maintained.

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. The Board has not identified any weaknesses sufficient to cause material misstatement or loss, which require disclosure in the financial statements.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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 have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

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

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

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

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

Approved by the Board and signed on its behalf by:

Simon Hatchman
Executive Director - Resources and Company Secretary

23 July 2020

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 2020 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 2020 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 2019.

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.

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 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.

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.

Independent auditor's report to Paragon Asra Housing Limited

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 52, 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.

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

28 August 2020

Financial Statements

Financial Statements
Statement of Comprehensive Income

	Note	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Turnover	2	149,588	159,549	149,816	159,824
Cost of sales	2	(4,834)	(8,063)	(4,834)	(8,063)
Operating costs	2	(105,524)	(97,571)	(105,504)	(97,546)
Surplus on disposal of fixed assets and investments	6	15,019	8,084	15,019	8,084
Movement in fair value of investment properties	15	392	59	392	59
Operating Surplus	2	54,641	62,058	54,889	62,358
Surplus on sale of other fixed assets		24	7	24	7
Interest receivable	9	312	148	308	147
Interest and financing costs	10	(27,338)	(29,855)	(27,338)	(29,855)
Movement in fair value of financial instruments	27	869	6,359	869	6,359
Gift aid receivable		-	-	1,425	285
Surplus before tax		28,508	38,717	30,177	39,301
Taxation	11	3	68	3	63
Surplus for the year after tax		28,511	38,785	30,180	39,364
Other comprehensive income					
Movement in fair value of hedged financial instruments	27	(12,589)	(6,285)	(12,589)	(6,285)
Adjustment on initial recognition of Social Housing Pension Scheme liability	34	-	(8,602)	-	(8,602)
Actuarial gain / (loss) on defined benefit pension schemes	34	13,016	(5,240)	13,016	(5,240)
Total comprehensive income for the year		28,938	18,658	30,607	19,237

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

Financial Statements

Statement of Financial Position

	Note	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Fixed Assets					
Intangible assets and goodwill	12	(7,327)	(8,422)	(7,327)	(8,422)
Tangible fixed assets – housing properties	13	1,735,718	1,641,590	1,740,897	1,644,979
Tangible fixed assets – other	14	15,949	13,471	15,949	13,471
Investment properties	15	20,762	21,320	20,762	21,320
Investments	16	409	458	409	458
Investment in subsidiaries	17	-	-	13	13
		1,765,511	1,668,417	1,770,703	1,671,819
Current Assets					
Stock	18	55,560	38,296	38,889	33,770
Debtors	19	11,943	7,758	30,197	15,431
Current asset investments	20	13,777	4,497	13,777	4,497
Cash and cash equivalents		46,199	49,936	44,780	48,365
		127,479	100,487	127,643	102,063
Creditors: amounts falling due within one year	21	(62,790)	(55,178)	(62,953)	(56,632)
Net current assets		64,689	45,309	64,690	45,431
Total assets less current liabilities		1,830,200	1,713,726	1,835,393	1,717,250
Creditors: amounts falling due after more than one year	22	(1,281,257)	(1,180,258)	(1,281,257)	(1,180,258)
Provision for liabilities	33	(1,798)	(322)	(1,798)	(322)
Net assets excluding pension liability		547,145	533,146	552,338	536,670
Pension liability	34	(11,807)	(26,746)	(11,807)	(26,746)
Total net assets		535,338	506,400	540,531	509,924
Capital and Reserves					
Called up share capital	32	-	-	-	-
Income and expenditure reserve		335,073	291,462	340,266	294,986
Cash flow hedge reserve		(40,834)	(28,245)	(40,834)	(28,245)
Revaluation reserve		241,021	243,105	241,021	243,105
Restricted reserve		78	78	78	78
		535,338	506,400	540,531	509,924

The financial statements on pages 56 to 99 were approved by the Board on 23 July 2020 and signed on its behalf by:

Hattie Llewelyn-Davies
Chair

Anne Turner
Chair of
Audit and Risk Committee

Simon Hatchman
Executive Director – Resources
and 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 2019	291,462	(28,245)	243,105	78	506,400
Surplus for the year	28,511	-	-	-	28,511
Change in fair value of hedged financial instruments	-	(12,589)	-	-	(12,589)
Actuarial gain / (loss) on defined benefit pension scheme	13,016	-	-	-	13,016
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,181	-	(1,181)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	903	-	(903)	-	-
At 31 March 2020	335,073	(40,834)	241,021	78	535,338

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
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

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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 2019	294,986	(28,245)	243,105	78	509,924
Surplus for the year	30,180	-	-	-	30,180
Change in fair value of hedged financial instruments	-	(12,589)	-	-	(12,589)
Actuarial gain / (loss) on defined benefit pension scheme	13,016	-	-	-	13,016
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,181	-	(1,181)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	903	-	(903)	-	-
At 31 March 2020	340,266	(40,834)	241,021	78	540,531

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
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

Financial Statements
Consolidated Statement of Cash Flow

	Note	2020 £'000	2019 £'000
Net cash generated from operating activities	29	29,089	60,374
Cash flow from investing activities			
Interest received		312	148
Grants received		16,797	778
Purchase and enhancement of housing properties		(125,977)	(56,317)
Purchase of other tangible fixed assets		(3,992)	(4,235)
Proceeds from sale of tangible fixed assets		26,980	37,153
Proceeds from sale of other tangible fixed assets		26	13
		(56,765)	37,914
Cash flow from financing activities			
Taxation paid		(21)	(297)
Interest paid		(30,042)	(30,362)
Other financing cost paid		-	-
Increase in bank deposits with a maturity in excess of 24 hours		(9,215)	(619)
Financing			
Housing loans and bond finance received	30	126,585	59,500
Housing loans repaid	30	(34,279)	(38,836)
Net change in cash and cash equivalents		(3,737)	27,300
Cash and cash equivalents at beginning of the year		49,936	22,636
Cash and cash equivalents at end of year		46,199	49,936

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

Notes to the Financial Statements

1 Accounting Policies

1.1 Basis of Preparation

These financial statements are prepared in accordance with Financial Reporting Standard 102 – the applicable financial reporting standard in the UK and Republic of Ireland (FRS 102) and the Statement of Recommended Practice: Accounting 2019 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

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 presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.35.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and investment property.

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 publicly 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 financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Group prepares a 30 year business plan which is updated and approved on an annual basis. The most recent business plan was approved in June 2019 by the Board. As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of Covid-19 the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst case assessment.

The Board, after reviewing the group and company budgets for 2020/21 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future. In order to reach this conclusion, the Board have considered:

- The property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion of market sale to social homes;

Notes to the Financial Statements

- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;
- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;
- Liquidity – current available cash and unutilised loan facilities of £273m (July 2020) which gives significant headroom for committed spend and other forecast cash flows that arise;
- The group's ability to withstand other adverse scenarios such as higher interest rates and number of void properties.

The Board believes the group and company has sufficient funding in place and expect the group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Group and Association will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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.

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

Notes to the Financial Statements

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.

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.

Notes to the Financial Statements

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

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.

Notes to the Financial Statements

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.

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 2018. 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 2018. 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 2018 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.

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.
- 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 judgement 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 2020	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	135,232	-	(100,478)	-	34,754
Other social housing activities					
First tranche shared ownership sales	8,354	(4,834)	-	-	3,520
Managed services	925	-	(768)	-	157
Charges for support services	22	-	-	-	22
Community investment	-	-	(536)	-	(536)
Development administration	-	-	(1,339)	-	(1,339)
Goodwill amortisation	1,095	-	-	-	1,095
Other	1,664	-	(809)	-	855
Surplus on disposal of housing fixed assets	-	-	-	15,019	15,019
	147,292	(4,834)	(103,930)	15,019	53,547
Non-social housing activities					
Outright property sales	-	-	-	-	-
Market rented	823	-	(427)	392	788
Other non-social housing lettings	856	-	(481)	-	375
Impairment	-	-	-	-	-
Commercial properties	504	-	(630)	-	(126)
Other	113	-	(56)	-	57
	2,296	-	(1,594)	392	1,094
Total	149,588	(4,834)	(105,524)	15,411	54,641

Group 2019	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'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)	59	239
Other non-social housing lettings	865	-	(466)	-	399
Impairment	-	-	-	-	-
Commercial properties	537	-	(303)	-	234
Other	657	-	(156)	-	501
	3,369	(602)	(1,418)	59	1,408
Total	159,549	(8,063)	(97,571)	8,143	62,058

Notes to the Financial Statements

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

Association 2020	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	135,232	-	(100,478)	-	34,754
Other social housing activities					
First tranche shared ownership sales	8,354	(4,834)	-	-	3,520
Managed services	925	-	(768)	-	157
Charges for support services	22	-	-	-	22
Community investment	-	-	(536)	-	(536)
Development administration	-	-	(1,339)	-	(1,339)
Goodwill amortisation	1,095	-	-	-	1,095
Other	1,892	-	(789)	-	1,103
Surplus on disposal of housing fixed assets	-	-	-	15,019	15,019
	147,520	(4,834)	(103,910)	15,019	53,795
Non-social housing activities					
Outright property sales	-	-	-	-	-
Market rented	823	-	(427)	392	788
Other non-social housing lettings	856	-	(481)	-	375
Impairment	-	-	-	-	-
Commercial properties	504	-	(630)	-	(126)
Other	113	-	(56)	-	57
	2,296	-	(1,594)	392	1,094
Total	149,816	(4,834)	(105,504)	15,411	54,889

Association 2019	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'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)	59	239
Other non-social housing lettings	865	-	(466)	-	399
Impairment	-	-	-	-	-
Commercial properties	537	-	(303)	-	234
Other	657	-	(156)	-	501
	3,369	(602)	(1,418)	59	1,408
Total	159,824	(8,063)	(97,546)	8,143	62,358

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	2020 £'000	2019 £'000
Income from social housing lettings activities					
Rents receivable net of identifiable service charges	97,613	13,375	7,188	118,176	121,176
Service charges receivable	4,732	4,687	2,279	11,698	11,347
Amortisation of social housing grant	3,995	817	546	5,358	5,395
	106,340	18,879	10,013	135,232	137,918
Expenditure on social housing lettings activities					
Services	8,359	3,875	1,346	13,580	12,965
Management	29,034	1,360	394	30,788	29,731
Routine Maintenance	15,771	2,352	215	18,338	17,435
Planned maintenance	8,724	2,529	52	11,305	11,607
Major repairs	1,832	94	-	1,926	-
Rent losses from bad debts	1,349	55	-	1,404	447
Depreciation of housing properties	17,129	1,907	-	19,036	18,644
Impairment	-	-	-	-	-
Write off of components	3,852	159	-	4,011	1,157
Other costs	90	-	-	90	64
Total expenditure on social housing lettings activities	86,140	12,331	2,007	100,478	92,050
Operating surplus from social housing lettings activities	20,200	6,548	8,006	34,754	45,868
Rent losses from voids	1,448	1,198	76	2,722	1,414

Notes to the Financial Statements

4 Units of stock

Group and Association	2020 Number	2019 Number
Social Housing: Owned and managed		
General needs: Social rent	12,854	13,131
General Needs: Affordable rent	2,266	2,203
Intermediate rent	395	290
Supported housing: Social rent	111	69
Supported housing: Affordable rent	188	163
Shared ownership	1,463	1,425
Housing for older people	2,263	2,290
Temporary housing	29	41
	19,569	19,612
Social Housing: Managed not owned		
Leaseholder properties	1,481	1,422
Managed on behalf of others	488	832
	1,969	2,254
Total social housing in management	21,538	21,866
Non-social housing: Owned and managed		
Student accommodation	20	20
Market rent	119	110
Health worker accommodation	224	224
	363	354
Total housing in management	21,901	22,220
Social Housing: Owned and managed by others		
General needs: Social rent	171	167
General Needs: Affordable rent	29	64
Intermediate rent	35	35
Supported housing	596	562
	831	828
Non-social housing: Owned and managed by others	1	1
Total housing managed by others	832	829
Total housing	22,733	23,049
Other		
Homes under construction	832	535
Garages	2,050	2,063
Commercial	10	10
Held for re-development	74	-
Reconciliation of housing stock movements		
Total housing stock at the start of the year	23,049	23,495
New development	249	327
Voluntary Right to Buy and other sales	(107)	(709)
Reduction in housing managed for others	(344)	-
Stock taken out of management for re-development	(74)	-
Other stock movements	(40)	(64)
Total housing stock at the end of the year	22,733	23,049

Notes to the Financial Statements

5 Operating surplus on ordinary activities before taxation

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Operating surplus on ordinary activities before taxation is after charging/(crediting):				
Depreciation of housing properties (note 3)	19,036	18,644	19,036	18,644
Write off of replaced components (note 3)	4,011	1,157	4,011	1,157
Depreciation of other tangible fixed assets (note 15)	1,513	929	1,513	929
Amortisation of social housing grant (note 2 & 3)	(5,358)	(5,395)	(5,358)	(5,395)
Operating lease payments	333	314	333	314
Auditor's remuneration:				
In their capacity as auditors	69	69	52	52
In respect of other services	9	9	9	9

6 Surplus on disposal of housing fixed assets

Group and Association	Investment property sales £'000	Shared ownership subsequent tranches £'000	Other sales £'000	Voluntary Right to Buy sales £'000	Total 2020 £'000	Total 2019 £'000
Proceeds of sale	493	7,143	6,157	13,187	26,980	37,153
Less: cost of sale	(766)	(4,277)	(2,064)	(4,205)	(11,312)	(28,872)
Grant recycled	-	(118)	(149)	(382)	(649)	(197)
Surplus / (deficit)	(273)	2,748	3,944	8,600	15,019	8,084

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)	**2020** **£'000**	**2019** **£'000**
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind):		
Executive Directors	909	1,195
Executive Directors: pension contributions	115	95
Non-Executive directors	127	131
Compensation payable to directors in respect of loss of office	52	129
Total emoluments	1,203	1,550
Emoluments paid to the highest paid Director (excluding pension contributions, but including benefits in kind)	228	227

The highest paid director refers to Dilip Kavi, Chief Executive. The amount includes basic salary of £209,000 plus a car allowance. (2019: £201,000 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)	**2020** **number**	**2019** **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	11	8
£70,001 to £80,000	10	14
£80,001 to £90,000	2	4
£90,001 to £100,000	4	-
£100,001 to £110,000	5	-
£110,001 to £120,000	-	-
£120,001 to £130,000	-	-
£130,001 to £140,000	-	1
£140,001 to £150,000	1	1
£150,001 to £160,000	-	-
£160,001 to £170,000	-	-
£170,001 to £180,000	-	2
£180,001 to £190,000	2	-
£190,001 t0 £200,000	-	-
£200,001 to £210,000	1	-
£230,001 to £240,000	-	1
£240,001 to £250,000	-	1
£250,001 to £260,000	1	-
£310,001 to £320,000	-	1
Total	37	33
Included above due to redundancy	1	2

Notes to the Financial Statements

8 Employee information

Group and Association	2020 £'000	2019 £'000
Staff costs including directors:		
Wages and salaries	20,477	18,143
Social security costs	2,018	1,835
Costs of defined contribution scheme	1,449	1,305
Pension deficit reduction charge	2,642	2,211
	26,586	23,494
	Number	**Number**
Average number of full-time equivalent persons (including the directors) employed during the year:	598	549

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 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Interest receivable and similar income	312	148	308	147

10 Interest payable and financing costs

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Housing loans interest	17,624	17,070	17,624	17,070
Bond interest	8,561	8,210	-	-
Amortisation of debt issue fees	342	133	342	133
Pension unwinding cost	32	28	32	28
Interest rate swap obligation	4,284	4,526	4,284	4,526
Amortisation of inception element of swaps	131	2,363	131	2,363
Net interest on net defined benefit liability	591	563	591	563
Other loans from Group undertakings	-	-	8,561	8,210
RCGF interest	58	51	58	51
DPF interest	15	5	15	5
	31,638	32,949	31,638	32,949
Less: Capitalised	(4,300)	(3,094)	(4,300)	(3,094)
	27,338	29,855	27,338	29,855
Non-cash accounting transactions under FRS102 included above	916	2,477	916	2,477

Interest rates charged on housing loans varied between 0.95% and 10.62% including lending margins.

Interest is capitalised on properties under construction using the weighted average interest rate during the year for the overall debt portfolio (and after the effect of interest rate derivatives) of 3.9% (2019: 4.2%)

Notes to the Financial Statements

11 Taxation

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Analysis of charge in year				
Current tax:				
UK corporation tax on surplus for year	(3)	(68)	(3)	(63)
Total current tax (see below)	(3)	(68)	(3)	(63)
Total tax charge	(3)	(68)	(3)	(63)
Factors affecting the tax charge for the year				
Surplus before taxation	28,508	38,717	30,177	39,301
Tax charge at 19% (2019: 19%)	5,417	7,356	5,734	7,467
Exempt charitable income	(5,407)	(7,328)	(5,724)	(7,439)
Tax refunds	(13)	(96)	(13)	(91)
	(3)	(68)	(3)	(63)

12 Intangible assets and goodwill

Group and Association	Negative goodwill £'000
At 1 April 2019	8,422
Amortisation of goodwill	(630)
Disposals	(465)
At 31 March 2020	7,327

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 2019	1,532,508	63,839	149,699	36,912	1,782,958
Reclassification	17,606	(17,957)	437	(383)	(297)
Additions	-	72,017	-	34,527	106,544
Transfers and adjustments	303	3,022	(193)	(6)	3,126
Disposals	(6,060)	-	(4,420)	-	(10,480)
Component replacement	17,266	-	-	-	17,266
Components write off	(6,880)	-	-	-	(6,880)
Schemes completed	19,377	(19,377)	36,105	(36,105)	-
At 31 March 2020	1,574,120	101,544	181,628	34,945	1,892,237
Depreciation					
At 1 April 2019	133,069	-	3,616	-	136,685
Charge for the year	19,036	-	-	-	19,036
Transfers	44	-	-	-	44
Eliminated on disposal	(887)	-	(174)	-	(1,061)
Components write off	(2,868)	-	-	-	(2,868)
At 31 March 2020	148,394	-	3,442	-	151,836
Impairment					
At 1 April 2019	2,771	963	-	949	4,683
Charge for the year	-	-	-	-	-
At 31 March 2020	2,771	963	-	949	4,683
Net book value					
At 31 March 2020	1,422,955	100,581	178,186	33,996	1,735,718
At 31 March 2019	1,396,668	62,876	146,083	35,963	1,641,590

Notes to the Financial Statements

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 2019	1,533,445	64,547	149,699	37,431	1,785,122
Reclassification	17,606	(17,957)	437	(383)	(297)
Additions	-	73,141	-	35,193	108,334
Transfers and adjustments	303	3,022	(193)	(6)	3,126
Disposals	(6,060)	-	(4,420)	-	(10,480)
Component replacement	17,266	-	-	-	17,266
Components write off	(6,880)	-	-	-	(6,880)
Schemes completed	19,377	(19,377)	36,105	(36,105)	-
At 31 March 2020	1,575,057	103,376	181,628	36,130	1,896,191
Depreciation					
At 1 April 2019	131,844	-	3,616	-	135,460
Charge for the year	19,036	-	-	-	19,036
Transfer to current assets	44	-	-	-	44
Eliminated on disposal	(887)	-	(174)	-	(1,061)
Components write off	(2,868)	-	-	-	(2,868)
At 31 March 2020	147,169	-	3,442	-	150,611
Impairment					
At 1 April 2019	2,771	963	-	949	4,683
Charge for the year	-	-	-	-	-
At 31 March 2020	2,771	963	-	949	4,683-
Net book value					
At 31 March 2020	1,425,117	102,413	178,186	35,181	1,740,897
At 31 March 2019	1,398,830	63,584	146,083	36,482	1,644,979

	Group 2020 £'000	Association 2019 £'000	Group 2020 £'000	Association 2019 £'000
The net book value of housing properties may be further analysed:				
Freehold	1,594,730	1,508,903	1,599,909	1,462,890
Long leaseholds	139,616	131,232	139,616	168,966
Short leaseholds	1,371	1,456	1,371	5,020

Notes to the Financial Statements

Tangible fixed assets: Housing properties (continued)

Group and Association	2020 £'000	2019 £'000
Work to properties:		
Improvements to existing properties capitalised	17,266	13,704
Planned maintenance and major works expenditure included in the Statement of Comprehensive Income	13,231	12,040

Interest capitalisation:		
Interest capitalised in the year	4,300	3,094
Cumulative interest capitalised	29,800	25,500
Rate used for capitalisation	3.92%	4.18%

15,714 properties (2019:16,007) have been pledged to secure borrowings of the Group. The Group is not permitted 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 2018. 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 2020. (2019: Nil)

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 2019	10,310	674	2,472	5,535	402	19,393
Additions	191	-	2,160	1,642	-	3,993
Disposals	-	-	-	(961)	(118)	(1,079)
At 31 March 2020	10,501	674	4,632	6,216	284	22,307
Depreciation						
At 1 April 2019	1,427	370	305	3,465	355	5,922
Charge for the year	154	41	369	926	23	1,513
Eliminated on disposal	-	-	-	(961)	(116)	(1,077)
At 31 March 2020	1,581	411	674	3,430	262	6,358
Net book value						
At 31 March 2020	8,920	263	3,958	2,786	22	15,949
At 31 March 2019	8,883	304	2,167	2,070	47	13,471

Notes to the Financial Statements

15 Investment properties

Group and Association	Market Rent £'000	Commercial £'000	Total £'000
At 1 April 2019	18,978	2,342	21,320
Transfer to housing properties	(1,298)	(167)	(1,465)
Additions	232	-	232
Under construction	-	283	283
Revaluations	392	-	392
At 31 March 2020	18,304	2,458	20,762

Other commercial properties were revalued at 31 March 2020 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 2020 based on a desktop valuation using data produced by the Office of National Statistics.

16 Investments

Group and Association	2020 £'000	2019 £'000
Other loans	409	458
	409	458

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	2020 £'000	2019 £'000
Cost at 1 April and 31 March	13	13
	13	13

Notes to the Financial Statements

18 Stock

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Completed				
Housing stock for sale	-	5,117	-	591
Shared ownership completed units	9,210	3,525	9,210	3,525
	9,210	8,642	9,210	4,116
Under construction				
Shared ownership properties	29,565	28,780	29,565	28,780
Commercial properties	114	874	114	874
Land held for development	16,671	-	-	-
	46,350	29,654	29,679	29,654
Total	55,560	38,296	38,889	33,770

19 Debtors

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Due within one year:				
Rent and service charge arrears	9,793	7,877	9,793	7,877
Less: provision for bad debts	(5,210)	(4,280)	(5,210)	(4,280)
	4,583	3,597	4,583	3,597
Other debtors	1,179	1,284	1,094	1,135
Prepayments and accrued income	6,181	2,877	4,810	2,769
Amounts owed by Group undertakings	-	-	19,710	7,930
	11,943	7,758	30,197	15,431

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

20 Current asset investments

Group and Association	2020 £'000	2019 £'000
Collateral	13,777	4,497

At the request of the counterparties, cash collateral of £13,777k (2019: £4,497k) 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 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Loans and borrowings (note 26)	20,749	8,619	20,749	8,619
Trade creditors	806	2,221	793	2,130
Corporation tax	10	28	10	28
Taxation and social security	530	494	530	494
Accruals and deferred income	24,154	27,359	21,023	25,603
Recycled capital grant fund (note 24)	3,232	3,459	3,232	3,459
Disposal proceeds fund (note 25)	2,110	1,677	2,110	1,677
Pension deficit contributions	91	89	91	89
Deferred capital grant (note 23)	5,364	5,400	5,364	5,400
Amounts owed to Group undertakings	-	-	3,307	3,301
Other creditors	295	382	295	382
Rent and service charges received in advance	4,976	5,450	4,976	5,450
Interest rate swaps (note 28)	473	-	473	-
	62,790	55,178	62,953	56,632

The average time taken to pay trade creditors is 38 days (2019: 39 days).

22 Creditors: amounts falling due after more than one year

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Loans and borrowings (note 26)	774,764	700,448	774,764	700,448
Loan premium	28	44	28	44
Bond premium	3,510	(35)	3,510	(35)
Pension deficit contributions (note 34)	678	724	678	724
Recycled capital grant fund (note 24)	6,626	4,378	6,626	4,378
Disposal proceeds fund (note 25)	-	486	-	486
Deferred capital grant (note 23)	424,222	414,648	424,222	414,648
Sinking fund balances	5,433	5,098	5,433	5,098
Other creditors	474	452	474	452
Derivative financial instruments (note 28)	65,522	54,015	65,522	54,015
	1,281,257	1,180,258	1,281,257	1,180,258

Notes to the Financial Statements

23 Deferred Capital Grant

Group and Association	2020 £'000	2019 £'000
At 1 April 2019	420,048	443,059
Grants received during the year	16,149	4,178
Grants recycled to the RCGF (note 24)	(2,973)	(934)
Grants utilised	1,726	819
Grant transferred to other registered providers	-	(21,674)
Released to income during the year	(5,364)	(5,400)
At 31 March 2020	429,586	420,048
Social Housing Grant under UK GAAP		
At 1 April 2019	672,315	690,745
Received net of recycling	13,176	3,244
Eliminated on disposal	-	(21,674)
At 31 March 2020	685,491	672,315
Amount recognised in the Statement of Comprehensive Income	80,074	74,710

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	2020 £'000	2019 £'000
At 1 April 2019	7,837	10,166
Grants utilised	-	(819)
Grants recycled	3,621	1,208
Interest accrued	58	51
Allocated to new build developments	(1,658)	(2,769)
At 31 March 2020	9,858	7,837
Grant due for repayment	3,232	3,459

25 Disposal Proceeds Fund

Group and Association	2020 £'000	2019 £'000
At 1 April 2019	2,163	2,158
Interest accrued	15	5
Grant utilised	(68)	-
At 31 March 2020	2,110	2,163
Grant due for repayment	2,110	1,677

Notes to the Financial Statements

26 Loans and borrowings

Maturity of debt: **Group and Association**	**2020** **£'000**	**2019** **£'000**
Bank Loans		
Between one year and two years	20,045	21,647
Between two years and five years	200,845	161,507
In more than five years	272,122	256,902
Total (note 22)	493,012	440,056
In one year or less, or on demand (note 21)	19,638	7,558
	512,650	447,614
Other loans		
Between one year and two years	3,996	1,036
Between two years and five years	24,444	21,046
In more than five years	8,703	16,428
Total (note 22)	37,143	38,510
In one year or less, or on demand (note 21)	1,111	1,061
	38,254	39,571
Bonds		
In more than five years	250,000	225,000
Total (note 22)	250,000	225,000
Total loans and borrowings	800,904	712,185
Loan issue costs	(5,363)	(3,073)
Total loans and borrowings	795,541	709,112

Net debt at 31 March 2020 was £749.3m (2019: £659.2m) after adjusting for loan premium of £28k (2019: £44k), bond discount of £3,510k credit (2019: £35k debit) and deducting liquid asset balances held of £46.1m (2019: £49.9m).

The Group has committed borrowing facilities of £1,136.5m (2019: £885.2m) primarily raised through the debt and capital markets. As at 31 March 2020, £800.9m (2019: £712.2m) was drawn.

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

At 31 March 2020 undrawn committed loan facilities were £335.6m (2019: £173.0m). Of the drawn loan facilities, £615.9m (77 per cent) (2019: £543.0m, 76 per cent) was borrowed at fixed rates including the effect of interest rate swaps as detailed in note 28.

The weighted average cost of borrowings during the year was 3.9% (2019: 4.2%).

Notes to the Financial Statements

27 Financial Instruments

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

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Financial Assets				
Measured at fair value through the Statement of Comprehensive Income:				
- Cash and cash equivalents	46,199	49,936	44,780	48,365
Measured at discounted amount receivable:				
-Fixed asset investments (note 16)	409	458	409	458
Measured at undiscounted amount receivable:				
-Rent arrears and other debtors (note 19)	11,943	7,758	30,197	15,431
Total	58,551	58,152	75,386	64,254

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Financial liabilities				
Measured at fair value and designated in a hedging relationship (note 28)	65,522	54,015	65,522	54,015
Financial liabilities measured at fair value at amortised cost	1,225,099	1,129,108	1,225,099	1,129,108
Financial liabilities measured at fair value through the Statement of Comprehensive Income	52,889	51,789	53,049	53,243
Total	1,343,510	1,234,912	1,343,670	1,236,366

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

Financial Instruments (continued)

Liquidity risk

Liquidity risk is managed by the treasury team in accordance with the Board approved treasury management policy. The policy requires that sufficient cash balances be maintained to cover the next two months' net cash requirement and sufficient liquidity to cover the next 18 months' net liquidity requirement. During the financial year cash balances sufficient to cover three months of requirement were maintained, initially to address potential disruption from Brexit and more latterly from Covid-19.

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 2020 67% (2019: 70%) 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. During the year an additional interest rate swap transaction was entered into to maintain the desired level of compliance with policy targets.

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:

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Interest income and expense				
Total interest income for financial assets at amortised cost	(312)	(148)	(308)	147
Total interest expense for financial liabilities at amortised cost	(27,338)	(29,855)	(27,338)	(29,855)
Fair value gains and losses				
On financial assets (including listed investments) measured at fair value:				
Gain on fair value of financial instruments	869	6,359	869	6,359
Loss on fair value of hedged financial instruments	(12,589)	(6,285)	(12,589)	(6,285)

Notes to the Financial Statements

28 Derivative Financial Instruments

Group and Association	Current 2020 £'000	Current 2019 £'000	Non Current 2020 £'000	Non Current 2019 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Liabilities				
Interest rate swaps	210	395	40,721	25,207
Non-hedged instruments carried at fair value				
Liabilities				
Interest rate swaps	473	-	24,591	28,413
	683	395	65,312	53,620

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	
	2020 %	2019 %	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Outstanding receive floating rate pay fixed contracts								
0 - 1 years	0.73	-	100,000	-	210	-	-	-
1 - 5 years	-	1.41	-	50,000	-	395	-	-
Over 5 years	4.50	4.50	110,000	110,000	40,721	25,207	24,591	28,413
At 31 March	2.70	3.45	210,000	160,000	40,931	25,602	24,591	28,413

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.

The above 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

Derivative Financial Instruments (continued)

Losses of £12,589k (2019: loss £6,285k) were recognised in other comprehensive income representing the effective component of the swap. The ineffective components of £869k gain (2019: gain £6,359k) 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 2020 the Group had nine (2019: nine) cash flow hedges and one further interest rate swap (2019: none) callable by the counterparty that does not qualify for hedge accounting. 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:

	2020	2019
	£'000	£'000
Lloyds £50m 1.413% 12 October 2020	210	394
Santander £10m 4.84% 25 June 2026	2,695	2,647
Lloyds £20m 4.48% 26 February 2032	9,114	7,891
Lloyds £10m 4.70% 5 October 2032	5,054	4,385
Lloyds £20m 4.79% 4 January 2036	12,804	10,777
Lloyds £15m 4.39% 5 November 2037	9,640	7,811
Lloyds £15m 4.44% 13 May 2038	6,536	8,111
Santander £10m 4.32% 4 July 2038	10,028	5,241
RBS £10m 3.90% 4 October 2050	9,441	6,758
	65,522	54,015

The following swap contract does not qualify for hedge accounting

	2020	2019
	£'000	£'000
RBS £50m 0.037% 8 August 2029	473	-

Notes to the Financial Statements

29 Cash flow from operating activities

	2020 £'000	2019 £'000
Surplus for the financial year	28,511	38,785
Adjustments for non cash items:		
Net fair value gain recognised in the SoCI	(1,262)	(6,419)
Depreciation charge on other fixed assets	1,512	928
Depreciation charge on housing properties	23,047	19,801
Add back cost of sale movement - sale of housing	6,784	8,541
Amortisation of grant on housing properties	(5,364)	(5,400)
Amortisation negative goodwill	(1,095)	(4,823)
Increase / (decrease) in bad debt provision	930	(265)
Adjustment for pension funding	(2,589)	(1,477)
(Increase) / decrease in debtors	(5,115)	5,103
(Decrease) in creditors	(9,478)	(22,977)
(Increase) / decrease in stock	(17,264)	7,215
Other provisions	1,476	(186)
Adjustment for investing or financing activities		
(Surplus) on sale of tangible fixed assets	(15,019)	(8,084)
(Surplus) on sale of other fixed assets	(24)	(7)
Interest payable	27,338	29,855
Interest receivable	(312)	(148)
Loan arrangement fees	(2,984)	-
Taxation	(3)	(68)
Net cash generated from operating activities	29,089	60,374

30 Reconciliation of net cash flow to movement in net debt

	2020 £'000	2019 £'000
Decrease / (increase) in cash in the year	3,737	(27,300)
Other changes	636	493
Loans and bond finance received	126,585	59,500
Loans repaid	(34,279)	(38,836)
Loan arrangement fees	(2,982)	(734)
Change in net debt	93,697	(6,877)
Net debt at 1 April	659,185	666,062
Net debt at 31 March	752,882	659,185

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 short term investments	(49,936)	3,737	-	(46,199)
Housing loans due within one year	8,619	(8,619)	20,749	20,749
Housing loans due after one year	478,566	72,340	(20,749)	530,157
Bond finance	225,000	25,000	-	250,000
Loan and bond arrangement fees	(3,073)	(2,982)	692	(5,363)
Loan premium	44	-	(16)	28
Bond discount	(35)	3,585	(40)	3,510
	659,185	93,061	636	752,882

32 Called up share capital

Association	2020 Number	2019 Number
Allotted, issued and fully paid:		
At 1 April	15	15
Cancelled during the year	(1)	-
At 31 March	14	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	Fire safety works £'000	Onerous contract £'000	Total £'000
Balance at 1 April 2019	-	322	322
Provisions during the year	1,476	-	1,476
Balance at 31 March 2020	1,476	322	1,798

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	**2020**	**2019**
Group and Association	**£'000**	**£'000**
Creditors due within one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	91	89
Creditors due after more than one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	678	724
Pension Liability		
Defined Benefit – Surrey County Council	1,726	1,240
Defined Benefit – Social Housing Pension Scheme	10,081	25,506
	11,807	26,746
Statement of Comprehensive Income		
Defined Contribution - Social Housing Pension Scheme Contributions	1,449	1,298
Finance Costs:		
Surrey County Council - Net Interest Cost	29	28
Social Housing Pension Scheme - Net Interest Cost	562	535
Surrey County Council (Elmbridge Borough Council) - Finance Cost	32	28
	623	591
Operating Costs:		
Social Housing Pension Scheme - Expenses	70	73
Surrey County Council (Elmbridge Borough Council) - Operating Cost	15	26
	85	99
Other Comprehensive Income		
Surrey County Council - Actuarial (loss)	(517)	(165)
Social Housing Pension Scheme – Actuarial gain / (loss)	13,533	(5,075)
	13,016	(5,240)
Adjustment on initial recognition of Social Housing Pension Scheme	-	(8,602)
	13,016	(13,842)

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	2020 £'000	2019 £'000
Contributions	1,449	1,298

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 £91k (2019: £89k) 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	**2020**	**2019**
Group and Association	**£'000**	**£'000**
At 1 April	813	848
Contributions paid	(91)	(89)
Operating charge	15	26
Finance charge	32	28
At 31 March	769	813
Net Present Value of creditor		
Due within one year	91	89
Due after more than one year	678	724
	769	813

Assumptions	2020 % per annum	2019 % per annum
Rate of discount	3.69	3.69

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 2020. PA Housing's contribution to the LGPS was £60,000 (2019: £60,000).

	2020 £'000	2019 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	14,487	13,726
Interest cost on defined benefit obligations	344	352
Changes in financial assumptions	(1,069)	740
Changes in demographic assumptions	(313)	-
Other experience	(97)	-
Benefits paid	(397)	(331)
At the end of the year	12,955	14,487
Reconciliation of fair value of plan assets		
At the beginning of the year	13,247	12,619
Interest income on plan assets	315	324
Return on assets excluding amounts included in net interest	(1,996)	575
Employer contributions	60	60
Benefits paid	(397)	(331)
At the end of the year	11,229	13,247
Composition of plan assets		
Equities	8,309	9,140
Bonds	1,909	2,782
Property	786	927
Cash	225	398
Total plan assets	11,229	13,247
Equities	74%	69%
Bonds	17%	21%
Property	7%	7%
Cash	2%	3%

Principal actuarial assumptions used at the reporting date	2020 % pa	2019 % pa
Pension increase rate	1.9%	2.5%
Salary increase rate	2.8%	2.8%
Discount rate	2.3%	2.4%

Mortality	Males (years)	Females (years)
Current Pensioners	22.1	24.3
Future Pensioners*	22.9	25.7

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

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

	2020 £'000	2019 £'000
Amounts recognised in the Statement of Financial Position		
Fair value of plan assets	11,229	13,247
Present value of plan liabilities	(12,955)	(14,487)
Net pension scheme liability	(1,726)	(1,240)
Amounts recognised in the Statement of Comprehensive Income		
Interest cost on defined benefit obligations	344	352
Interest income on plan assets	(315)	(324)
	29	28
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	(1,996)	575
Changes in assumptions underlying the present value of the scheme liabilities	1,479	(740)
	(517)	(165)

No explicit allowance has been made in the 31 March accounting reports for the potential impact of the McCloud judgement or GMP equalisation. The directors have reviewed the impact and no further adjustments have been made to the present value of obligations as the effect is not considered material.

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

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

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

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

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

For financial years ending on or before 28 February 2019, it was not 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, a valuation of the scheme was carried out with an effective date of 30 September 2018. The liability figures from this valuation were rolled forward for accounting year-ends from 31 March 2019 to 29 February 2020 inclusive. The liabilities are compared, at the relevant accounting date, with the company's fair share of the Scheme's total assets to calculate the company's net deficit or surplus.

Similarly, an actuarial valuation of the scheme was carried out as at 30 September 2019 to inform the liabilities for accounting year ends from 31 March 2020 to 28 February 2021 inclusive.

Notes to the Financial Statements

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

	2020 £'000	2019 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	98,729	93,365
Expenses	70	74
Interest cost on defined benefit obligations	2,261	2,348
Actuarial (gains) due to scheme experience	(448)	(230)
Actuarial (gains) / losses due to change in demographic assumptions	(867)	279
Actuarial (gains) / losses due to changes in financial assumptions	(11,368)	6,131
Benefits paid and expenses	(2,214)	(3,238)
At the end of the year	86,163	98,729
Reconciliation of fair value of plan assets		
At the beginning of the year	73,223	71,414
Interest income on plan assets	1,699	1,813
Experience on plan assets excluding amounts included in net interest	850	1,105
Employer contributions	2,524	2,129
Benefits paid	(2,214)	(3,238)
At the end of the year	76,082	73,223

Composition of plan assets	2020 £'000	2019 £'000
Absolute Return	3,967	6,336
Alternative Risk Premia	5,320	4,223
Corporate Bond Fund	4,338	3,416
Credit Relative Value	2,087	1,340
Distressed Opportunities	1,465	1,331
Emerging Markets Debt	2,304	2,526
Fund of Hedge Funds	44	330
Global Equity	11,128	12,321
Infrastructure	5,662	3,840
Insurance-Linked Securities	2,337	2,100
Liability Driven Investment	25,251	26,778
Liquid credit	31	-
Long Lease Property	1,316	1,077
Net Current Assets	326	141
Opportunistic illiquid credit	1,841	-
Private Debt	1,533	983
Property	1,676	1,648
Risk Sharing	2,569	2,211
Secured Income	2,887	2,622
Total plan assets	76,082	73,223

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

Notes to the Financial Statements

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

Principal actuarial assumptions used at the reporting date	2020 % pa	2019 % pa
Discount rate	2.38	2.31
Inflation (RPI)	2.62	3.29
Inflation (CPI)	1.62	2.29
Salary growth	2.62	3.29
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 2020	21.5	23.3
Retiring in 2040	22.9	24.5

	2020 £'000	2019 £'000
Present values of defined benefit obligation, fair value of assets and defined benefit liability		
Fair value of plan assets	76,082	73,223
Present value of plan liabilities	(86,163)	(98,729)
Net pension scheme liability	(10,081)	(25,506)
Amounts recognised in the Statement of Comprehensive Income		
Net interest expense	562	535
Expenses	70	74
	632	609
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income		
Experience on plan assets excluding amounts included in net interest	850	1,105
Experience on the plan liabilities	448	230
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – gain / (loss)	867	(279)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – gain / (loss)	11,368	(6,131)
	13,533	(5,075)

Notes to the Financial Statements

35 Operating lease obligations

At 31 March 2020 the Group was committed to non-cancellable operating lease minimum future payments for each of the following periods:

	Land and buildings	
Group and Association	**2020 £'000**	**2019 £'000**
Operating leases which expire:		
Less than 1 year	336	331
Within 1 to 5 years	1,003	1,161
After 5 years	1,508	1,678
	2,847	3,170

36 Capital Commitments

	Group and Association 2020 £'000	**Group and Association 2019 £'000**
Expenditure contracted for but not provided in the financial statements	79,837	57,171
Expenditure authorised by Board but not contracted for	144,449	81,426
	224,286	138,597
Commitments to be financed with:		
Cash reserves	59,657	61,649
Bank loans	164,629	76,948
	224,286	138,597

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 £429.6m (2019: £420.0m).

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 2020 are £80.1m (2019: £74.7m)

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. There have been no transactions between PA Housing and key management personnel (including their related parties) other than remuneration disclosed in note 7 and 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 2020 are as follows:

	2020				2019			
	ACSL	**PDCSL**	**PTP**	**PAH**	**ACSL**	**PDCSL**	**PTP**	**PAH**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
ACSL recharges	-	-	-	31,962	-	-	-	5,604
PAH development recharge	-	79	-		-	96	-	-
PAH finance recharge	150	-	-		179	-	-	-
PDCSL recharges	-	-	-	7,838	-	-	-	5,951
PTP interest recharge	-	-	-	8,561	-	-	-	8,210
PTP cost recharge	-	-	-	17	-	-	-	17
Debtor/(Creditor) balances	(10,973)	(5,566)	(2)	16,361	1,169	(5,768)	-	4,599

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