Financial Statements
for the year ended 31 March 2021

Paragon Asra
PA Housing

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

2020/21 *Highlights*

Turnover
£157m

Housing assets
£1.83bn

Liquidity
£262m

26%
Operating margin including asset sales

Overall arrears:
4.6%

Repair and maintenance:
£46m

Drawn debt
£882m

23,020
Homes owned and/ or managed

Emergency repairs completed on time:
99%

Social Housing Cost per Unit
£4,758

300 new homes built

Reinvestment
6.6%

Gearing
46%

Investment into our Communities
£727,000

Void loss:
2.8%

Contents

Board members, Executive and Advisors

Group Chair
Hattie Llewelyn–Davies OBE (resigned 23/05/2021)
Anne Turner (appointed 26/05/21)

Other Members
Stephen Amos
Andrew Carrington (appointed 01/10/2020)
Chris Cheshire (resigned 24/05/21)
David Edwards (resigned 30/09/2020)
Kim Francis (appointed 01/10/2020)
Kathleen Harris Leighton (appointed 01/10/2020)
David Hunter (resigned 30/09/2020)
Rahul Jaitly (appointed 01/10/2020)
Curtis Juman
Dilip Kavi
Katherine Lyons
Seetle Patel (designate Board member)

Company Secretary
John Stemp (appointed 01/10/2020)
Simon Hatchman (resigned 30/09/2020)

Executive Team
Dilip Kavi - Chief Executive
Simon Hatchman - Executive Director – Resources
Chris Whelan - Executive Director of Business Development and Sales
Ian Watts - Executive Director of Customer Services

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3rd Floor
Pentagon House
52-54 Southwark Street
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Auditor
KPMG LLP
1 Snow Hill
Snow Hill Queensway
Birmingham
B4 6GH

Solicitor
Devonshires Solicitors LLP
30 Finsbury Circus
London
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Chair and Chief Executive Statements

Chair's statement

The only place to start this year is by saying a huge thank you to everyone associated with PA Housing for their efforts over an unprecedented 12 months of challenges. This includes our residents, our staff, and our partners – we have pulled together in extremely troubling and uncertain times to keep each other safe and to keep our services up and running as best we can.

Due to the location of our homes, PA has been disrupted more than most other housing associations by the various phases of lockdown. This has made it difficult to maintain normal service levels but we have worked hard to support our residents who, in turn, have shown great patience and understanding about the situation we are all in. I hope that we are now moving back towards better times – there is much to catch up on, but we are equipped to recover the lost ground as quickly as the lifting of restrictions will allow.

Despite all the challenges the pandemic has brought, we have been working to ensure that our future ambitions continue to be fully defined and realised.

During the year we updated our Corporate Plan, which sets out our strategic intentions for the next three years. This reaffirmed our commitment to brilliant customer services, building new social homes, and ensuring that our underlying business infrastructure remains robust. It also recognised some emerging themes which will increasingly shape our ways of working. These include environmental sustainability and playing our part in reducing carbon emissions, progressing our work at the forefront of equality, diversity and inclusion, and ensuring that our community investment programmes continue to target support and opportunity to people in our communities who most need our help.

We have also worked to make sure that our governance arrangements remain robust. The Board commissioned an independent expert to assess our status; this confirmed that standards are high but we have implemented some further best practice recommendations. During the year we recruited four new Board members from diverse backgrounds, including two PA residents, and the Board colleagues continue to discharge its duties with passion and energy.

As a social housing landlord which owns and manages more than 23,000 homes it's essential that we remain fully focussed on the quality of our assets. Over the past couple of years we have decided to increase our investment in existing homes, particularly in line with the evolving building safety agenda. Keeping our residents safe and secure is paramount and something we will never compromise on. We do have a small number of blocks of flats which require retrospective fire safety improvements in the wake of the Grenfell tragedy – we have costed for this within our financial plans and we will complete the work as quickly as we can. In the meantime, we have enhanced the safety arrangements on these few estates.

On the new build side we are making good progress with our target to build 6,000 new social homes by 2030, and we have a strong and diverse pipeline of sites. This includes an increasing presence back in the East Midlands, and also a key strategic regeneration scheme in partnership with the London Borough of Ealing which will exemplify our approach to sustainable housing. We continue to manage a healthy programme of shared ownership sales and although there was some slowdown in transactions during the early part of the pandemic, demand for our homes remains buoyant and we have again achieved excellent results on our sales in the year.

All this investment and activity of course requires a robust financial framework. Our future financial plans fully accommodate our organic growth ambitions alongside existing homes commitments and estimated net carbon neutral spend requirements. These plans evidence ongoing ability to achieve strong metrics, with resilience to withstand adverse shocks. In the short term, the Board has recognised that the volatility brought about by Covid-19 and, to an extent, building safety has made it more challenging to work to a stable plan within individual financial years. During this period we are therefore taking a medium term view – closely scrutinising current financial performance while at the same time seeking assurance that our broader financial planning remains robust.

A key component of this financial planning is to ensure that we have the funds in place to deliver our growth ambitions. Shortly after the close of the financial year, we were very pleased to complete our £400m bond (of which £100m was retained for future issue) at a competitive price which has created further financial capacity. This was a successful transaction backed up by our new Sustainable Finance Framework which sets out our commitment to sustainable investment. We appreciate the support of all our bond investors and bank lenders and we will work hard to make sure their expectations are met.

During the year David Edwards and David Hunter left the Board having served their full terms of office. Hattie Llewelyn-Davies, our previous Chair, and Chris Cheshire resigned as Board members shortly after the end of the financial year. All four of them approached their work at PA with tremendous energy and dedication, and I thank them for all they achieved during their time on the Board.

Let me finish where I started by reiterating my gratitude to all who worked for and with PA over the past year. I am sure we will continue to support each other through this difficult phase, with the hope of better times around the corner.

Anne Turner
Group Chair
22 July 2021

Chief Executive's statement

As Anne has already said, this has been a year like no other. Covid-19 has had a terrible impact on lives and communities and although we are now gradually easing back towards more normal conditions, the after-effects will continue to be felt for a long time.

At the start of the pandemic we worked as quickly as we could to keep our residents and our staff safe. This meant that we had to cut back on some services in the short term, in order to minimise risk. Our residents were brilliant throughout, helping us to adapt while we tried to help those who were most in need of assistance. We redirected our resources to ensure that additional support was offered to people who were particularly vulnerable or facing hardship, and we worked with our partners to adapt our service delivery models so that safe services could be reintroduced as quickly as possible. We are now trying to catch up on the important work which was delayed, but inevitably our results will continue to be subject to some uncertainty until we know that the country is fully up and running again.

Despite all this, we have been able to make some good progress on important social value workstreams during the year. Covid-19 has shone a light on the inequalities which exist within our society, and the positive role social landlords can play in response. Our community investment programmes have continued to look for innovative ways in which we can support our residents. During the year, we helped a number of our residents who are budding entrepreneurs to make their dreams a reality via the programme we run with our partners Enterprise CUBE. We have also become a more active player on the homelessness front, working with Kingdom Housing Association to pioneer the Naumann Initiative – a scheme which offers both a PA job and a PA home to people who are registered as homeless.

Equality, diversity and inclusion ('EDI') has always been very important at PA. We have a strong heritage in the black and minority ethnic housing movement, and we continue to recognise and celebrate the positive difference that people from different backgrounds can make to our communities and ways of working. During the year we started work to move this ethos on to the next level, creating a challenging action plan which will see EDI moving to the heart of all decision making at PA. This will include positive action to enhance opportunities for our residents and staff from less advantaged backgrounds, and measures to further embed EDI into our day to day thinking. This work is of course fully supported by our Board, and during the year we have been pleased to welcome a cohort of new Board members with a wealth of different life experiences. Our two new resident Board members in particular have already offered fantastic insight into our services and wider relationships with residents.

We are very aware of the role that PA must play in supporting the national environmental sustainability agenda. The Sustainability Strategy which our Board approved at the start of 2020/21 underpins all this work, and it cuts across everything that we do – not only our physical assets but also our ways of working, our wider support to communities and the partnerships we develop. We know that our stakeholders are also very interested in PA's approach and outcomes achieved. We have set up structures to formalise our reporting on this important topic, and our financial plans include allowance for the significant investment it will entail. We were pleased to link our recent bond issue to specific sustainability outcomes; this was well received by investors and it enables us to evidence the positive impacts that can be achieved by the social housing sector.

So increasingly, these evolving themes of social impact, EDI and sustainability will blend with our more traditional activities and priorities. In the short term, our focus must be on helping residents to recover from the pandemic impacts and ensuring that our work out on estates can return to normal levels. But our financial resilience, as shown in these Financial Statements, leaves us well placed to get going with delivery of our longer term ambitions alongside this initial recovery phase.

The information we receive from residents about the services we provide is invaluable, and we learn from the things which don't go according to plan.

I must also refer to the work we do with our residents, via a range of different routes. The information we receive from residents about the services we provide is invaluable, and we learn from the things which don't go according to plan. We have been working to further enhance these communication and feedback channels so that the resident voice is truly at the heart of all we are trying to achieve. We know we are not perfect but we are absolutely dedicated to getting better and better – we can only achieve this with the help of our residents and their views and experiences are of paramount importance to me.

As is customary I will conclude by saying a very sincere thank you to all who have contributed to PA's achievements in the year. This year more than any other, this focuses on our residents and our staff. It has been a hugely challenging year but it has been heartening to see the ways in which we have all pulled together in very difficult circumstances. The support I and my colleagues have received from our Board members has also been extraordinary, and I am very grateful to them for their wise counsel as we have navigated through this period of national crisis. I am optimistic that we will be returning to normal times soon, and I can assure everyone that PA is very ready to tackle the structural challenges our sector faces.

Dilip Kavi
Chief Executive
22 July 2021

Strategic Report

Strategic Report: Vision and Strategic Objectives

About Us

PA Housing ('PA') was formed in April 2017 by the amalgamation of Paragon Community Housing with asra Housing Association and Leicester Housing Association (both part of the asra Housing Group).

PA has a geographically diverse housing portfolio, providing over 23,000 homes in London, Surrey and the Midlands and operating from offices in London, Walton-on-Thames and Leicester. These office locations reflect our main concentration of residents and their homes.

Our core focus is on affordable housing and we want to grow. We have set a target to build 6,000 good quality social homes over 10 years to 2030.

PA has a proud heritage of providing services for minority groups in our communities. We have a truly diverse resident and colleague base and are committed to ensuring that diversity in its broadest sense is fully represented throughout our organisation.

In late 2020 we launched our new Corporate Plan (2020 - 2023). We had made excellent progress with delivery of our first Corporate Plan and we want to build on the momentum we have established. PA has the potential to make a profound impact on people's lives and we intend to do all that we can to give people safe and secure homes, and communities they can be proud of.

Our purpose

We are passionate about providing affordable homes and great services.

Our vision

We want to connect with our customers in every community we serve, providing quality homes and services, creating places where people thrive and are proud to live.

Our values

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

- Always do the right thing.
- There when you need us.
- We never give up.

Our strategic objectives

Our approach is underpinned by six clear headline objectives, each with measurable supporting goals:

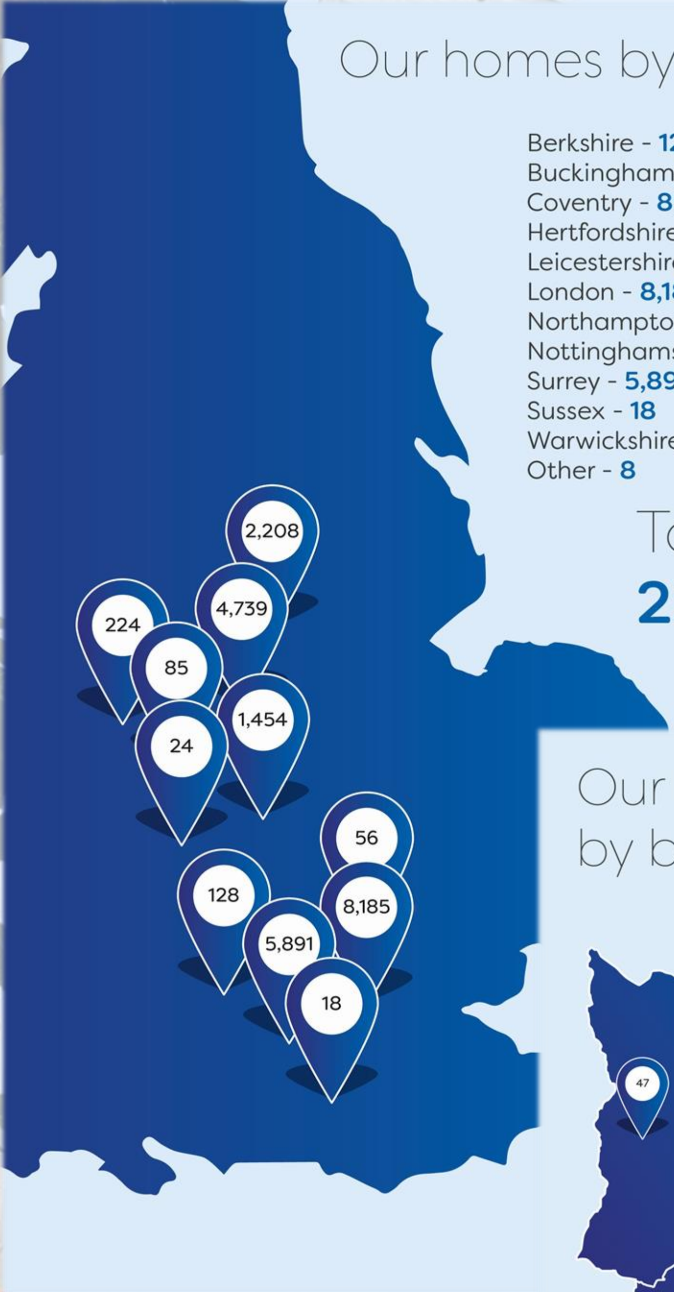
- Providing great services to customers.
- Positive relationships in our neighbourhoods.
- Sustainability strategy to deliver net zero-carbon before 2050.
- Increase construction of affordable and social homes
- Maximise our capacity to deliver.
- Our people – delivering the plan.

Environmental, Social and Governance considerations

ESG is at the core of PA. We have developed a Sustainability Strategy which aims to embed sustainability into each element of our services, modernising our everyday activities to reduce our environmental impact and deliver better outcomes for our residents and stakeholders. We work to deliver social value within our communities, over and above our core landlord services, and we recognise the role we can play in providing targeted support and enhancing opportunity for our residents. And we adopt a continuous improvement approach to our governance arrangements, ensuring strong controls whilst allowing creativity to flourish.

Our website provides further details about our approach to ESG: Environmental, Social, Governance (ESG) | PA Housing

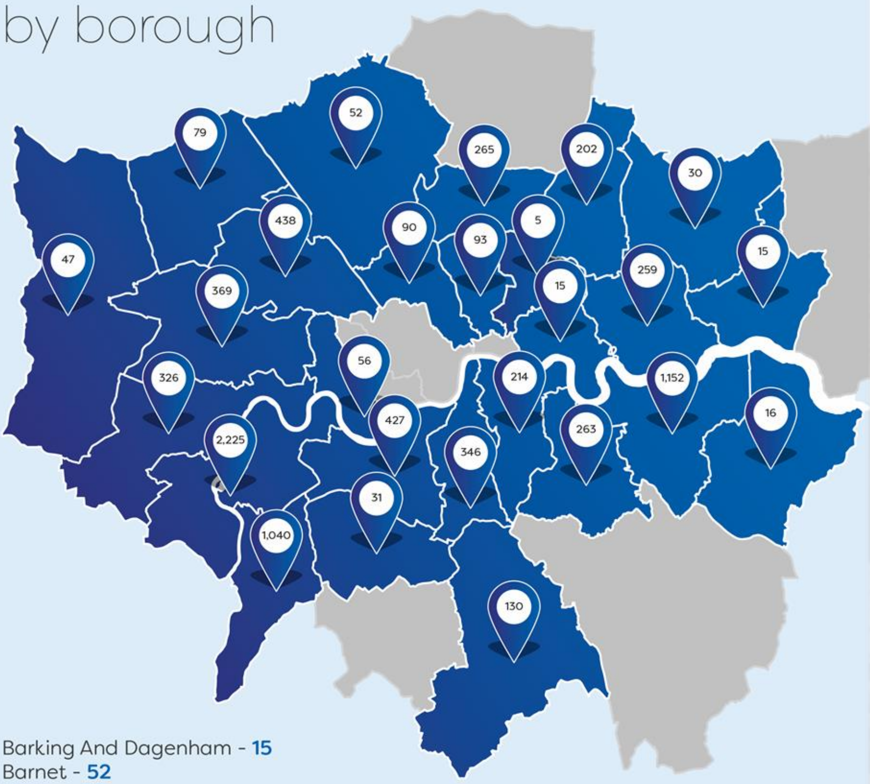
Our homes by county



Berkshire - **128**
Buckinghamshire - **24**
Coventry - **85**
Hertfordshire - **56**
Leicestershire - **4,739**
London - **8,185**
Northamptonshire - **1,454**
Nottinghamshire - **2,208**
Surrey - **5,891**
Sussex - **18**
Warwickshire - **224**
Other - **8**

Total:
23,020

Our London homes by borough



Barking And Dagenham - **15**
Barnet - **52**
Bexley - **16**
Brent - **438**
Camden - **90**
Croydon - **130**
Ealing - **369**
Greenwich - **1,152**
Hackney - **5**
Hammersmith And Fulham - **56**
Haringey - **265**
Harrow - **79**
Hillingdon - **47**
Hounslow - **326**
Islington - **93**
Kingston upon Thames - **1,040**
Lambeth - **346**
Lewisham - **263**
Merton - **31**
Newham - **259**
Redbridge - **30**
Richmond upon Thames - **2,225**
Southwark - **214**
Tower Hamlets - **15**
Waltham Forest - **202**
Wandsworth - **427**

Total:
8,185

Strategic Report: Strategic Risks

Our key risks and how we manage them

We apply risk management to all our activities in ways that help us achieve our corporate objectives. It is a fundamental element of delivering PA's vision. Throughout 2020/21 we focused on managing the impact of the Covid-19 pandemic and the effectiveness of our response.

Existing risk management processes were enhanced by introduction of an additional suite of pandemic-specific risk indicators to monitor performance in key areas impacted by the restrictions, these were reported weekly.

The key risks monitored by the Board through the year as we worked within the pandemic conditions are summarised below.

Once the Board has confidence that normal trading conditions are fully re-established, its focus will revert back to the existing suite of strategic risks relating to delivery of longer-term objectives.

Headline Risk	Risk Detail
Unable to perform building safety checks in properties due to no access	Backlog of key health and safety requirements are not cleared leading to damage to buildings, financial loss, reputational damage and risk to life and limb.
Reduced satisfaction in customer services	Inability to carry out essential customer services leading to complaints and dissatisfaction.
Potential for increase in rent arrears	Rent collection will be adversely impacted until sustained economic recovery begins. Backlog of court and bailiff requests. Increased tenancy sustainment.
Slow decrease in number of void properties	Backlog of void properties as a result of lockdowns, maintenance and Local Authority delays. Void losses, estate security, ASB, financial losses.
Increased cyber security risk due to remote working	Remote working practices result in data loss/data breach. Increased risk of unauthorised access to PA systems.
Safety and wellbeing of people	Impacts of the lockdown measures on the safety and wellbeing of employees. Reduced productivity.
Cashflow and liquidity	Financial standing is adversely affected by the pandemic. Reduced capacity for growth.
Control of aggregate capital expenditure	Pandemic has significant adverse effect. Demand for new homes is affected.
Reputational risk	Failure to ensure vital services are maintained leads to irreparable brand damage.

Our Risk Management Framework

PA has an established 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 includes both the strategy and policy for risk management and sets out in detail how risks are identified, assessed, responded to and monitored.

Risk appetite

Our risk appetite is not necessarily static. The Board may vary the amount of risk which it is prepared to take depending on the circumstances and a particular risk may change over time. The Board reviews its appetite across a range of areas in order to determine the specific nature and extent of significant risks that PA Housing is and is not prepared to take in the achievement of its strategic objectives. These can be summarised as falling into the following categories: Growth, Diversification, Development, Treasury, Reputation, Governance, Health and Safety, Technology, People, Value for Money, Environmental Standards, and Innovation.

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 reported to every Audit and Risk Committee meeting, assessing whether a trigger point has been reached and / or if the future outlook suggests an increasingly risky environment.

The process allows executive staff and Board members to consider if any mitigating actions in response to an emerging risk scenario may need to be invoked.

Strategic Report: Strategic Risks

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.

A number of potential mitigating actions have been evaluated and quantified, and the Board has established a mitigations matrix which sets out the prioritisation of these actions based on a combination of scale of impact and ease of implementation. Examples include:

- Scaling back on new development to preserve cash (priority 1)
- Small-scale disposal of high value assets to generate cash (priority 2)
- Reduction in scale of non-essential services e.g. community investment programmes to reduce operating expenditure (priority 3)

Risk Area	Early Warning Trigger
Stock Investment	■ Stability of stock investment data ■ Repairs and maintenance inflation ■ Relationship between stock condition database and approved budgets ■ Responsive repairs volumes ■ Disrepair claims trend
ICT Weaknesses	■ Frequency of identified virus / malware attempts (successful and unsuccessful) ■ Key IT system downtime
Housing Market Crash	■ Average house price indices in our core areas of operation ■ Average time taken to sell our homes ■ Average market rents in our core areas of operation
Customer Service Failures	■ Performance trends for voids, rent arrears and bad debts ■ Void repair cost trends ■ Management cost trends, specifically in relation to disrepair, complaints handling ■ New build sale prices versus target and market trends
Welfare Reform	■ Performance trends for voids, rent arrears and bad debts ■ Emerging government policy changes / proposals which may adversely impact on the business
Poor Value for Money	■ Increases to the staffing establishment ■ Responsive repairs volumes and costs per job ■ New build unit costs ■ Letting and rent collection KPIs
Adverse Operating Environment	■ Emerging government policy changes / proposals which may adversely impact on the business ■ Cost inflation trends ■ Loan margin trends within the sector ■ Market interest rates
Poor Growth Outcomes	■ Contractor solvency status and credit risk ■ Forecast outturn development scheme costs versus approved costs ■ Forecast time on site versus approved timescales ■ Prospects for landbank sites
Key Counterparty Failure	■ Contractor solvency status and credit risk ■ General financial health trends and indicators in the repairs and maintenance contractor sector ■ Bank lending margins in the social housing sector ■ Bond price trends in the social housing sector ■ Any legislative developments which risk having an adverse impact on property sales transactions

Strategic Report: Going Concern

Going concern

PA's business activities, its current financial position, and factors likely to affect its future development are set out within the Strategic Report and Financial Statements.

We prepare a 30-year business plan which is updated and approved on at least an annual basis. The most recent business plan was approved in May 2021. We have in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with income generated from our day to day operations. The business plan shows that we are able to service these debt facilities whilst continuing to comply with lenders' covenants. As at 31 March 2021 PA had available cash balances of £33m and a further £229m of secured but undrawn loan facilities that could be drawn at short notice.

The Board's assessment of going concern involves a number of subjective judgements including, but not limited to:

- 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 to rented homes as a risk mitigation measure.
- 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 – within scenario planning, arrears and bad debts have been increased to allow for resident difficulties in making payments and the possibility of potential future reductions in rents has been tested.
- Liquidity – In May 2021 we successfully completed the issuance of a £400m (of which £100m retained) Sustainable Bond. Current (as at July 2021) available cash and unutilised loan facilities is £464m which gives significant headroom for committed spend and other forecast cash flows that arise into the medium term.
- PA's ability to withstand other adverse scenarios such as higher interest rates and increased numbers of empty properties.

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In making the assessment the Board has also considered the potential mitigations available to manage the potential impact on PA's cashflows and liquidity.

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, peak borrowing levels and other headline financial metrics compared to base plan outputs, with potential mitigating actions identified to reduce exposure for all scenarios. This stress testing found that the business plan is robust and PA would remain able to meet its obligations in all but the most extreme of scenarios.

PA has not suffered significant negative financial impact from Covid-19 to date. As part of the going concern assessment and conclusion, the continuing effects of Covid-19 and post Brexit transition have been considered in our forecasts and factored into the stress testing carried out, including any mitigation actions that may be required.

The Board, after reviewing budgets for 2021/22 and the medium to long term financial position as detailed in the 30-year business plan including the continuing effects of the Covid-19 pandemic and post Brexit transition, is of the opinion that, taking account of severe but plausible downsides, the Group and Association have adequate resources to continue in business for the foreseeable future being a period of at least twelve months after the date on which the report and financial statements are signed.

On this basis, the Board continues to adopt the going concern basis in the financial statements.

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Strategic Report: Our Assets

Our residents' homes

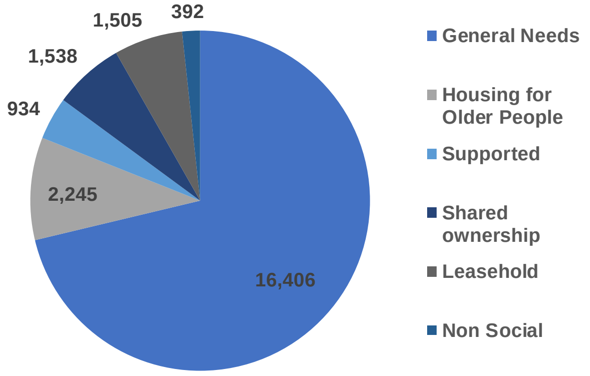
We provide over 23,000 homes over a wide geographic area. We operate in over 65 local authority areas with our core operating areas being in London, Surrey and the East Midlands. Over 60% of our homes are in six local authorities with the biggest concentrations in Elmbridge (c.5,300 homes) and Leicester (c.3,800 homes).

Over 98% of our rented and shared ownership homes are social housing. Our small portfolio of non-social housing includes 124 market rented properties and 223 properties for healthcare workers at King's Mill, Nottinghamshire.

Approximately two thirds of our supported housing stock is managed by external agencies providing specialist services to residents who require specialist intervention and support.

We own and manage 34 temporary accommodation properties, including a further six specialist properties developed in the year.

Homes by tenure



Investment in our homes

Our overall investment in revenue and capital planned works in the year was £28.4m (2020: £29.0m). A further £17.6m (2020: £18.3m) of expenditure was on responsive repairs and works to void properties. Some of our planned maintenance programmes suffered delays due to Covid-19 restrictions, and we have carried forward relevant budgets into 2021/22.

Health and Safety

We invest in the safety of our homes for residents to ensure we meet all current and emerging health and safety requirements. We have allocated additional resource to the management of fire safety in our homes. We own 27 high rise buildings with six storeys or more and we have an ongoing programme to assess all our buildings on fire safety, using third parties to gain independent assurance. Where necessary this includes intrusive surveys to identify any latent construction issues requiring attention.

We have identified the requirement to replace the cladding on a high-rise building in London. Works have already been undertaken to upgrade the fire alarm, emergency lighting, and security access system with full works to the building to commence in 2021/22. We have a small number of other blocks requiring a range of additional fire safety works, which will be completed as soon as procurement processes and negotiations with the original construction companies will allow. We expect to significantly mitigate the cost of this work this through recovery from construction companies and access to government grants.

In the meantime, we have taken immediate action to mitigate risk including upgrades to fire alarm systems and where necessary, installation of waking watch regimes. We do not recharge our residents (including leaseholders) for any of these costs, believing that they should not be passed on to those who are least able to afford it.

As at March 2021, we have provided £3.0m (2020: £1.5m) for the revenue costs of future fire safety works.

Key Indicators (% complete)	2021	2020
Fire Risk Assessments	99.9%	81.8%
Electrical Testing	95.7%	92.3%
Gas Servicing	99.6%	99.7%
Legionella Risk Assessments	100.0%	98.0%
Asbestos Surveys	96.3%	99.3%

At the end of 2020/21 we had completed 99.9% of all Fire Risk Assessments (FRA) where required on our properties. Only one FRA was incomplete due to no access.

Significant progress has been made on the electrical testing of our properties and 95.7% of all properties have had an electric test in the last five years in accordance with our programme.

Our Board closely monitors our health and safety performance and during the year we commissioned an audit of our arrangement by expert consultants to ensure continued best practice and compliance.

Energy efficiency and sustainability

We want to achieve high energy efficiency in our residents' homes, and we are addressing the 39% of our homes that are rated EPC band D and below. We are working to attain EPC band C or better for all homes by 2030. Our traditional investment programmes including improved insulation to roofs and walls, upgrades to heating systems and new double or triple glazed windows will play a large part in this effort. We will also investigate the production of on-site renewable energy where possible, as well as broader sustainability measures such as water capture and electric vehicle charging points. Appropriate offsetting schemes may also contribute to our carbon footprint reduction programme. We have invested in new energy efficiency software that will enable us to direct investment in the most cost effective measures on a property by property basis.

We have targeted upgrades to our worst performing properties, and in particular properties where a central heating system is being installed for the first time. In the short term, installing energy efficient gas boiler systems will enable our residents to have greater control of their energy use and will have a positive impact on the day to day running costs of their home.

Our new software will enable us to analyse and inform investment decisions for each property.

The planned expansion of our in-house repairs and maintenance team will give us greater control of our supply chain, enabling us to procure materials in an environmentally and socially responsible way while also ensuring value for money. We will work to introduce an electric / hybrid vehicle fleet for our operatives. We currently operate a fleet of over 40 vehicles across PA.

Our ambition is to move our entire business to net carbon neutrality before 2050 and we have factored in an additional £230m of phased expenditure in our business plan in recognition of our commitment to this.

Responsive repairs

Throughout the year we have needed to be adaptable in the provision of our repairs service, with spells of switching from a full service to emergency repairs only during the periods of lockdown. We worked closely with our repairs contractors to respond to the changing environment and completed over 16,000 emergency repairs in the year, meeting our target of 99% completed within 24 hours.

Repairs 2020/21 (no. / % completed on time)

Emergency Repairs	16,000 / 99%
Routine Repairs	34,000 / 86%

Due to the impact of the pandemic and through ensuring the health and safety of both our contractors and residents we did not meet our target of 96% of non-emergency repairs completed within 15 days. Across all contractors 86% were completed on time, although as the second lockdown eased at the end of the year we were able to catch up with the backlog and had less than 600 repairs outstanding outside of target at the end of the year.

Within the context of the challenges faced over the last year, we have been pleased with our service levels and this is reflected in resident satisfaction results for the year. We do however recognise that we need to get back on track in this area and have again set challenging targets for 2021/22.

Customer satisfaction with our repairs service

86%

of customers were satisfied with our responsive repairs service.

2,917 customers were surveyed May 2020 – March 2021. 6% were neutral and 8% dissatisfied.

Works to our empty properties

We completed works to over 800 empty properties in the year. Over 230 of these were carried out by our in-house team in the Midlands. This activity have also been affected by lockdowns, with works at a virtual standstill during April and May 2020. This extended the time to complete the works and thus extended the overall time taken to re-let a property. Work has also been hampered by the utility companies as they have not been prioritising connections to empty properties. We did however see progress as we approached the end of the year and at 31 March 2021, we had 137 empty general needs properties and 61 empty housing for older people properties. This was the lowest we had experienced throughout the whole year.

Our in-house repairs and maintenance service

Our in-house team operates in the Midlands, providing a repair and re-let works service to over 2,100 properties. It employs 32 team members including specialist and multi trade operatives together with administrative support. As with other areas the service we were able to offer was limited at times by government guidelines and the strict health and safety measures we put in place for our operatives when entering residents' homes. Despite this we took the decision not to furlough any of the team, all of which received full pay throughout the year.

Our Board has approved a phased expansion of the in-house service, with a view to ensuring the highest standards of service quality and improving value for money.

Strategic Report: Our Assets

Upgrading our existing homes

During the year we have worked to further validate the information we hold on our homes and have carried out 4,758 full stock condition surveys and 2,558 external surveys during the year. This will inform our future investment needs and planning.

It was clear from the start of the year that we would not be able to deliver our budgeted planned maintenance programme due to Covid-19 and we adjusted our budget expectations accordingly. It was important that we did not put our teams, contractors or residents at risk. Our initial budget was to invest £16.1m in upgrading our homes, by the end of the year we had invested £12.8m. A full service has resumed from April 2021 for all our programmes.

The delivery of our replacement roof programme ran ahead of schedule, allowing us to pull forward some of the 2021/22 programme.

We also completed £3.2m of cyclical decorations (2020: £2.4m) and £0.2m (2020: £0.3m) on adaptations to meet the needs of our residents.

Works completed	2021	2020
Roofs	108	45
Kitchens	163	498
Bathrooms	149	378
Windows and doors	530	841
Heating and boilers	1,001	956
Lifts	10	19

Strategic Report: Our People

New ways of working

Throughout the year, the vast majority of our colleagues adapted to working from home and the challenges this brought, from practicalities of space and equipment to home schooling and caring for others. We supported our colleagues by providing the furniture and equipment they needed to carry out their work effectively and in an environment that worked for them. We carried out home working risk assessments with colleagues and reconfigured our offices to ensure a Covid secure working environment for those unable to work from home.

We encouraged more flexible working and continued to pay salaries in full during the first lockdown where some were simply unable to accommodate their normal hours due to conflicting commitments. The maximum tax-free working from home allowance has also been paid throughout the year to all colleagues. We have provided training for managers to help them continue to undertake effective team management remotely and to ensure we stay in touch with all our colleagues. Our "Triage" team provided regular business updates to teams as the Covid situation evolved.

We did not furlough any of our colleagues but did use the scheme to support two colleagues who had previously chosen to leave PA, in their transition to their new roles outside of PA. With agreement we also re-deployed colleagues into other areas and offered training for them to learn new skills. To ensure no one lost out on time away from work we have allowed colleagues to carry forward more holiday allowance into the new year.

From April 2021 we have formally changed the way we work, introducing a more flexible "blended working" approach which aims to offer improved work / life balance. This has been achieved through the creation of new employment and lifestyle agreements. As part of the consultation with our colleagues we also reviewed the benefits we provide and have introduced:

- Charity match funding, whereby PA will match fund the money raised by colleagues for registered charities that align with PA values up to a value of £500 per fundraising event.
- Buying and selling annual leave - colleagues can buy or sell a maximum of one week's annual leave per year.
- An interest-free loan of up to £5,000 can be applied for to assist with general living costs.
- Volunteering - Recognising the contribution that volunteering can make we support colleagues who wish to undertake volunteer work within the communities in which we operate or for charitable institutions. Colleagues can apply to take up to a maximum of three days paid volunteering per annum.

Everything we do and have set out to achieve for our customers in our new Corporate Plan is only possible thanks to the brilliant people who work for PA Housing.

Investing in our people

We strive to deliver excellent customer services and this is supported through investment in our people. We ensure that training opportunities are available to all, in order to develop skills and experience. Throughout the year we switched to virtual and online training and have continued to use trusted partners to deliver our programme successfully. All new PA colleagues are given a comprehensive introduction to the business and the housing sector more widely to ensure they are well equipped in their new career.

In 2020/21 we invested over £300,000 in training activities for our colleagues. We supported 629 colleagues in both personal and technical development during 2020/21. 105 ad-hoc training requests were met, often delivering bespoke training to these individuals to meet their personal needs. We have supported 32 colleagues in their journey to a professional qualification. In addition, we enrolled a further 21 colleagues onto an apprenticeship.

We launched our PA Leadership Academy in July 2020, a leadership and management development programme aimed at people new to line management, or those seeking to develop their managerial and leadership skill set. The programme provides a foundation of core leadership and management competencies from which our managers can develop their approach to engage their team and drive performance for the benefit of our residents. Over 50 managers have undertaken the programme to date and we will continue to run two cohorts each year, in addition to a pick and mix module approach for aspiring managers.

Our core role-based training menu includes health and safety to ensure our colleagues are safe when working in our homes, lone working, data security and cyber security awareness. This programme ensures we minimise the risks directly relating to the activities of our colleagues.

In 2021/22 we will run two senior leadership development programmes, one for our Assistant Directors and one for our Heads of Service and senior managers.

Strategic Report: Our People

Wellbeing and benefits

Colleague wellbeing has been a continued area of focus, more so than ever now as we evolve to a permanent blended way of working. Our quarterly colleague engagement survey shows that over 85% of colleagues feel that we care for our people and 83% believe we take steps to ensure health and wellbeing.

We have established a wellbeing action plan and good progress has been made. We have launched a referral programme for colleagues which went live in February 2021 - this enables colleagues to access support with personal and family financial matters.

We are working to put in place a mental health at work plan, in line with the Chartered Institute of Housing Shine a Light Framework. Our managers and colleagues are receiving training to ensure that all can have effective conversations about health and wellbeing. We have appointed wellbeing champions who have continued to deliver a programme of activity for colleagues.

Throughout the year we recognised the challenges our colleagues were going through, life was hard for many, and sometimes it is the little things that can make a big difference. As a thankyou we offered all colleagues a “takeaway on PA”, delivered to their door for them to enjoy with their families. We have also provided virtual exercise sessions and cookery classes, the latter presented by one of our own chefs who works at our Albany House extra care scheme in Nottingham.

Our pension offer is a choice between two defined contribution pension schemes. Our colleagues are able to invest flexibly for their future through a variety of plans within each of the schemes to meet their own risk appetite and ethics, including a Sharia-compliant plan for Muslim colleagues. PA will pay double the member contribution to the plan up to a maximum of 10% of pensionable salary.

All colleagues can join our Simply Health scheme which enables them to get money back on everyday healthcare needs.

Employment opportunities

We have signed up to the Kickstart Government Programme in partnership with over 100 other Housing Associations. The programme has enabled us to create 19 six-month job placements for young people aged between 16-24 currently on Universal Credit and at risk of long-term unemployment, supporting the participants to develop the skills and experience they need to find work after completing the placements. We are currently working with DWP work coaches to fill our placements.

In September 2020 we became the first housing association in England to adopt the Naumann initiative, which has been developed and pioneered by Kingdom Housing Association in Scotland. The model provides a combined package of suitable social housing accommodation and employment to people who have experienced homelessness. It is aimed at the ‘hidden homeless’ – those staying in hostels or sleeping on a friend's sofa for example.

We initially identified two roles within the business, a Junior Communications Officer and a Hub Advisor dealing with residents’ calls and requests. We worked with various charities and the DWP to find suitable candidates, held open days and ran assessment centres. We were impressed by the talents, skills, and character of those who attended, and we were able to offer the opportunity of a permanent home and job to four candidates who joined us in January 2021.

Having a place to call home is crucial - but couple that with secure employment and a chance to learn and progress, that's how you really offer someone a future

Working with our communities

We have created a social impact group, which is a cross-section of colleagues from different teams who are working with the business, residents and our contractors to allow 50 colleagues each year to do something special for the communities we work in. We also offer all colleagues the opportunity to take up to three paid days away from the PA work each year, to undertake volunteering work with charities or in their local communities.

Strategic Report: Our People

Gender pay gap

We work to achieve equality, diversity, and inclusion in all that we do, 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 both a lack of female representation at more senior levels of the organisation and a predominance of females in lower paid roles. As at March 2021 female colleagues represented 29% of our Senior Management Team, comprising of Executive and Assistant Directors. However, our next tier Leadership Team, comprising of Heads of Service and other senior managers was represented by 65% female colleagues.

2021	Male	Female
Senior Management Team	71%	29%
Leadership Team	41%	59%
Line Managers	45%	55%
All PA colleagues	35%	65%

At PA we have a spot salary for each job role. However, because jobs pay differently and the number of men and women performing these jobs varies, a gender pay gap exists. The majority of lower paid roles are filled by females. We have a shortage of females in middle salary range technical specialist roles but we are taking active steps to address this.

Gross salary	Male	Female
£50,000+	57%	43%
£40,000 - £49,999	59%	41%
£30,000 - £39,999	44%	56%
£20,000 - £29,999	26%	74%
Under £20,000	25%	75%

Between April 2020 and March 2021, 59% of applications for vacant roles were from females, with 70% of new starters being female.

Median gender pay gap

11.7%

Gender Pay Gap	2021	2020
Median gender pay gap	11.7%	12.4%
Mean gender pay gap	19.3%	17.3%

We set ourselves a target to reach a mean pay gap of 15% and a median of 11% by April 2021 and it is disappointing that we did not achieve this. Recruitment targets were set by the Nominations and Remuneration Committee in July 2020 in order to improve our pay gap position as detailed below:

Target	To 31 March 2021
Recruit more males at entry level salaries	31 females vs 16 males
Recruit more females at mid-range salaries (£30,000 to £60,000)	18 females vs 7 males
Recruit more females into technical specialist roles	33 females vs 30 males

We have made some positive strides with recruitment although overall progress continues to be impeded by the dominance of females recruited into entry level roles. 67% of females joining PA were on salaries below our overall median of £30,000, compared to 40% of males.

We have a range of workstreams in train to improve our gender pay gap performance:

- In the year, 93 colleagues took sideways moves to broaden their knowledge and experience and 49 colleagues secured a promotion, of which 67% were female.
- 70% of colleagues who undertook a professional qualification were female.
- 10 of the 12 colleagues who completed an apprenticeship were female.
- 13 colleagues enrolled on apprenticeships and 62% of those being trained through the Apprenticeship Levy were female.
- Nine of the 10 colleagues who took part in the Housing Diversity Network mentoring programme were female.

Strategic Report: Our People

Diversity

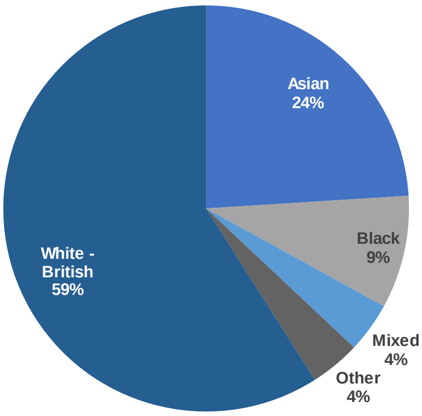
PA has strong historic links to the Black and Minority Ethnic housing movement, an important part of our legacy which we continue to celebrate.

*At PA, we believe that **everybody is unique,** and we're committed to promoting diversity, inclusion, and a culture that actively values difference*

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.

Colleague diversity



Ethnicity pay gap

There is currently no requirement for us to publish our ethnicity pay gap. However, we believe that ethnicity pay reporting helps to focus our minds on shaping actions to address any inequalities.

Reporting date (March)	2021
Median ethnicity pay gap	8.7%
Mean ethnicity pay gap	9.9%

We have externally benchmarked spot salaries in place for all job roles, which ensures that everyone is paid fairly for undertaking the same or similar role. The ethnicity pay gap looks at the distribution of white colleagues compared to those from ethnic minority groups across all jobs at PA, and how this translates into the average salary.

Our position is that we have fewer ethnic minority colleagues in roles that pay more than our overall median salary of c.£30,000, but the proportional distribution of colleagues by ethnicity through the salary bands of our manager population is reasonably uniform.

Salary of Line Managers	No	White	Ethnic Minority
£50,000 +	53	75%	25%
£40,000 - £49,999	45	73%	27%
£30,000 - £39,999	41	68%	32%
£20,000 - £29,999	10	70%	30%

During the year, 37% of colleagues who were engaged in development through undertaking professional qualifications, completing an apprenticeship or partaking in the Housing Diversity Network mentoring programme, were from an ethnic minority group.

Eliminating our pay gaps continues to be an area of focus for us. Our ethnicity, diversity, and inclusion work plan, approved by the Board, includes specific strands on this topic as one of four key themes as follows:

- Driving cultural change.
- Workforce development.
- Leadership and governance.
- Customer service.

Our equality and diversity working group is made up of a cross section of colleagues who are responsible for the programme of work to deliver the action plan.

We recognise the importance of monitoring ethnicity pay data, and we track our performance monthly, to understand what drives our pay gap figures at any given time. We have recently recruited an Ethnicity, Diversity and Inclusion recruitment officer. The remit of this role is to enhance our awareness of relevant issues, using the insight to drive stronger recruitment decisions. The role also works with the communities in which we operate to encourage applications from diverse backgrounds who with support can develop with PA.

We have various sub-groups that feed into the broader EDI working group and one of the pieces of work to be undertaken in 2021 is a 'lived experience exercise' through a survey, where we listen to colleagues from different ethnic groups across the business to understand how their experience of working with us can influence actions and behaviours.

Strategic Report: Our People

Our plans for 2021/22

Our new in-house recruitment team are now all in post. The team is working with the wider business to enhance inclusive thinking and practices at the point of recruitment. We want to recruit high quality, diverse staff to help us deliver our strategic objectives.

We will continue to expand our engagement with the community in the next 12 months by supporting 20 residents into employment or work experience opportunities at PA and / or suppliers. In addition, we will continue with the Naumann initiative and will recruit a further cohort of people who have experienced homelessness.

Other areas of focus for the People Team in 2021/22 are:

- Implementing a cohesive talent management approach, incorporating both development of existing PA staff and the recruitment of new talent.
- Developing our apprenticeships proposition as an external talent pipeline to bring new skills and capabilities into the organisation and develop our own talent for hard to fill technical positions.
- Designing a graduate trainee programme as a longer-term talent pipeline for identified senior roles within the organisation.
- A programme to support succession planning across the organisation.
- Ongoing delivery of robust management development programmes spanning first line, second line and senior management populations within PA to enhance capability and provide meaningful outputs for participants to support the achievement of organisational goals.

Strategic Report: Our Growth

Building new homes

Our ambition is to deliver 6,000 good quality and sustainable new social homes over the 10 years to 2030, in areas of high housing need. Our new homes will cater a range of circumstances across social rent, affordable rent, and shared ownership tenures.

In 2020/21 we completed 298 new social homes and a further two for market rent. 86 new homes were sold in the year to customers who were taking their first step in homeownership.

These homes were spread across 15 sites. 226 were in London with a further 58 in Elmbridge, Surrey and 16 in Nottingham.

New homes

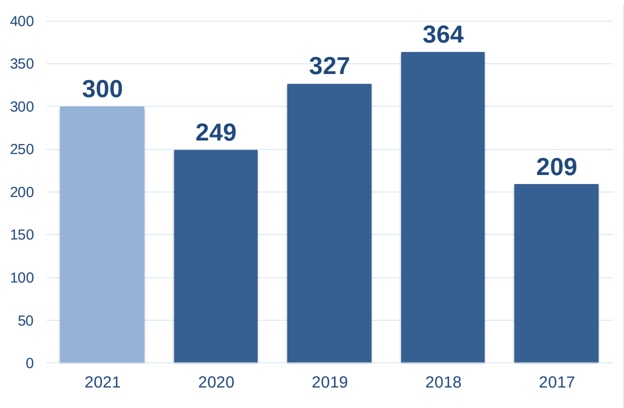
300 (2020: 249)

Covid-19 had a significant impact on our development programme at the start of the year with many sites closed during April and May 2020 and a slower pace of work thereafter. During this period, we worked closely with contractors to ensure that the programme could restart in line with evolving safety restrictions.

As a result, we did not achieve our target number of new homes in the year. We did though work proactively, adapting quickly to deliver other opportunities as the year progressed and replacing delayed schemes with homes on other sites which could be completed more quickly.

The situation gave us an opportunity to better understand the challenges our contractors face, and the learning from this has been used to ensure a more efficient delivery programme in the future. Ultimately our aim is to improve the journey for people moving into their new home and we also work closely with customers to understand what they want from a home. We have used this information to change the specification of new homes and communal areas on future developments.

New homes developed (No.)



Brexit also had an impact on our programme. In some areas it was more challenging for our contractors to attract labour and we experienced site delays due to issues with procurement of materials from Europe. The full impact is not yet known, particularly on the cost of materials, although we have experienced an increase in costs in the short term.

Investment in the delivery of new homes

£108 m (2020: £106m)

Summary of performance	2021	2020
New homes completed:		
Affordable Rent	155	145
Social Rent	21	-
Shared Ownership	116	88
Temporary Housing	6	-
Market Rent	2	16
Total	**300**	**249**

Sales

Our programme reflects a balance between homes for rent and shared ownership. As well as meeting a core social housing need, shared ownership helps us to increase our overall growth capacity through reinvestment of the surpluses we earn from first tranche sales.

Sales revenue was £12.5m in 2020/21 from the sale of 86 new homes. Despite our sales volumes being lower than target, our average sales margin of 31 per cent was very healthy and in line with our expectations, with sales values performing well in our areas of operation.

As with the build programme, we adapted our approach during the year and moved to virtual viewing of our new homes and advancing the fit out of show homes to attract customers early in the process, including increased incidences of selling off plan. That aside, and despite a buoyant market aided by the Stamp Duty holiday, the process of selling a home became more challenging during Covid-19. Staff shortages at various stages in the sales chain meant that the journey through to final mortgage offer became elongated for many customers. We are now starting to see a return to normal conditions, and we are optimistic that the new financial year will see an accelerated sales throughput.

Strategic Report: Our Growth

Hurst Park, East Molesey

As at 31 March 2021 we had 114 homes available for sale (2020: 84). 61 of these were handed over in the final quarter of the year and 67 were reserved at the year end date. Our Board and senior management team closely monitor the liquidity impact of a depressed sales environment. Demand has however remained strong through to the summer of 2021.

Sales	2021	2020
New homes sold	86	53
Shared Ownership revenue	£12.5m	£8.4m
Surplus	£3.9m	£3.5m
Sales margin	31.4%	42.1%

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. We work closely with local authorities on opportunities for land led development.

Backed by our strong financial liquidity, we remained “open for business” throughout the year in the purchase of new sites for future development and continued to acquire new sites for our land bank. In 2021/22 we are bringing forward sites from the land bank into development and will be looking for new opportunities.

We approved the development or acquisition of 730 new homes in the year, across 26 new projects. At the end of March 2021, we had over 770 homes under construction.

For all potential new developments, we undertake a thorough assessment of demand, supported by our in-depth knowledge of the areas in which we operate. In recent years our core development areas have focused on London and the South East, we are however now also delivering new build sites in the East Midlands to complement our already strong operating presence in this region.

We work to ensure that our developments are truly affordable, and we undertake a range of relevant checks before committing to any new scheme. This involves understanding benefit entitlements and caps for potential new tenants, and a robust assessment of service charge levels. We want our residents to be able to sustain their tenancies and enjoy their new homes in the knowledge that they are affordable. In this light we are selective in our approach to new development.

Burlington Road, New Malden

Development pipeline	2021	2020
Homes commenced	497	624
Under construction	773	576
Approved in year	730	875

Regeneration

Our successful partnership with Lovell and the Royal Borough of Greenwich saw completion of a further 105 new homes in Woolwich, making a total of 238 delivered through Phases 1-3 of the One Woolwich regeneration programme. The next phases of the project will deliver more than 300 more affordable homes across three sites, with the next phase expected to start on site during 2021/22.

Our commitment to the Woolwich community is not just in homes but also enabling our residents to thrive in them. We have established a local office base in Woolwich as part of our work to deliver great services to our residents. We have been 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.

Once restrictions associated with the pandemic allow, we plan to hold a community event with local stakeholders as a celebration of what has been achieved so far through this exciting programme.

Strategic Report: Our Growth

Derby Road, Nottingham

Derby Road is a grade two listed building in Nottingham owned by PA, previously a regional office with the second and third floors providing market rent accommodation. Following the closure of the office we obtained planning consent to convert the ground and first floors to rented social housing which has provided a further eight new homes.

High Quality, Sustainable Development

We recognise that our programme of new developments is the 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. 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 are currently in design stages for our first fully Passiv-Haus compliant energy efficient scheme and are working with technical professionals to assess and pilot new technologies that will enable us to minimise our environmental impact and reduce costs for our residents.

Thames View House, Walton on Thames

We have recently obtained planning permission to redevelop our existing building at Thames View House to deliver 97 high quality new homes and a modern community facility that will provide a new base for a valued local pre-school. The existing building has come to the end of its economic life and has significant issues with thermal efficiency. Our new design achieves carbon savings of 35% above the requirements of Building Regulations, and in addition to an energy efficient building fabric the scheme will offer:

- 50% of on-site parking spaces enabled for electric vehicle charging.
- Improvements to local bus stop provision and the provision of a car club for the neighbourhood.
- Photovoltaic panels on the roofs to capture solar energy which can be used for lighting and power in communal parts of the building.
- A centralised heating system which provides more efficient heating than individual boilers and allows heat to be recycled around the building.
- 48 new trees as part of an overall planting strategy that aims to encourage biodiversity.
- Bird and bat boxes to provide habitat for native species.
- Improvements to the recreation ground next door to the site to be delivered in partnership with Elmbridge Borough Council, contributing to safer and more pleasant green spaces for the whole community to enjoy.

Thames View House, Walton-on-Thames

Strategic Report: Our residents and communities

Our customer commitment

Our commitment to residents goes beyond providing them with a safe and secure home. Our goals within our new Corporate Plan include:

- Work with our residents to improve our offer and provide great services.
- Develop our resident involvement and scrutiny arrangements and use digital investment to improve resident engagement.
- Ensure services are what residents want. Listen to them and take action.
- Continue our digital transformation programme.
- Support residents through our job ready programme.
- Create safer, sustainable neighbourhoods where people choose to live.
- Support access to affordable home ownership.

Our response to the Covid pandemic

We knew the pandemic would make many residents' lives more challenging, particularly in the first lockdown. Together with our involved residents and contractors we supported communities by making cash donations to local food banks and directly provided over 600 residents with care packages and wellbeing packs, including food, blankets and arts and crafts items.

Our hardship fund is used to support those in financial difficulty and / or those who are at risk of falling into rent arrears. During the year our emphasis was to help those who had experienced a reduction in income due to the pandemic and the fund provided £70,000 to those experiencing hardship.

Donating laptops in Leicester

We donated 24 laptops and nine iPads to a local primary school to help children struggling to access online home learning.

We also wanted to stay in touch with our residents and engaged the whole business in making wellbeing calls. Sometimes our residents just wanted to hear a friendly voice, and to know that we were there for them if they needed us. This was also a great help for many of our colleagues who like others, may also have needed to talk to someone whilst working in isolation.

Investing in our communities

We want to help build thriving and strong communities and each year we set aside a budget to directly invest in relevant initiatives. The fund is managed by our involved residents and our Neighbourhood Coordinators work with residents to identify ideas and ways to improve their estates. To meet the requirements of the fund the plan must be inclusive for all residents, be fully costed and have a defined community benefit outcome. Initiatives during the year included improving outside communal areas, providing bike racks, and installing bollards to prevent unauthorised parking on our estates.

For the last six years we have worked with Enterprise CUBE to deliver an entrepreneurship training and support programme for residents planning to start their own business. The package includes a seed capital grant for the most viable business propositions. We are passionate about this work and we did not let the pandemic stop us in our tracks – we worked with Enterprise CUBE to successfully transition the programme to a virtual setting and during the year we helped 43 residents to realise their dream of becoming small business owners by completing the course.

Throughout the year we have also:

- Worked with local children in a range of sporting activities.
- Helped support pre-schools who use our community hubs.
- Engaged with our residents through virtual gardening competitions.

Our investment in the community

£727,000

Includes all community activities and associated costs.

Resident scrutiny and involved residents

We strive to improve our services by involving our residents to scrutinise what we do. The Scrutiny Team reports to our Customer Services Committee and their reviews highlight areas for improvement with recommendations and actions. We also involve our residents in the procurement of services and have trained five to assist in the evaluation and decision-making process of awarding new contracts.

We held six training events for involved residents, which covered a briefing from the Chief Executive, Equality and Diversity, social value, financial responsibilities, communication and social media, and value for money.

Strategic Report: Our residents and communities

New play area: Eden Park, Corby

Our Resident Involvement team has created an equality, diversity and inclusion working group for residents to help us hear the voice of all our customers. This enables us to:

- Reach all communities across our neighbourhoods.
- Ensure voices from different communities are heard in the decisions that we take.
- Make our work more inclusive, helping people from different cultures and backgrounds to work together to improve our neighbourhoods.
- Link with other community organisations.

Our neighbourhoods

We have continued our presence in neighbourhoods throughout the pandemic. This ensured we were aware of any issues and were able to react quickly to put them right. Our Neighbourhoods on Tour initiative moved to a virtual platform, but still provided an opportunity for residents to meet our Neighbourhood Coordinators and PA colleagues in a safe and secure way.

Neighbourhooods Coordinators

11,737 estate inspections

Our Neighbourhood Champions are residents that are passionate about where they live and want to make a difference to how PA provides services. They work closely with PA colleagues and meet regularly with them to:

- Take part in estate inspections.
- Suggest improvements in the local area.
- Provide feedback on PA contractors.
- Get involved with Neighbourhood on Tour events.
- Help organise community events.

Complaints

Our complaints process has been through several changes over recent years in an effort to make it easier to use and improve the customer experience.

As a result of resident satisfaction research, the Housing Ombudsman self-assessment, and direct resident feedback (including from those who had been through our complaints process), we knew there were some key areas we needed to improve on. We have introduced a new complaints approach and we were keen to involve residents to ensure this focuses on the right things.

We launched a Residents Complaints Panel in March 2021. Initially meeting monthly, the panel is comprised of ten residents, alongside representatives from our Customer Experience team and senior managers.

The panel will ensure that our residents’ voice is at the forefront of our new complaints approach, providing us with feedback, counsel, recommendations, and guidance. Residents will work with us to regularly review complaints performance and will influence our policies and processes to improve the services we offer.

Strategic Report: Our residents and communities

Tenancy sustainment

Helping our residents to stay in their homes for as long as they need is an essential component of our work. Our dedicated team of trained welfare benefits experts has assisted over 2,200 residents to claim over £3.4m of benefits in 2020/21. We offer support to residents in claiming benefits for the first time, appeals, opening bank accounts and (through partnership with other organisations) providing debt advice. We have also run specific campaigns to help customers affected by the benefit cap, pension credit and TV licence rules.

It was an exceptionally challenging time for many of our residents. At the start of 2020 we had already planned to change our offer to focus on telephone support and had developed a new case management system and process. This enabled us to reach more residents and be more cost effective, when Covid-19 struck we therefore had a head start and were well placed to tackle the increased case load in the year. We were also able to offer an efficient one-touch service for residents facing challenges with furlough and moving onto Universal Credit.

Total benefit gains for customers*

£3.4m

*Gains calculated on an equivalent 52-week period.

We introduced a new affordability assessor role to the team which has proven to be a major success. This person works with every new resident to ensure they are set up with the welfare benefits they are entitled to at the very start of their tenancy. This gives residents confidence that their new home is truly affordable, and they know help is on hand should their circumstances change.

Our services

During the year we made changes to the way we manage our day-to-day transaction-based contact with residents. We moved away from the traditional contact centre and created specialist hubs for our main operational teams - housing, repairs and income. Our aim was to:

- Improve the customer experience when contacting PA.
- Improve the speed and quality of the response.
- Empower our teams to resolve enquires at the first point of contact.

We have a dedicated quality assurance team which continually monitors our calls and provides valuable training and feedback to improve our service even further. Our target is to answer over 90% of all inbound calls. Our performance in the first six months of operation (September to March 2021) fell short of this at 82%. We have put additional measures in place to meet this target in the forthcoming year.

Our residents should be able to contact us in a way that is convenient for them and we offer a full digital service through our “My PA” app. Residents can pay their rent, report a repair and access other services whenever they like. The number of registered residents has increased by 24% from 9,900 at the start of the year to 12,300 by March 2021.

“My PA” registered users

12,300 (2020: 9,900)

Tackling Anti Social Behaviour

We have seen an increase in Anti-Social Behaviour (ASB) throughout the pandemic. The use of our “noise app” alone saw an 800% increase in use from the previous year. We continue to take all ASB seriously and want our residents to not only be safe in their homes, but also to feel safe in their communities. We have taken enforcement action despite the challenges with accessing court services while Covid-19 restrictions were in place.

The Housing White Paper

We have responded to the Housing White Paper with a robust self assessment of our services. We have identified a number of areas in which we need to improve:

- Complaints handling.
- Respectful and helpful engagement.
- Overall satisfaction.
- Wider and more diverse engagement.
- Access to scrutiny of services.

Developing our service delivery to respond to these identified challenges is a key focus for 2021/22.

Strategic Report: Value for Money

Our corporate objectives and Value for Money in 2020/21

In late 2019 we updated our Value for Money strategy and the Board agreed our high-level targets for the next three years:

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

Due to the pandemic it was clear that our focus needed to change, and we adapted our strategy to ensure we were delivering services that were most needed in a safe and secure way. Whilst value for money for our residents remains integral to our business, our approach during the year has been one of flexibility, making quick decisions and reprioritising our operational and financial resource. Our strong financial position has enabled us to confidently support residents and colleagues during these difficult times. Despite the challenges, we have continued to work on improving our services and believe we have achieved a number of successes in delivering our plans, albeit in a different way to what we had originally anticipated.

The pandemic has had an impact on our operational performance, in particular our ability to re-let homes in line with our targets. As a result rent losses increased as properties remained empty for longer. Due to the location of our homes, PA has suffered more than most housing associations from the impact of lockdowns and restrictions. This severely disrupted our ability to offer an efficient lettings service for incoming residents.

Likewise, our value for money metrics have been impacted by the challenges in the year, dampening our reinvestment metric in our existing and new homes as we were less able to safely access residents' homes and new development sites operated on reduced capacity.

As part of our strategy we compare our performance to others in the sector and our peer group, working to understand points of difference and alignment with our corporate goals. We recognise that over the last year other associations will have also faced challenges and thus we can place less reliance on historical benchmarking data given the rapidly changing operating environment.

During the year we have however continued to invest in the safety of our residents' homes. Compliance remains top of our agenda and we invested over and above our original budgets. Included in our results is an investment of £7.6m in fire safety, much of which represents special projects separate to our 'business as usual' expenditure. The Board has recognised this priority and we have therefore stated a number of our performance measures adjusting for this one-off investment.

We launched our new Corporate Plan 2020-23 in the year. It was important that we were focused on what our future may look like post the pandemic and that we were ready to begin delivery of our new objectives as soon as the easing of government restrictions started to happen. We remain absolutely committed to providing affordable homes and great services. The new Corporate Plan sets out our vision, our purpose and our strategic goals and objectives to this end.

Our Value for Money Strategy and targets continue to support the achievement of these objectives and our Board monitors our value for money direction of travel, ensuring investment decisions and VFM outcomes are fully aligned to our Corporate Plan.

Our value for money outcomes

Enhance the value-added activities to our residents

- ✓ Adapted our tenancy sustainment team in the light of Covid-19 and supported over 2,200 customers in claiming benefits, often for the first time.
- ✓ Resolved an increased volume of anti-social behaviour cases in lockdown and worked with our partners in our communities and neighbourhoods.
- ✓ Engaged with tenants on programmes to improve IT skills.
- ✓ Helped budding entrepreneurs in our communities to help develop new business ideas.
- ✓ Launched the Naumann Initiative, recruiting four registered homeless candidates to PA and providing them with a new home.

Improve the customer experience

- ✓ Designed and implemented a new contact hub model.
- ✓ Trained our teams to improve their specialist knowledge so that first time assistance was more readily available to residents.
- ✓ Implemented new rents analytics software, enabling us to have a clearer picture of residents who may be struggling and in need of assistance.
- ✓ Used robotic automation to free up staff time, enabling them to dedicate more time to direct contact with our residents.
- ✓ Introduced a new complaints process.

Fully understand our assets and neighbourhoods and direct our investment to drive value

- ✓ Investment to improve our stock condition data.
- ✓ Directing resource to high risk / priority areas.

Strategic Report: Value for Money

- ✓ Updated information on our estates to drive the future re-procurement of our cleaning and grounds maintenance services.
- ✓ Reacting to Covid-19 and being flexible in our approach to keeping our neighbourhoods safe.

Further develop the strategic drivers behind our financial metrics, operational performance indicators and benchmarking activities

- ✓ Recognition of under-performance in re-letting properties and action taken.
- ✓ Quick financial decision-making in response to Covid-19.

Obtain value through robust procurement processes and contract management

- ✓ Award and commencement of our new telecare service across 87 older persons estates.
- ✓ Award of our lift servicing and repair contract to deliver consistent service and improved standards.
- ✓ Improved contract management in a challenging year to meet service delivery expectations.

Deliver our ambition to provide quality and affordable homes to meet our residents' needs

- ✓ Work undertaken to improve our financial capacity to deliver new homes in the future.
- ✓ A new sustainability strategy.
- ✓ 300 new homes completed and over 1,000 on site.
- ✓ Working more closely with residents to understand their needs and requirements from a new home.
- ✓ Assessing the affordability of new homes in the areas in which we operate and develop.

Engage with our residents to improve our service offer and make them an integral part of decision making

- ✓ Recruited two resident Board members.
- ✓ Customer journey mapping.
- ✓ Resident involvement groups.

Our operational performance and areas we need to improve

As part of our value for money monitoring, we use a suite of operational indicators that we report on monthly. These include, but are not limited to the below:

- Empty properties: Our re-let times for general needs and housing for older people properties, average re-let times and rent losses.
- Rent collection: Our arrears percentage and collection rates.
- Routine and emergency repairs: The percentage of repairs completed on time by contractor, appointments kept and satisfaction with the service.
- Digital engagement: How we are improving our digital services and resident engagement.
- Contact: Our percentage of calls answered, average wait times and length of calls.
- Resident satisfaction: We measure perception-based satisfaction with PA and transactional satisfaction in response to services received.
- Complaints: Number and percentage of complaints responded to in target times.
- Compliance: All aspects of building safety.
- Planned maintenance: How we are performing against our programme targets.
- Our People: The overall satisfaction of our colleagues at PA.
- New homes: The number of new homes delivered and sold against our targets.

Our indicators link back to the strategic objectives in our new Corporate Plan:

- Providing great services to customers.
- Positive relationships in our neighbourhoods.
- Sustainability strategy to deliver net zero-carbon before 2050.
- Increase construction of affordable and social homes.
- Maximise our capacity to deliver.
- Our people – delivering the plan.

In setting our targets for the year, we were aware that Covid-19 would impact on our ability to deliver. But our aim was still to deliver a high level of service. Likewise, we have set ambitious targets for improvement in the year ahead and have linked an element of colleagues' pay directly to those targets.

Providing great services to our customers

We measure resident satisfaction in a number of ways. Overall satisfaction has been measured in a new way and is therefore not comparable with the results in the previous two years. We have used the STAR survey of residents in the final quarter of the year. The survey is a perception survey drawn from a randomly selected sample. 62% of residents were satisfied, 15% were neutral in their response and 23% were dissatisfied. We recognise this is an area that we need to improve upon, and this is a key focus for the year ahead.

We also survey residents when they have recently received a service from PA. While this fares better with 73% satisfied, it also falls short of target. Through our analysis we know that residents from minority ethnic backgrounds and those living in London are generally not as satisfied as others.

As part of our improvement plan we have been listening to residents and have commenced insight work so we can understand why some are dissatisfied and how we can address this. This will enable us to redesign our approach and the customer experience, to make it easier for residents to access services. We will also be embedding our new complaints approach and new contact hubs, which together will make it easier for residents to contact us and get their queries answered quickly and effectively.

Strategic Report: Value for Money

Satisfaction with our repairs service remained high in 2020/21, with 86% of residents satisfied and only 8% dissatisfied but we recognise that residents want to see improvement in the quality of their homes. We are addressing this with additional investment planned for 2021/22 to bring our maintenance programmes back on schedule following the inevitable delays in 2020/21.

Positive relationships with our neighbourhoods

We strive to improve the communities in which we operate, and to drive positive relationships with our residents. We have delivered a number of initiatives and activities throughout 2020/21 as highlighted in our "VFM outcomes" and the work we have done with "Our Residents and Communities" earlier in this report.

We recognise that our residents and neighbourhoods do not only need us during challenging times and we want to continue to nurture the positive relationships we have maintained throughout the pandemic.

Sustainability strategy to deliver net zero-carbon before 2050

Our approach covers all areas of the business.

- Our Property: How we develop new homes, invest in our existing homes and use our offices
- Our People: Working with colleagues and residents.
- Our Partners: Working with suppliers, contractors and partners including Local Authorities, the GLA, Homes England, lenders and investors.

This approach will enable us to meet our objectives and drive further value for our residents. We want our residents' homes to be genuinely affordable places to live, not just through the rent they pay, but also the costs of running their home. We have surveyed our involved residents to ask about their priorities for sustainable living and we are analysing our stock condition information to devise a targeted plan for energy efficiency improvements. We plan to improve the worst performing stock to an EPC rating C by 2030.

We have developed a Sustainable Finance Framework which sets out our approach to sustainable investment. Our Sustainable Bond issue shortly after the year end will enable to us to drive and support our objectives to deliver net-zero carbon, alongside investment in new social homes and wider community benefits.

Further information on how we are embedding sustainability into our day-to-day activities and our long-term strategy is on our website.

Increase construction of affordable and social homes

Our work to increase the construction of new homes is highlighted under "Our Growth" earlier in this report.

Maximise our capacity to deliver

Our capacity to deliver has a foundation in our operational performance and how efficient we are in delivering our services. We recognise that whilst Covid has had an impact on areas of under-performance, we still need to do more to drive capacity and improve services to our residents.

In 2019/20 we acknowledged that we needed to improve our property re-let times and underlying processes. The impact of Covid has resulted in our re-let times increasing again in 2020/21. Our general needs re-lets averaged 85 days including those that had undergone major works. Often the ability to re-let homes more quickly was out of our control as we experienced delays with utility connections. We were also significantly hampered by restrictions on how we, and our contractors, could work safely in our properties. Letting our properties more quickly remains a focus, and we have seen an improvement in this area in early 2021/22 as we navigate out of the pandemic. The longer re-let times naturally led to an increase in our void rent loss; this was also impacted by our new development properties and in particular lost rents on homes held for sale as the market slowed considerably in the first half of the year.

Like many in the sector we experienced an increase in rent arrears in the early weeks of 2020/21, but the picture started to improve again in the latter half of the year. We were pleased with the progress we made; our close work with residents through the challenging circumstances of the year paying dividends. We do however appreciate that as Covid-related government support measures are withdrawn there will be further pressure on rent collection. Whilst our results fall short of the benchmark, a high proportion of our stock is located in London where the average arrears is traditionally higher.

Our people – delivering the plan

Our achievements in meeting our objectives are highlighted under "Our People" earlier in this report.

Our key operational metrics are included below:

Indicator	2022 Target	2021 Target	Bench-mark	2021 Actual	2020 Actual	2019 Actual
Overall customer satisfaction	80%	80%	86.9% [1]	62%	82%	82%
Void rent loss (social housing lettings)	2.0%	2.0%	1.5% [2]	2.8%	2.1%	1.0%
Average re-let days (general needs)	40	35	35 [3]	85	56	29
Rent arrears	4.5%	4.5%	3.0% [2]	4.6%	4.4%	3.7%

[1] National Housing Federation Sector Scorecard UK wide Median 2020 results.
[2] Regulator of Social Housing Quarterly Survey (January to March 2021) Median results.
[3] Housemark 2019/20 England Housing Associations, 15,000 units + stock owned.

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 reporting, financial planning, decision making, and Board discussion.

The following table and graphs illustrate our journey and forecasts which align to our new corporate strategy. Forecasts are based on our latest business plan approved by the Board.

In comparing our performance against others in the sector we have used a peer group of 19 other housing associations with social housing stock owned of between 15,000 and 35,000 properties, who operate in similar geographical areas to PA. We have used data published by the Regulator of Social Housing for periods ending 2019 and 2020.

Our overall performance in 2019 and 2020 was broadly in line with the trends of our peer group.

We have not reported on the supply of new non-social housing as this is not a material consideration for PA with only two (2020: 16) non-social residential homes developed in the year.

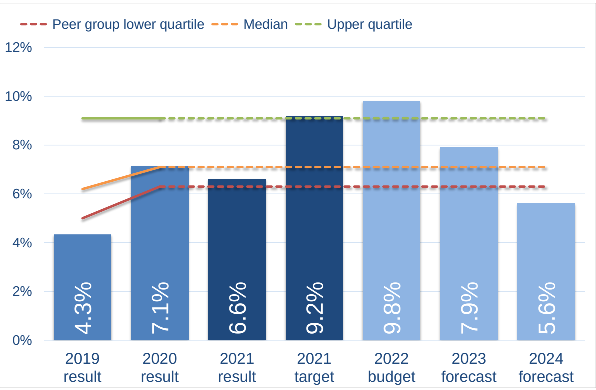
Group results	2021 Target	2021 Actual	2020 Actual	2019 Actual	2018 Actual
Reinvestment	9.2%	6.6%	7.1%	4.3%	4.7%
New supply – Social Housing	1.8%	1.3%	1.1%	1.5%	1.8%
Gearing	46.0%	45.7%	43.2%	40.2%	40.7%
EBITDA MRI interest cover	146.0%	136.5%	131.1%	169.0%	167.7%
Social housing cost per unit	£4,530	£4,758	£4,632	£4,213	£3,900
Operating margin – Social Housing Lettings	29.0%	24.9%	25.7%	33.3%	36.3%
Operating margin – Overall	30.0%	23.2%	26.2%	33.8%	34.6%
Return on capital employed	2.3%	2.2%	3.0%	3.6%	3.9%

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

Reinvestment and new supply

We invested £108m (2020: £106m) in the provision of affordable new homes and £13m (2020: £17m) in our existing stock. As a direct result of Covid-19 we were unable to meet our targets for the year. Our performance is in line with our peers, and we expect both reinvestment and new supply delivery to increase in 2021/22 as we catch up on the work which was delayed in 2020/21.

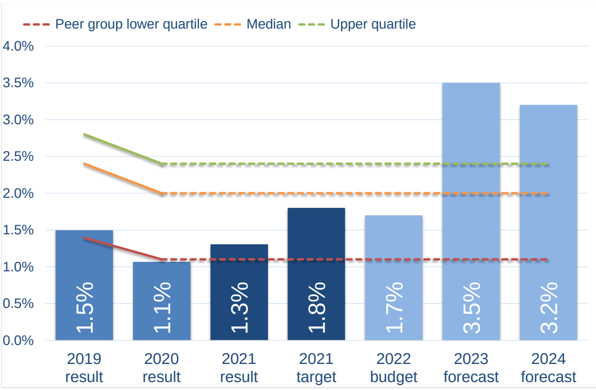
Reinvestment



Our reinvestment forecast reflects our Corporate Plan ambition to develop 6,000 new homes over 10 years and to continue to re-invest in our existing stock including delivering our sustainability goals and improving the energy performance of our homes.

Our financial position is strong and in May 2021 we completed a sustainable bond issue, raising £400m (of which £100m was retained) which will enable us to deliver our plans in the coming years.

New Supply (Social)



In 2020/21 we developed 298 new homes for social rent, affordable rent, and shared ownership. Whilst we did not meet our target we adapted to the new and challenging environment to deliver over 90% of what we set out to achieve in the year.

Our agile financial arrangements enabled us to take advantage of opportunities to buy off the shelf newly developed homes in our core operating areas to meet demand while many of our own developments were experiencing Covid-related delays.

Strategic Report: Value for Money

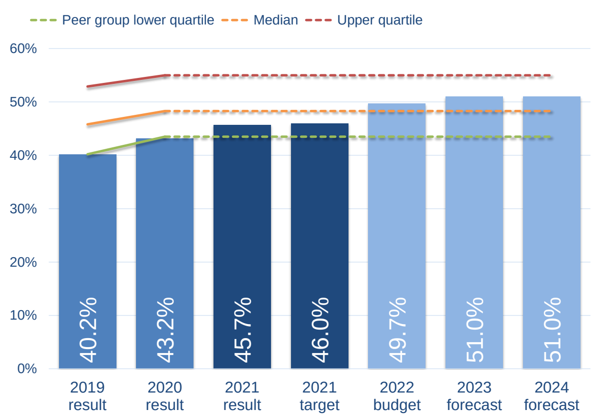
We will continue this flexible approach to the development and purchase of new homes and our future targets demonstrate our ambition to increase new supply and outperform our peer group.

Debt

Our gearing ratio is in line with our target for the year. Total borrowing increased from £801m to £882m in the year and the value of tangible fixed assets increased by £93m to £1,829m.

We expect gearing to gradually increase as we continue our development programme and it is likely that the peer group comparisons will evolve in a similar way. Our bond issue after the year end has had no short-term impact on our gearing as we have used the proceeds to pay down revolving bank facilities, pending reinvestment in our growth programme. The is in line with our treasury policy parameters, arranging funding ahead of need. We continually stress test our business plan to ensure that we do not over-commit on our development programme.

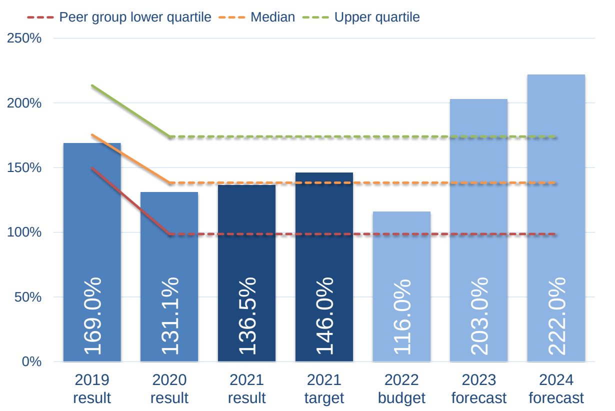
Gearing



Interest costs (before capitalisation) were £30.8m (2020: £31.6m), the reduction is due to active measures taken to reduce our weighted costs of borrowing.

Earnings before interest, tax, depreciation and including major repairs were £42.0m (2020: £41.4m).

EBITDA (MRI)



There is adequate headroom against our tightest loan covenant and our results are comparable to peer group median. Our Board is comfortable with the result and outlook, as it aligns with our strategy to continue prioritising investment in existing and new homes.

Unit costs

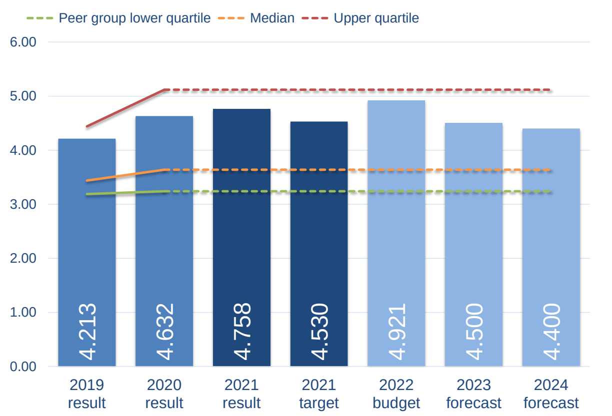
Our social housing cost per unit has seen a modest increase of 2.7% to £4,758.

Whilst our cost per unit is above the median peer group, we compare favourably against the upper quartile of associations who, like ourselves, hold a significant proportion of their stock in the London area.

Our outlook cost per unit is forecast to increase in 2021/22 as we aim to increase our investment in existing stock. This is to ensure we catch up on our reinvestment programme following the programme falling behind schedule in 2020/21 as a direct result of Covid-19. Beyond this we expect our cost per unit to reduce as our new development programme delivers an increase in the number of overall homes and our semi-fixed cost base can be spread across a greater number of homes.

Our Board believes that the overall cost per unit aligns with our investment priorities. We target value for money through the supply chain, but we do not believe that work to significantly reduce operating costs would be beneficial for residents. Whilst there have been challenges in delivering our objectives throughout 2020/21, we believe we are in a strong position to deliver our expected Corporate Plan outcomes in the year ahead.

Social Housing Cost per Unit

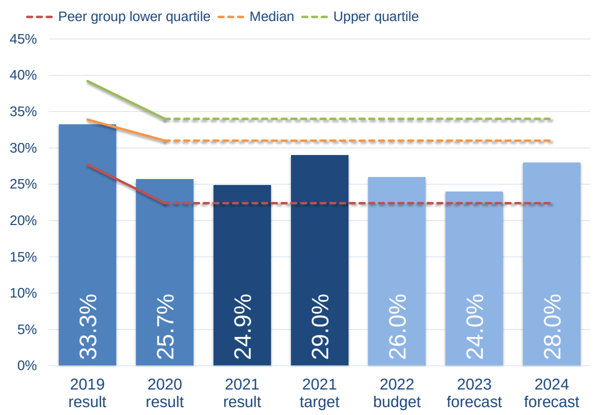


Efficiency

Operating margin, both on social housing lettings and overall, has fallen from our 2020 results. We note however that in general the sector and our peer group have seen a decrease in margins over recent years, and the Regulator of Social Housing has recently said that it expects to see continuing pressure on margins throughout the sector.

Strategic Report: Value for Money

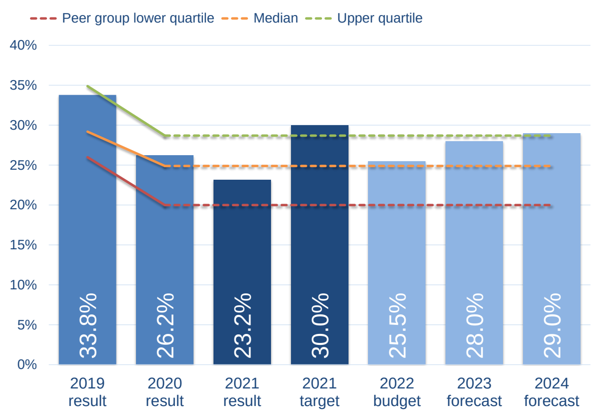
Operating Margin – Social Housing Lettings



Our results this year were particularly impacted by the increased rent loss on empty properties, an area which we are addressing to improve performance. We are also experiencing continued pressure on our margins from our without compromise investment in the safety of our residents and in particular to ensure all homes meet the required fire safety standards. As we navigate away from the impact of Covid-19 and we complete the immediate remediation works to our homes we expect our margins to steadily improve in the medium term.

Our Board has reviewed financial forecasts in light of the short term challenges the sector is facing, and remains clear that a social housing lettings margin of 30% is achievable and appropriate for PA. The forecast figures above are based on our prudent business plan.

Operating Margin – Overall

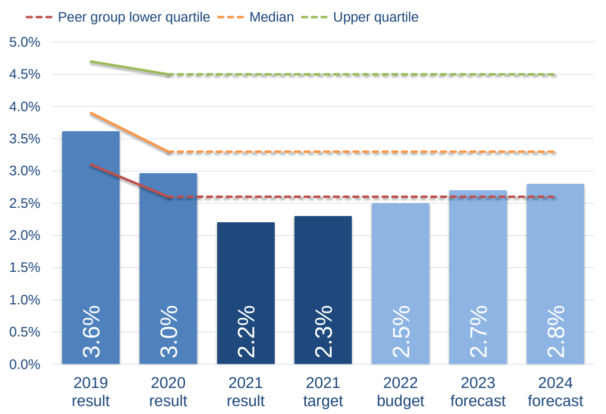


Our return on capital employed was in line with target although lower than our 2020 result and the results of our peer group. We did however deliver over 90% of our targeted growth. Most new developments in 2020/21 were not completed until the latter part of the year and we experienced a lag of new homes generating rental income compared to the increased investment in developing new homes.

Over recent years we have also looked to address the housing need in London and the South East where costs to develop are generally higher.

Our business plan takes a conservative view over the next three years. When analysing our performance against peers for this metric, we have noted that PA is driving results from a significantly higher capital employed figure than some. This means that in turn, we would need to generate significantly higher cash returns to achieve similar percentage returns. This would not meet our Board's current strategy as it would necessitate hefty cuts to operating expenditure with resulting impact on service quality.

Return on Capital Employed



Resources Director's Report

Resources Director's Report

I wrote my report for our 2020 Financial Statements in the early months of the Covid-19 pandemic. Within it, I noted that we must never lose sight of the social housing sector's core mission – to provide safe and secure homes and thriving communities where people can live fulfilling lives. We exist to provide support and opportunity to those who cannot access housing on the open market, and the challenges we have all faced over the past year have only served to reaffirm the crucial work we do.

From a business perspective it has naturally been a year of significant disruption, with the practical difficulties around service delivery in a socially distanced, Covid-secure world meaning that we were unable to complete all our plans in a business as usual fashion. But within that, our underlying financial strength enabled us to not only weather the storm but also make choices about adaptations to our services in order to meet the changing needs of our residents.

We decided to divert resources into key support projects which ensured that we were working with those who most needed our help. This included welfare calls to a number of residents, support for local foodbanks, increased hardship funding for residents facing acute temporary financial problems, and work with residents who were grappling with changes to their financial circumstances – including, in many cases, dealing with the welfare benefits system for the first time in their lives.

From a staffing perspective, unlike some housing associations PA elected not to access the government furlough scheme (other than to support two colleagues who had decided to leave PA but faced a delay in starting their new roles), believing that our latent financial resilience was sufficient to absorb any temporary cost pressures. We diverted staff who were unable to perform their core roles due to the restrictions onto other important work, and we ensured that all staff had access to necessary equipment and additional welfare support as we rolled out remote working.

Our Board worked to quickly and rigorously test the impact that Covid-19 might have on our short-term financial performance. There was early recognition that our main income cash flows might face disruption, meaning that our operating margin golden rule was under threat. This turned out to be the case, with new development completions, shared ownership sales, and re-letting of our homes all lagging behind normal expectations during the year.

In addition to the Covid-19 related impacts, building safety has remained at the forefront of our minds and during the year our Board agreed some additional investment in this area. We have a small number of buildings which require rectification work – these financial statements include some provisions for that work and in the meantime our operating costs have increased to ensure that all necessary safety measures are in place for our residents.

All these factors combined to produce a set of financial results which are a little behind our expectations in normal operating times, but very much in line with what we forecast through the year. Our Board has regularly tested this short term volatility against our longer-term financial plan, gaining assurance that the underlying financial strategy and direction of travel remains viable. Importantly, Board members are of the view that our prescribed financial golden rules, which have been in place since PA came into being since 2017, should not be modified even though there was the risk of shortfall in the Covid-19 environment. This sends out the clear message that our Board expects continued adherence to a financial plan which will not be derailed by temporary external challenges, even if they are very significant in nature.

This solid financial baseline enables us to strive towards our corporate goals with confidence, although always being wary of the risks that could crystallise. Our Board's preference for a simple business model which is heavily weighted towards core social housing means we can steer a steady course through any choppy waters. We remain absolutely focused on delivery of excellent services for our residents, alongside building our fair share of new homes to meet the national demand for genuinely affordable social housing. To this end, we were delighted to complete on a highly successful £400m sustainable bond issue in April 2021. These funds give us ample liquidity into the medium term and will enable us to continue investing in social and sustainable homes. We are grateful for the continued support of our investors and lenders, and we aim to fully repay the faith they have shown in PA's business model.

But I come back to the point that it is the people who live in these homes which drive PA. We must continue to utilise our financial strength and resilience to maximise opportunity, making the right investment choices for our residents. Housing associations should be more than just landlords – if we do things well then we can have a fundamentally positive influence on how people feel about their wider communities and how they live their lives.

To end on an optimistic note then, let's all hope that we will soon return to 'life as normal' – however that will be defined going forward – so that PA can continue to deliver the services and investments which our residents and communities so richly deserve.

Simon Hatchman
Executive Director - Resources
22 July 2021

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 financial planning, we ensure that these rules are harmonised with our corporate plan and objectives so that in effect, they comprise the building blocks of our financial strategy. This approach helps us to preserve financial resilience into the long term.

At the start of the year our Board recognised that full compliance with the golden rules may not be achieved due to the unprecedented circumstances of the year. Despite this Board members opted not to amend the golden rules, having reviewed analysis which showed that they remained absolutely appropriate for the needs of the business in the longer term.

Throughout the year we have continued to take a robust approach to financial control and our performance against the golden rules is presented at each Board meeting. Fire Safety costs have impacted on our overall results, and we take a zero-compromise approach to managing building safety compliance in our residents' homes. This year we have invested / provided for £5.2m of revenue fire safety costs and £2.4m of capital costs. We therefore publish our operating margin from social lettings including and excluding fire safety costs, and our free cash rule also excludes fire safety costs as these are additional one-off investments our Board has decided to make from available resources. We do not want to limit our aspirations to carry out all works to ensure the safety of our residents by imposing rigid financial constraints, so long as longer-term viability remains very robust.

Our interest cover is calculated on a loan covenant basis using our tightest covenant, this ensures we have significant headroom. All rules are on a Group basis.

Our Board continues to robustly scrutinise the forward view on performance against the golden rules. Wherever appropriate, the Board makes informed decisions on utilisation of capacity to ensure that the highest service standards are maintained. This is particularly important as the country seeks to bounce back from Covid-19 and the housing sector continues to grapple with the evolving building safety agenda.

Rule	Target	Result	Met
Operating Margin: Social Housing Lettings	>30%	24.9%	✗
Operating Margin: Social Housing Lettings (exc. Fire Safety)	-	27.5%	✗
Free Cash	>£10m	£14.0m	✓
Interest Cover (loan covenant basis)	>150%	152%	✓
Gearing	<55%	46%	✓
Hedged Debt	>50%	62%	✓
Liquidity	> 18 months	36 + months	✓
Social Housing Grant	No reliance	No reliance	✓
Property Sales as % of turnover	< 25%	7.9%	✓

Resources Director's Report

Summary results 2020/21

Our headline 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.

	2021	2020	2019	2018	2017*
Group statement of comprehensive income	£m	£m	£m	£m	£m
Turnover	156.6	149.6	159.6	164.7	163.5
Operating surplus	41.4	54.6	62.0	65.1	57.2
Net interest payable	27.3	27.3	29.9	33.5	26.6
Net surplus after tax	16.4	28.5	38.8	32.9	26.6
Net surplus excluding property sales	8.4	10.0	27.0	17.2	14.4
Group statement of financial position	£m	£m	£m	£m	£m
Property fixed assets net of depreciation and impairment	1,829	1,736	1,642	1,637	1,624
Capital grants	428	430	420	443	452
Net current (liabilities) / assets	(7)	65	45	16	70
Long-term creditors	1,280	1,281	1,180	1,181	1,258
Reserves	551	535	506	488	449
Statistics					
Operating margin (all activities)	26%	37%	39%	40%	35%
Net surplus %	10%	19%	24%	20%	16%
Gearing (debt versus housing assets)	46%	43%	40%	39%	43%
Debt to turnover ratio	5.6:1	5.3:1	4.4:1	4.3:1	4.6:1
Debt per owned property £'000	£41.8	£38.3	£34.1	£32.6	£35.7
Accommodation owned and managed	No.	No.	No.	No.	No.
Rented	19,442	19,301	19,370	19,860	19,803
Shared ownership	1,538	1,463	1,425	1,345	1,251
Managed units including leaseholders	2,040	1,969	2,254	2,300	2,539
Total stock	23,020	22,733	23,049	23,505	23,593

Resources Director's Report

Financial Review (Group results)

Turnover

Turnover has increased from £149.6m in 2020 to £156.7m.

Turnover from social housing lettings, including the amortisation of social housing grant but net of void loss is £139.5m (2020: £135.2m).

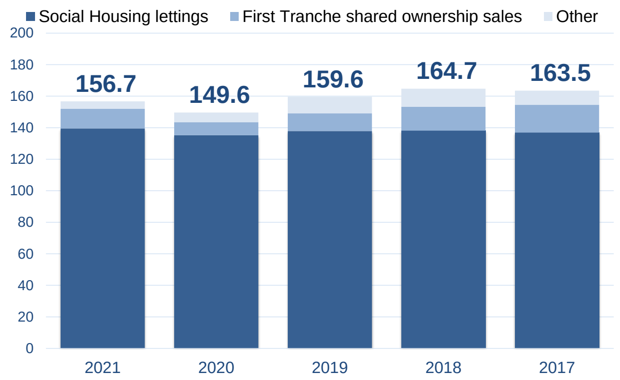
Turnover (Group)

£157m (2020: £150m)

From April 2020, government policy permitted a return to rent increases linked to the Consumer Price Increase for social and affordable rent properties. Our Board approved the maximum permissible increase under the policy of 2.7%. Whilst PA is financially strong, we wanted to ensure we maximised our investment in both new and existing homes. This increase, together with the growth in new homes generating a rental income stream, has resulted in an overall increase in rental income of 3.2%. This is slightly below our budget expectations due to the challenges associated with letting empty properties during the year and an increase in losses on these compared to 2020.

In 2020/21, income from the sale of shared ownership homes was £12.5m (2020: £8.3m).

Turnover £m



Operating Costs

Operating costs are £111.8m (2020: £105.5m)

Operating expenditure on repairs and maintenance (social housing lettings) is £33.3m (2020: £31.5m). Despite the challenges of the year we were able to further invest in our fire, electrical and cyclical decoration programmes with additional investment this year of £3.1m.

In 2021 we have included a £1.5m provision (2020: £1.5m) for further fire safety works identified. Due to the nature of this work we have disclosed this as other social housing activities and not included in our core social housing lettings results (note 2).

We have experienced an increase in our service charge costs (social housing lettings) in the year to £15.2m (2020: £13.6m). In part of this reflects the decisions to increase our cleaning programme, particularly implementation of deep cleans in the communal areas of our schemes. We have also seen an increase in costs for bulk rubbish removal, linked to the enforced changes in lifestyle on our estates throughout the pandemic.

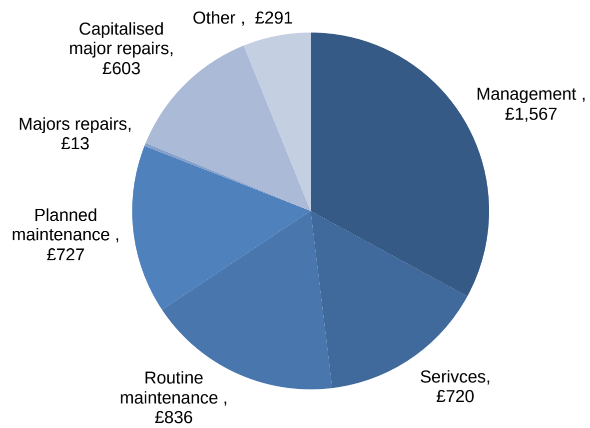
Management costs (social housing lettings) are £33.1m (2020: £30.8m). The majority of the increase relates to our people costs which have increased by 9.4% year on year. Aside from our normal incremental pay award at the start of each year and in addition to our controlled growth, we have supported our colleagues over the last year by; buying back holiday; enabling colleagues to carry forward more holidays; paying working from home allowances; and recognising exceptional performance. We did not use the government furlough scheme except in two cases to assist employees who had already decided to leave PA before the pandemic but faced delays to the start of their new jobs.

Operating costs (Group)

£112m (2020: £106m)

The pandemic has also had a financial impact in other areas: Travel costs and related expenditure reduced by 50%, expenditure relating to anti-social behaviour increased by 60%, and we invested £727k in our community social value programmes.

Cost per unit (social housing lettings) £



Reinvestment in our homes

As a direct result of the pandemic, investment in our existing stock through our planned programme of component replacements fell short of budget. £12.7m was invested in 2021 (2020: £17.3m).

Through our work on fire safety we have also identified £1.5m of obsolete components which have been written off during the year (2020: £1.3m).

Resources Director's Report

Operating Margin

Our operating surplus for the year was £41.3m (2020: £54.6m).

Operating Surplus (Group)

£41m (2020: £55m)

Property Sales

A surplus of £3.9m (2020: £3.5m) has been made from the first tranche sale of 86 (2020: 53) shared ownership homes. The sales margin achieved was 32% (2020: 42%). Sales activity in the first quarter of the year was minimal as a direct impact of the pandemic. Through the remainder of the year sales were steady and the market remained positive although we inevitably experienced delays in the sales process and completion times.

At the end of the year 114 completed new homes were held for sale. 46 of these had been for sale for longer than six months.

Shared ownership sales

86 (2020: 53)

A surplus of £4.1m (2020: £15.0m) has been made from the sale of other properties.

In 2020 88 sales were made to tenants under the Voluntary Right to Buy Midlands pilot. Five were made in early 2020/21 as the pilot scheme drew to a close, thus significantly reducing the surplus generated from this disposals programme.

55 shared ownership homeowners (2020: 66) further invested in a share of their home (40 of these to 100%). This generated a surplus of £3.2m (2020: £2.7m).

14 other sales completed, including nine to another Registered Provider and a small parcel of land.

Property sales (No.)	2021	2020
Shared ownership: First tranche	86	53
Voluntary right to buy	5	88
Shared ownership staircasing	55	66
Other	14	19

Financing

Interest and financing charges after capitalisation were £27.3m (2020: £27.3m). Interest on our housing loans including our 2015 bond issue was £29.8m (2020: £30.5m).

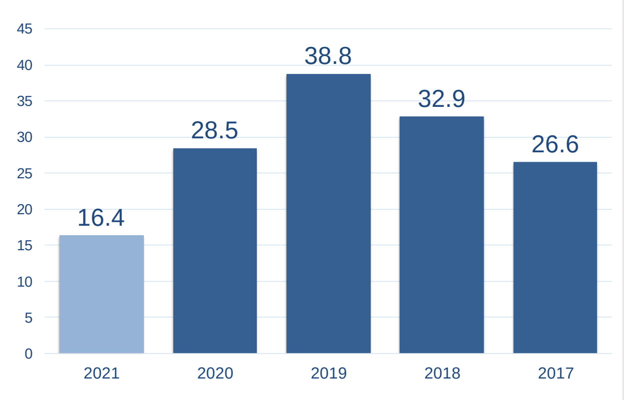
Whilst our overall borrowing increased, our cost of servicing it fell. We took active steps to restructure some legacy debt, reducing our weighted cost of capital as a result, and we increasingly benefitted from low prevailing interest rates during the course of the year.

Market rates started to increase towards the end of the year, on the back of a more robust economic outlook as the Covid-19 vaccine was rolled out. This has led to a decrease in in the position of our interest rate derivatives portfolio when marked to market. As a result, we recognised an £11.9m positive movement in the fair value of financial instruments in other comprehensive income (2020: £12.6m adverse). Our cash collateral provided to counterparties fell to £5.8m (2020: £13.8m) as a result of the decreased exposure.

Surplus

The surplus before tax for the year is £16.4m (2020: £28.5m). The fall in our net surplus is predominantly as a result of the significantly reduced surplus from Voluntary Right to Buy sales compared to the prior year, with the pilot programme coming to an end early in 2020/21.

Surplus before tax £m



New homes

In 2021 we invested £108m in the delivery of new homes (2020: £106m) and added a further 300 homes to our portfolio. Grant subsidy was £1.4m in the year (2020: £16.1m). Our growth model is not reliant on grant receipts, although we have been successful in attracting significant grants in support of the current pipeline.

Financial Position

The value of our housing properties increased by 5.2 per cent to £1.83bn (2020: £1.74bn) through our development programme and reinvestment in our existing homes.

We recognised £0.9m of impairment due to additional costs at a scheme under construction. This is a scheme where there have been long delays caused by contractor insolvency and easement issues over adjoining land. The scheme is predominantly being developed for shared ownership and the overall impairment loss has been mitigated through a positive sales market and rising values.

We invested £4.9m in other assets including equipment and furnishings in the communal areas of our schemes, investment in IT infrastructure and equipment, and development of two commercial properties integrated within our new developments. We have chosen to retain these for our own use to be used by our colleagues to accommodate our more flexible approach to how and where we work.

Resources Director's Report

Stock held of £72.6m (2020: £55.6m) mainly consisted of new shared ownership properties either completed awaiting sale or under construction.

Cash balances including ringfenced funds were £40.8m (2020: £46.2m). We continued to maintain higher than normal cash balances in the year to manage liquidity risk from Brexit and from the impact of Covid-19.

Movements in debtors and creditors relating to core activities were relatively stable. Creditors due within one year are £134.3m (2020: £62.8). During the year we increased our short term debt to bolster our liquidity position through participation in the Bank of England's Covid Corporate Financing Facility (CCFF). £75m was included in debt due within one year at 31 March 2021. Post year-end, we have repaid our borrowings under the CCFF and we successfully completed a £400m Sustainable Bond, of which £100m was retained for future issuance.

Total loans and borrowings at the end of the year were £882m (2020: £801m). Loans due within one year were £85.5m (2020: £20.7m), mostly relating to the £75m CCFF as noted above with this facility repaid in May 2021.

A further provision of £1.5m (2020: £1.5m) has been recognised for fire safety works. During the year we carried out extensive survey work on our properties including intrusive examinations of external walls.

The liability on our legacy defined benefit pension schemes is £21.2m (2020: £11.8m).

The significant increase in the Social Housing Pension Scheme liability is due to corporate bond yields (and hence the discount rate) reducing over the year, an increase in inflation expectations and the impact of RPI reform on the actuarial assumptions. By contrast the equivalent figures in our 2020 Financial Statements reflected a highly uncertain time for financial markets which led to a rise in corporate bond yields.

The liability on our Local Government Pension Scheme reduced in the year, this was assisted by an additional £0.5m deficit contribution made in the year as we look to accelerate our exit from the scheme.

New homes at 340a Clapham Road, Lambeth

Resources Director's Report

Financial outlook

Our long-term financial outlook is stable and in line with our business model which focuses on core social housing activities. There has inevitably been some short term disruption through Covid-19 but we have been working to ensure continued delivery of operations. Our liquidity position remains strong, boosted by our £400m bond issue (of which £100m was retained) in May 2021, and we continue to pursue strategic funding opportunities to support our growth plans.

The Board reviewed our financial plan in May 2021. The plan re-affirmed our adherence to our golden rules subject to some short term pressures on our operating margin and free cash as we navigate away from Covid-19. The plan incorporates our ambition to deliver corporate objectives. It reflects our service delivery priorities, in particular:

- Our intention to ensure a robust "bounce back" from Covid-19 in 2021/22 and beyond.
- Doing everything we need to in respect of the building safety agenda.
- Our commitment to the longer-term net carbon neutral agenda, with a £230m provision through to 2050.
- Our agreed 6,000 homes development target.

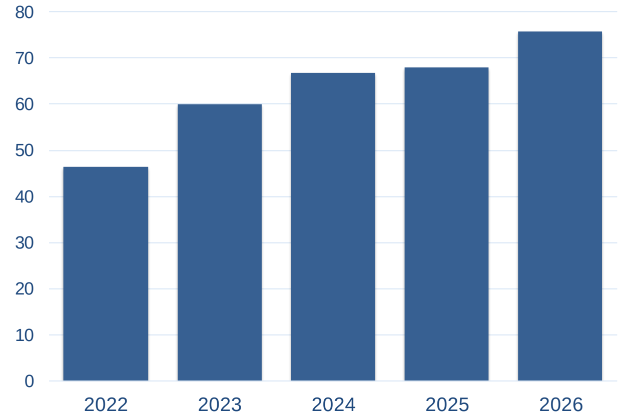
We fully expect to meet the Board's golden rules in the medium term, but in common with the rest of the sector, we need to navigate though the immediate challenges of Covid-19 and building safety.

We apply stress testing to our plan linked to our risk register, and prioritised and quantified mitigations have been identified. Overall, the business plan continues to represent a robust and resilient outlook.

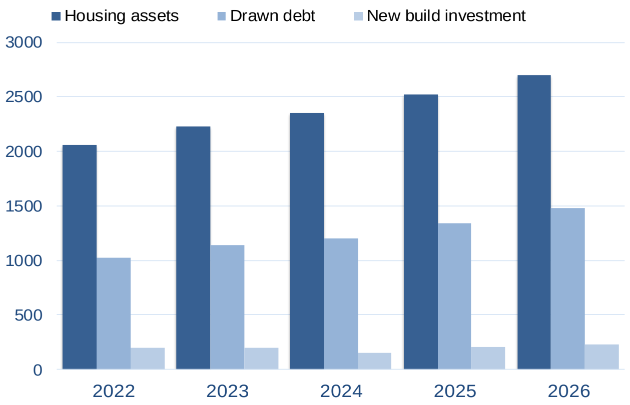
Our projections are below; these should only be taken as a broad indication given the rapidly evolving operating environment:

Projected: Turnover £m

Projected: Operating surplus £m



Projected: Assets / Debt / Investment £m



Resources Director's Report

Our Environmental, Social and Governance activities

PA exists to deliver social value to the communities 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 includes targeted support and opportunities to the people who live in our homes and their families, over and above our core landlord responsibilities.

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.

At various places within this report we touch upon 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. The table below signposts readers of this document to the key ESG information available elsewhere in our Financial Statements.

Environmental	
Work to improve energy efficiency and sustainability of our homes	Pages 13-14
Sustainable development of new homes and enhanced communities	Page 23
Social	
Measures in place to support and develop our diverse employees	Pages 16-17
Community investment initiatives	Pages 17 and 24
Our new build social housing programme	Pages 21-23
The work of our Tenancy Sustainment Team	Page 26
Governance	
Our approach to risk management and the measures we have in place to detect and respond to adverse movements in the operating environment	Pages 10-11
Assessment of going concern and the controls we have in place to preserve liquidity	Page 12
Information about our gender and ethnicity pay gaps, and the work we are doing to reduce them	Pages 18-19
Working with involved residents to improve services	Pages 24-25
Use of financial golden rules to drive financial strategy, aligned to broader corporate objectives	Page 35
Details of our governance arrangements including the internal controls assurance framework	Pages 45-50

We support and are directly involved in current sector work to formalise and standardise ESG reporting. This will enable our key partners and stakeholders to review and compare performance more easily, thus strengthening the links between ESG investment and ESG outcomes over time. PA is one of the early adopters of the ESG-focused 'Sustainability Reporting Standard for Social Housing' devised by the sector, working with the Good Economy.

Our first set of annual results against those metrics, along with a summary of our general ESG work, will be published in full in a separate document alongside these Financial Statements.

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 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.

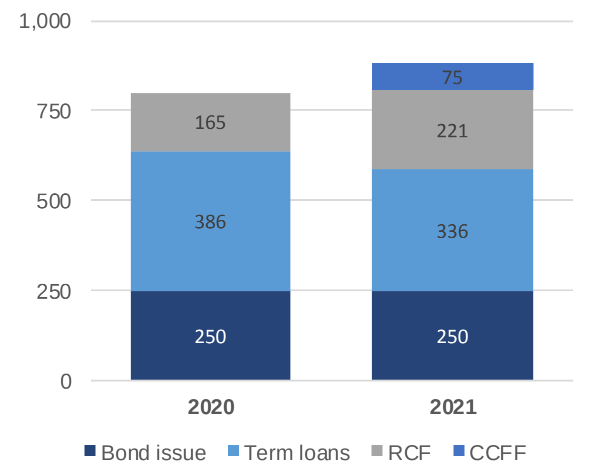
How we are funded

Overall Borrowing

£882m (2020: £801m)

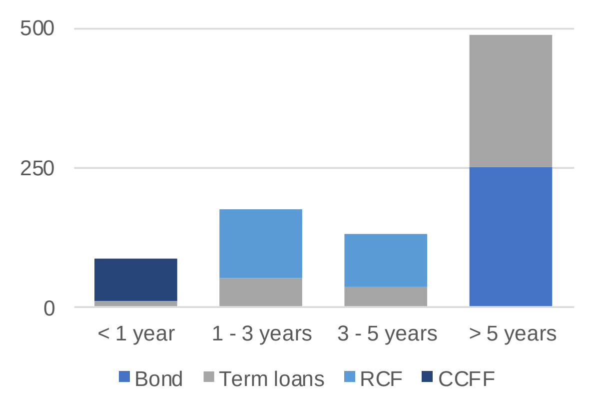
We borrow principally to fund our new build development programme, and the business is funded in pounds sterling through external borrowings (bank loans and capital markets), retained earnings and grant provided by government agencies. We took on more debt through the year as we continued to invest in our development programme, and at year-end external borrowings were as follows:

Funding (£m)



PA Housing is the main borrowing vehicle for bank loan borrowings. Our wholly owned subsidiary Paragon Treasury Plc issued a £250m bond in 2015; these proceeds are on-lent to PA Housing. During the year we completed work to achieve a second credit rating and are now rated A (Negative Outlook) by Standard & Poors in addition to our existing A3 (Stable) rating from Moody's.

Maturity of debt (£m)



Liquidity

At the year-end date we held liquidity (comprising treasury cash balances, and undrawn committed loan facilities available for immediate drawing) of £262m (2020: £223m). Treasury cash balances were £33.1m (£39.3m).

Liquidity

£262m (2020: £223m)

Covid-19 posed certain unknowns at the start of the year, particularly around the potential for rent collection to be negatively affected, and for delays on completion of sales transactions. In the event neither transpired to the extent initially envisaged, and conversely the impact of lockdowns and social distancing measures helped to preserve cash in the business, by slowing the pace of our new build development activity, and of certain repairs and maintenance work. As such, the overall level of cash consumption through the year was less than we had budgeted prior to Covid-19.

Nevertheless, we elected to adopt a prudent position in relation to levels of liquidity held, maintaining higher than usual cash balances throughout the year. We also chose to bolster our liquidity position through participation in the Bank of England's Covid Corporate Financing Facility (CCFF). This helped give us a robust platform to continue investment in our development programme once Covid restrictions eased.

Post year-end, we have repaid our borrowings under the CCFF and we successfully completed a £400m Sustainable Bond issue (of which £100m was retained for future issuance), which was heavily over-subscribed by investors. This has therefore supplemented our available liquidity further.

Looking forward, we anticipate that our development and sales activity will start to normalise as the legacy of Covid-19 starts to fade, with cash flows becoming more predictable again. The bond issuance gives us substantial scope both to continue to invest in our new build aspirations, and also to put increasing focus behind investment in our existing stock where we need to work towards net carbon neutral status.

Exposure to interest rate movements

Our outstanding borrowings slightly increased our exposure to interest rate movements this year, though it remained comfortably within the permitted range set by our treasury policy. Post year-end, the fixed rate bond issue at £300m (with a further £100m retained for future issue) recalibrated this position to c.90% of drawn debt being hedged against interest rate variations.

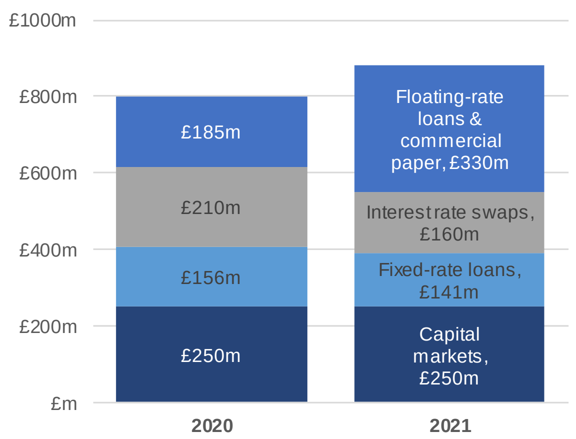
Fixed Rate Cover

62% (2020: 77%)

We took an approach of managed decline to levels of fixed rate cover during the year, given the weak interest rate environment and expectation of fixed-rate bond issuance in due course. Fixed rate cover had fallen to 62 per cent at March 2021 (2020: 77 per cent), which included £160m of standalone interest rate swaps (2020: £210m), with an aggregate value when marked-to-market of £53.3m negative (2020: £67.4m negative).

The improvement in market value reflects the stronger interest rate outlook prevailing at the March 2021 year-end date. The weighted average cost of our outstanding borrowings at 31 March 2021 fell to 3.2 per cent (2020: 3.7 per cent). This was influenced by work to restructure portions of our legacy bank debt portfolio, and the maturity of a legacy swap position at above current market rate of interest.

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 2021 test date, and our business plan indicates long term headroom going forward as cost pressures from our building safety agenda and the legacy of Covid steadily diminish.

Value for Money

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

During the year we reduced our average cost of borrowing and arranged new funding that together have reduced interest costs, whilst ensuring the business retains a strong financial footing to sustain its growth ambitions.

Sustainable Bond Issue

After the year end date we successfully completed issuance of a 15-year, £300m (with a further £100m retained) Sustainable Bond, with an interest coupon of 2.0%. The proceeds will be utilised in accordance with our recently published Sustainable Finance Framework, which directly promotes spending on new-build social housing properties that achieve an Energy Performance Rating of 'A' or 'B'. The framework also encompasses expenditure on retro-fitting of older properties to improve their energy performance in line with the government's carbon reduction plans, and on wider estate sustainability measures such as provision of charging points for electric vehicles.

LIBOR / SONIA transition

Our bank loan borrowings and interest rate swaps are currently linked to LIBOR, which is due to be replaced by the SONIA benchmark on 1 January 2022. We do not expect SONIA to materially affect the nature of our interest rate exposures upon transition.

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).

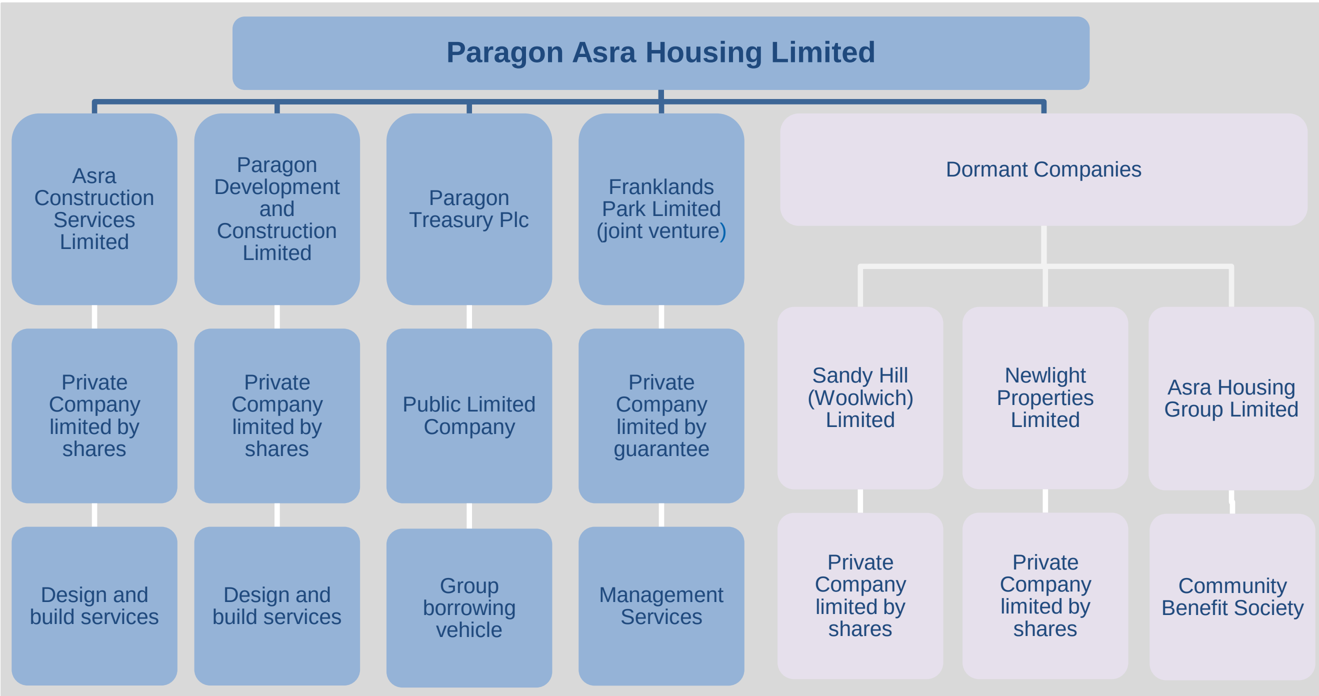
Paragon Asra Housing Limited is a Public Benefit Entity, as defined in Financial Reporting Standard 102, and applies the relevant paragraphs of FRS 102 for Public Benefit Entities.

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 2021 show a profit for the year of £7k (2020: £2k) and net assets of £9k (2020: £3k).

Corporate Governance

Code of governance

The Board maintains 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 regularly reviews and approves its standing orders, scheme of delegations, code of conduct, financial regulations and Committee terms of reference.

The Board complies with the National Housing Federation's 2020 Code of Governance and the 2012 Code of Conduct.

The Board meets frequently to determine strategy and 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 including the Chief Executive. Two current Board members are residents of PA Housing.

Each Board member holds one fully paid up share of £1 except the designate Board member and the Chief Executive, who are not shareholders. Four 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. This year, the process was augmented with input from specialist governance consultants who examined PA's governance arrangements and made certain best practice recommendations. The outcomes have been agreed by the Board, with the key points for further enhancement of governance arrangements centring around the following themes:

- Measures to ensure that the focus on residents remains a core part of Board business.
- Ongoing self-challenge as to what governance excellence looks like in an evolving world.
- Further work to embed equality, diversity, and inclusion within the Board's operations.
- Some refinements to the induction process for new Board members.

Board members undertake individual and collective training and development activity to further enhance their skills and experience, and to consider wider sector issues. Board members' learning is shared through regular 'horizon scanning' sessions at Board and Committee meetings.

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, diversity and inclusion is integral to all of its activities, including the recruitment and development of Board and Committee members. PA Housing aims to achieve a 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 it so requires.

Corporate Governance

Committees

During the year the Board delegated authority to four permanent 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 and proportionate risk management arrangements, and manages a risk profile in accordance with our strategy and risk appetite. The Committee comprises four non-executive Board members and it met three times during the year.

Development and Assets Committee

Oversees and scrutinises the development and sales 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 one independent member, 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 three 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 twice 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 in 2019 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. The Financing Group comprises four non-executive Board members and it met six times 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 (including Financing Group), £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 £1,432 (2020: £7,222) were reimbursed to non-executive Board members during the year.

Remuneration of committee members who are not Board members is not disclosed. Where a committee member was appointed to the Board in the year, remuneration is for services as a Board member only.

The remuneration of the Chief Executive who is also a Board member is included in notes to the financial statements.

Board Members	Board	Audit & Risk Committee	Development & Assets Committee	Nomination & Remuneration Committee	Customer Service Committee	Financing Group	Remuneration 2020/21 £	Remuneration 2019/20 £
Stephen Amos	8 of 8	3 of 3				6 of 6	13,000	11,795
Andrew Carrington	3 of 3		2 of 2			2 of 2	5,500	-
Christopher Cheshire	8 of 8		4 of 4		3 of 3		13,300	13,000
Kim Francis	3 of 3		2 of 2		2 of 3		5,500	-
Kathleen Harris Leighton	3 of 3				1 of 1		5,500	-
Rahul Jaitly	3 of 3	1 of 1			1 of 1		5,500	
Curtis Juman	7 of 8	3 of 3		2 of 2		5 of 6	12,000	11,462
Hattie Llewelyn-Davies	8 of 8			1 of 2	1 of 3		20,223	20,989
Katherine Lyons	8 of 8	3 of 3		2 of 2			12,601	12,541
Seetle Patel	8 of 8			1 of 1			7,176	3,735
Anne Turner	8 of 8	3 of 3	2 of 2		1 of 3	6 of 6	13,000	14,233
Retired								
David Edwards	4 of 5		2 of 2	1 of 1			7,882	16,124
David Hunter	5 of 5		2 of 2			3 of 3	6,500	13,545
Wayne Morris	N/a						-	10,223
Committee Members								
Joan Swift (resident)					3 of 3			
Ruth Mitchell (independent)					3 of 3			
Stephen Cooper (independent)					3 of 3			
Stephen Cunningham					3 of 3			
Tim Hill (independent)			2 of 2					
Retired								
Sam Thompson					1 of 1			

Corporate Governance

Compliance with the Governance and Financial Viability Standard

PA Housing confirms its continued compliance with the Governance and Financial Viability Standard of the Regulator of Social Housing, maintaining the highest possible ratings of G1 and V1. The Board has assessed its compliance with the standard during the year with reference to the current position and activities 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.

Charitable and Political Donations

The Group has made charitable donations of £53,066 (2020: Nil) during the year. No political donations were made during the year (2020: Nil).

Partnership with Accent Group Limited

During the year PA explored the merits of a potential partnership with Accent Group Limited. In May 2021 the Board decided not to proceed with the opportunity, following a thorough review of the potential merits of the transaction and the impact on PA's residents.

Annual Review of the effectiveness of the System of Internal Control

The Board delegates responsibility for the annual review of the effectiveness of the system of internal control to the Audit & Risk Committee (ARC). ARC receives the Chief Executive's 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 three 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 reviews the risk register on behalf of the Board. Risk Management reports include the top strategic risks, operating environment analysis, a risk trigger report and risk assurance. The Board receives risk management reports tailored to its specific business requirements. During the year the risk appetite matrix and the business plan stress testing scenarios including mitigation modelling (linked to the strategic risks and risk trigger report) were refreshed. Existing processes were enhanced as part of our pandemic response.

The external 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 a second credit rating was secured.

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 Head of Risk Management has direct access to ARC and meets 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 2020-21 Internal Audit annual report identified no material concerns.

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 and forecasts, 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.

Corporate Governance

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 Assistant Directors and Leadership Team members also undertake a twice-yearly self assessment and certification of the key control environment on a departmental basis.

Control Environment and Procedures

Governance arrangements are subject to continuing review and development to ensure they remain fit for purpose. Board and Committee membership is reviewed annually 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.

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 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;
- assess the group's 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:

John Stemp
Company Secretary

22 July 2021

Independent auditor's report to Paragon Asra Housing Limited

Opinion

We have audited the financial statements of Paragon Asra Housing Limited ("the group and association") for the year ended 31 March 2021 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 2021 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 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's 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").

In our evaluation of the Board's conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group's and the association's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group's and the association's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the group or the association will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Board, the audit and risk committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit and risk committee and development and asset committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet loan covenants / regulatory performance targets we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that income from property sales is recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted and approved by the same user, those posted to revenue in period 12 and 13 and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.
- Detailed testing over revenue recognition around the year-end date.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors

Independent auditor's report to Paragon Asra Housing Limited

(as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation including related *co-operative & community benefit society* legislation, taxation legislation, pensions legislation and specific disclosures required by housing legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the need to include significant provisions. Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Other information

The Association's Board is responsible for the other information, which comprises the Board's Annual Report, the Statement of Internal Control Assurance and Compliance with the Governance and Financial Viability Standard. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

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

Matters on which we are required to report by exception

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

- the association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over its 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 explained more fully in their statement set out on page 51, the group and 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 for our audit work, for this report, or for the opinions we have formed.

SBrown

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

12 August 2021

Financial Statements

Financial Statements
Statement of Comprehensive Income

	Note	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Turnover	2	156,648	149,588	156,891	149,816
Cost of sales	2	(8,545)	(4,834)	(8,545)	(4,834)
Operating costs	2	(111,838)	(105,524)	(111,815)	(105,504)
Surplus on disposal of fixed assets and investments	6	4,089	15,019	4,089	15,019
Movement in fair value of investment properties	15	1,000	392	1,000	392
Operating Surplus	2	41,354	54,641	41,620	54,889
Surplus on sale of other fixed assets		106	24	106	24
Interest receivable	9	59	312	59	308
Interest and financing costs	10	(27,288)	(27,338)	(27,288)	(27,338)
Movement in fair value of financial instruments	27	2,462	869	2,462	869
Gift aid receivable		-	-	-	1,425
Surplus before tax		16,693	28,508	16,959	30,177
Taxation	11	(258)	3	(15)	3
Surplus for the year after tax		16,435	28,511	16,944	30,180
Other comprehensive income					
Movement in fair value of hedged financial instruments	27	11,905	(12,589)	11,905	(12,589)
Actuarial (loss) / gain on defined benefit pension schemes	34	(12,287)	13,016	(12,287)	13,016
Total comprehensive income for the year		16,053	28,938	16,562	30,607

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

Financial Statements
Statement of Financial Position

	Note	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Fixed Assets					
Intangible assets and goodwill	12	(6,705)	(7,327)	(6,705)	(7,327)
Tangible fixed assets – housing properties	13	1,828,570	1,735,718	1,835,228	1,740,897
Tangible fixed assets – other	14	18,855	15,949	18,855	15,949
Investment properties	15	21,468	20,762	21,468	20,762
Investments	16	359	409	359	409
Investment in subsidiaries	17	-	-	13	13
		1,862,547	1,765,511	1,869,218	1,770,703
Current Assets					
Stock	18	72,648	55,560	55,978	38,889
Debtors	19	8,316	11,943	25,980	30,197
Current asset investments	20	5,807	13,777	5,807	13,777
Cash and cash equivalents		40,775	46,199	38,847	44,780
		127,546	127,479	126,612	127,643
Creditors: amounts falling due within one year	21	(134,343)	(62,790)	(134,378)	(62,953)
Net current (liabilities) / assets		(6,797)	64,689	(7,766)	64,690
Total assets less current liabilities		1,855,750	1,830,200	1,861,452	1,835,393
Creditors: amounts falling due after more than one year	22	(1,279,814)	(1,281,257)	(1,279,814)	(1,281,257)
Provision for liabilities	33	(3,298)	(1,798)	(3,298)	(1,798)
Net assets excluding pension liability		572,638	547,145	578,340	552,338
Pension liability	34	(21,247)	(11,807)	(21,247)	(11,807)
Total net assets		551,391	535,338	557,093	540,531
Capital and Reserves					
Called up share capital	32	-	-	-	-
Income and expenditure reserve		340,723	335,073	346,425	340,266
Cash flow hedge reserve		(28,929)	(40,834)	(28,929)	(40,834)
Revaluation reserve		239,519	241,021	239,519	241,021
Restricted reserve		78	78	78	78
		551,391	535,338	557,093	540,531

The financial statements on pages 55 to 97 were approved by the Board on 22 July 2021 and signed on its behalf by:

Anne Turner
Chair

Curtis Juman
Chair of
Audit and Risk Committee

John Stemp
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 2020	335,073	(40,834)	241,021	78	535,338
Surplus for the year	16,435	-	-	-	16,435
Change in fair value of hedged financial instruments	-	11,905	-	-	11,905
Actuarial loss on defined benefit pension scheme	(12,287)	-	-	-	(12,287)
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	321	-	(321)	-	-
At 31 March 2021	340,723	(28,929)	239,519	78	551,391

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 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

Financial Statements
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 2020	340,266	(40,834)	241,021	78	540,531
Surplus for the year	16,944	-	-	-	16,944
Change in fair value of hedged financial instruments	-	11,905	-	-	11,905
Actuarial (loss) on defined benefit pension scheme	(12,287)	-	-	-	(12,287)
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	321	-	(321)	-	-
At 31 March 2021	346,425	(28,929)	239,519	78	557,093

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 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

Financial Statements
Consolidated Statement of Cash Flow

	Note	2021 £'000	2020 £'000
Net cash generated from operating activities	29	47,778	29,089
Cash flow from investing activities			
Interest received		59	312
Grants received		1,365	16,797
Purchase and enhancement of housing properties		(120,653)	(125,977)
Purchase of other tangible fixed assets		(4,895)	(3,992)
Purchase of investment properties		(242)	-
Proceeds from sale of tangible fixed assets		9,767	26,980
Proceeds from sale of other tangible fixed assets		112	26
		(66,709)	(56,765)
Cash flow from financing activities			
Taxation paid		(10)	(21)
Interest paid		(27,288)	(30,042)
Decrease /(Increase) in bank deposits with a maturity in excess of 24 hours		7,970	(9,215)
Financing			
Housing loans and bond finance received	30	495,000	126,585
Housing loans repaid	30	(414,387)	(34,279)
Net change in cash and cash equivalents		(5,424)	(3,737)
Cash and cash equivalents at beginning of the year		46,199	49,936
Cash and cash equivalents at end of year		40,775	46,199

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 May 2021. The Group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the Group's day to day operations and shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants. As at 31 March 2021 the Group had available cash balances of £33m and a further £229m of secured but undrawn loan facilities that could be drawn at short notice.

The Board's assessment of going concern involves a number of subjective judgements. In making the assessment the Board has also considered the potential mitigations available to manage the potential impact on its cashflows and liquidity.

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 for all scenarios. This stress testing found that the business plan is robust and does not affect the group's ability to meet its obligations.

The Group has not suffered significant negative financial impact as a result of Covid-19 to date. As part of the going concern assessment and conclusion, the continuing effects of Covid-19 and post Brexit transition have been considered in the association's forecasts and factored into the stress test carried out, including any mitigation actions that may be required.

The Board, after reviewing the Group and Association budgets for 2021/22 and the Group's medium term financial position as detailed in the 30-year business plan including the continuing effects of the Covid-19 pandemic and post Brexit transition, is of the opinion that, taking account of severe but plausible downsides, the Group and Association have adequate resources to continue in business for the foreseeable future being a period of at least twelve months after the date on which the report and financial statements are signed.

On this basis, the Board continues to adopt the going concern basis in the financial statements.

Notes to the Financial Statements

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 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.

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
Lifts	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.

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:

Notes to the Financial Statements

Freehold office premises	10-50 years
Leasehold office premises	10-25 years
Plant and machinery	2-4 years
Fixtures, fittings and equipment	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. The balance held will be repaid or the grants utilised against future developments as agreed with Homes England and the Greater London Authority.

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.

Notes to the Financial Statements

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. As a result, an additional charge of £0.9m has been recognised in 2021 (2020: nil). The total impairment charge at 31 March 2021 was £5.6m (2020: £4.7m). Further information is provided in note 13.

Provisions

Provisions are included where there is a constructive or legal obligation at the year end reporting date. For housing properties the Government guidance relating to combustible materials, fire risk and protection, and regulatory compliance is monitored to determine the extent of any remedial work. There are significant complexities in determining the remedial work required and the associated costs the provision represents the best estimate of these costs at the year end. A provision of £1.5m has been recognised in 2021 (2020: £1.5m). The total provision for fire safety works at 31 March 2021 was £3.0m (2020: £1.5m).

A provision is made for an onerous lease on a commercial property which is sublet. At 31 March 2021 the provision was £0.3m (2020: £0.3m).

Further information is provided in note 33.

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.

At the 31 March 2021, the cost of properties is expected to be fully recoverable. Further information is provided in note 18.

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.

The defined benefit net pension liability at 31 March 2021 was £21.2m (2020: £11.8m). In response to the ongoing reform of the Retail Price Index (RPI) there has been a change in the estimates used by The Pensions Trust in how to set the Consumer Price Index (CPI) in relation to RPI. The impact of this is that the pension liability of the Social Housing Pension Scheme at 31 March 2021 is c.£6.5m higher than that calculated on the previous basis.

Further information is given in note 34.

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.

Notes to the Financial Statements

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.

Costs capitalised in 2021 were £1.3m (2020: £1.3m).

Derivative financial instruments

Interest rate swaps are held at fair value using the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. The fair value at 31 March 2021 was £54.5m (2020: £65.5m) Further information is provided in notes 27 and 28.

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 (note 1.16).

The total depreciation charge – housing properties in 2021 including accelerated depreciation on component replacements was £21.8m (2020: £23.0m).

Depreciation on other fixed assets in 2021 was £2.0m (2020: £1.5m).

Investment properties

Investment properties consist of commercial and market rent properties not held for social benefit. They are measured at cost on initial recognition and subsequently carried at fair value. 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.

At the 31 March 2021 investment properties were revalued using external third-party valuers. In 2021 an upward movement of £1.0m was recognised (2020: £0.4m). The fair value of investment properties at 31 March 2021was £21.5m (2020: 20.8m).

Further information is provided in note 15.

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.

A provision for bad debts of £5.5m was included at 31 March 2021 (2020: £5.2m).

Further information is provided in note 19.

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. No impairment of other debtors has been recognised at 31 March 2021 (2020: nil).

Notes to the Financial Statements

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

Group 2021	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	139,517	-	(104,790)	-	34,727
Other social housing activities					
First tranche shared ownership sales	12,453	(8,545)	-	-	3,908
Managed services	662	-	(234)	-	428
Charges for support services	22	-	-	-	22
Community investment	-	-	(727)	-	(727)
Development administration	-	-	(1,312)	-	(1,312)
Goodwill amortisation	622	-	-	-	622
Fire safety works provision	-	-	(1,500)	-	(1,500)
Impairment	-	-	(870)	-	(870)
Other	1,120	-	(976)	-	144
Surplus on disposal of housing fixed assets	-	-	-	4,089	4,089
	154,396	(8,545)	(110,409)	4,089	39,531
Non-social housing activities					
Market rented	991	-	(361)	120	750
Other non-social housing lettings	839	-	(249)	-	590
Commercial properties	422	-	(767)	880	535
Other	-	-	(52)	-	(52)
	2,252	-	(1,429)	1,000	1,823
Total	156,648	(8,545)	(111,838)	5,089	41,354

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	-	(99,002)	-	36,230
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
Fire safety works provision	-	-	(1,476)	-	(1,476)
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					
Market rented	823	-	(427)	392	788
Other non-social housing lettings	856	-	(481)	-	375
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

Notes to the Financial Statements

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

Association 2021	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	139,517	-	(104,790)	-	34,727
Other social housing activities					
First tranche shared ownership sales	12,453	(8,545)	-	-	3,908
Managed services	662	-	(234)	-	428
Charges for support services	22	-	-	-	22
Community investment	-	-	(727)	-	(727)
Development administration	-	-	(1,312)	-	(1,312)
Goodwill amortisation	622	-	-	-	622
Fire safety works provision	-	-	(1,500)	-	(1,500)
Impairment	-	-	(870)	-	(870)
Other	1,363	-	(953)	-	410
Surplus on disposal of housing fixed assets	-	-	-	4,089	4,089
	154,639	(8,545)	(110,386)	4,089	39,797
Non-social housing activities					
Market rented	991	-	(361)	120	750
Other non-social housing lettings	839	-	(249)	-	590
Commercial properties	422	-	(767)	880	535
Other	-	-	(52)	-	(52)
	2,252	-	(1,429)	1,000	1,823
Total	156,891	(8,545)	(111,815)	5,089	41,620

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	-	(99,002)	-	36,230
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
Fire safety works provision	-	-	(1,476)	-	(1,476)
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					
Market rented	823	-	(427)	392	788
Other non-social housing lettings	856	-	(481)	-	375
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

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	2021 £'000	2020 £'000
Income from social housing lettings activities					
Rents receivable net of identifiable service charges	102,042	13,747	6,688	122,477	118,176
Service charges receivable	5,174	4,595	1,932	11,701	11,698
Amortisation of social housing grant	4,000	818	521	5,339	5,358
	111,216	19,160	9,141	139,517	135,232
Expenditure on social housing lettings activities					
Services	8,542	4,300	2,365	15,207	13,580
Management	31,677	1,158	269	33,104	30,788
Routine Maintenance	15,091	2,455	120	17,666	18,338
Planned maintenance	12,826	2,417	120	15,363	11,305
Major repairs	280	-	-	280	450
Rent losses from bad debts	834	-	-	834	1,404
Depreciation of housing properties	16,448	1,708	-	18,156	19,036
Write off of components	3,451	198	-	3,649	4,011
Other costs	531	-	-	531	90
Total expenditure on social housing lettings activities	89,680	12,236	2,874	104,790	99,002
Operating surplus from social housing lettings activities	21,536	6,924	6,267	34,727	36,230
Rent losses from voids	1,739	1,311	640	3,690	2,722

Notes to the Financial Statements

4 Units of stock

Group and Association	2021 Number	2020 Number
Social Housing: Owned and managed		
General needs: Social rent	12,963	12,854
General Needs: Affordable rent	2,430	2,266
Intermediate rent	395	395
Supported housing: Social rent	109	111
Supported housing: Affordable rent	192	188
Shared ownership	1,538	1,463
Housing for older people	2,245	2,263
Temporary housing	34	29
	19,906	19,569
Social Housing: Managed not owned		
Leaseholder properties	1,505	1,481
Managed on behalf of others	509	488
	2,014	1,969
Total Social Housing in management	21,920	21,538
Non Social Housing: Owned and managed		
Student accommodation	20	20
Market rent	123	119
Health worker accommodation	223	224
	366	363
Non social housing: Managed not owned		
Market rent	26	-
Total housing in management	22,312	21,901
Social Housing: Owned and managed by others		
General needs: Social rent	55	171
General Needs: Affordable rent	19	29
Intermediate rent	35	35
Supported housing: Social rent	554	551
Supported housing: Affordable rent	45	45
	708	831
Non-social housing: Owned and managed by others	-	1
Total housing managed by others	708	832
Total housing	23,020	22,733
Other		
Homes under construction	773	576
Garages	2,044	2,050
Commercial	10	10
Held for re-development	124	74
Reconciliation of housing stock movements		
Total housing stock at the start of the year	22,733	23,049
New development	300	249
Voluntary Right to Buy and other sales	(23)	(107)
Change in housing managed for others	47	(344)
Stock taken out of management for re-development	(50)	(74)
Other stock movements	13	(40)
Total housing stock at the end of the year	23,020	22,733

Notes to the Financial Statements

5 Operating surplus on ordinary activities before taxation

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Operating surplus on ordinary activities before taxation is after charging/(crediting):				
Depreciation of housing properties (note 3)	18,156	19,036	18,156	19,036
Write off of replaced components (note 3)	3,649	4,011	3,649	4,011
Depreciation of other tangible fixed assets (note 14)	1,983	1,513	1,983	1,513
Impairment (note 2)	878	-	878	-
Amortisation of social housing grant (note 3)	(5,339)	(5,358)	(5,339)	(5,358)
Operating lease payments	386	333	386	333
Auditor's remuneration:				
In their capacity as auditors	84	69	62	52
In respect of other services	7	9	7	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 2021 £'000	Total 2020 £'000
Proceeds of sale	3	7,562	1,602	600	9,767	26,980
Less: cost of sale	(1)	(4,244)	(1,080)	(239)	(5,564)	(11,312)
Grant recycled	-	(70)	(2)	(42)	(114)	(649)
Surplus	2	3,248	520	319	4,089	15,019

Notes to the Financial Statements

7 Directors and senior staff emoluments

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

Group and Association Directors (including former directors)	**2021** **£'000**	**2020** **Restated** **£'000**
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind):		
Executive Directors	798	896
Executive Directors: pension contributions	90	115
Non-Executive directors	128	127
Compensation payable to directors in respect of loss of office	-	52
Total emoluments	1,016	1,190
Emoluments paid to the highest paid Director (excluding pension contributions, but including benefits in kind)	227	215

The highest paid director refers to the Chief Executive. The highest paid director refers to the Chief Executive. The basic salary (before salary exchange) as at 31 March 2021 was £225,000 (as at 31 March 2020: £225,000).

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)	**2021** **number**	**2020** **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	14	11
£70,001 to £80,000	12	10
£80,001 to £90,000	4	2
£90,001 to £100,000	4	4
£100,001 to £110,000	3	5
£110,001 to £120,000	1	-
£120,001 to £130,000	1	-
£130,001 to £140,000	-	-
£140,001 to £150,000	-	1
£150,001 to £160,000	-	-
£160,001 to £170,000	-	-
£170,001 to £180,000	-	-
£180,001 to £190,000	-	2
£190,001 to £200,000	1	-
£200,001 to £210,000	-	1
£210,001 to £220,000	2	-
£220,001 to £230,000	-	-
£240,001 to £250,000	-	-
£250,001 to £260,000	-	1
£260,001 to £270,000	1	-
Total	43	37
Included above due to redundancy	1	1

Notes to the Financial Statements

8 Employee information

Group and Association	2021 £'000	2020 £'000
Staff costs including directors:		
Wages and salaries	22,460	20,477
Social security costs	2,182	2,018
Costs of defined contribution scheme	1,543	1,449
Pension deficit reduction charge	3,188	2,642
	29,373	26,586
	Number	**Number**
Average number of full-time equivalent persons (including the directors) employed during the year:	625	598

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 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Interest receivable and similar income	59	312	59	308

10 Interest payable and financing costs

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Housing loans interest	15,750	17,624	15,750	17,624
Bond interest	9,021	8,561	-	-
Amortisation of debt issue fees	688	342	688	342
Pension unwinding cost	28	32	28	32
Interest rate swap obligation	5,021	4,284	5,021	4,284
Amortisation of inception element of swaps	31	131	31	131
Net interest on net defined benefit liability	249	591	249	591
Other loans from Group undertakings	-	-	9,021	8,561
RCGF interest	7	58	7	58
DPF interest	-	15	-	15
	30,795	31,638	30,795	31,638
Less: Capitalised	(3,507)	(4,300)	(3,507)	(4,300)
	27,288	27,338	27,288	27,338
Non-cash accounting transactions under FRS102 included above	921	916	921	916

Interest rates charged on housing loans varied between 0.30% 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 3.4% (2020: 3.9%).

Notes to the Financial Statements

11 Taxation

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
UK corporation tax				
Current tax on surplus for year	258	(3)	15	(3)
Tax on surplus on ordinary activities	258	(3)	15	(3)
Current tax reconciliation				
Surplus on ordinary activities before tax	16,693	28,508	16,959	30,177
Tax charge at 19% (2020: 19%)	3,172	5,417	3,222	5,734
Non taxable charitable activities	(2,914)	(5,407)	(3,207)	(5,724)
Tax refunds	-	(13)	-	(13)
	258	(3)	15	(3)

12 Intangible assets and goodwill

Group and Association	**Negative goodwill £'000**
At 1 April 2020	7,327
Amortisation of goodwill	(622)
At 31 March 2021	6,705

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 2020	1,574,120	101,544	181,628	34,945	1,892,237
Reclassification	7	-	-	-	7
Additions	146	66,670	(57)	41,163	107,922
Transfers and adjustments	(636)	250	853	-	467
Disposals	(1,318)	-	(4,300)	-	(5,618)
Component replacement	12,731	-	-	-	12,731
Components write off	(5,937)	-	-	-	(5,937)
Other write off	-	(211)	-	(46)	(257)
Schemes completed	38,247	(38,247)	21,494	(21,494)	-
At 31 March 2021	1,617,360	130,006	199,618	54,568	2,001,552
Depreciation					
At 1 April 2020	148,394	-	3,442	-	151,836
Charge for the year	18,156	-	-	-	18,156
Transfers	-	-	-	-	
Eliminated on disposal	(188)	-	(86)	-	(274)
Components write off	(2,289)	-	-	-	(2,289)
At 31 March 2021	164,073	-	3,356	-	167,429
Impairment					
At 1 April 2020	2,771	963	-	949	4,683
Charge for the year	-	238	-	632	870
At 31 March 2021	2,771	1,201	-	1,581	5,553
Net book value					
At 31 March 2021	1,450,516	128,805	196,262	52,987	1,828,570
At 31 March 2020	1,422,955	100,581	178,186	33,996	1,735,718

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 2020	1,575,057	103,376	181,628	36,130	1,896,191
Reclassification	7	-	-	-	7
Additions	146	68,149	(57)	41,163	109,401
Transfers and adjustments	(636)	250	853	-	467
Disposals	(1,318)	-	(4,300)	-	(5,618)
Write off	-	(211)	-	(46)	(257)
Component replacement	12,731	-	-	-	12,731
Components write off	(5,937)	-	-	-	(5,937)
Schemes completed	38,247	(38,247)	21,494	(21,494)	-
At 31 March 2021	1,618,297	133,317	199,618	55,753	2,006,985
Depreciation					
At 1 April 2020	147,169	-	3,442	-	150,611
Charge for the year	18,156	-	-	-	18,156
Transfer to current assets	-	-		-	-
Eliminated on disposal	(188)	-	(86)	-	(274)
Components write off	(2,289)	-	-	-	(2,289)
At 31 March 2021	162,848	-	3,356	-	166,204
Impairment					
At 1 April 2020	2,771	963	-	949	4,683
Charge for the year	-	238	-	632	870
At 31 March 2021	2,771	1,201	-	1,581	5,553
Net book value					
At 31 March 2021	1,452,678	132,117	196,262	54,172	1,835,228
At 31 March 2020	1,425,117	102,413	178,186	35,181	1,740,897

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
The net book value of housing properties may be further analysed:				
Freehold	1,682,402	1,594,730	1,689,060	1,599,909
Long leaseholds	144,882	139,616	144,882	139,616
Short leaseholds	1,286	1,371	1,286	1,371

Tangible fixed assets: Housing properties (continued)

Group and Association	2021 £'000	2020 £'000
Work to properties:		
Improvements to existing properties capitalised	12,731	17,266
Planned maintenance and major works expenditure included in the Statement of Comprehensive Income (note 3)	15,643	13,231

Interest capitalisation:		
Interest capitalised in the year	3,507	4,300
Cumulative interest capitalised	33,307	29,800
Rate used for capitalisation	3.42%	3.92%

16,662 properties (2020:15,714) 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, an additional impairment of £870k has been charged in 2021. (2020: Nil)

14 Tangible fixed assets: Other

Group and Association	Freehold offices £'000	Leasehold office £'000	Fixtures, fittings and equipment £'000	Computers and office equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 April 2020	10,501	674	4,632	6,216	284	22,307
Additions	366	-	3,631	790	108	4,895
Disposals	-	-	-	(2,094)	(205)	(2,299)
At 31 March 2021	10,867	674	8,263	4,912	187	24,903
Depreciation						
At 1 April 2020	1,581	411	674	3,430	262	6,358
Charge for the year	154	41	677	1,094	17	1,983
Eliminated on disposal	-	-	-	(2,094)	(199)	(2,293)
At 31 March 2021	1,735	452	1,351	2,430	80	6,048
Net book value						
At 31 March 2021	9,132	222	6,912	2,482	107	18,855
At 31 March 2020	8,920	263	3,958	2,786	22	15,949

Notes to the Financial Statements

15 Investment properties

Group and Association	Market Rent £'000	Commercial £'000	Total £'000
At 1 April 2020	18,304	2,458	20,762
Transfer to housing properties	-	(257)	(257)
Transfer to other fixed assets	-	(283)	(283)
Additions	242	-	242
Under construction	-	4	4
Revaluations	120	880	1,000
At 31 March 2021	18,666	2,802	21,468

Commercial properties were revalued at 31 March 2021 by Lamberts, Chartered Surveyors using comparisons to similar properties and where the properties are let or there is a lack of comparable sales evidence valuations have been based on capitalising the rental values using suitable yields (between 4.5% and 8.0%) depending on the nature of the individual asset.

Market rent properties, which are all freehold or long leasehold, were revalued at 31 March 2021 by Jones Lang LaSalle Ltd. Assumptions used are based on three categories of stock: Individual properties, schemes of two – nine units, and schemes of over ten units. Individual properties have been valued at Market Values with vacant possession with a 5% discount applied. Schemes of two – nine units (six schemes) have been valued adopting a discounted cash flow model. Schemes of over ten units (4 schemes) have been valued using an exit yield, discount rate and management costs relevant to each scheme.

16 Investments

Group and Association	2021 £'000	2020 £'000
Other loans	359	409
	359	409

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	2021 £'000	2020 £'000
Cost at 1 April and 31 March	13	13
	13	13

Notes to the Financial Statements

18 Stock

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Completed				
Shared ownership completed units	10,051	9,210	10,051	9,210
	10,051	9,210	10,051	9,210
Under construction				
Shared ownership properties	45,218	29,565	45,218	29,565
Commercial properties	709	114	709	114
Land held for development	16,670	16,671	-	-
	62,597	46,350	45,927	29,679
Total	72,648	55,560	55,978	38,889

19 Debtors

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Due within one year:				
Rent and service charge arrears	9,915	9,793	9,915	9,793
Less: provision for bad debts	(5,470)	(5,210)	(5,470)	(5,210)
	4,445	4,583	4,445	4,583
Other debtors	843	1,179	705	1,094
Prepayments and accrued income	3,028	6,181	3,028	4,810
Amounts owed by Group undertakings	-	-	17,802	19,710
	8,316	11,943	25,980	30,197

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

20 Current asset investments

Group and Association	2021 £’000	2020 £’000
Collateral	5,807	13,777

At the request of the counterparties, cash collateral of £5,807k (2020: £13,777k) has been lodged with Lloyds, Santander and NatWest to secure mark to market positions with swap counterparties.

Notes to the Financial Statements

21 Creditors: amounts falling due within one year

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Loans and borrowings (note 26)	85,523	20,749	85,523	20,749
Trade creditors	380	806	380	793
Corporation tax	258	10	15	10
Taxation and social security	588	530	588	530
Accruals and deferred income	30,974	24,154	27,953	21,023
Recycled capital grant fund (note 24)	3,332	3,232	3,332	3,232
Disposal proceeds fund (note 25)	1,673	2,110	1,673	2,110
Pension deficit contributions	93	91	93	91
Deferred capital grant	5,344	5,364	5,344	5,364
Amounts owed to Group undertakings	-	-	3,299	3,307
Other creditors	334	295	334	295
Rent and service charges received in advance	5,506	4,976	5,506	4,976
Interest rate swaps (note 28)	338	473	338	473
	134,343	62,790	134,378	62,953

The average time taken to pay trade creditors is 44 days (2020: 38 days).

During the year we increased our short term debt through participation in the Bank of England's Covid Corporate Financing Facility (CCFF). £75m is included in loans and borrowings due within one year at 31 March 2021. Post year-end, we repaid our borrowings under the CCFF from the proceeds of the £400m Sustainable Bond issue.

22 Creditors: amounts falling due after more than one year

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Loans and borrowings (note 26)	791,032	774,764	791,032	774,764
Loan premium	11	28	11	28
Bond premium	3,410	3,510	3,410	3,510
Pension deficit contributions (note 34)	631	678	631	678
Recycled capital grant fund (note 24)	4,745	6,626	4,745	6,626
Deferred capital grant	422,203	424,222	422,203	424,222
Sinking fund balances	5,801	5,433	5,801	5,433
Other creditors	529	474	529	474
Derivative financial instruments (note 28)	51,452	65,522	51,452	65,522
	1,279,814	1,281,257	1,279,814	1,281,257

Notes to the Financial Statements

23 Deferred Capital Grant

Group and Association	2021 £'000	2020 £'000
At 1 April 2020	429,586	420,048
Grants received during the year	1,365	16,149
Grants recycled to the RCGF (note 24)	(539)	(2,973)
Grants utilised	2,878	1,726
Grant transferred to other registered providers	(399)	-
Released to income during the year	(5,344)	(5,364)
At 31 March 2021	427,547	429,586
Social Housing Grant under UK GAAP		
At 1 April 2020	685,491	672,315
Received net of recycling	825	13,176
Eliminated on disposal	-	-
At 31 March 2021	686,316	685,491
Amount recognised in the Statement of Comprehensive Income	85,398	80,074

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	2021 £'000	2020 £'000
At 1 April 2020	9,858	7,837
Grants utilised	-	-
Grants recycled	654	3,621
Interest accrued	7	58
Allocated to new build developments	(2,442)	(1,658)
At 31 March 2021	8,077	9,858
Grant due for repayment	3,332	3,232

25 Disposal Proceeds Fund

Group and Association	2021 £'000	2020 £'000
At 1 April 2020	2,110	2,163
Interest accrued	-	15
Grant utilised	(437)	(68)
At 31 March 2021	1,673	2,110
Grant due for repayment	1,673	2,110

Notes to the Financial Statements

26 Loans and borrowings

Maturity of debt: Group and Association	2021 £'000	2020 £'000
Bank Loans		
Between one year and two years	66,461	20,045
Between two years and five years	217,625	200,845
In more than five years	229,314	272,122
Total (note 22)	513,400	493,012
In one year or less, or on demand (note 21)	5,917	19,638
	519,317	512,650
Other loans		
Between one year and two years	596	3,996
Between two years and five years	23,566	24,444
In more than five years	8,433	8,703
Total (note 22)	32,595	37,143
In one year or less, or on demand (note 21)	79,606	1,111
	112,201	38,254
Bonds		
In more than five years	250,000	250,000
Total (note 22)	250,000	250,000
Total loans and borrowings	881,518	800,904
Loan issue costs	(4,952)	(5,363)
Total loans and borrowings	876,566	795,541

Net debt at 31 March 2021 was £839.2m (2020: £752.8m) after adjusting for loan premium of £12k (2020: £28k), bond discount of £3.4m credit (2020: £3.5m credit) and deducting liquid asset balances held of £40.7m (2020: £46.1m).

The Group has committed borrowing facilities of £1,110.5m (2020: £1,136.5m) primarily raised through the debt and capital markets. As at 31 March 2021, £881.5m (2019: £800.9m) was drawn.

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

At 31 March 2021 undrawn committed loan facilities were £229.0m (2020: £335.6m). Of the drawn loan facilities, £551.1m (63 per cent) (2020: £615.9m, 77 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 3.42% (2020: 3.92%).

Notes to the Financial Statements

27 Financial Instruments

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

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Financial Assets				
Measured at fair value through the Statement of Comprehensive Income:				
- Cash and cash equivalents	40,775	46,199	38,847	44,780
Measured at discounted amount receivable:				
-Fixed asset investments (note 16)	359	409	359	409
Measured at undiscounted amount receivable:				
-Rent arrears and other debtors (note 19)	8,316	11,943	25,980	30,197
Total	49,450	58,551	65,186	75,386

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Financial liabilities				
Measured at fair value and designated in a hedging relationship (note 28)	51,452	65,522	51,452	65,522
Financial liabilities measured at fair value at amortised cost	1,304,102	1,225,099	1,304,102	1,225,099
Financial liabilities measured at fair value through the Statement of Comprehensive Income	1,411,958	52,889	1,412,233	53,049
Total	2,767,512	1,343,510	2,767,787	1,343,670

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, to address potential disruption from Brexit and from Covid-19.

The treasury team monitors available liquidity resources on an ongoing basis to ensure compliance with liquidity policy goals as well as the longer-term growth aspirations of the business. Apart from 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 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 31 March 2021 55% (2020: 67%) of borrowings were due to mature in more than five years.

Interest rate risk

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

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

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

Market risk

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

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

Disaggregation of the Statement of Financial Position

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

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

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Interest income and expense				
Total interest income for financial assets at amortised cost	59	312	59	308
Total interest expense for financial liabilities at amortised cost	(27,288)	(27,338)	(27,288)	(27,338)
Fair value gains and losses				
On financial assets (including listed investments) measured at fair value:				
Gain on fair value of financial instruments	2,444	854	2,444	854
Other gains	18	15	18	15
	2,462	869	2,462	869
Gain / (loss) on fair value of hedged financial instruments	11,905	(12,589)	11,905	(12,589)

28 Derivative Financial Instruments

Group and Association	Current 2021 £'000	Current 2020 £'000	Non Current 2021 £'000	Non Current 2020 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Liabilities				
Interest rate swaps	-	210	29,070	40,721
Non-hedged instruments carried at fair value				
Liabilities				
Interest rate swaps	338	473	22,382	24,591
	338	683	51,452	65,312

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	
	2021	2020	2021	2020	2021	2020	2021	2020
	%	%	£'000	£'000	£'000	£'000	£'000	£'000
Outstanding receive floating rate pay fixed contracts								
0 - 1 years	0.04	0.73	50,000	100,000	-	210	-	-
1 - 5 years	-	-	-	-	-	-	-	-
Over 5 years	4.50	4.50	110,000	110,000	29,070	40,721	22,382	24,591
At 31 March	3.11	2.70	160,000	210,000	29,070	40,931	22,382	24,591

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.

Gains of £11,905k (2020: loss £12,589k) were recognised in other comprehensive income representing the effective component of the swap. The ineffective components of £2,444k gain (2020: gain £855k) 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 2021 the Group had nine (2020: nine) cash flow hedges and one further interest rate swap (2020: one) 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.

Notes to the Financial Statements

Derivative Financial Instruments (continued)

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

	2021	2020
	£'000	£'000
Lloyds £50m 1.413% 12 October 2020	-	210
Santander £10m 4.84% 25 June 2026	2,200	2,695
Lloyds £20m 4.48% 26 February 2032	7,345	9,114
Lloyds £10m 4.70% 5 October 2032	4,084	5,054
Lloyds £20m 4.79% 4 January 2036	10,253	12,804
Lloyds £15m 4.39% 5 November 2037	7,576	9,640
Santander £10m 4.32% 4 July 2038	5,110	6,536
Lloyds £15m 4.44% 13 May 2038	7,887	10,028
RBS £10m 3.90% 4 October 2050	6,997	9,441
	51,452	65,522

The following swap contract does not qualify for hedge accounting

	2021	2020
	£'000	£'000
RBS £50m 0.037% 8 August 2029 (callable)	338	473

Notes to the Financial Statements

29 Cash flow from operating activities

	2021 £'000	2020 £'000
Surplus for the financial year	16,435	28,511
Adjustments for non cash items:		
Net fair value gain recognised in the SoCI	(2,165)	(869)
Change in value of investment properties	(1,000)	(392)
Depreciation charge on other fixed assets	1,983	1,512
Depreciation charge on housing properties	21,805	23,047
Impairment	870	-
Amortisation of grant on housing properties	(5,339)	(5,364)
Amortisation negative goodwill	(622)	(1,095)
Adjustment for pension funding	(2,847)	(2,589)
Decrease / (increase) in debtors	3,627	(4,185)
Increase / (decrease) in creditors	7,627	(9,479)
(Increase) in stock	(17,088)	(10,480)
Other provisions	1,500	1,476
Adjustment for investing or financing activities		
(Surplus) on sale of tangible fixed assets	(4,089)	(15,019)
(Surplus) on sale of other fixed assets	(106)	(24)
Interest payable	27,288	27,338
Interest receivable	(59)	(312)
Loan arrangement fees	(300)	(2,984)
Taxation	258	(3)
Net cash generated from operating activities	47,778	29,089

30 Reconciliation of net cash flow to movement in net debt

	2020 £'000	2019 £'000
Decrease in cash in the year	5,424	3,737
Other changes	595	636
Loans and bond finance received	495,000	126,585
Loans repaid	(414,387)	(34,279)
Loan arrangement fees	(300)	(2,982)
Change in net debt	86,332	93,697
Net debt at 1 April	752,882	659,185
Net debt at 31 March	839,214	752,882

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	(46,199)	5,424	-	(40,775)
Housing loans due within one year	20,749	(20,749)	85,523	85,523
Housing loans due after one year	530,157	101,362	(85,523)	545,996
Bond finance	250,000	-	-	250,000
Loan and bond arrangement fees	(5,363)	(300)	711	(4,952)
Loan premium	28	-	(16)	12
Bond discount	3,510	-	(100)	3,410
	752,882	85,737	595	839,214

32 Called up share capital

Association	2021 Number	2020 Number
Allotted, issued and fully paid:		
At 1 April	14	15
Allotted during the year	4	-
Cancelled during the year	(3)	(1)
At 31 March	15	14

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 2020	1,476	322	1,798
Provisions during the year	1,500	-	1,500
Balance at 31 March 2021	2,976	322	3,298

The fire safety works provision relates to an estimate of costs at the year end date for remedial work to fulfil our responsibilities and compliance with government guidance relating to combustible materials and fire risk and protection. At 31 March 2020, a provision of £1.476m was included in relation to one block in London. In 2020/21 a small number of other blocks were identified as requiring a range of additional fire safety works. In all cases we have taken immediate action to mitigate risks. There are however significant complexities in determining the remedial work required and the associated costs, including mitigation through negotiations with, and recovery of costs from original contractors, and access to government grants. Works to the blocks will commence as soon as practically possible and are expected to be completed with the next 18 - 24 months. The provision represents the best estimate of these costs at the year end.

The onerous lease relates to a lease on a commercial property which is sub let. The provision is unchanged from the prior year and is our best estimate of discounted future losses over the term of the lease.

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.

No liability is provided for the impact of McCloud or GMP rulings for historic transfers on the grounds of materiality.

Summary statement of pension scheme disclosures: Defined Benefit	**2021**	**2020**
Group and Association	**£'000**	**£'000**
Creditors due within one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	93	91
Creditors due after more than one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	631	678
Pension Liability		
Defined Benefit – Surrey County Council	958	1,726
Defined Benefit – Social Housing Pension Scheme	20,289	10,081
	21,247	11,807
Statement of Comprehensive Income		
Finance Costs:		
Surrey County Council - Net Interest Cost	39	29
Social Housing Pension Scheme - Net Interest Cost	210	562
Surrey County Council (Elmbridge Borough Council) - Finance Cost	28	32
	277	623
Operating Costs:		
Social Housing Pension Scheme - Expenses	69	70
Surrey County Council (Elmbridge Borough Council) - Operating Cost	20	15
	89	85
Other Comprehensive Income		
Surrey County Council - Actuarial gain / (loss)	248	(517)
Social Housing Pension Scheme – Actuarial (loss) / gain	(12,535)	13,533
	(12,287)	13,016

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	2021 £'000	2020 £'000
Contributions	1,543	1,449

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 £93k (2020: £91k) 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	**2021**	**2020**
Group and Association	**£'000**	**£'000**
At 1 April	769	813
Contributions paid	(93)	(91)
Operating charge	20	15
Finance charge	28	32
At 31 March	724	769
Net Present Value of creditor		
Due within one year	93	91
Due after more than one year	631	678
	724	769

Assumptions	2021 % per annum	2020 % per annum
Rate of discount	3.50	3.69

Notes to the Financial Statements

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

The Surrey County Council Pension Fund is a multi-employer scheme administered by Surrey County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme. The most recent comprehensive actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 March 2019. PA Housing's contribution to the LGPS was £560,000 (2020: £60,000).

	2021 £'000	2020 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	12,955	14,487
Interest cost on defined benefit obligations	293	344
Changes in financial assumptions	2,807	(1,069)
Changes in demographic assumptions	154	(313)
Other experience	(177)	(97)
Benefits paid	(388)	(397)
At the end of the year	15,644	12,955
Reconciliation of fair value of plan assets		
At the beginning of the year	11,229	13,247
Interest income on plan assets	254	315
Return on assets excluding amounts included in net interest	3,031	(1,996)
Employer contributions	560	60
Benefits paid	(388)	(397)
At the end of the year	14,686	11,229
Composition of plan assets		
Equities	11,161	8,309
Bonds	2,350	1,909
Property	734	786
Cash	441	225
Total plan assets	14,686	11,229
Equities	76%	74%
Bonds	15%	17%
Property	5%	7%
Cash	3%	2%

Principal actuarial assumptions used at the reporting date	2021 % pa	2020 % pa
Pension increase rate	2.85%	1.90%
Salary increase rate	3.75%	2.80%
Discount rate	2.00%	2.30%

Mortality	Males (years)	Females (years)
Current Pensioners	22.3	24.7
Future Pensioners*	23.4	26.4

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

Notes to the Financial Statements

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

	2021 £'000	2020 £'000
Amounts recognised in the Statement of Financial Position		
Fair value of plan assets	14,686	11,229
Present value of plan liabilities	(15,644)	(12,955)
Net pension scheme liability	(958)	(1,726)
Amounts recognised in the Statement of Comprehensive Income		
Interest cost on defined benefit obligations	293	344
Interest income on plan assets	(254)	(315)
	39	29
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	3,031	(1,996)
Changes in assumptions underlying the present value of the scheme liabilities	(2,783)	1,479
	248	(517)

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 completed 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.

Similarly, actuarial valuations of the scheme were carried out as at 30 September 2019 to inform the liabilities for accounting year ends from 31 March 2020 to 28 February 2021 inclusive, and as at 30 September 2020 to inform the liabilities for accounting year ends from 31 March 2021 to 28 February 2022 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

Notes to the Financial Statements

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

	2021 £'000	2020 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	86,163	98,729
Expenses	69	70
Interest cost on defined benefit obligations	2,026	2,261
Actuarial (gains) due to scheme experience	(1,544)	(448)
Actuarial (gains) / losses due to change in demographic assumptions	380	(867)
Actuarial (gains) / losses due to changes in financial assumptions	20,245	(11,368)
Benefits paid and expenses	(2,027)	(2,214)
At the end of the year	105,312	86,163
Reconciliation of fair value of plan assets		
At the beginning of the year	76,082	73,223
Interest income on plan assets	1,816	1,699
Experience on plan assets excluding amounts included in net interest	6,546	850
Employer contributions	2,606	2,524
Benefits paid	(2,027)	(2,214)
At the end of the year	85,023	76,082

Composition of plan assets	2021 £'000	2020 £'000
Absolute Return	4,693	3,967
Alternative Risk Premia	3,202	5,320
Cash	1	-
Corporate Bond Fund	5,023	4,338
Credit Relative Value	2,675	2,087
Distressed Opportunities	2,455	1,465
Emerging Markets Debt	3,432	2,304
Fund of Hedge Funds	10	44
Global Equity	13,551	11,128
High Yield	2,546	-
Infrastructure	5,669	5,662
Insurance-Linked Securities	2,042	2,337
Liability Driven Investment	21,608	25,251
Liquid Credit	1,015	31
Long Lease Property	1,666	1,316
Net Current Assets	517	326
Opportunistic Credit	2,331	-
Opportunistic Illiquid Credit	2,162	1,841
Private Debt	2,028	1,533
Property	1,766	1,676
Risk Sharing	3,095	2,569
Secured Income	3,536	2,887
Total plan assets	85,023	76,082

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	2021 % pa	2020 % pa
Discount rate	2.17	2.38
Inflation (RPI)	3.28	2.62
Inflation (CPI)	2.86	1.62
Salary growth	3.86	2.62
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

Mortality assumptions adopted at 31 March 2021 imply the following life expectancies at age 65:	Males (years)	Females (years)
Retiring in 2021	21.6	23.5
Retiring in 2041	22.9	25.1

	2021 £'000	2020 £'000
Present values of defined benefit obligation, fair value of assets and defined benefit liability		
Fair value of plan assets	85,023	76,082
Present value of plan liabilities	(105,312)	(86,163)
Net pension scheme liability	(20,289)	(10,081)
Amounts recognised in the Statement of Comprehensive Income		
Net interest expense	210	562
Expenses	69	70
	279	632
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income		
Experience on plan assets excluding amounts included in net interest	6,546	850
Experience on the plan liabilities	1,544	448
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – gain / (loss)	(380)	867
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – gain / (loss)	(20,245)	11,368
	(12,535)	13,533

Notes to the Financial Statements

35 Operating lease obligations

At 31 March 2021 the Group was committed to non-cancellable operating lease minimum future payments for each of the following periods:

Group and Association	Land and buildings 2021 £'000	2020 £'000
Operating leases which expire:		
Less than 1 year	415	336
Within 1 to 5 years	1,807	1,003
After 5 years	1,224	1,508
	3,446	2,847

36 Capital Commitments

	Group and Association 2021 £'000	Group and Association 2020 £'000
Expenditure contracted for but not provided in the financial statements	108,677	79,837
Expenditure authorised by Board but not contracted for	164,710	144,449
	273,387	224,286

Commitments of £273,388 (2020: £224,286) will be funded by cash reserves and the draw down of existing loan facilities. There is no reliance on Social Housing Grant and proceeds from sales receipts on shared ownership sales to finance commitments at 31 March 2021. Grant receivable will be transferred from balances held in the Recycled Capital Grant Fund and Disposals Proceeds Fund.

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.

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 2021 are £85.4m (2020: £80.1m).

Notes to the Financial Statements

38 Related Party Transactions

Other related parties

Key management personnel are the Executive Management Team and the non-executive Board members.

Two non-executive Board members appointed during the year are residents of PA Housing. All transactions are carried out on an arms length basis on normal terms and the members do not participate in decisions that could result in a conflict of interest. Transactions during the year were:

- Shared ownership leaseholder - Rents and service charges of £5,024 were charged in the year with a credit balance of £79 at 31 March 2021. On the 19 March 2021 a staircasing transaction for the remaining 50% equity completed with sales proceeds of £192,500 payable to PA Housing.
- Social rented tenant - Rents of £4,145 were charged in the year with a credit balance of £174 at 31 March 2021.

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

Remuneration paid to non executive Board members is disclosed in the Corporate Governance section of the Financial Statements.

Remuneration paid to the Executive Management Team is disclosed in note 7 of the Financial Statements.

There have been no other transactions between PA Housing and key management personnel (including their related parties) during the year.

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 2021 are as follows:

	2021				2020			
	ACSL	PDCSL	PTP	PAH	ACSL	PDCSL	PTP	PAH
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ACSL recharges	-	-	-	32,007	-	-	-	31,962
PAH development recharge	-	-	-	-	-	79	-	-
PAH finance recharge	243	-	-	-	150	-	-	-
PDCSL recharges	-	-	-	3,877	-	-	-	7,838
PTP interest recharge	-	-	-	9,021	-	-	-	8,561
PTP cost recharge	-	-	-	17	-	-	-	17
Debtor/(Creditor) balances	(9,003)	(5,420)	-	14,423	(10,973)	(5,566)	(2)	16,361

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