Registered Society No 16243R

HASTOE HOUSING ASSOCIATION LIMITED

Report and Group Financial Statements

Year ended 31 March 2019

Contents

Board Members, Executive Directors, Advisors and Bankers

Board	
Chairman	Ed Buscall
Vice Chairman	Richard Quallington
Other Members	Ann Bugden (resigned 6 July 2019) Elinor Goodman Martin Huckerby Lisa Hughes Charlotte Male (resigned 1 May 2018) Andrew Moore Julie Pearce-Martin (appointed 20 June 2019) Robert Rutledge Pratik Shah Andrew Wiseman
Executive Directors	
Chief Executive	Andrew Potter (appointed 29 May 2018) Sue Chalkley (resigned 28 May 2018)
Finance Director	William Roberts
Business Development Director	Ulrike Maccariello (appointed 3 June 2019) Donald Barclay (resigned 8 February 2019)
Operations Director	Georgina Parkinson (appointed 3 June 2019) Anne McLoughlin (resigned 5 December 2018)
Secretary	William Roberts
Registered office	Marina House 17 Marina Place Hampton Wick Kingston upon Thames Surrey KT1 4BH
Registered number	Registered as a charitable social landlord under the Co-operative and Community Benefit Societies Act 2014, No: 16243R Registered by the Regulator of Social Housing, No: L0018
Auditors	BDO LLP 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA
Solicitors	Devonshires Solicitors LLP 30 Finsbury Circus London EC2M 7DT Trowers & Hamlins LLP 3 Bunhill Row London EC1Y 8YZ Stephens Scown LLP Malpas Road Truro Cornwall TR1 1UT
Bankers	Lloyds Bank Plc 17 Heath Road Twickenham Middlesex TW1 4AW

Strategic Report

The Board presents its report and the Group's audited financial statements for the year ended 31 March 2019.

Principal activities

The following table summarises the companies in the Group ('Hastoe') and their principal activities:

Company	Principal Activity	Legal Status
Hastoe Housing Association Limited	Provision of homes and services to meet the needs of people who are homeless or poorly housed.	Registered Social Housing Provider
Sustainable Homes Limited *	Provision of consultancy and benchmarking services on environmental sustainability.	Company Limited by Guarantee
Hastoe Capital plc	Borrowing vehicle, providing funding to Hastoe Housing Association Limited.	Unlisted Public Limited Company
Hastoe Homes Limited	Provision of design and build services to Group companies.	Company Limited by Shares
Lowen Homes Limited	Development and sale of homes on the open market.	Company Limited by Shares

* On 31 March 2019, Sustainable Homes Limited ceased trading.

On 31 August 2018, Hastoe Wyvern Housing Association Limited (Hastoe Wyvern) transferred its engagements to Hastoe Housing Association Limited. The registration of Hastoe Wyvern under the Co-operative and Community Benefit Societies Act 2014 was cancelled on 8 March 2019.

Objectives and Strategy

Hastoe is defined by its strong commitment to rural communities and to environmental sustainability. These two agendas drive its strategic ambitions, which are:

- Build high quality and energy-efficient homes;
- Provide residents with a quality customer service;
- Be an excellent employer;
- Work with rural communities and influence policy on key issues; and
- Run an effective and efficient organisation.

The Group operates across a wide geographical area of more than 70 Local Authorities mainly located in the south of England. Hastoe has a track record of managing and building high quality homes that meet the needs of its many and varied local communities.

The future development programme will be focussed on the provision of affordable rural homes, whilst also balancing the Board's aim to strengthen Hastoe's financial resilience. In response to changes in the external environment, the Board has decided to limit its exposure to open market sales and, as a result, to sell its two open market led sites.

Hastoe has a long-standing commitment to resident engagement and reviews its services on a regular basis with the aim of improving customer service. Hastoe has signed up to become an early adopter of the National Housing Federation's (NHF) Charter 'Together with Tenants' to ensure housing associations and their Boards are accountable to residents.

During the year, Hastoe retained its Investors in People (IiP) Gold accreditation. The Board's ambition is to continue to be an excellent employer and to attract and retain high performing staff.

Strategic Report

Sustainable Homes Limited has for many years been one of the United Kingdom's leading providers of sustainability advice, benchmarking services, influencing and training. Due to a decline in revenues over recent years, the Board made the decision to cease trading on 31 March 2019. From 1 April 2019, the benchmarking service (SHIFT) transferred to Suss Housing Limited, a company unrelated to the Group. Hastoe remains committed to building energy efficient new homes and to retrofitting its existing homes.

In January 2019, Hastoe Capital plc sold £25m of retained bonds and on-lent the proceeds to Hastoe, who will use the funding to build affordable rural homes.

Hastoe does not provide any form of guarantee to any of the unregulated companies in the Group. Hastoe has provided Lowen Homes Limited with a £25m revolving loan facility. The facility attracts a commercial rate of interest and is secured by a floating charge.

Operating environment

Economic growth in the United Kingdom (UK) remained subdued in 2018. The Office for Budgetary Responsibility (OBR) forecasts the UK economy will grow by 1.2% in 2019 and 1.4% in 2020. This forecast comes in the light of continued political uncertainty over Brexit and weak productivity indicators.

In August 2018, the Bank of England raised interest rates to 0.75% and has since held them at this level. In early 2019, Consumer Price Index (CPI) inflation fell back below Bank of England's 2% inflation target, which has lessened the expectation of further near term rises in interest rates.

House price inflation continues to fall, increasing only 0.6% in the last year and the OBR expects house price growth to fall to zero by the end of 2019. All forecasts for economic growth, inflation and house prices are dependent on the handling of Britain's departure from the European Union (EU). The Bank of England forecasts that a disorderly departure from the EU could reduce house prices by as much as 30%, shrink the United Kingdom's Gross Domestic Product by 8% and cause inflation and interest rates to rise above 5%. The Board remains mindful of these risks and has adjusted Hastoe's development programme, and exposure to open market sales, in the light of economic and political uncertainty.

The Government published the Social Housing Green Paper in August 2018. It focuses on social landlords' engagement with tenants and ways of providing quicker and more effective redress when problems are found. It commits to a review of the Decent Homes Standard, a more proactive Regulator of Social Housing and considers the use of league tables for social landlords. A Government response to the Green Paper consultation is expected in summer 2019.

The Hackitt Review, set up in the wake of the Grenfell Tower fire, published its findings in May 2018. The report called for a 'radical rethink of the whole system' for keeping high-rise residential buildings safe. Among the recommendations was that a new regulatory regime was established for tower blocks with ten or more storeys. Hastoe owns three blocks with ten or more storeys. The health & safety of all the Group's residents is the Board's primary concern. All the Group's fire risk assessments are up to date and the resulting actions monitored until completion by the Executive Team and reported to the Board.

From April 2020, housing associations will be allowed to raise rents by CPI+1% annually for five years. Hastoe has factored the rent rise into its business plan, while being mindful that Government policy can change.

The Government is ambitious for the housing association sector to build more homes. The National Housing Federation has set a target of housing associations building 120,000 homes per year by 2035/36 – requiring an average increase in supply of 5.8% per year. After a number of years of significant growth, Hastoe has reduced its development programme to consolidate its financial position. However, the Board remains committed to building new affordable homes in rural communities.

Housing associations have continued to access the capital markets for long term debt. Hastoe issued a further £75m of debt during the year, of which it retained £50m.

Strategic Report

The Board will continue to monitor the economic and political indicators and their effect upon investor and consumer confidence. In accordance with any changes, the Board will review the business plan and strategy to determine the appropriate responses.

Risks and uncertainties

Risk assessment

Risks that may prevent the Group achieving its objectives are considered and reviewed regularly by the Board and senior staff as part of the corporate planning and performance management processes. The Board considers the following to be the major risks to successful achievement of its objectives.

Key risk	Description and risk mitigation
Health & Safety	Failure to meet health & safety responsibilities resulting in injury or death. The Board reviews a series of health & safety performance indicators and approves a health & safety policy. The Group employs specialist external consultants to support an experienced staff team. Further assurance is provided by a programme of independent internal audits and compliance tests. The Board has a fire safety strategy designed to further reduce the risk of harm to residents.
Rent Controls	Political or economic changes result in controls on social rents that are less favourable than the current expectation of increases being capped at the consumer prices index plus 1% for the next 5 years. The Board reviews the financial plan, and associated stress testing, to gain assurance of the Group's continued financial viability.
Sales Risk	A decline in property prices leads to losses on sale or a fall in the value of land held for future developments, which may be more likely due to the uncertainty caused by Britain's exit from the EU. The Board regularly considers its risk appetite and sets manageable limits on its exposure to open market sales. The Board agreed in the year to withdraw from open market led developments.
Welfare Reform	The implementation of Universal Credit and direct payment has a materially adverse effect upon arrears collection and bad debt levels. Hastoe has invested in its arrears collection systems and offers a wide range of welfare benefit and financial management information. The Group's arrears levels are better than the median performance for the housing association sector. Although Hastoe considers itself well placed to manage these changes, it has included prudent assumptions for bad debt levels in its financial forecasts.
Tenant engagement and satisfaction	Tenants' views are not understood by the Board and tenant satisfaction is below the level that Hastoe aspires to deliver. Hastoe is an early adopter of the National Housing Federation's 'Together with Tenants' programme, which aims to make social landlords more accountable to their tenants. The Group has a target to improve customer satisfaction levels, through improvements in the management of repairs contractors and the increased use of technology.

Strategic Report

Financial review

Income and Expenditure

The following table provides a summary of the Group's results and associated financial indicators over the last five years:

For the year ended 31 March	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Total Turnover	**32,754**	**34,331**	**34,057**	**33,607**	**31,830**
Income from social housing lettings	28,402	28,355	27,936	27,507	24,861
Surplus on first tranche and open market property sales	371	1,340	1,058	955	1,271
Gain on disposal of properties	1,685	3,763	3,397	3,297	209
Operating Surplus	**14,061**	**18,197**	**18,268**	**16,096**	**12,512**
Net interest costs	(11,296)	(10,589)	(10,840)	(10,731)	(9,591)
Surplus for the Year	**2,861**	**6,658**	**8,097**	**5,657**	**2,911**

Operating Margin	**43%**	**53%**	**54%**	**48%**	**39%**
Operating margin on social housing lettings	44%	47%	49%	44%	46%
Interest Cover*	**1.6**	**2.0**	**1.9**	**1.7**	**1.5**
EBITDA MRI Interest Cover**	**1.1**	**1.4**	**1.4**	**1.2**	**1.1**

** Operating surplus before property depreciation and grant amortisation divided by interest payable (excluding capitalised interest) less interest receivable.*
*** Earnings Before Interest Tax Depreciation and Amortisation, with capitalised Major Repair costs Included (excluding gains on disposal of properties).*

The Group generated a surplus for the year of £2.9m (2018: £6.7m) at an operating margin of 43% (2018: 53%). The decline in the surplus is primarily due to a reduction in the amount generated from property sales, being £3m lower than in the previous year. In addition, there was a one-off charge of £0.5m in the year for fixed interest breakage costs that resulted from the redemption of a bank loan.

The Board had recognised the slowdown in the housing market and correspondingly limited its exposure to new build sales. The lower level of surplus first tranche and open market property sales generated in the year was as a result of a decision to scale back the Group's development programme. At the year end, there was only one recently completed unsold property in stock.

Turnover from first tranche and open market property sales was £1.9m (2018: £4.1m) and generated a margin of 19% (2018: 33%). The reduction in the margin was due to an increase in the proportion of open market sales that generally produce a lower margin due to the higher cost of land.

The significant reduction in the gain on disposals of existing homes explains the majority of the reduction in the operating margin. The other significant factor was the final year of the rent cuts, which were first introduced in April 2016. The scaling back of the Group's development programme means that it requires a lower level of subsidy from the sale of existing homes.

Turnover from social housing lettings of £28.4m (2018: £28.4m) has risen only a modest amount over the previous year, as the rents from newly built homes have been broadly offset by the rent reductions imposed by Government. Operating costs on social housing lettings have increased by 7% during the same period, mainly due to additional expenditure on fire safety works. As a result the operating margin on social housing lettings has fallen to 44% (2018: 47%).

Strategic Report

Statement of Financial Position

The following table summarises the Group Balance Sheet and associated financial indicators over the last five years:

For the year ended 31 March	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Fixed assets at cost or valuation	417,660	410,829	400,933	394,734	378,970
Net current assets / (liabilities)	17,103	(2,588)	4,599	3,459	12,857
Total assets less current liabilities	**434,763**	**408,241**	**405,532**	**398,193**	**391,827**
Creditors and provisions - over one year	377,879	352,421	356,370	357,128	356,419
Reserves : revenue	56,544	55,480	48,864	40,802	35,212
: revaluation	340	340	298	263	196
	434,763	**408,241**	**405,532**	**398,193**	**391,827**

Net Debt* : total assets less current liabilities	50%	53%	52%	53%	52%
Debt ** per unit owned	£32,757	£30,556	£30,863	£30,194	£31,139
Debt *** : revenue	7.3	6.5	6.6	6.7	7.5
Liquidity ****	2.2	0.8	1.4	1.3	2.0
Total units owned and managed	**7,630**	**7,595**	**7,511**	**7,390**	**7,171**

** Outstanding principle amount less cash*
*** Outstanding principle amount*
**** Debt and related amounts*
***** Current assets divided by current liabilities*

Completed properties are carried in the balance sheet at a net book value of £401m (2018: £396m). The Group has grown rapidly over the last ten years, through new build development. This has been funded by increased borrowings, grant and the investment of Hastoe's reserves.

Hastoe's bond was tapped for £25m in 2014, which led to an increase in gearing levels. These levels then gradually declined as the cash was utilised to fund further new build development. Gearing levels have increased again more recently, due to the sale of £25m of retained bonds in January 2019. These monies will be used to fund the building of new homes and repayment of existing bank loans. Scheduled loan repayments of £5m fall due in the coming year.

Pension costs

The Group participates in the Social Housing Pension Scheme (SHPS). On 30 April 2013, the Group closed its SHPS final salary scheme, thus eliminating any uncertainty arising from future service pension liabilities. A formal valuation of the SHPS was performed at 30 September 2017 and the results are shown in note 19. Following the introduction of The Pension Trust's system to enable the allocation of assets and liabilities to individual employers, SHPS has been accounted for using defined benefit accounting from 31 March 2019.

A SHPS defined contribution scheme remains available to existing and new members of staff.

Strategic Report

Treasury management

The Group treasury policy is approved annually by the Board. In managing its treasury operations the Group's strategic aim is to minimise the cost of funds at an acceptable level of risk and ensure the effective and efficient use of financial resources.

At the year end the Group had committed debt funding of £277m. Available liquid resources of £62m (cash holdings of £24m and undrawn loan facilities of £38m) are sufficient to meet the Group's committed expenditure. The Group's drawn debt has limited refinancing risk with only 20% of the Group's debt maturing within the next ten years. The undrawn loan facility of £38m is only committed until 2021, although the Group expects to negotiate its extension in the coming year. In January 2019, Hastoe Capital plc sold £25m of retained bonds as discussed on page 4.

The Group borrows at both fixed and floating rates of interest. At the year end, 98% of debt was fixed rate and 2% floating rate. The Group has not entered into any stand alone swap agreements.

The Group's treasury policy sets out prudent criteria for counterparties from which it borrows, enters into other financial arrangements or deposit funds. The Group borrows and lends only in sterling and so is not exposed to currency risk.

Loan covenants are based on interest cover, gearing ratios and asset cover. Covenants are monitored regularly, by the Executive Team and Board, and were met throughout the year for all loan facilities and the bond.

The Group has an A3 credit rating, with a stable outlook, provided by Moody's Investor Service.

Cash inflows and outflows during the period are shown in the consolidated cash flow statement on page 28.

Development

During the year the Board decided that, after a period of sustained growth, Hastoe should consolidate its financial position and limit its development ambitions for the next few years. The Board also considered that changes in the external environment meant that the balance of risks had changed to the extent that the Group's exposure to open market sales should be limited to a small number of sales on rural exception sites or similar. As a result, the Group has decided to sell its two open market led sites that have a combined book value of £4m.

The effect of these decisions was that the targets for new homes and sales for the year were not met. However, there has been continued strong demand for the homes that the Group has built and at the year end there was just one unsold home in stock and that had been available for sale for less than 90 days.

Cash spent on new homes amounted to £11m during the period, financed through existing cash balances, grants and operating cash generated.

Performance indicator	2018/19 actual units	2018/19 target units	2017/18 actual units
New Homes - starts on site	41	128	71
New Homes – completed	43	59	88
Sales – shared ownership first tranche	11	19	30
Sales – open market sales	3	2	4

The core of the Group's future development programme will remain Rural Exception Sites, although this will be supplemented by small number of homes purchased direct from developers, as part of section 106 obligations, provided they meet Hastoe's quality standards.

Strategic Report

Value for Money

Hastoe's commitment to value for money is driven by an awareness of the responsibility to use its assets and resources wisely, to protect its long term future and to manage and build high quality, energy efficient homes, that meet the needs of its many and varied local communities.

Hastoe does not distribute dividends to shareholders. The surplus made each year is reinvested in existing homes or used to build new homes. The level of reinvestment, funded by the surplus, debt and grant, was equivalent to 3.1% of the cost of the Group's existing assets. This was well below the median rate for the sector due to the relatively high historic cost of Hastoe's properties – a product of building a high proportion of its homes in recent years. The growth in the number of new social homes completed in the year fell from 1.6% (59 homes) to 0.8% (40 homes).

Hastoe has built a significant portion of its social housing over the last ten years and, as a result, accumulated comparatively high debt levels. This is reflected in its relatively low interest cover ratios and relatively high gearing ratios.

The lower levels of capital grant made available, by the government to the housing association sector, in recent years has meant that the Group has had to borrow more for each new home it builds. The Group's ratio of debt to revenue was 7.3 times at 31 March 2019. This is significantly higher than median of Moody's rated peers at 31 March 2018, which stood at 3.8 times[2].

The ability to meet the interest costs, as measured by EBITDA MRI interest cover, fell to 116% in 2018/19 (2017/18: 141%). Whilst this level was within the Board's risk appetite, it was significantly lower than the median for the sector of 206%[1]. The lower level of interest cover was due to the final year of the rent cuts, a reduction in the surplus on first tranche sales, due to a smaller development programme, investment in fire safety works and one-off fixed interest rate breakage costs. The Board has set a target to increase the level of EBITDA MRI interest cover to 142% by 2021/22.

The Board also monitors social housing interest cover as a measure of the ability of its lower risk activities to cover interest costs. This measure also fell in the year, due to the rent cuts, fire safety works and interest breakage costs, but remained within the Board's risk appetite.

The Group's ability to service higher levels of debt is reliant upon being efficient and maintaining a tight control of operating costs, as demonstrated by its high operating margins. The Group's operating margin (excluding the gains from the disposal of properties) of 38% compares favourably with the upper quartile performance in the housing sector of 34.1%[1].

	2018/19 outturn	2017/18 outturn	Top quartile	Median
Reinvestment	3.1%	3.9%	8.7%[1]	6.0%[1]
New Supply Deliver - Social	0.8%	1.6%	2.3% [1]	1.2%[1]
New Supply Delivered - Non-Social	0.1%	0.2%	0.1%[1]	0%[1]
Gearing	55.5%	54.1%	53.1%[1]	42.9%[1]
Debt : Revenue	7.3	6.5	-	3.6[2]
EBITDA MRI Interest Cover	116%	141%	263%[1]	206%[1]
Social Housing Interest Cover	109%	123%	-	164%[2]
Operating Margin *	38%	42.0%	34.1%[1]	28.9%[1]
Net Margin *	3%	11%	-	14%[2]
Return on Capital Employed (ROCE)	3.2%	4.5%	5.4%[1]	4.1%[1]

1 Regulator of Social Housing: 2018 Global Accounts Annex – Value for Money Metrics: Table 1
2 Regulator of Social Housing: 2018 Global Accounts
* Excluding the gains from the disposal of properties

Strategic Report

The combination of relatively high levels of debt and high operating margins allows the Group to maximise borrowing capacity to deliver against its ambitions. The Board still wishes to meet housing need by building new high quality social housing. However, for the foreseeable future, development will be at more modest levels, whilst Hastoe looks to increase its financial resilience. The Board has targeted to increase the amount of Hastoe's social housing by around 1.5% per year (1.2% - median rate for the sector[1]) over the next three years, whilst increasing the net margin to 9% by 2021/22.

Return on Capital Employed (ROCE) is a common measure in the commercial sector to assess the efficient investment of capital resources and is derived from dividing the operating surplus by total assets less current liabilities, then expressed as a percentage. The Group's ROCE was 3.2%, which was below the median for the sector. The Group's operating margin was top quartile but the ROCE was lowered due to the relative newness of Hastoe's social housing. Around half the Group's social housing has been built in the last fifteen years and therefore has a relatively high cost.

Return on Assets

The Group appraises the financial and environmental returns of its assets, along with their strategic fit. Informed decisions are then made about whether stock should be retained, refurbished, converted to a different tenure or sold.

Hastoe's build costs are comparatively high, due to its focus on high quality and sustainability standards. Fuel poverty is higher in rural areas than in urban areas, particularly in rural areas off mains gas supply. In addition, rural build sites are often small scale and require extra design specifications to blend in with their surroundings. These higher costs are offset by lower land costs – on exception sites the value is at an enhanced agricultural value rather than full residential values seen within development boundaries. Effective procurement ensures that build costs are minimised.

The Group has a strategic ambition build high quality & energy-efficient homes. Hastoe builds its new properties to high environmental standards and has developed the 'Hastoe Green Homes Standard' as an aspirational target for all its existing homes.

At 31 March 2019, 508 (2018: 587) of the Group's rented homes remained below the 'Hastoe Green Homes Standard' (HGHS). A key attribute of homes that meet the HGHS is a SAP score in excess of 69. The Standard Assessment Procedure (SAP) is a methodology used to assess and compare the energy and environmental performance of homes. To ensure value for money, the Group uses a methodology which assesses each investment option, and the external funding available, to maximise the improvement in SAP rating for each pound spent.

The majority of the new homes built in the period have met the AECB standard. These homes, along with Hastoe's award winning Passivhaus schemes, meet the Group's aims of addressing fuel poverty and protecting the climate.

The average SAP rating (a measure of a home's energy and environmental performance) for the Group's rented properties remained at 76 at 31 March 2019 (2018: 76), which represents upper quartile performance for the Sector (Housemark 2017/18: 73.4%). Research published in 2016, by Sustainable Homes Limited called 'Touching the Voids', established a correlation between properties with higher SAP ratings and those with lower void and arrears levels.

Service Performance and Costs

The key operational indicators used by the Board and executive management to monitor achievement of the Group's objectives are set out below. The Board agrees targets each year that are designed to manage performance and deliver continuous service improvement. Where a benchmark is available, Hastoe was in the top quartile for half of its key performance indicators.

Strategic Report

Performance indicator	2018/19 outturn	2018/19 target	Benchmark (where available)	2017/18 outturn
Customers satisfied with the way their call was handled	100%	94%	93%[1]	96%
Avoidable contacts	12%	7%	-	12%
Satisfaction with last repair	78%	84%	96% [1]	81%
Re-let times (excluding major works)	17 days	16 days	20 days [1]	16 days
New let times	1.5 days	2 days	-	0 days
Current tenant rent arrears – general needs properties	2.9%	2.6%	2.6% [1]	2.2%
Leasehold arrears	7.6%	4.5%	5%[1]	5.1%
Void losses	0.4%	0.3%	0.5% [1]	0.3%
Gas safety compliance	100%	100%	100% [1]	100%
Homes meeting the Decent Homes Standard	100%	100%	-	100%
Residential buildings with valid Fire Risk Assessments	100%	100%	-	100%

1 Housemark all housing associations benchmarking 2017/18 – top quartile

Service performance was mixed in 2018/19 with a continuation of the record of providing well maintained and safe homes, offset by an increase in arrears, letting times and a reduction in some measures of satisfaction.

Where applicable, all Hastoe's homes met the Decent Homes Standard, had a valid fire risk assessment and an up to date gas safety certificate at 31 March 2019 and 31 March 2018.

The introduction of a new housing management system in 2018 disrupted the reporting of some performance measures. The measures of customer satisfaction with the way their call was handled by Hastoe's call centre and their last repair were based on only three months of data. The surveys were reinstated in March 2019.

Around 10% of Hastoe's social tenants were in receipt of Universal Credit at 31 March 2019 and these tenants had average arrears of 7.6%, which contributed to the overall increase in current tenant rent arrears. The Group's arrears performance has been top quartile in recent years. Although arrears have increased, performance remains better than the median for the sector. Hastoe continues to offer a wide range of welfare benefit and financial management advice, as well as working closely with a number of citizens' advice bureaux and similar organisations.

Having been close to top quartile, as compared to the sector[2], in 2017/18, leasehold arrears increased in 2018/19. There were a number of contributory factors, including an increase in the number of deferred payment agreements offered to leaseholders.

To increase trust with customers Hastoe has targeted a reduction in avoidable calls to the customer contact centre. The reduction was not achieved in 2018/19, with the 12% of calls deemed avoidable. The bedding in of the new housing management system and tenant portal are expected to lead to improvements

Satisfaction with repairs has remained below the targets set. The performance was in the lower quartile for the sector. Hastoe will continue focus on this area and work with its contractors to deliver improvements to this service.

Strategic Report

Social housing margin and costs	2018/19 outturn	2017/18 outturn	Top Quartile	Median
Social housing lettings operating margin	44.0%	47.6%	36.0%[1]	30.4%[1]
Social housing cost per unit	£2,901	£2,644	£2,982[1]	£3,450[1]
Management cost per unit	£633	£650	£813[1]	£1024[1]
Maintenance cost per unit (including capitalised repairs)	£1,764	£1,577	£1,300[1]	£1,627[1]
Service charge cost per unit	£209	£203	£193[1]	£332[1]

1. Housemark: Sector scorecard analysis report 2018

The Group's social housing operating cost per unit and margin compares favourably with the top quartile for the sector[1], driven by a low management cost per unit. The Group's management model provides an efficient and effective response to the dispersed nature of its stock. In 2017/18, the Group's maintenance cost per unit was between the top quartile and the median. The increase in the Group's maintenance cost per unit in 2018/19 was due to the increased investment in fire safety works. It is expected that the sector comparatives for 2018/19 will also show an increase for the same reasons.

Value for Money Plans

The Board's corporate plan is underpinned by the following set of VFM targets for the next three years:

	2019/20	2020/21	2021/22
EBITDA MRI* interest cover	129%	136%	142%
Social housing interest cover	106%	111%	117%
Operating margin **	34%	39%	41%
Operating margin on social housing lettings	42%	42%	44%
Net margin **	5%	7%	9%
Gearing	54%	55%	55%
Gearing (debt / revenue)	6.5	7.2	7.1
New supply delivered (social housing)	1.4%	1.5%	1.5%
New supply delivered (non-social housing)	0.0%	0.07%	0.07%
Reinvestment	4.4%	6.2%	5.1%
Return on Capital Employed	3.2%	3.3%	3.4%

* Earnings before interest, tax, depreciation and amortisation, with capitalised major repairs costs included.
** Excluding the gains from the disposal of properties

The aim is to increase Hastoe's financial resilience whilst

- Continuing to invest in fire safety works, including installing sprinklers in our high rise blocks of flats, where appropriate. Resident safety remains our top priority.
- Continuing to build high quality social housing for rural communities by starting on site with 60 homes by March 2020 (80 starts on site 2021, 100 starts on site 2022).
- Achieving customer satisfaction of 80% by March 2020 (85% 2021, 90% 2022).
- Maximising the potential of Hastoe's new housing management system and increasing the percentage of on-line customer contact from 11.5% to 15% by 31 March 2020 (17.5% 2021, 20% 2022).
- Achieving satisfaction with the last responsive repair of 95% by March 2020 (95% 2021, 95% 2022).

Achieving VFM is an ongoing process and the Board recognises its responsibility to drive continuous improvement in the use of the Group's assets and resources. This approach to VFM will enable Hastoe to maximise its potential to provide its customers with high quality homes and services.

Strategic Report

The Board

The Board members are drawn from a wide background, bringing together professional and commercial experience. The Board delegates certain governance responsibilities to Group committees, which have their own approved terms of reference. Day-to-day performance management is delegated to the executive directors.

The Group Committees that supported the Board and governance arrangements during the year were:

Audit Committee – responsible for assessing the effectiveness of internal controls and, where required, ensuring that appropriate remedial actions are taken, as well as overseeing internal audit and external audit.

Remuneration and Nomination Committee – responsible for advising on the selection, remuneration, succession planning and performance of non-executive directors, as well as the recruitment of the chief executive and the remuneration of the executive directors.

Attendance at Board and Committee meetings for the year ended 31 March 2019 was as follows, with the number of meetings that the board member was expected to attend shown in brackets.

	Group Board	Audit Committee	Remuneration & Nomination Committee
Ann Bugden	9 (9)	-	-
Ed Buscall	9 (9)	-	2 (2)
Elinor Goodman	8 (9)	-	1 (2)
Martin Huckerby	8 (9)	3 (3)	-
Lisa Hughes	7 (9)	3 (3)	-
Charlotte Male *	-	-	-
Andy Moore	9 (9)	-	-
Richard Quallington	8 (9)	-	2 (2)
Robert Rutledge	9 (9)	3 (3)	-
Pratik Shah	6 (9)	-	1 (2)
Andrew Wiseman	8 (9)	2 (3)	-

At least every three years, the Board undertakes a formal review of governance effectiveness. The outcomes from latest review are due to be presented to the Board in September 2019. The previous review, undertaken in 2016, resulted in a number of changes that were implemented from 1 April 2017. These included the Board meeting more frequently and a resultant simplification of the committee structure.

The emoluments of the Board members serving in the year were as follows:

	2019 **£**	**2018** **£**
Ann Bugden	4,590	4,500
Ed Buscall	11,220	11,000
Elinor Goodman	4,590	4,500
Martin Huckerby	6,120	6,000
Lisa Hughes	5,610	5,500
Charlotte Male *	458	5,500
Andy Moore	6,120	6,000
Richard Quallington	6,630	6,500
Robert Rutledge	5,610	4,500
Pratik Shah	4,590	4,500
Andrew Wiseman	5,610	5,500
	61,148	64,000

* resigned on 1 May 2018.

Strategic Report

Board member emoluments are subject to a triennial review. The emoluments are in line with NHF guidance for associations with a turnover between £25m and £50m.

Insurance policies indemnify Board members and officers against liability when acting for the Group.

The Association complies with the recommendations of the NHF Code of Governance (2015 edition).

Executive Directors

The Group's executive directors, including the chief executive, that have served in the year are set out on page 2. The emoluments of the chief executive and Group's other executive directors are disclosed in note 10. The executive directors hold no interest in the Association's shares and act as executives within the authority delegated by the Board.

Service contracts

The executive directors are employed on the same terms as other staff. Their notice periods are six months.

Pensions

Executive directors are eligible to become members of the SHPS defined contribution scheme. The executive directors participate in the scheme on the same terms as all other eligible staff and the Group contributes to the scheme on behalf of its employees.

Other benefits

The executive directors are entitled to other benefits, such as the provision of a car allowance.

Board Report

Internal Controls

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness. This responsibility applies to all organisations within the Group.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and has been in place throughout the period commencing 1 April 2018 up to the date of approval of the annual report and financial statements.

Key elements of the control framework include:

- Board-approved terms of reference and delegated authorities for the Audit Committee and the Remuneration & Nomination Committee;
- Clearly defined responsibilities for the identification, evaluation and control of significant risks;
- Robust strategic and business planning processes, with detailed financial budgets and forecasts;
- Formal recruitment, retention, training and development policies for all staff and Board members;
- Authorisation and appraisal procedures for all significant new initiatives and commitments;
- A sophisticated approach to treasury management, supported, as required, by treasury advisors;
- Regular reporting to the appropriate committee on key business objectives, targets and outcomes;
- Board-approved whistleblowing, anti-bribery, anti-theft and anti-money laundering policies; and
- A policy on fraud, covering prevention, detection and reporting of fraud and recovery of assets; and review of the fraud register and consideration of the information therein.

The Board cannot delegate ultimate responsibility for the system of internal control, but it can, and has, delegated authority to the Audit Committee to review regularly the effectiveness of the system of internal control. The Board receives reports from the Audit Committee.

The Audit Committee has received the Chief Executive's annual review of the effectiveness of the system of internal control for the Association and its subsidiaries, and the annual report of the internal auditor, and has reported its findings to the Board.

The Board has reviewed the effectiveness of the system of internal control for the year to 31 March 2019 and up to the date of signing these financial statements. It has not identified any weaknesses sufficient to cause material misstatement or loss which require disclosure in the financial statements.

Other Matters

Regulation

Hastoe is registered with and regulated by the Regulator of Social Housing (RSH). Hastoe is reviewed against the regulatory framework. The latest review by the RSH, in October 2018, considered that Hastoe had achieved the highest rating for governance (G1) and second highest rating for financial viability (V2). The Board's strategy is to increase the Group's financial resilience and reduce its exposure to open market sales.

The Board undertakes an annual self-assessment of compliance with the regulatory framework. The Governance standard states that governance arrangements shall ensure registered providers comply with their governing documents and all regulatory requirements. In May 2019, some areas of non-compliance with the Rent Standard were identified. The Board has gained assurance on the cause of the errors, the process of refunding affected tenants and the strengthening of the control environment. The Regulator was kept informed throughout. In all other respects, the Board has concluded that it has reasonable assurance that it complies with the Governance and Financial Viability Standard.

Board Report

Going concern

After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Annual general meeting

The annual general meeting will be held on 5 September 2019 at, Marina House, 17 Marina Place, Hampton Wick, Surrey KT1 4BH.

External auditors

The Group's Audit Committee has agreed a protocol which sets out policies for determining what non-audit work can be undertaken by the external auditors and procedures for periodic review and selection of external auditors.

A resolution to re-appoint BDO LLP as auditors of the Association will be proposed at the Annual General Meeting.

Disclosure of information to the auditors

The Board Members who held office at the date of approval of this Board Report confirm that, so far as they are each aware, there is no relevant audit information of which the Association's auditors are unaware, and each Board Member has taken all the steps that they ought to have taken as a Board Member to make themselves aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

The report of the Board was approved by the Board on 18 July 2019 and signed on its behalf by:

Ed Buscall
Chairman

Statement of Responsibilities of the Board

Statement of Board's responsibilities in respect of the Board's report and the 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 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 and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

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

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HASTOE HOUSING ASSOCIATION LIMITED

Opinion

We have audited the financial statements of Hastoe Housing Association Limited ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2019, which comprise the consolidated and Association Statement of comprehensive income, the consolidated and Association Statement of changes in reserves, the consolidated and Association Statement of financial position, the consolidated Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2019 and of the Group's and the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition and measurement of liabilities related to the Social Housing Pension Scheme (SHPS) and related presentation and disclosure

As disclosed in note 19 and in the accounting policies a method for the determination of sufficient information for full defined benefit accounting has been determined and information to facilitate inclusion of the share of assets and liabilities on the balance sheet has been provided to the Association and Group. FRS 102 has also been amended to reflect accounting requirements in such an event. The policy and note explain that these changes have been early-adopted and explain the how this change has been reported in respect of:

- De-recognising the previously recognised SHPS deficit reduction liability
- Recognising the Association and Group share of the assets and liabilities of SHPS
- The value of the assets and liabilities recognised
- The effect on the opening and closing balances.

This was a key audit matter because of the effect of this adjustment on the financial statements, including disclosures, the level of judgement and estimation involved in the determination of amounts to recognise, the timeliness of the provision of relevant information and the level of audit attention given to these changes.

Our response to the key audit matter

Our specific audit testing in this regard included:

- A determination of whether the accounting entries had been made in accordance with the requirements of the revised FRS 102. Our work included specific consideration of the related disclosures. We assessed the following against the requirements of the standard in this respect:
  - The updated SHPS-related accounting policies
  - The disclosure concerning the early adoption of new requirements
  - The reporting of key judgements and estimates and
  - The discussion of the accounting implications of the change of approach to calculation of the SHPS liability within the pension note.

- Securing appropriate audit evidence in respect of SHPS-related accounting entries and disclosures from a number of key sources including:
  - The Scheme Trustee
  - Control assurance provider
  - An auditor's pension and actuarial expert

  Our work in respect of each involved appropriate involvement in setting the scope of the work and assessing suitability of the output derived from other sources as audit evidence and covered both the opening and year-end positions.

- Performing testing, on a sample basis, of certain inputs to the SHPS tool which were derived from the Association's records and considered the appropriateness of assumptions used in calculating the outputs at each of the relevant dates.

Key observations

Our work identified no misstatements or inappropriate application of judgement or estimation. Based on our procedures we noted no exceptions and found management's key assumptions to be within a reasonable range and the effect of the changes related to the SHPS liability to be appropriately disclosed.

Net realisable value of housing properties developed for sale

A number of housing properties developed for sale were either under construction at the year-end or completed and available for sale. For all housing properties developed for sale management has performed a review of their net realisable value, making use of external valuations.

Due to the level of judgement involved in estimating net realisable value, which comprises both sales proceeds and, for partially built properties, costs to complete we considered the net realisable value of properties developed for sale to be a significant risk. Because this risk had the most significant impact on the use of resources and the direction of the audit team's efforts, it is considered to be a key audit matter.

Our response to the risks identified:

We considered the assumptions made and judgements applied by management in their assessment of net realisable value, with detailed consideration of the valuations used in determining anticipated sales proceeds and the costs included in individual scheme appraisals.

For a sample of properties the anticipated sales proceeds and the costs were agreed to supporting documentation.

Key observations

Our work identified no misstatements or inappropriate application of judgement or estimation. Based on our procedures we noted no exceptions and found management's key assumptions to be reasonable.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £4,495,000 which represents 1% of total assets.

We also apply a specific materiality level for all items comprising operating profit (including related disclosures) as that term is defined for the purposes of the entity's lending covenants. This therefore involves adjusting operating profit for depreciation, amortisation and impairment. The specific materiality level that we applied was £900,000, which is 5% of adjusted operating profit.

We used gross assets and adjusted operating profit as our chosen benchmarks to determine materiality and for specific materiality as these are considered to be the areas of the financial statements of greatest interest to the principal users of the financial statements and the areas which will have greatest impact on investor and lender decisions.

Materiality for the parent Association was set at £4,270,000 (with a specific materiality set at £855,000).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality or specific materiality depending on the financial statement area being audited. In setting the level of performance materiality. We considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Audit Committee that misstatements in excess of £89,900 for areas considered using financial statement materiality and £18,000 for areas considered using specific materiality which were identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting component in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

Classification of components

A full scope statutory audit was carried out for each subsidiary that we considered to be a significant component of the group.

Audit work on all components was performed by BDO UK both for the purposes of reporting on the individual financial statements and for group/consolidation purposes. Individual component audits were carried out using component materiality levels.

Extent to which the audit is capable of detecting irregularities, including fraud

The extent to which the audit is capable of detecting irregularities is affected by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud usually are inherently more difficult to detect than irregularities that result from error.

As part of the audit we gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We considered the Association's compliance with laws and regulations that have a direct impact on the financial statements such as the Co-operative and Community Benefit Societies Act 2014 (and related Directions and regulations), the Housing and Regeneration Act 2008 and other laws and regulations application to a registered social housing provider in England. We also considered the risks of non-compliance with the other requirements imposed by the Regulator of Social Housing, and we considered the extent to which non-compliance might have a material effect on the group financial statements

We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries of the board and of management and enquiries of third parties, where information from that third party has been used by the Association in the preparation of the financial statements.

There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Board that represented a risk of material misstatement due to fraud.

Other information

The board is responsible for the other information. Other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the parent Association; or
- a satisfactory system of control has not been maintained over transactions; or
- the parent Association financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the board

As explained more fully in the board members responsibilities statement set out on page 17, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Other matters

Following the recommendation of the audit committee, we were appointed by the board on 7 February 2019 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the members of the Association, as a body, in accordance with in accordance with the Housing and Regeneration Act 2008 and the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the members as a body, for our audit work, for this report, or for the opinions we have formed.

Elizabeth Kulczycki, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
Gatwick
United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	Note	2019 £ '000	2018 £ '000
Turnover	3	32,754	34,331
Cost of sales	3	(1,577)	(2,774)
Operating expenditure	3	(18,801)	(17,247)
Gain on disposal of properties	3	1,685	3,763
Change in value of investment properties		-	124
Operating surplus	3, 5	14,061	18,197
Interest receivable	7	68	27
Interest payable and financing costs	8	(11,432)	(10,809)
Surplus before taxation		2,697	7,415
Tax on surplus	11	164	(757)
Surplus for the financial year		2,861	6,658
Actuarial loss in respect of pension schemes		(1,797)	-
Total Comprehensive Income		1,064	6,658

All of the Group's activities relate to continuing operations.

Association Statement of Comprehensive Income

For the year ended 31 March 2019

	Note	2019 £ '000	2018 restated £ '000
Turnover	3	32,512	34,660
Cost of sales	3	(826)	(2,551)
Operating expenditure	3	(19,043)	(17,658)
Gain on disposal of properties	3	1,685	3,763
Change in value of investment properties		-	124
Operating surplus	3, 5	14,328	18,338
Interest receivable	7	329	212
Interest payable and financing costs	8	(11,486)	(10,897)
Gift Aid		103	-
Surplus before taxation		3,274	7,653
Tax on surplus	11	159	(752)
Surplus for the financial year		3,433	6,901
Actuarial loss in respect of pension schemes		(1,797)	-
Total Comprehensive Income		1,636	6,901

Consolidated Statement of Changes in Reserves

For the year ended 31 March 2019

	Income and expenditure £ '000	Revaluation reserve £ '000	Total Revenue Reserve £ '000
Balance at 1 April 2018	55,480	340	55,820
Total Comprehensive income	1,064	-	1,064
Balance at 31 March 2019	56,544	340	56,884

For the year ended 31 March 2018

	Income and expenditure £ '000	Revaluation reserve £ '000	Total Revenue Reserve £ '000
Balance at 1 April 2017	48,864	298	49,162
Total Comprehensive income	6,658	-	6,658
Transfer from revaluation reserve to income and expenditure reserve	(42)	42	-
Balance at 31 March 2018	55,480	340	55,820

Association Statement of Changes in Reserves

For the year ended 31 March 2019

	Income and expenditure reserve £ '000	Revaluation reserve £ '000	Total Revenue Reserve £ '000
Balance at 1 April 2018 as restated	58,868	340	59,208
Total Comprehensive income	1,636	-	1,636
Transfer from revaluation reserve to income and expenditure reserve	-	-	-
Balance at 31 March 2019	60,504	340	60,844

For the year ended 31 March 2018

	Income and expenditure reserve £ '000	Revaluation reserve £ '000	Total Revenue Reserve £ '000
Balance at 1 April 2017 restated	52,009	298	52,307
Total Comprehensive income	6,901	-	6,901
Transfer from revaluation reserve to income and expenditure reserve	(42)	42	-
Balance at 31 March 2018 restated	58,868	340	59,208

Consolidated Statement of Financial Position

At 31 March 2019

	Note	2019 £ '000	2018 £ '000
Fixed assets			
Housing properties	12	409,248	402,709
Investment properties	13	4,485	4,485
Other tangible fixed assets	14	3,927	3,635
		417,660	410,829
Current assets			
Stock	16	4,873	4,923
Debtors	17	3,014	2,914
Short term investments		19,500	-
Cash and cash equivalents		4,457	5,894
		31,844	13,731
Creditors: Amounts falling due within one year	18	(14,741)	(16,319)
Net current assets / (liabilities)		17,103	(2,588)
Total assets less current liabilities		434,763	408,241
Creditors: Amounts falling due after more than one year	19	(377,879)	(352,421)
Net assets		56,884	55,820
Capital and reserves			
Non-equity share capital	23	-	-
Revenue reserve		56,884	55,820
Consolidated funds		56,884	55,820

The financial statements were approved by the Board on 18 July 2019 and signed on its behalf by:

E Buscall Chairman	M Huckerby Board member	W Roberts Secretary

Association Statement of Financial Position

At 31 March 2019

	Note	2019	2018 restated
		£ '000	**£ '000**
Fixed assets			
Housing properties	12	410,849	403,801
Investment properties	13	4,485	4,485
Other tangible fixed assets	14	3,876	3,576
Investments	15	550	50
		419,760	411,912
Current assets			
Stock	16	937	552
Debtors	17	8,669	9,804
Short term investments		19,500	-
Cash and cash equivalents		4,283	5,341
		33,389	15,697
Creditors: Amounts falling due within one year	18	(14,426)	(15,980)
Net current (liabilities) / assets		18,963	(283)
Total assets less current liabilities		438,723	411,629
Creditors: Amounts falling due after more than one year	19	(377,879)	(352,421)
Net Assets		60,844	59,208
Capital and reserves			
Non-equity share capital	23	-	-
Revenue reserve		60,844	59,208
Association's funds		60,844	59,208

The financial statements were approved by the Board on 18 July 2019 and signed on its behalf by:

E Buscall Chairman	M Huckerby Board member	W Roberts Secretary

Consolidated Statement of Cash Flows

For the year ended 31 March 2019

	Note	2019 £ '000	2018 £ '000
Cash flows from operating activities			
Operating surplus		14,061	18,197
Depreciation and impairment		5,560	5,326
Pension costs less contributions payable		(422)	(493)
Amortised Grant		(1,801)	(1,812)
Disposal of properties		698	1,439
Change in value of investment property		-	(124)
Decrease/(increase) in stocks		50	(3,494)
(Increase)/decrease in trade and other debtors		(529)	95
(Decrease)/increase in trade creditors		(74)	282
Cash generated from operations		17,543	19,416
Tax Paid		(595)	-
Net cash from operating activities		16,948	19,416
Cash flows from investing activities			
Purchase and construction of housing properties		(13,400)	(15,720)
Purchase of other fixed assets		(598)	(830)
Interest received		68	32
Social housing grant - received		1,799	2,245
Purchase of short term investments		(19,500)	-
Net Cash From Investing Activities		(31,631)	(14,273)
Cash Flows From Financing Activities			
Interest paid		(11,765)	(10,722)
Loans received		38,765	-
Loan arrangement costs		(363)	(30)
Loans repaid		(13,391)	(256)
Net Cash From Financing Activities		13,246	(11,008)
Net Decrease in cash and cash equivalents		(1,437)	(5,865)
Cash and cash equivalents at beginning of period		5,894	11,759
Cash and Cash Equivalents at the end of the period	26	4,457	5,894

Group reconciliation of net debt	31 March 2018 £000	Cash Flow £000	31 March 2019 £000
Cash Balances	5,894	(1,437)	**4,457**
Short term investments	-	19,500	**19,500**
Debt falling due within one year	(4,987)	(66)	**(5,053)**
Debt falling due after one year	(221,243)	(24,811)	**(246,054)**
Net Debt	(220,336)	(6,814)	**(227,150)**

Notes to the financial statements

1. Legal status

Hastoe Housing Association Limited ("The Association") is a housing association registered under the Cooperative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing. Hastoe is the ultimate parent of the Group and is incorporated in England.

2. Principal accounting policies

Basis of preparation

The financial statements of the Group and Association are prepared in accordance with applicable accounting standards, including Financial Reporting Standard 102 (FRS102) and the Statement of Recommended Practice: Accounting for Registered Social Housing Providers 2014. The Association is a public benefit entity as defined by FRS102.

The following disclosure exemptions have been adopted in respect of the individual accounts of the Hastoe Group:

- The requirement to present a statement of cash flows and related notes;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Association and all its subsidiaries at 31 March 2019 as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

On 31 August 2018, Hastoe Wyvern Housing Association Limited (Wyvern) was merged with Hastoe through a Transfer of Engagement. This has been treated as a group reconstruction and merger accounting has been applied in accordance with FRS102 Section 19. All of Hastoe's prior year comparatives have been represented to show the combined results of Hastoe and Wyvern, as though they have always been part of the same entity.

Going concern

The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. 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. The Group also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Significant management judgements

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

Capitalisation of property development costs

Distinguishing the point at which a project is more likely than not to continue, allowing capitalisation of associated development costs requires judgement. The total amount of development salaries and associated on costs capitalised in the year was £687,000 (2018: £719,000).

Impairment

Assets are assessed annually for impairment indicators. Where indicators are identified an assessment for impairment is undertaken comparing the asset's carrying amount to its recoverable amount. Where the carrying amount of an asset is deemed to exceed its recoverable amount, the asset is written down to its recoverable amount, this is likely to be the value in use of the asset based on its service potential for housing properties and fair value for other assets. The resulting impairment loss is recognised as expenditure in income and expenditure. Where an asset is currently deemed not to be providing service potential to the association, its recoverable amount is its fair value less costs to sell.

Notes to the financial statements

2. Accounting policies (continued)

Allocations of costs

The appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to decent homes standards which may require more frequent replacement of key components. A 10% shortening of the all of the asset lives would increase the depreciation charge by £514,000 (2018: £506,000). Accumulated depreciation at 31 March 2019 was £49,521,000 (2018: £45,148,000).

Pension Liability

The Group's share of net liabilities for the Social Housing Pension Scheme (SHPS) is based on a number of assumptions which are set out in note 19. An increase in the discount rate of 0.1% would increase the liability by £377,000. Adding one year to life expectancy would increase the liability by £377,000.

Turnover

Turnover comprises rental income and service charges receivable net of voids, fees and revenue grants from local authorities and Homes England, social housing grant amortisation, income from first tranche shared ownership sales, income from properties built for sale and income receivable from other sources.

Rental income is recognised on the basis of the amount receivable for the year. Rental income received in advance is disclosed within creditors in the balance sheet.

Service charge income is accounted for on the basis of the estimated value of goods or services supplied during the period. For variable service charges, the actual amount of the goods and services incurred is calculated after each year end and any over or under recovery of service charge amounts due is reflected as a creditor or debtor, respectively.

Revenue grants are recognised within income in the same period as the related expenditure, provided that the conditions for its receipt have been satisfied and there is reasonable assurance that the grant will be received. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and its individual components (excluding land) under the accruals model.

Income from first tranche sales and properties built for open market sale is recognised when legal completion occurs.

Contract income is recognised pro rata over the period of the contract.

Segmental reporting

The Group is required to disclose information about its operating segments, under IFRS 8, as it has issued publically listed debt. Information about income, expenditure and assets attributable to material operating segments are presented on the basis of the nature and function of housing assets held by the Group. 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 in which the Group operates. The Board does not review disaggregated financial information of assets and liabilities at this level of operating segment. Segmental information is disclosed in note 3.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting reasons. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. Timing differences include gains and losses recognised on revaluation.
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.

Notes to the financial statements

2. Accounting policies (continued)

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

Interest payable
Interest is capitalised on borrowings used to finance the development of qualifying assets to the extent that it accrues in respect of the period of development. It represents interest on borrowings of the Group as a whole after deduction of interest on Social Housing Grant in advance to the extent that these can be deemed to be financing the development programme.

Other interest payables, including breakage costs, are charged to the income and expenditure account in the year.

Financial instruments
Financial instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS 102 are accounted for under an amortised cost model. The Group has no non-basic financial instruments.

Initially, financial assets and liabilities are measured at the transaction price less transaction costs. Subsequently, basic financial assets and liabilities are measured at amortised cost.

Amortised cost is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

Operating leases
Rental costs under operating leases are charged to the income and expenditure account on a straight-line basis over the term of the lease.

Housing properties

Housing properties are properties held for the provision of social housing or to otherwise provide social benefit. Housing properties are principally properties available for rent and are stated at cost less accumulated depreciation and impairment losses. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period. Housing Properties are depreciated from the month following their practical completion or acquisition.

Housing property costs for mixed tenure schemes are allocated proportionately based on number of units of each tenure at the scheme.

The Group accounts for its expenditure on housing properties using component accounting. Under component accounting, the housing property is divided into those major components which are considered to have substantially different useful economic lives. These components are then depreciated over their individual useful economic lives. The particular components identified by the Association and their respective useful economic lives are as follows:

- Roofs and related	50 years
- Kitchens	15 years
- Bathrooms	20 years
- Central heating systems	20 years
- Windows and doors	30 years
- Lifts	25 years
- Photo voltaic panels	25 years

Where a separate identified and depreciated component of an existing property is replaced, the carrying value of the component is expensed and the cost of the replacement component capitalised. Components are depreciated from the month following their replacement.

Notes to the financial statements

2. Accounting policies (continued)

Expenditure on items not separately identified as components are capitalised if they result in an increase in the net rental stream over the life of the property, over the standard originally assessed when the property was first acquired or constructed.

Freehold land is not depreciated due its indefinite economic life. Depreciation of buildings, excluding the specified components, is provided on the cost, so as to write down the net book value of housing properties to the estimated residual value, on a straight-line basis, over their estimated useful economic lives in the business. The Group's buildings, excluding specified components, are depreciated at the following annual rates:

Original estates (built before 1980)	1.0%
Newer estates	0.67%
Tower blocks	2.0%

Properties held on leases are amortised over the life of the lease or their estimated useful economic lives, if shorter with the exception of shared ownership properties which are not depreciated.

Gains and losses on disposal of housing property fixed assets are determined by comparing the proceeds with the carrying amount and incidental cost of sales. Gains and losses are recognised in operating surplus.

Investment properties
Investment properties consist of commercial properties and other properties not held for the social benefit or for use in the business. Investment properties are measured at cost on initial recognition and subsequently at fair value as at the year end, with changes in fair value recognised in operating surplus as the holding of such assets is regarded by management as part of its operating activities.

Stock
Shared ownership properties under construction are split between fixed assets and current assets in proportion to the percentage of the property expected to be sold under the first tranche sale and that retained by the Group. The proportion expected to be sold under the first tranche is included within work in progress within current assets, with the remainder classified as a fixed asset under construction. Upon completion of the property, the current asset balance is transferred from working in progress to stock. The exception to this is where this would result in a surplus on the disposal of the current asset that would exceed the anticipated overall surplus. In these circumstances any surplus on disposal of the first tranche should be limited to the overall surplus by adjusting the costs allocated to current fixed assets.

Open market sale properties under construction are held in work in progress and transferred to stock upon completion.

Shared ownership and open market sale properties in stock are held at the lower of cost and net realisable value. Costs comprise of materials and direct overheads attributable to the development. Interest incurred is capitalised once the construction contract commences, throughout work in progress and up to the point of practical completion of the development scheme. Net realisable value is assessed using publicly available information and internal forecasts on future sales price after allowing for all further costs of completion and disposal.

Other tangible fixed assets
Other tangible fixed assets are initially recognised at cost, including costs associated bringing them into use. Subsequently, assets are measured using the cost model, subject to any provision for impairment.

Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Long leasehold property	Over life of lease
Furniture, fixtures and fittings	10% - 25%
Computers and office equipment	25%
Motor vehicles	25%

Investments
Investments in subsidiaries are stated at cost less provision for impairment.

Notes to the financial statements

2. Accounting policies (continued)

Debtors
Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Creditors
Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

An accrual is recognised for annual leave accrued by employees as a result of services rendered in the current period and which employees are entitled to carry forward and use within the next 12 months. The accrual is measured at the salary cost payable for the period of absence.

Cash and cash equivalents
Cash and cash equivalents comprise cash and readily disposable current asset investments, with a term of less than three months.

Short term investments
Short term investments comprise sterling notice deposit accounts maturing within 3 to 12 months.

Government grant
Government grants include grants receivable from the Homes England, local authorities, and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and its individual components (excluding land) under the accruals model.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once reasonable assurance has been gained that the entity will comply with the conditions and that the funds will be received.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Government grants received for housing properties are subordinated to the repayment of loans by agreement with Homes England. Government grants released on sale of a property may be repayable but are normally available to be recycled and are credited to a Recycled Capital Grant Fund and included in the statement of financial position in creditors.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income in income and expenditure.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to income and expenditure. Upon disposal of the associated property, the Group is required to recycle these proceeds and recognise them as a liability.

Other grants
Grants received from non-government sources are recognised using the performance model. A grant which does not impose specified future performance conditions is recognised as revenue when the grant proceeds are received or receivable. A grant that imposes specified future performance-related conditions on the Group is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

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

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

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

Notes to the financial statements

2. Accounting policies (continued)

Pensions
The Group participates in a funded multi-employer defined benefit scheme, the Social Housing Pension Scheme ('SHPS'). For the financial year ending on 31 March 2019, it has possible to obtain sufficient information to enable the company to account for the SHPS as a defined benefit scheme. The SHPS has been accounted for as a defined contribution scheme in prior periods.

The Group's share of scheme assets and liabilities are included in the Statement of Financial Position and the expected cost of pensions is charged to the Statement of Total Comprehensive Income so as to spread the cost of pensions over the service lives of employees. The liability for the benefits earned by employees in return for service rendered in the current and prior periods is determined using a number of assumptions, the determination of which is significant to the valuation.

The following are recognised in the Statement of Comprehensive Income: the net finance expense measured using the discount rate applied in measuring the defined benefit obligation; the increase in the present value of pension scheme liabilities arising from employee service in the current period (current service cost); the increase in the present value of pension scheme liabilities as a result of benefit improvements over the period during which such improvements vest (past service cost); gains and losses arising on settlements / curtailments; and scheme administration costs. Actuarial gains and losses are recognised in full in other comprehensive income in the period in which they occur.

Gift Aid
The tax effects of gift aid payments are recognised in the Statement of Comprehensive Income.

Notes to the financial statements

3. Turnover, cost of sales, operating costs and operating surplus

GROUP – continuing activities

	2019			
	Turnover	**Cost of Sales**	**Operating Costs**	**Operating surplus(deficit)**
	£ '000	**£ '000**	**£ '000**	**£ '000**
Social housing lettings	28,402	-	(15,902)	12,500
Other social housing activities				
First tranche sales	1,090	(826)	-	264
Leasehold/freehold service charges	76	-	(69)	7
Development costs on abortive schemes	-	-	(243)	(243)
Other development costs not capitalised	-	-	(586)	(586)
Management services	10	-	-	10
Community Development	-	-	(239)	(239)
Other	-	-	(80)	(80)
	1,176	(826)	(1,217)	(867)
Non-social housing activities				
Leasehold/freehold service charges	1,191	-	(1,195)	(4)
Open market sales	858	(751)	-	107
Training and consultancy	244	-	(248)	(4)
Other	883	-	(239)	644
	3,176	(751)	(1,682)	743
Profit on disposal of properties	-	-	-	1,685
	32,754	(1,577)	(18,801)	14,061

	2018			
	Turnover	**Cost of Sales**	**Operating Costs**	**Operating surplus(deficit)**
	£ '000	**£ '000**	**£ '000**	**£ '000**
Social housing lettings	28,355	-	(15,146)	13,209
Other social housing activities				
First tranche sales	3,042	(1,948)	-	1,094
Leasehold/freehold service charges	93	-	(14)	79
Development costs on abortive schemes	-	-	(131)	(131)
Other development costs not capitalised	-	-	(80)	(80)
Management services	10	-	-	10
Community Development	-	-	(267)	(267)
Other	33	-	(112)	(79)
	3,178	(1,948)	(604)	626
Non-social housing activities				
Leasehold/freehold service charges	803	-	(787)	16
Open market sales	1,072	(826)	-	246
Training and consultancy	400	-	(554)	(154)
Other	523	-	(156)	367
	2,798	(826)	(1,497)	475
Profit on disposal of properties	-	-	-	3,763
Investment property revaluation	-	-	-	124
	34,331	(2,774)	(17,247)	18,197

Notes to the financial statements

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

ASSOCIATION – continuing activities

	Turnover	Cost of Sales	Operating costs	Operating surplus/(deficit)
	2019			
	£ ’000	**£ ’000**	**£ ’000**	**£ ’000**
Social housing lettings	28,402	-	(15,902)	12,500
Other social housing activities				
First tranche sales	1,090	(826)	-	264
Leasehold/freehold service charges	76	-	(69)	7
Development costs on abortive schemes	-	-	(17)	(17)
Other development costs not capitalised	-	-	(290)	(290)
Management services	1,093	-	(1,197)	(104)
Community Development	-	-	(239)	(239)
Other	-	-	(79)	(79)
	2,259	(826)	(1,891)	(458)
Non-social housing activities				
Leasehold/freehold service charges	1,191	-	(1,195)	(4)
Other	660	-	(55)	605
	1,851	-	(1,250)	601
Gain on disposal of properties	-	-	-	1,685
Investment property revaluation	-	-	-	-
	32,512	(826)	(19,043)	14,328

	Turnover	Cost of Sales	Operating costs	Operating surplus/(deficit)
	2018			
	£ ’000	**£ ‘000**	**£ ’000**	**£ ’000**
Social housing lettings	28,355	-	(14,862)	13,493
Other social housing activities				
First tranche sales	3,042	(1,948)	-	1,094
Leasehold/freehold service charges	93	-	(14)	79
Development costs on abortive schemes	-	-	(45)	(45)
Other development costs not capitalised	-	-	(56)	(56)
Management services	1,144	-	(1,189)	(45)
Community Development	-	-	(267)	(267)
Other	-	-	(111)	(111)
	4,279	(1,948)	(1,682)	649
Non-social housing activities				
Leasehold/freehold service charges	803	-	(788)	15
Open market sales	707	(603)	-	104
Other	516	-	(326)	190
	2,026	(603)	(1,114)	309
Gain on disposal of properties	-	-	-	3,763
Investment property revaluation	-	-	-	124
	34,660	(2,551)	(17,658)	18,338

Notes to the Financial Statements

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

Particulars of income and expenditure from social housing lettings

GROUP

	General Needs Housing £ '000	Shared Ownership £ '000	2019 Total £ '000	2018 Total £ '000
Rent receivable net of identifiable service charges	22,970	2,615	25,585	25,556
Service charge income	788	228	1,016	987
Amortised government grants	1,727	74	1,801	1,812
Turnover from social housing lettings	25,485	2,917	28,402	28,355
Management	(2,801)	(350)	(3,151)	(3,505)
Service charge costs	(808)	(234)	(1,042)	(1,007)
Routine maintenance	(3,525)	-	(3,525)	(3,378)
Planned maintenance	(788)	-	(788)	(743)
Major repairs expenditure	(1,696)	-	(1,696)	(1,069)
Bad debts	(190)	-	(190)	(97)
Property lease charges	(209)	-	(209)	(118)
Depreciation of housing properties*	(5,257)	-	(5,257)	(5,174)
Other costs	(44)	-	(44)	(55)
Operating costs on social housing lettings	(15,318)	(584)	(15,902)	(15,146)
Operating surplus on social housing lettings	10,167	2,333	12,500	13,209
Void losses	105	-	105	69

ASSOCIATION

	General Needs Housing £ '000	Shared Ownership £ '000	2019 Total £ '000	2018 Total £ '000
Rent receivable net of identifiable service charges	22,970	2,615	25,585	25,556
Service charge income	788	228	1,016	987
Amortised government grants	1,727	74	1,801	1,812
Turnover from social housing lettings	25,485	2,917	28,402	28,355
Management	(2,801)	(350)	(3,151)	(3,221)
Service charge costs	(808)	(234)	(1,042)	(1,007)
Routine maintenance	(3,525)	-	(3,525)	(3,378)
Planned maintenance	(788)	-	(788)	(743)
Major repairs expenditure	(1,696)	-	(1,696)	(1,069)
Bad debts	(190)	-	(190)	(97)
Property lease charges	(209)	-	(209)	(118)
Depreciation of housing properties*	(5,257)	-	(5,257)	(5,174)
Other costs	(44)	-	(44)	(55)
Operating costs on social housing lettings	(15,318)	(584)	(15,902)	(14,862)
Operating surplus on social housing lettings	10,167	2,333	12,500	13,493
Void losses	105	-	105	69

*Included within depreciation is write offs on the replacement of components.

Notes to the Financial Statements

4. Accommodation in management

Group and Association

At the end of the year accommodation in management for each class of accommodation was as follows:

	Group		Association	
	2019 No.	**2018 No.**	**2019 No.**	**2018 No.**
Social housing				
General housing – social rent	3,294	3,300	3,294	3,300
General housing – affordable rent	859	828	859	828
Shared ownership	817	817	817	817
Leasehold	279	279	279	279
Total owned	5,249	5,224	5,249	5,224
Accommodation managed for others	10	10	10	10
Total owned and managed	5,259	5,234	5,259	5,234
Non-social housing				
Market rent	9	9	9	9
Leasehold	2,068	2,059	2,068	2,059
Total owned	2,077	2,068	2,077	2,068
Accommodation managed for others	294	293	294	293
Total owned and managed	2,371	2,361	2,371	2,361

The Group owns 5 hostels (2018: 5) that are managed on its behalf, under management agreements, by other bodies that contract with Supporting People Administering Authorities. The Group does not carry the financial risk relating to the supported housing activities.

5. Operating surplus

This is arrived at after charging:

	Group		Association	
	2019 £ '000	**2018 £ '000**	**2019 £ '000**	**2018 £ '000**
Depreciation of housing properties	5,254	5,063	5,139	5,002
Depreciation of other tangible fixed assets	306	262	282	249
Depreciation written off on replacement of components	118	174	118	174
Operating lease rentals				
- land and buildings	25	25	25	25
- Office equipment	6	6	6	6
Donations	22	50	22	50
Auditors' remuneration (excluding VAT)				
- for audit services	56	58	45	45
- for audit related assurance services	-	12	-	12

Notes to the Financial Statements

6. Surplus on sale of fixed assets – housing properties

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ '000	**£ '000**	**£ '000**	**£ '000**
Disposal proceeds	2,387	5,146	2,387	5,146
Carrying value of fixed assets	(702)	(1,383)	(702)	(1,383)
	1,685	3,763	1,685	3,763

7. Interest receivable

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ '000	**£ '000**	**£ '000**	**£ '000**
Interest receivable	68	27	329	212

8. Interest payable and financing costs

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ '000	**£ '000**	**£ '000**	**£ '000**
Loans and bank overdrafts	10,767	10,662	10,763	10,701
Breakage costs	510	-	510	-
Commitment fee on loans	193	209	193	209
Loan issue costs	106	132	106	132
Unwinding of discount factor on defined benefit pension liability	90	46	90	46
Remeasurement of pension provision due to change in assumptions	-	(46)	-	(46)
Movement in amortised cost of financial instruments	(22)	193	(22)	193
Interest payable capitalised on housing properties under construction	(212)	(387)	(154)	(338)
	11,432	10,809	11,486	10,897
Capitalisation rate used to determine the finance costs capitalised during the year	2.4%	4.25%	2.4%	4.25%

9. Employees

Average monthly number of employees expressed in full time equivalents (calculated based on a standard working week of 35 hours):

	Group		Association	
	2019	**2018**	**2019**	**2018**
	No.	**No.**	**No.**	**No.**
Administration	24	33	24	26
Development	14	14	14	14
Housing	59	56	59	56
	97	103	97	96

Notes to the Financial Statements

9. Employees (continued)

Employee costs:	**Group**		**Association**	
	2019	**2018**	**2019**	**2018**
	£ ’000	**£ ’000**	**£ ’000**	**£ ’000**
Wages and salaries	4,106	4,301	4,107	3,991
Social security costs	433	446	433	413
Other pension costs	280	242	280	226
	4,819	4,989	4,820	4,630

Number of employees (full time equivalents) with remuneration over £60,000

	£60,000 to £69,999	£70,000 to £79,999	£80,000 to £89,999	£90,000 to £99,999	£100,000 to £109,999	£110,000 to £119,999	£120,000 to £129,999	£130,000 to £139,999	£140,000 to £149,999
2019	4	6	-	-	1	-	1	-	2
2018	5	2	1	-	1	2	-	-	1

10. Board members and executive directors

	Basic salary £ ’000	**Benefits in kind £ ’000**	**Pension contr’ns £ ’000**	**2019 Total £ ’000**	**2018 Total £ ’000**
Executive directors	538	2	47	587	541
Non-executive directors	61	-	-	61	64
	599	2	47	648	605

The terms of payment for non-executive directors are set out in their agreement for services and follow best practice in the sector.

The emoluments receivable by the executive directors are shown below:

	Basic salary £ ’000	**Benefits in kind £ ’000**	**Pension contr’ns £ ’000**	**2019 Total £ ’000**	**2018 Total £ ’000**
Andrew Potter	142	-	11	153	-
Sue Chalkley	26	-	1	27	162
Don Barclay	105	-	4	109	118
Anne McLoughlin	139	1	18	158	124
William Roberts	126	1	13	140	134
	538	2	47	587	541

The aggregate amount payable to executive directors as compensation for loss of office was £62,000 (2018 £Nil). The executive directors are members of the Social Housing Pension Scheme. They are ordinary members of the pension scheme and no enhanced or special terms apply. Hastoe Housing Association Limited does not make any further contribution to an individual pension arrangement for any of the executive directors.

Notes to the Financial Statements

11. Tax on surplus on ordinary activities

	Group		Association	
	2019	2018	2019	2018 restated
	£ ’000	£ ’000	£ ’000	£ ’000
Current tax				
Current tax on income for the period	-	758	-	752
Adjustments in respect of prior periods	(163)	-	(159)	-
Deferred tax				
Origination of timing differences	(1)	(1)	-	-
Total tax	(164)	757	(159)	752

	Group		Association	
	2019	2018	2019	2018
	£ ’000	£ ’000	£ ’000	£ ’000
Surplus for the year before tax	2,697	7,415	3,274	5,456
Theoretical tax at UK corporation tax rate 19% (2018: 19%)	512	1,409	622	1,037
- surplus arising in charitable entities	-	(987)	-	-
- fixed asset differences	-	349		349
- expenses not deductible for tax	5,638	2,910	5,638	2,909
- income not taxable for tax purposes	(6,148)	(2,889)	(6,229)	(2,956)
- chargeable gains & indexation allowance	-	205	-	205
- deferred tax not recognised	(3)	(228)	-	(212)
- adjust closing deferred tax to average rate of 19%	34	52	37	52
- adjust opening deferred tax to average rate of 19%	(33)	(79)	(37)	(77)
- Group relief claimed	-	-	(31)	-
- Adjustments in respect of prior years	(164)	15	(159)	15
- Tax credit on gift aid payment	-	-	-	(570)
Total tax	(164)	757	(159)	752

Factors that may affect future tax charges

The Group has tax losses of £34,000 as at 31 March 2019 (2018: £781,000) all of which may be set against certain profits arising in future accounting periods. The resultant deferred tax asset of £6,000 as at 31 March 2019 (2018: £148,000) has not been recognised due to uncertainties as to the extent and timing of its future recovery.

Notes to the Financial Statements

12. Tangible fixed assets – housing properties

GROUP

	Components	Land and residual building	Social housing properties held for letting *	Social housing properties for letting under construction	Shared ownership properties under construction	Completed shared ownership housing properties	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 April 2018	78,646	310,538	389,184	6,318	661	49,433	445,596
Additions	-	-	-	7,033	2,545	-	9,578
Works to existing properties	2,774	-	2,774	-	-	-	2,774
Interest capitalised	-	-	-	115	39	-	154
Schemes completed	1,483	6,311	7,794	(7,794)	(474)	474	-
Disposals	(735)	(52)	(787)	-	-	(485)	(1,272)
At 31 March 2019	82,168	316,797	398,965	5,672	2,771	49,422	456,830
Depreciation and impairment							
At 1 April 2018	24,763	18,124	42,887	-	-	-	42,887
Depreciation charged in year	3,304	1,950	5,254	-	-	-	5,254
Disposals	(546)	(13)	(559)	-	-	-	(559)
At 31 March 2019	27,521	20,061	47,582	-	-	-	47,582
Net book value							
At 31 March 2019	54,647	296,736	351,383	5,672	2,771	49,422	409,248
At 31 March 2018	53,883	292,414	346,297	6,316	661	49,433	402,709

* Included within the social housing properties held for letting, 5 hostels valued at £2,261,000 (2018: 5 units at £2,284,000) and 2 rent to home buy properties valued at £235,000 (2018: 2 units at £236,000).

Notes to the Financial Statements

12. Tangible fixed assets – housing properties (continued)

ASSOCIATION

	Components	Land and residual building	Social housing properties held for letting *	Social housing properties for letting under construction	Shared ownership properties under construction	Completed shared ownership housing properties	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 April 2018	77,220	312,195	389,415	6,395	444	50,052	446,306
Additions	-	-	-	7,420	2,553	-	9,973
Works to existing properties	2,774	-	2,774			-	2,774
Interest capitalised	-	-	-	115	39	-	154
Schemes completed	1,483	6,621	8,104	(8,104)	(543)	543	-
Disposals	(735)	(52)	(787)	-		(485)	(1,272)
At 31 March 2019	80,742	318,764	399,506	5,826	2,493	50,110	457,935
Depreciation and impairment							
At 1 April 2018	24,381	18,124	42,505	-	-	-	42,505
Depreciation charged in year	3,189	1,950	5,139	-	-	-	5,139
Disposals	(545)	(13)	(558)	-	-	-	(558)
At 31 March 2019	27,025	20,061	47,086	-	-	-	47,086
Net book value							
At 31 March 2019	53,717	298,703	352,420	5,826	2,493	50,110	410,849
At 31 March 2018	52,839	294,071	346,910	6,395	444	50,052	403,801

* Included within the social housing properties held for letting, 5 hostels with a net book value of £2,261,000 (2018: 5 units at £2,284,000) and 2 rent to home buy properties valued at £235,000 (2018: 2 units at £236,000).

Notes to the Financial Statements

12. Tangible fixed assets – housing properties (continued)

Completed housing properties historical cost, net of depreciation comprises:

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ ’000	**£ ’000**	**£ ’000**	**£ ’000**
Freehold land and buildings	352,325	350,995	354,050	352,227
Long leasehold land and buildings	48,480	44,735	48,480	44,735
	400,805	395,730	402,530	396,962

Expenditure on works to existing properties	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ ’000	**£ ’000**	**£ ’000**	**£ ’000**
Amounts capitalised (components)	2,774	2,623	2,774	2,623
Amounts charged to income and expenditure account	6,076	5,190	6,076	5,190
	8,850	7,813	8,850	7,813

Impairment:

The following were considered to be indicators of impairment at 31 March 2019:

1) An increase in costs on one development site and delays on a further site leading to loss of rent and increased build costs.

The Group consider individual units to be separate Cash Generating Units (CGU's) when assessing for impairment, in accordance with the requirements of FRS102.

The carrying amount of each individual property is calculated as the net book value. The recoverable amount of each property is considered to be its value in use in respect of its service potential. The recoverable amount has been assessed as being in excess of forecast cost.

2) Nine unsold units at the year end, one of which had remained unsold for a year.

Sales after the year end provided sufficient evidence that the remaining properties could realise sales proceeds in excess of their carrying value.

The result of the review was that no impairment provision was considered to be required.

Social housing assistance:

Total accumulated social housing grant received or receivable at 31 March:	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ ’000	**£ ’000**	**£ ’000**	**£ ’000**
Capital grant	151,706	153,814	151,706	150,755
	151,706	153,814	151,706	150,755

Notes to the Financial Statements

13. Tangible fixed assets – investment properties

	Group		Association	
	2019	2018	2019	2018
	£ '000	£ '000	£ '000	£ '000
At 1 April	4,485	4,458	4,485	4,458
Additions	-	-	-	-
Disposals	-	(97)	-	(97)
Valuation adjustment	-	124	-	124
	4,485	4,485	4,485	4,485

The Group's investment properties were subject to a full valuation on 31 March 2018, by independent external valuers, Savills Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

There have been no material changes in the rent charged in the year and therefore the fair value of the investment properties at 31 March 2019 has not been revised.

In valuing housing properties, discounted cash flow methodology was adopted with key assumptions:

Real discount rate	4.75%- 5.75%
Annual inflation rate	2.0%
Level of annual rent increase	3.0%

14. Tangible fixed assets – other

GROUP

	Leasehold Offices	Furniture Fixtures and Fittings	Computers and Office Equipment	PV Panels	Motor Vehicles	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Cost						
At 1 April 2018	2,631	321	2,866	46	32	5,896
Additions	-	1	597	-	-	598
Disposals	-	-	(628)	-	-	(628)
At 31 March 2019	2,631	322	2,835	46	32	5,866
Depreciation						
At 1 April 2018	221	264	1,738	6	32	2,261
Charged in year	18	15	271	2	-	306
Released on disposal	-	-	(628)	-	-	(628)
At 31 March 2019	239	279	1,381	8	32	1,939
Net book value						
At 31 March 2019	2,392	43	1,454	38	-	3,927
At 31 March 2018	2,410	57	1,128	40	-	3,635

Notes to the Financial Statements

14. Tangible fixed assets – other (continued)

ASSOCIATION

	Leasehold Offices	Furniture Fixtures and Fittings	Computers and Office Equipment	Motor Vehicles	Total
	£ ’000	**£ ’000**	**£ ’000**	**£ ’000**	**£ ’000**
Cost					
At 1 April 2018	2,631	321	2,801	32	5,785
Additions	-	1	581	-	582
Disposals	-	-	(629)	-	(629)
At 31 March 2019	2,631	322	2,753	32	5,738
Depreciation					
At 1 April 2018	221	264	1,692	32	2,209
Charged in year	18	15	249	-	282
Released on disposal	-	-	(629)	-	(629)
At 31 March 2019	239	279	1,312	32	1,862
Net book value					
At 31 March 2019	2,392	43	1,441	-	3,876
At 31 March 2018	2,410	57	1,109	-	3,576

15. Investment in subsidiaries and associated undertakings

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£	**£**	**£**	**£**
Investment in Hastoe Capital	-	-	50,000	50,000
Investment in Lowen Homes	-	-	500,100	100
	-	-	550,100	50,100

As required by statute, the financial statements consolidate the results of Sustainable Homes Limited, Hastoe Homes Limited, Lowen Homes Limited and Hastoe Capital plc all of which were subsidiaries of the Association at the end of the year. The Association has the right to appoint members to the board of the subsidiaries and thereby exercises control over them. Hastoe Housing Association Limited is the ultimate parent undertaking.

Details of the subsidiaries are as follows:

Name of Company	Principal Activities	Country of Incorporation	Share Capital Held
Hastoe Homes Limited	Design and build services	England	100%
Hastoe Capital plc	Special Purpose Vehicle for bond issue	England	100%
Sustainable Homes Limited	Training and consultancy	England	100%
Lowen Homes Limited	Build and sell homes	England	100%

Notes to the Financial Statements

16. Stock

	Group 2019 £ '000	Group 2018 £ '000	Association 2019 £ '000	Association 2018 £ '000
Completed open market sale properties	-	668	-	-
Completed shared ownership properties	141	362	141	362
Open market sale properties under construction	3,936	3,703	-	-
Shared ownership properties under construction	796	190	796	190
	4,873	4,923	937	552
Capitalised interest included in the above	112	73	10	13

17. Debtors

	Group 2019 £ '000	Group 2018 £ '000	Association 2019 £ '000	Association 2018 £ '000
Due within one year				
Rent and service charges receivable	825	707	825	707
Less: Provision for bad and doubtful debts	(244)	(170)	(244)	(170)
	581	537	581	537
Trade debtors	44	31	-	-
Grant receivable	520	949	520	949
Amounts due from leaseholders and freeholders	571	491	571	491
Amounts owed by subsidiary undertaking	-	-	5,808	7,051
Other debtors	355	400	295	337
Prepayments and accrued income	943	506	894	439
	3,014	2,914	8,669	9,804

18. Creditors: amounts falling due within one year

	Group 2019 £ '000	Group 2018 £ '000	Association 2019 £ '000	Association 2018 £ '000
Debt and related amounts (note 22)	5,053	4,987	5,053	4,987
Trade creditors	267	667	248	464
Rent and service charges received in advance	2,890	2,472	2,890	2,472
Amounts owed to subsidiary undertakings	-	-	1,074	2,237
Other creditors	131	1,002	131	995
Accruals and deferred income	3,865	4,938	2,495	2,572
Deferred capital grant (note 20)	1,737	1,649	1,737	1,649
Grant received in advance	41	41	41	41
SHPS pension deficit	532	512	532	512
Recycled capital grant fund (note 21)	225	51	225	51
	14,741	16,319	14,426	15,980

Notes to the Financial Statements

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

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ '000	**£ '000**	**£ '000**	**£ '000**
Debt and related amounts (note 22)	246,054	221,243	246,054	221,243
Deferred capital grant (note 20)	127,508	128,027	127,508	128,027
Recycled capital grant fund (note 21)	281	470	281	470
SHPS pension deficit	4,036	2,681	4,036	2,681
	377,879	352,421	377,879	352,421

Pension obligations

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

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

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1.522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

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

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

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

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

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

	31 March 2019
	(£000s)
Fair value of plan assets	14,259
Present value of defined benefit obligation	18,827
Surplus (deficit) in plan	(4,568)
Unrecognised surplus	-
Defined benefit asset (liability) to be recognised	(4,568)

Notes to the Financial Statements

19. Creditors: amounts falling due after more than one year (continued)

Pension obligations (continued)

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE DEFINED BENEFIT OBLIGATION

	Period ended 31 March 2019 (£000s)
Defined benefit obligation at start of period	17,537
Expenses	13
Interest expense	441
Actuarial losses (gains) due to scheme experience	136
Actuarial losses (gains) due to changes in demographic assumptions	57
Actuarial losses (gains) due to changes in financial assumptions	1,110
Benefits paid and expenses	(467)
Defined benefit obligation at end of period	18,827

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE FAIR VALUE OF PLAN ASSETS

	Period ended 31 March 2019 (£000s)
Fair value of plan assets at start of period	13,735
Interest income	351
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	115
Contributions by the employer	525
Benefits paid and expenses	(467)
Fair value of plan assets at end of period	14,259

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £466,000.

Notes to the Financial Statements

19. Creditors: amounts falling due after more than one year (continued)

Pension obligations (continued)

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

	Period from 31 March 2018 to 31 March 2019 (£000s)
Expenses	13
Net interest expense	90
Defined benefit costs recognised in statement of comprehensive income (SoCI)	103

DEFINED BENEFIT COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

	Period ended 31 March 2019 (£000s)
Experience on plan assets (excluding amounts included in net interest cost) - gain (loss)	115
Experience gains and losses arising on the plan liabilities - gain (loss)	(136)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	(57)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	(1,110)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	(1,188)
Total amount recognised in other comprehensive income - gain (loss)	(1,188)

Notes to the Financial Statements

19. Creditors: amounts falling due after more than one year (continued)

Pension obligations (continued)

ASSETS

	31 March 2019 (£000s)	31 March 2018 (£000s)
Absolute Return	1,234	1,678
Alternative Risk Premia	822	521
Corporate Bond Fund	665	564
Credit Relative Value	261	-
Distressed Opportunities	259	133
Emerging Markets Debt	492	554
Fund of Hedge Funds	64	452
Global Equity	2,399	2,713
Infrastructure	748	352
Insurance-Linked Securities	409	361
Liability Driven Investment	5,215	5,004
Long Lease Property	210	-
Net Current Assets	27	13
Private Debt	191	122
Property	321	632
Risk Sharing	431	127
Secured Income	511	509
Total assets	14,259	13,735

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

19. Creditors: amounts falling due after more than one year (continued)

Pension obligations (continued)

KEY ASSUMPTIONS

	31 March 2019	**31 March 2018**
	% per annum	**% per annum**
Discount Rate	2.29%	2.55%
Inflation (RPI)	3.30%	3.20%
Inflation (CPI)	2.30%	2.20%
Salary Growth	3.30%	3.20%
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

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

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

Notes to the Financial Statements

20 Deferred capital grant

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ '000	**£ '000**	**£ '000**	**£ '000**
At 1 April	129,636	128,503	129,636	128,503
Grant receivable in the year	1,528	3,126	1,528	3,126
Grant repaid in the year	(118)	(181)	(118)	(181)
Grant released to income in the year	(1,801)	(1,812)	(1,801)	(1,812)
At 31 March	129,245	129,636	129,245	129,636
Amount to be released within one year	1,737	1,642	1,737	1,642
Amount to be released in more than one year	127,508	127,994	127,508	127,994
	129,245	129,636	129,245	129,636

21 Recycled Capital Grant Fund

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ '000	**£ '000**	**£ '000**	**£ '000**
Opening balance	521	505	521	505
Grants recycled	75	208	75	208
Drawdown	(90)	(192)	(90)	(192)
Closing balance	506	521	506	521
Closing balance consists of:				
Homes & Communities Agency Fund	439	455	439	455
Greater London Authority Fund	67	66	67	66
	506	521	506	521
Amount due for repayment to the Homes & Communities Agency within one year	225	51	225	51

Notes to the Financial Statements

22. Debt and related amounts

	Group		Association	
	2019 £ '000	2018 £ '000	2019 £ '000	2018 £ '000
Debt:				
Outstanding principle amount	239,981	222,573	239,981	222,573
Cumulative movement in amortised cost	542	558	542	558
Amortised cost	240,523	223,131	240,523	223,131
Related amounts:				
Premium on bond issue	12,300	4,558	12,300	4,558
Loan arrangement fees	(1,716)	(1,459)	(1,716)	(1,459)
	251,107	226,230	251,107	226,230
Due:				
Within one year	5,053	4,987	5,053	4,987
Between one and two years	5,074	5,011	5,074	5,011
Between two and five years	15,422	15,263	15,422	15,263
After five years	225,558	200,969	225,558	200,969
	246,054	221,243	246,054	221,243
	251,107	226,230	251,107	226,230

The fair value of the Group's long term borrowing is £315m (2018: £289m). Bank loans and bonds are secured by fixed charges on properties. The bond has a gross redemption value of £150m.

The Group's loans along with key terms are summarised in the table below:

	Barclays	HBOS	Orchardbrook	Bond
Value (£'000)	42,750	46,550	681	150,000
Interest Rate	2.6% - 5.8%	0.8% - 6.3%	6.10%	5.60%
	Fixed	Fixed & Variable	Fixed	Fixed
Maturity	April 2037	June 2037	Jan 2025	March 2042
Repayment Profile (£'000)				
Within 1 year	2,250	2,450	127	-
1-2 Years	2,250	2,450	135	-
2- 5 Years	6,750	7,350	392	-
After 5 years	33,750	36,750	27	150,000

At 31 March 2019, the Group had undrawn committed loan facilities of £38m (2017: £38m) and cash holdings of £6m (2017: £12m).

Notes to the Financial Statements

22. Debt and related amounts (continued)

The bank loans are repaid in quarterly and half-yearly instalments at rates of interest ranging from 2.6% to 6.3%. The proportion of drawn debt on fixed and floating rates is as follows:

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£ '000	**£ '000**	**£ '000**	**£ '000**
Fixed rate	236,273	216,712	236,273	216,712
Floating rate	4,250	6,420	4,250	6,420
	240,523	223,132	240,523	223,132

Financial risk management

Risk management objectives and policies

The Association's treasury function is responsible for the management of funds and control of associated risks. Its activities are governed by the Hastoe Housing Association Group Board and Group Finance & Performance Committee, which are responsible for treasury issues in all the Group's legal entities. The treasury function does not operate as a profit centre.

Interest rate risk

Hastoe Capital plc currently borrows funds on a fixed rate basis from the capital markets and then on-lends these funds to Hastoe Housing Association Limited on a similar fixed rate basis and as such there is no interest rate risk to the Group in relation to the bond.

Credit risk

The main risk facing the Group is that it will be unable to make its interest or principal payments when they fall due. This risk is through funding being arranged under a secured loan agreement, which is backed by housing assets of Hastoe Housing Association Limited.

Hastoe Housing Association Limited benefits from 'A3' credit rating from Moody's Investor Services.

23. Non-equity share capital

	2019	**2018**
	£	**£**
Shares of £1 each issued and fully paid		
At 1 April	11	11
Shares cancelled during the year	(1)	-
Shares issued during the year	-	-
At 31 March	10	11

The shares provide members with the right to vote at general meetings, but do not provide any rights to dividends or distributions on a winding up.

Notes to the Financial Statements

24. Financial commitments

Capital expenditure commitments were as follows:	Group		Association	
	2019 £ '000	2018 £ '000	2019 £ '000	2018 £ '000
Capital expenditure				
Expenditure contracted for but not provided in the accounts	12,373	13,595	12,373	12,927
Expenditure authorised by the Board, but not contracted	14,734	27,973	14,734	24,796
	27,107	41,568	27,107	37,723

The above commitments will be funded by cash holdings and borrowings of £16.6m, property sales of £5.2m and social housing grant of £5.3m.

Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Association	
	2019	2018	2019	2018
	£000	£ '000	£000	£ '000
Less than one year	38	38	38	38
Between one and five years	113	120	113	120
Beyond five years	-	23	-	23
	151	181	151	181

25. Contingent liabilities

The Group and Association had no material contingent liabilities at 31 March 2019 (2018: nil).

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

	2019 £ '000	2018 £ '000
Increase/(decrease) in cash	18,063	(5,865)
Cash (inflow)/outflow from decrease in debt and lease finance	(25,374)	256
Increase in net debt from cash flows	(7,311)	(5,609)
Loan issue costs	364	30
Movement in amortised cost of financial instruments	17	(384)
Amortisation of premium on bond issue	223	109
Amortisation of issue costs	(106)	(132)
Total changes in net debt for the year	(6,813)	(5,990)
Net debt at 1 April	(220,337)	(214,351)
Net debt at 31 March	(227,150)	(220,337)

Notes to the Financial Statements

27. Analysis of net debt

	1 April 2018 £ ’000	Cash Flow £ ’000	Non-Cash Movement £ ’000	31 March 2019 £ ’000
Cash and cash equivalents	5,894	(1,437)	-	4,457
Short term investments	-	19,500	-	19,500
Loans	(226,231)	(25,010)	134	(251,107)
Changes in net debt	(220,337)	(6,947)	134	(227,150)

28. Related parties

The following table summarises the companies in the Group and their legal status:

Company	Legal Status
Hastoe Housing Association Limited	Registered Social Housing Provider
Sustainable Homes Limited	Company Limited by Guarantee
Hastoe Capital plc	Unlisted Public Limited Company
Hastoe Homes Limited	Company Limited by Shares
Lowen Homes Limited	Company Limited by Shares

All subsidiaries are wholly owned by the parent company, Hastoe Housing Association Limited.

Hastoe Housing Association Limited is registered with and regulated by the Homes and Communities Agency. The activities of Sustainable Homes Limited, Hastoe Homes Limited, Lowen Homes Limited and Hastoe Capital plc are not regulated. Charges for development services made by Hastoe Homes Limited subject to 14 day payment terms with a commercial mark up applied to the charges. Interest charges made by Hastoe Capital plc match its funding costs.

At 31 March 2019, Sustainable Homes Limited owed Hastoe Housing Association Limited £2,000 (2018: £23,000) relating to working capital balances repayable on demand. During the year, Hastoe Housing Association charged £95,000 for services provided to Sustainable Homes Limited (2018: £nil). Hastoe Housing Association Limited donated grant income of £nil to Sustainable Homes during the year (2017:£250,000). Sustainable Homes charged Hastoe Housing Association £6,000 for services provided during the year (2018: £33,000).

At 31 March 2019 Hastoe Housing Association Limited owed Hastoe Homes Limited £921,000 (2018: £2,225,000) relating to development services. During the year Hastoe Housing Association Limited made charges of £961,000 to Hastoe Homes Limited (2018: £1,117,000). Hastoe Homes Limited made charges of £10,110,000 (2018: £11,199,000) to Hastoe Housing Association Limited.

Hastoe Housing Association Limited has a loan of £5,806,000 to Lowen Homes Limited (2018: £6,800,000). Interest on the loan is charged at a current rate of 4.0% and has a maturity date of July 2022. At 31 March 2019 Lowen Homes Limited owed Hastoe Housing Association Limited £27,000 (2018: £16,000) relating to management services. During the year Hastoe Housing Association Limited made charges of £27,000 to Lowen Homes Limited (2018: £16,000).

At 31 March 2019 Hastoe Housing Association Limited owed £162,300,000 to Hastoe Capital plc (2018: £129,672,000) relating to the on lending of a fixed rate bond repayable in full in March 2042. During the year Hastoe Capital plc charged £7,515,000 for interest on loans (2018: £6,891,000).

Hastoe Housing Association Limited is the corporate trustee of Gaymer Memorial Cottages, a registered charity that owns four homes which are managed by Hastoe Housing Association Limited. At 31 March 2019, Hastoe Housing Association owed £6,000 to Gaymer Memorial Cottages (2018: £21,000) relating to working capital balances repayable on demand. Hastoe Housing Association Limited charged £4,000 for services provided to Gaymer Memorial Cottages (2018: £4,000).

Notes to the Financial Statements

28. Related parties (continued)

Hastoe Housing Association Limited is the corporate trustee of the Bernard Herridge Charity, a registered charity that owns six homes which are managed by Hastoe Housing Association. At 31 March 2019, Hastoe Housing Association owed Bernard Herridge Charity £9,000 (2018: £12,000) relating to working capital balances repayable on demand. During the year, Hastoe Housing Association Limited charged £7,000 (2018: £7,000) for services provided to the Bernard Herridge Charity.

The aggregate amount of emoluments paid to key management personnel during the year was £739,000 (2018: £752,000).

Ann Bugden is a board member and a tenant. Her tenancy is on normal commercial terms and she is not able to use her position to her advantage.

29. Financial assets and liabilities

The carrying amounts of financial assets and liabilities include:

	Group		Association	
	2019 **£ '000**	**2018** **£ '000**	**2019** **£ '000**	**2018** **£ '000**
Financial assets that are debt instruments measured at amortised cost	25,078	7,015	24,910	6,431
Financial liabilities measured at amortised cost	247,664	232,180	247,423	229,838