



Connexus

People > Places > Partnerships

Annual Report and
Financial Statements

For the year ended
31 March 2019



Connexus Housing Limited
Report and financial statements for the year ended 31 March 2019



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Company Information

Company registration number	IP30269R Registered as a Cooperative and Community Benefit Society
Regulator Registration number	LH4494
Executive Directors	
Interim Chief Executive	Duncan Forbes (Appointed September 2018, resigned April 2019)
Chief Executive	Peter Brown (Appointed July 2017, resigned September 2018) Richard Woolley (Appointed April 2019)
Deputy Chief Executive	Jake Berriman (Appointed July 2017, resigned September 2018)
Company Secretary	Richard Woolley (Appointed September 2018, resigned March 2019) Jen Hayball (Appointed July 2017, resigned September 2018) Nicola Griffiths (Appointed March 2019)
Executive Directors	Christine Duggan BSc (Hons) (Appointed July 2017) Francis Narweh (Appointed July 2017, resigned July 2018) Ann Sutcliffe (Appointed July 2017, resigned March 2019) Paul Sutton (Appointed July 2017, resigned September 2018) Richard Woolley FCCA, BA (Hons) (Appointed July 2017, promoted April 2019) Lynsey Squair (Appointed June 2019) Victoria Tomlinson (Appointed June 2019)
Interim Directors	Rowan Kirk (Appointed July 2018, resigned June 2019) Vivien Knibbs (Appointed July 2018, resigned June 2019) Greg Van Enk Bones (Appointed March 2019, resigned June 2019) Duncan Forbes (Appointed April 2019, resigned June 2019) Peter Donovan (Appointed June 2019)
Registered office	The Gateway The Auction Yard Craven Arms Shropshire SY7 9BW
Independent Auditor	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH

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Chair's Foreword

Work has continued in year in creating One Connexus to provide resilience for the future whilst building on the financial and operational performance.

Government agenda has been more focussed following the publication of a Social Housing Green paper in 2018, the key aims of which are:

1. Providing safe and secure homes for all residents
2. Rebalancing the relationship between residents and landlords to ensure every resident has a voice
3. Increasing the supply of social housing
4. Tackling the stigmatisation of social housing tenants
5. Using transparent data on performance and satisfaction to assure, inform and empower tenants
6. Supporting a more proactive approach to the regulation of consumer issues and introducing a new charter
7. Basing future changes to the social housing sector on tenant experience and evidence of what works

We are supportive of this approach and have signalled our commitment to working closer with tenants by becoming early adopters of the "Together with Tenants" initiative led by the National Housing Federation.

It has been a difficult year for Connexus with historic governance issues resulting in a downgrade by our Regulator to a G2, V2 grading. Whilst this confirms that Connexus is compliant, the Regulator defines G2 as compliant but "the provider needs to improve some aspects of its governance arrangements to support continued compliance".

The Regulator of Social Housing published a regulatory notice on 28th August 2019 where they identified that Connexus had breached the Home Standard as there had been failings in relation to ensuring solid fuel appliances were fit for use and that urgent remedial repairs had not been scheduled or completed in a timely way. Since the issues were identified we have been working hard to strengthen our approach to Health and Safety. All outstanding remedial works are now completed and we are strengthening our approach to data quality, working with the regulator to have this complete by October 2019.

I am grateful to the Board who steered us through the governance issues and worked with management and our Internal Auditors in a wider review of strengthening governance and implementation of a series of checks and improvements to governance across the Group culminating in a report back to the Regulator evidencing that work had been completed. An In Depth Assessment was carried out by the Regulator in May 2019. We are awaiting the outcome.

My 9 years as a Board member at Connexus ends in September so I would like to thank Board members past and present and staff for making this a thoroughly enjoyable appointment - in particular this year to Board members, Liz Walford, Gill Jones and Hilary Gardner who are leaving the Board in September 2019 too and James Williamson, Graham Biggs, Philippa Jones, Sonia Higgins and

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Michael McCarthy who stepped down during the year. John Barker has recently been appointed as Chair of Connexus (designate) and will take up the post following the Annual General meeting in September. John brings a wealth of experience both as a Chief Executive and Non-executive Board member/Chair of Housing Associations so we have every confidence that John will provide a strong strategic lead for the future. In addition, we have appointed Richard Woolley as Chief Executive from April 2019 following a rigorous recruitment process.



Ruth Cooke
Chair

Chief Executive's Foreword to the Financial Statements

I was enormously proud to be appointed to the post of Chief Executive for Connexus in April 2019. Connexus is an incredibly diverse organisation with over 10,000 homes under management as well as strong community links delivering support services in Shropshire, Herefordshire and Gloucestershire.

Our operational focus for 2019 has been to continue to deliver the goals set out in the merger business case that brought Shropshire Housing and Herefordshire Housing Groups together in 2018. I am grateful to my predecessor (as Interim Chief Executive), Duncan Forbes who led Connexus throughout the majority of the financial year as well others on the executive team who made a big contribution to the development of the Group who left Connexus this year.

As part of bringing our organisations together and aligning our service offer, after allowing for the costs of merger, we aimed to create efficiencies of around 5% of turnover from year three and 6.3% by year five. For 2019 we have generated a cumulative saving of £1.188m compared to a forecast of £1.127m

The efficiencies that we have made in continuing to respond to the 1% annual rent reductions will continue to 2020 have not been at the expense of properly maintaining existing homes. In the last 12 months we have invested £19.2m in responsive and planned maintenance and servicing.

In the last 12 months together we have seen a net increase of new homes in management of 112. Our business case for merger forecast an increase in the number of homes of 1458 by the end of 2020 and this is reflected in our "New Homes Strategy". Our approach to development seeks to support the Government in tackling the housing crisis and includes significant numbers of shared ownership and open market homes alongside social and affordable rental properties.

Our operating margin for the year is 29% against a forecast of 31%, the variance to forecast is primarily down to increased management costs incurred in year.

The Registered Providers within the Connexus Group have a strong history in working with our communities and I am keen that we do not lose sight of this. This was reinforced this year when Connexus won the "Best Older Persons Landlord" in the prestigious UK housing awards as well as a further award from the Royal Institute of British Architects for the design of our Independent Living scheme in Ludlow.

The challenges of rural housing remain at the top of my agenda and I am looking forward to working closely with local communities in Shropshire and Herefordshire so that the strategy of Connexus is aligned to that of the community.



Richard Woolley
Chief Executive

Connexus Housing Limited

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Report of the Board

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

Principal activities

The Association is registered with the Cooperative and Community Benefit Societies Act 2014, Registered No. 30269R. It is also registered with and regulated by the Regulator of Social Housing in accordance with the Housing and Regeneration Act 2008, Registered No. LH 4494. The Association has charitable objects, and is a charity for tax purposes (reference XT4980).

Connexus Housing Limited ("the company") was formed for the benefit of the community in providing housing, accommodation and related services for people in need.

Review of business and future developments

Details of the Group's performance for the financial year and future plans are set out in the Strategic Report that follows this report.

Housing property assets

Details of changes to the Group's fixed assets are shown in notes 12 and 13 to the financial statements.

Political and charitable donations

The Group gave £nil charitable donations during the financial year (2018:£80,000).

The Company gave £nil charitable donations during the financial year (2018:£nil).

No political donations were made during the financial year (2018: £nil).

Reserves

The level of reserves for the Group at the end of the financial year was £74.2m (2018 combined: £70.7m). This is after the transfer of the surplus for the financial year of £3.49m (2018 combined: £12.4m).

Post balance sheet events

There are no significant post balance sheet events requiring adjustment to, or disclosure in, the financial statements.

Payment of creditors

In line with government guidance, the Group's aim is to pay purchase invoices within 30 days of receipt, or earlier if agreed with the supplier.

Board Members and Non-Executive Directors

The Connexus Group operates with co-terminus boards, where the board members act for and on behalf of the whole Group. South Shropshire Housing Limited (SSHA), Meres and Mosses Housing Association (MMHA), Herefordshire Housing (HHL) and Connexus Housing Limited share the same board members.

The non-executive directors of the Group who were in office during the year and up to the date of signing the financial statements are set out below. The Board comprises of ten Ordinary board members. There is currently one vacancy on the Board.

Current Board members:

Ordinary Board Members

Ruth Cooke (Chair)
(appointed July 2017)

Ruth is the former CEO of Clarion, one of the UK's largest housing association and has recently been appointed as the Chief Executive of GreenSquare Group. Ruth is passionate about the delivery of quality housing and care services, and has a particular interest in the challenges of providing affordable housing in rural communities.

John Cross
(appointed December 2018)

John has extensive senior level experience leading on the development of new affordable homes and has worked as a highly successful Chief Executive for a number of organisations including bpha. He previously served as Chair of the National Housing Federation for three years.

Hilary Gardner
(appointed December 2018)

Hilary has over 30 years' experience in the Housing Sector both at an executive and non-executive level. Hilary is currently a non-executive Director of Sanctuary Students and from 2013-16 was Chair of Sanctuary (North West). Hilary now has her own housing consultancy business.

Gillian Jones
(appointed July 2017)

Since April 2014, Gill has been self-employed, working with a range of public, private and voluntary sector clients in areas of business development, project management, fund-finding and neighbourhood planning.

David Lincoln
(appointed July 2017)

David has previously worked in the gas and electricity industries, in roles ranging from operational to business and systems development and change management. David is also a volunteer adviser with Herefordshire Citizens Advice Bureau.

Paul Smith
(appointed December 2018)

Paul is the Cabinet Member for Housing at Bristol City Council and a member of the Advisory Panel for the Housing Ombudsman. Paul has also served as the Chief Executive of two national charities, the Furniture Re-use

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Network and Housing Potential (the skills agency for housing).

Allison Taylor
(appointed July 2017)

Allison has many years' experience at a senior level with a particular emphasis on people management and helping organisations create a climate to enable people to work at their best. Allison runs her own consultancy offering leadership development and executive coaching.

Elizabeth Walford
(appointed July 2017)

Liz has a lifetime's experience in social housing, having held a number of executive positions within leading organisations in the sector. She retired as Group Chief Executive of Walsall Housing Group in 2009 following five years in that post.

Richard Woolley
(appointed April 2019)

Richard has over 20 years' experience in the housing sector, gained with both Large Scale Voluntary Transfers (LSVTs) and traditional housing associations. Having been Director of Resources for Herefordshire Housing and then Connexus Housing, Richard was appointed as Chief Executive and to the Board in April 2019.

In addition, the following Board members served on the Board until resigning: during the year:

Graham Biggs, resigned 15 November 2018

Sonia Higgins, resigned 30 November 2018

Philippa Jones, resigned 17 April 2019

Michael McCarthy, resigned 31 December 2018

James Williamson, resigned 30 November 2018

The Group has insurance policies that indemnify both its Board Members and Executive Directors against liability when acting for the Companies. With the exception of the Interim Chief Executive, Duncan Forbes and the former Deputy Chief Executive, Jake Berriman, Executive Directors are not Board Members and act as executives within the authority delegated by the Board.

The Board is responsible for the Group's strategic direction. Day to day management and implementation is delegated to the Chief Executive and his Executive team who meet at least fortnightly. The Executive Directors and senior colleagues attend Board and committees.

The Board meet a minimum of four times a year. The Chief Executive and Chair meet regularly.

Stakeholders

The strength of the Group lies in the quality and commitment of its employees. The Group's ability to meet its objectives and commitments to customers in an efficient and effective manner depends on the contribution of employees throughout the financial year. Consultation and communication with all employees takes place through regular briefings, team meetings and union representation.

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The Group is committed to eliminating discrimination and harassment and promoting equality and diversity. Connexus Housing Limited actively encourages customer involvement by promoting various mechanisms. These include supporting resident groups, a customer involvement panel with direct access to the Group Board, and independent surveys through 'Voluntas'. These all help for customers to play an active role in shaping the future provision of services.

The Group's commitment is not purely to its customers, but also to the wider community. The Group supports the Discovery Centre in Craven Arms, the Mayfair Centre in Church Stretton and the Newton Farm Information Centre, a Hereford charity providing a wide range of advice either directly, by signposting or by providing space for other agencies on a surgery basis. This includes regular visits by the Citizens Advice Bureau (to whom grant aid is given to fund a part-time officer dedicated to supporting our tenants) and an access point for the local Credit Union.

The Group directly allocated grants to community groups to support initiatives across Shropshire and Herefordshire.

NHF Code of Governance

We are pleased to report that the Group complies with the recommendations of the NHF Code of Governance.

Members of the Company

As of 31 March 2019 there were 9 shareholders, each holding a £1.00 share all of which are independent in accordance with the Company's Rules. Members have voting rights at Annual and Special General Meetings. Members of the Company are eligible to be elected to sit on the Board and Committees. The detailed arrangements regarding membership are set out in the Rules of the Association.

Health and safety

The Board is aware of its responsibilities on matters relating to health and safety and the Group has detailed health and safety policies. The Group complies with the Health and Safety at Work Act 1974 and other relevant legislation.

Public Benefit

In setting the Group's aims and objectives, the Board has given careful consideration to the Charity Commission's general guidance on public benefit. The Board confirms that the Company complies with the public benefit criteria by:

- The provision of social housing.
- Ensuring that rents are charged within the parameters of the Group's rent plan, in accordance with the RSH's rent standard and guidance.
- Ensuring that housing is let on the basis of need.
- Valuing diversity through the Group's Equality and Diversity policy.

Details of the Group's performance in achieving this in the year to 31 March 2019 are included in the Strategic Report.

Internal controls assurance

The Board is ultimately responsible for ensuring that the Group maintains a system of internal control that is appropriate to the business environments in which it operates. The Group adheres to the NHF Code of Governance that it adopted in 2015.

Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed. The Board recognises that no system of internal control can provide absolute assurance against material misstatement or loss or eliminate risk of failure to achieve business objectives.

The system of internal control is designed to manage key risks to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance with respect to:

- the reliability of financial and operational information and;
- Safeguarding of the Company's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Company is exposed, internally through the wider management team and externally through independent internal and external audit.

Regular management reporting on control issues provides assurance to successive levels of management and to the Board, with overview and structured feedback through the Board's Audit and Risk Committee. The arrangements include a rigorous procedure, monitored by the Audit and Risk Committee, for ensuring that corrective action is taken in relation to any significant control issues. Financial governance is monitored by the Audit and Risk Committee and by the Group Board.

The key elements of the internal control framework include:

- The Board being directly responsible for strategic risk management.
- Delegation of authority to the Audit and Risk Committee to monitor internal control.
- Experienced and suitably qualified colleagues are employed by the Group and responsible for important business functions. Annual appraisals of colleagues are carried out to maintain standards of performance.
- The Leadership team compiling and monitoring the key business risks.
- Monthly management accounts aligned to the needs of the business providing reliable, relevant and up to date financial information with significant variances from budgets being investigated.
- Significant new initiatives being evaluated and approved in accordance with the Standing Orders and Financial Regulations of the Group.
- All development projects are subject to an appraisal.
- A development programme is approved by the Board prior to commencement.
- HR policies and procedures designed to ensure that all colleagues are aware of their roles and responsibilities in terms of the internal control framework.
- A weekly EMT meeting is held that monitors all aspects of internal control.

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- An Internal audit service for the Group is provided by Beever and Struthers who report directly to the A&R Committee at least quarterly.
- Both the Internal Auditors (Beevers and Struthers) and External Auditors (KPMG) meet with A&R Committee members in a closed session at least annually.

The Board confirms this framework has been in place throughout the financial year 2018/19 and up to the date of signing these financial statements, and is fully compliant with the Governance & Viability Standard.

Financial risk management

Connexus is financed by a combination of retained reserves, long-term loan facilities and grants from the Government. The Group has a formal Treasury Management Policy that was approved by the Finance and Treasury Committee in January 2018.

This policy seeks to address funding and liquidity risk and ensure covenant compliance; it states which types of financial instrument can be authorised for use, covering both borrowings and investments. In addition, the policy identifies the maximum value of financial instruments and with whom they may be agreed. The purpose of this policy is to reduce the impact to Connexus of adverse movements in interest rates and fluctuations in income (especially sales).

Going concern

After making enquiries the Board has a reasonable expectation that the Group has adequate resources to continue its operational activities for the foreseeable future, being a period of twelve months after the date on which the report and financial statements were 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 19 September 2019 at the registered office, The Gateway, Craven Arms.

Independent Auditor

KPMG LLP were appointed by the Group Board in November 2017. A resolution to reappoint KPMG LLP, as independent auditor, will be put to the members at the annual general meeting.

The report of the Board was approved by the Group Board on 19 September 2019 and signed on its behalf by:



Ruth Cooke
Chair
19 September 2019

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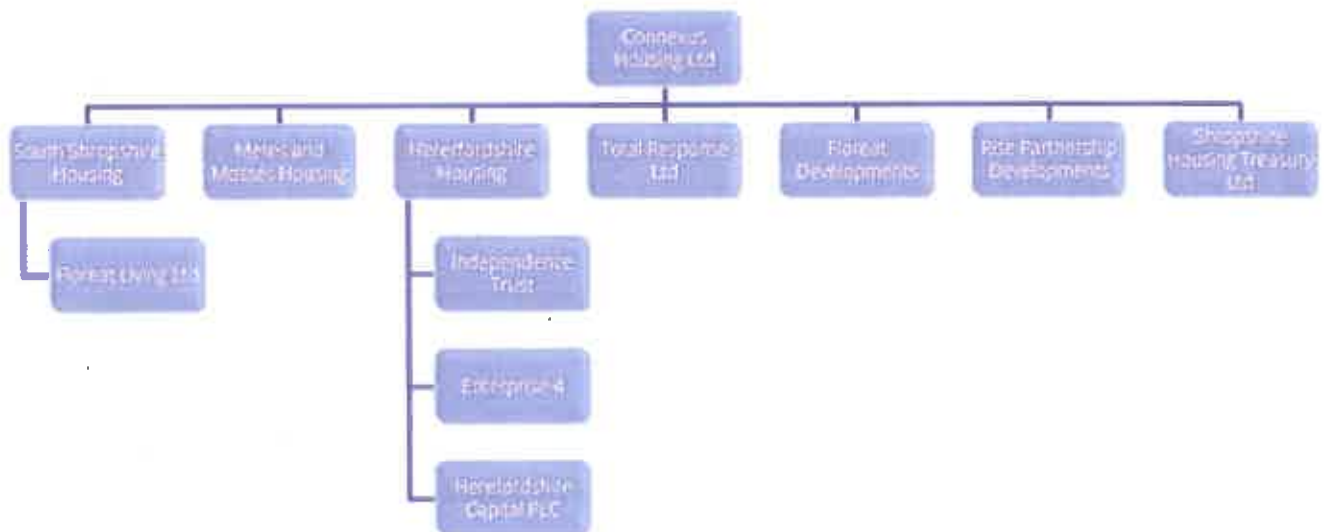
Strategic Report

Background and business model.

Connexus Housing Limited is a not for profit organisation providing homes and support services to people across Shropshire, Herefordshire and beyond.

Connexus Housing Limited (CHL) was established in 2007 as Shropshire Housing Limited as the non-stock holding group parent of subsidiaries South Shropshire Housing Association Limited (SSHA) and Meres and Mosses Housing Association (MMHA). It was re-named Connexus Housing Limited (Connexus) in July 2017 following a merger with Herefordshire Housing Limited (HHL) after HHL joined the group as a subsidiary. Connexus is a charitable private company registered under the Co-operative and Community Benefit Societies Act 2014. Connexus is the parent of a group of companies which manages 10,693 including 10,208 social housing properties with related support, 18 market rent properties, 43 commercial properties and 424 leasehold properties.

The Connexus Group consists of 4 Registered Providers (including the parent) and 8 other subsidiaries:



Connexus’ principal activities are the management and development of social housing and related services and support through its three wholly-owned registered provider subsidiaries, each of which joined the group following stock transfers from local authorities. SSHA completed a full transfer of council stock in 1994, MMHA joined the group in 2007, and HHL was established via stock transfer in 2002 before joining the group as a subsidiary in July 2017.

The remaining entities serve a variety of purposes in achieving the Group’s aims:

- Floreat Living Limited builds homes for open market sale with the profits being gift aided to the parent.
- Floreat Development Limited designs and builds affordable homes for the Registered Providers in the Group.

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- Total Response Limited provides repairs, maintenance and other property services to SSHA, MMHA and to external customers
- Independence Trust provides a range of services that support people's emotional and physical wellbeing
- Enterprise4 Limited provides a range of maintenance and housing related services to residents, non-residents and commercial companies
- Rise Partnership Developments Limited provides design and build services to HHL under a development agreement
- Herefordshire Capital plc. is a vehicle which arranges finance for Herefordshire Housing.
- Shropshire Housing Treasury Limited is a vehicle which arranges finance for the Group.

The Group is registered with Homes England and complies with the regulatory framework of social housing through the Regulator of Social Housing. Connexus was rated as G2 for governance and V2 for viability in November 2018.

This means that Connexus meets governance requirements and meets viability requirements. It has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.

At the 31 March 2019, we managed 10,693 homes. However, we are more than just a landlord, we exist to help houses to become homes and places become communities – Creating Places where People can reach their potential.

To deliver our purpose, the Group is built on 4 pillars – People, Places and Partnerships and Profit for Purpose. We do this in an enterprising, commercially aware and cost-effective way so that we can reinvest surpluses we make into our core priorities.

We measure our success in terms of the returns we achieve on our time, money and resources to: Customers, Communities and Connexus

In 2018 we outperformed our long-term financial forecast by delivering an operating surplus of £19.6m, £4.2m ahead of forecast, allowing us to invest more in new and existing homes in the future. In 2019 some of this over-performance was reversed with an operating surplus of £17.23m compared to a budgeted surplus position of £19.64m. This was largely due to changes to the original planned programme of market sale homes delivered in year, with several schemes now being forecast for delivery in future years.

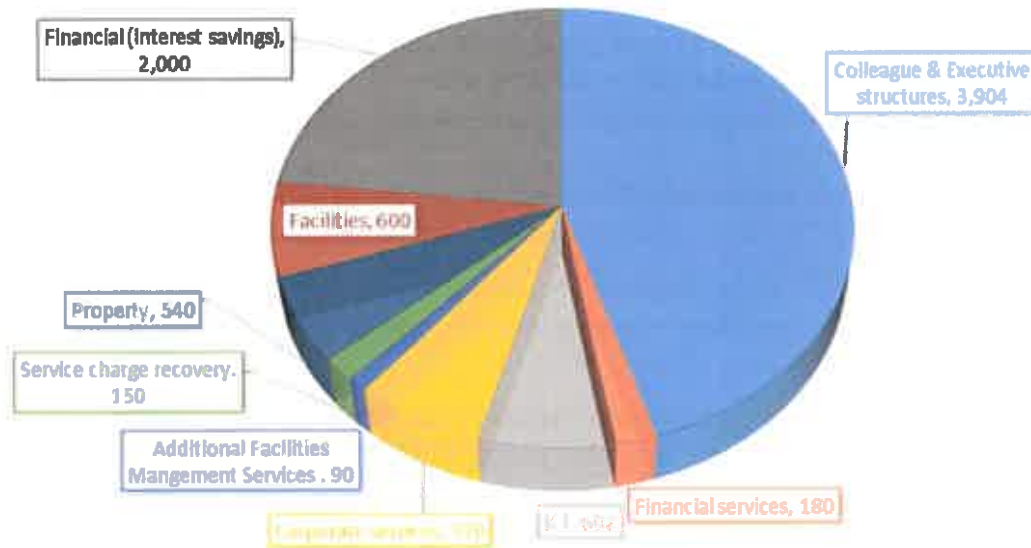
2017/18 Corporate Plan achievements

In the Corporate Plan we described our priorities under four headings:

Well run and delivering value for money

As a key part of the business case for merger we identified £8.636m of efficiencies that could be delivered in the first five years following merger. This was broken down into the following areas:

5 YEAR TARGET MERGER EFFICIENCIES - £000'S



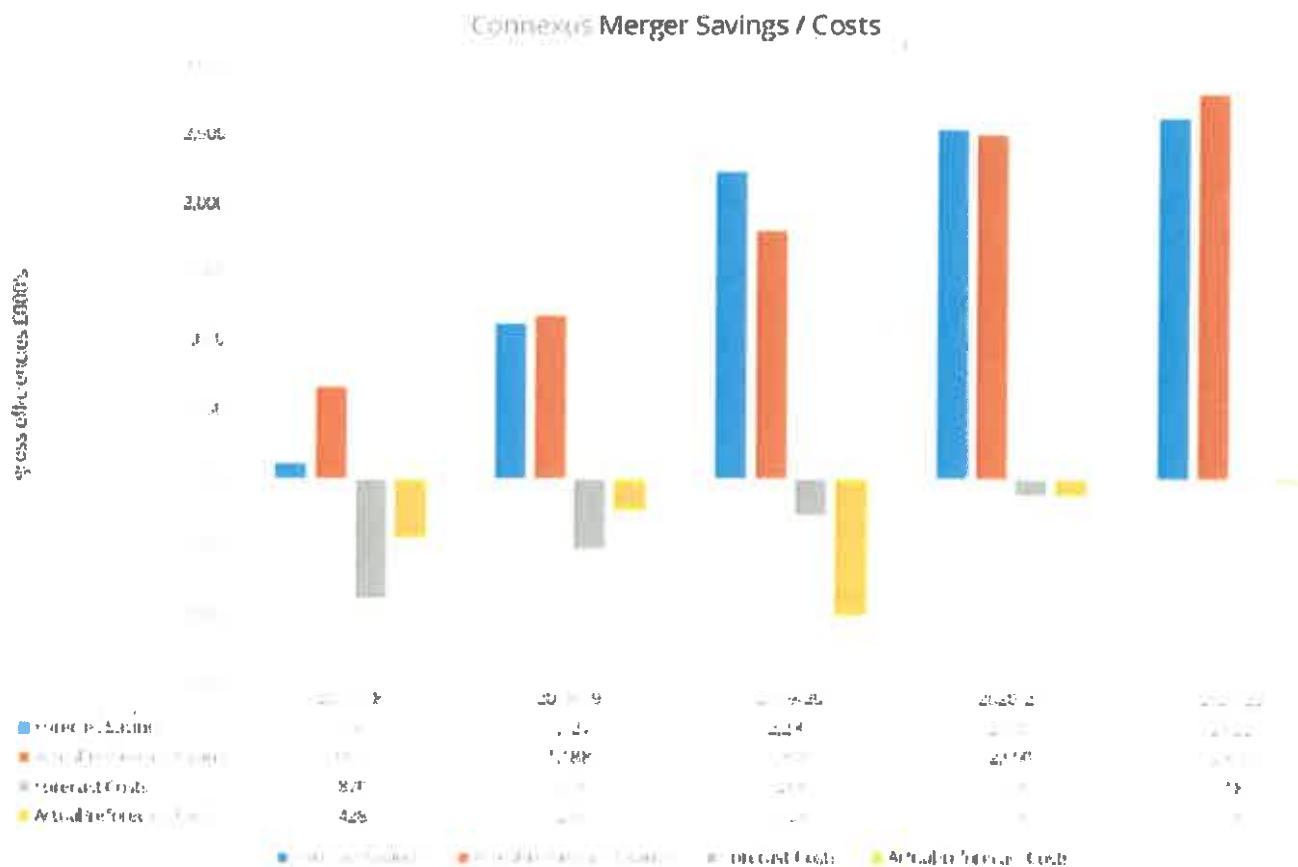
This equates to a recurring saving of £2.6m per year from 2022, 6% of current operating costs. For 2018/19 a saving in year of £0.519m equating to a recurring saving of £0.786m has been delivered.

Efficiencies have been delivered ahead of schedule by reviewing contracts held by Herefordshire Housing and Shropshire Housing Groups and combining into a single contract for the Group. Examples of this include Treasury Advisors, External Auditors, Internal Auditors, benchmarking provider and mobile telephony. In addition there have been savings in the leadership team where only one Director or Head of Service is needed. Examples of this include the Director of Development post that was not filled at Herefordshire Housing (as a Director was already in post at Shropshire Housing Group), the Heads of Finance, HR and IT where, for each, only one Head of Service remains where 2 were in post (i.e. one for each Group) at the start of the merger process.

There have been additional costs in delivering the merger and one of the difficult aspects has been the differing IT systems between the two Groups which has necessitated a significant investment in IT this year significant progress has been made and work to harmonise systems will continue over the next 1-2 years.

Delivery of the efficiencies forecast at the point of merger is best illustrated by the chart below. Shown are the forecast savings and costs estimated at the point of merger (and approved by the Board as part of the business case for merger) alongside the actual and reforecast savings and costs presented to Board in May 2019 (net of merger costs). On this chart savings are recurring so can be seen increasing annually while costs are incurred only once in the year shown.

Savings have been ahead of target in both 2017/18 and to a lesser degree in 2018/19, whilst forecast merger costs have been below target levels, as highlighted in the graph below forecast costs expected to be incurred in 2019/20. The total reforecast savings are now £2.8m by 2021/22, compared to the original estimate of £2.622m. Total forecast costs remain the same at £1.787m overall by 2021/22.



Empowering people to meet their needs and aspirations

- Connexus is committed to providing employment for local people within our communities and to this end widened its apprenticeship opportunities in the year and developed an apprenticeship offer to maximise the opportunities from the apprenticeship levy introduced in May 2017.
- A Connexus “Insight and Change” team has been established in the Group to work closely with the housing and development teams to use customer profiling to better understand demand for our homes and services.
- A valuable part of the Group is our services delivered through the subsidiary Independence Trust and wellbeing teams in Shropshire. Amongst the services delivered in 2019 were the Careline service with 40,000 connections at the end of March 2019. The Responder service in Herefordshire gives further empowerment to individuals to retain independence in their own homes with 159 individuals subscribing to the falls responder service alone. A range of other services are delivered to help people maintain their independence including wellbeing services in Gloucester, Droitwich and Stroud, a Foyer in Ludlow and the Homelife service in Shropshire.
- Connexus is committed to being a great employer and in 2018 established the Connexus Consultation Group to provide a forum for colleagues. In addition in 2018, learning and development co-ordination was centralised into one team who have created a learning and

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development strategy and annual plan to meet the needs of colleagues in line with the corporate plan.

Providing great homes and sustaining communities

- A "New Homes strategy" was written in 2018 that describes how Connexus will provide homes that meet a range of needs. The strategy aims for a mix of development by 2021 of 52% social and affordable rent, 3% Rent to Homebuy, 21% shared ownership, 7% market rent and 17% open market sale to meet the diversity of need.
- In year there was a net increase of 112 new homes in management (compared to 2018 restated property numbers). £26m was spent on development and acquisition of new homes in the year, funded by a mixture of grant, sales income and loans.

Creating and valuing partnerships

- Connexus works with a range of partners across Shropshire, Herefordshire, Gloucestershire and Worcestershire. In 2019 Connexus was successful in our submission for the Community Advice, Links and Mental Health Support Service. The contract is for 5 years commencing on 1 April 2019. It will enable service users with serious mental illness and common mental health conditions to live inclusively within their local communities through non-medical interventions and will provide one element of the recovery pathway within Gloucestershire.
- We were also successful in our bid for the newly commissioned Community Autism Support and Advice Service for Gloucestershire (CASA). The contract is for 5 years and will provide a post diagnostic support for individuals with Autism Spectrum Conditions in Gloucestershire.

Corporate plan 2018-2021

The Connexus Way – the Corporate Plan for 2018-2021 was approved by the Group Board in November 2017. Our purpose is defined in the plan as "to help houses to become homes and places to become communities – creating places where people can reach their potential"

The Corporate Plan identifies Brexit, the housing crisis, welfare reforms and rapid technological changes as having an impact on our customers, communities and our homes hence describing these as the drivers of the Corporate Plan. The values and the "pillars" that Connexus is focussing on are described in the Chief Executive's report (above)

Our priorities for the next 2 years are summarised in the Plan under 4 headings:

Empowering people to meet their needs and aspirations

By 2021 we will have:

- Helped more people to reach their potential through apprenticeships and learning and development opportunities
- A solid grasp of local housing markets and use of customer profiling to better understand demand to modernise our homes and services
- Helped more people to lead happy and fulfilling lives through adapting homes to meet customer needs
- Been recognised as a great employer by securing Investors in People and retaining and developing a skilled workforce

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Providing great homes and sustaining communities

By 2021 we will have:

- Increased the number of Connexus Homes in management to 11,500 – the right homes in the right places
- A portfolio of homes which are affordable to build, run and maintain by investing in new technology and construction methods
- A simpler and more individual approach to letting our properties by understanding what matters
- Strengthened our reputation as a place shaper by delivering rural community-led housing and urban renewal projects

Creating and valuing partnerships

By 2021 we will have:

- Become the Landlord of choice in Herefordshire and Shropshire and introduce the “Connexus Commitment” home offer to our customers
- Become the ‘go to’ partner by actively pursuing collaborative solutions with Local Authorities, other third sector agencies and Housing Associations, the Local Enterprise Partnership and the Homes England, where they add value to local communities
- Expanded the Connexus menu of support and wellbeing by growing our specialist floating support, Falls Responder services and place based interventions
- A new fleet of low emission vehicles providing a Connexus Repairs service.

Well run and delivering value for money

By 2021 we will have:

- Retained top governance and viability ratings and be delivering business case efficiencies of over 5% and recurring savings of £2m a year from 2020
- Maintained a strong Value for Money ethos delivering social as well as financial benefits with secure funding to meet our ambitions and “golden rules” in place to keep total costs per unit below £3,000 a year.
- Steadily grown turnover of non-“social purpose” activity by carefully blending private rent, shared ownership and outright sale with more affordable homes to support customer needs and sustainable communities
- Simplified and strengthened our market presence with positive peer and customer recognition of the Connexus brand and The Connexus Way of working.

Financial Performance

The Group made a surplus for the year ended 31 March 2019 of £8.39m after tax compared to a position for the Group in 2018 of £10.2m, a reduction in surplus of £1.81m from 2018. The £8.39m surplus for the year is lower than the budgeted figure of £8.9m the reasons for this are detailed below.

The main reasons for the reduction in surplus of £1.81m from 2018 are:

- Increased turnover and operating surplus from Non-Social Housing activities £1.83m.

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- Decreased depreciation charge of £0.33m in 2019 compared to 2018 for expenditure on component replacements (kitchens, bathrooms etc.) and new homes brought into management.
- Management costs across General Needs and Sheltered Schemes increased by £3.6m in year this is due to a combination of factors, with circa £2.0m of one off Management costs incurred in year, salary inflation increases across the group £0.25m, and circa £1.4m Re-categorisation of expenditure in year as harmonisation of accounting processes continues across the group.
- Decreased surplus on the sale of fixed assets £0.7m.
- Non-recurrence of exceptional costs in 2018 £0.428m.

From a budgetary perspective, the £0.51m adverse variance can be explained by:

- Turnover from Non Social Housing Activity being £1.2m lower than budget in 2019, and delivering a reduced surplus from market sales of £0.75m to budget, due to re-phasing of several projects to future years and amended property mix on some schemes, fewer property disposals .
- Rent receivable being £0.837m lower than budget due to the timing of rental of new properties, but being partially offset by increased income from service charge and other income. There was reduced contract income in year from TRL of £0.258m but this was offset by income from Falls Responder and the new Refuge Contract.
- Void losses being £0.17m lower than forecast.
- Interest payable was £0.931m favourable to budget due to lower draw down on revolver loan facilities than forecast.

The operational performance for the year was positive, examples of which include:

- Less void loss than budgeted by £0.17m.
- Colleague costs including agency were £0.626m less than budget reflecting vacancies all areas of the group in year.
- Overall Repair and Maintenance costs for the year were £0.177m higher than budget due to higher than budgeted spend on responsive and void repairs which was partially offset by underspends on cyclical and servicing works.
- Corporate costs including Insurance, ICT and Marketing were £0.616m lower than budgets.
-

The focus for 2019 continued to be maintaining the quality of our homes with an investment programme with £8.5m spent Priority in the year for the HHL homes was on improving energy efficiency with investment in roofing, insulation and window replacements, while priority for SSHA and MMHA homes was boiler and heating replacement and kitchen replacement programme.

The Board is mindful of ensuring that non-social housing makes a surplus, however in year the Independence Trust made a deficit of £66,500 due to exceptional costs associated with contract exit. Before exceptional items are considered there has been an improvement in underlying performance with a surplus of £124,000 for the year which compares favourably to the surplus of £57,000 delivered in 2018.

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Control of cashflow is extremely important to us especially with the group development for sale focus. During the year, 2 tranches of Herefordshire Capital's retained bond were drawn down, totalling £15m.

Work is still being undertaken to simplify on-lending arrangements but in year the Board approved a loan agreement that allows HHL to on-lend to Floreat Living at a commercial rate saving on the requirement to source additional funding externally.

The total comprehensive income for the year after the £4.9m actuarial loss (2018: £2.16m gain) from pensions is £3.49m (2018 combined: £12.39m).

Value for money

In April 2018 the Regulator of Social Housing updated the Value for Money Standard and we have updated our approach to VFM to ensure compliance with this.

The required outcomes from the RSH are that Registered Providers must:

Clearly state their strategic objectives – the Corporate Plan that was approved in 2018 details our strategic objectives is summarised above. A new Value for Money strategy was approved in July 2018. The strategic objectives are to:

- Generate the optimal outcomes for the Group, tenants, customers and communities from the considered use of all resources.
- Create efficiencies in the way we operate.
- Utilise profits from commercial activities to provide better services for our customers.
- Understand the return on our assets and utilise this to assist in the prioritisation of activities against our strategic objectives making new development decisions based on social and financial return to the Group, our customers and communities.
- Create and embed a VFM culture across the Connexus group.
- Use growth in the business to provide local employment opportunities, apprenticeships and reduce dependency.
- Provide social and economic benefits to individuals and communities in our core geographical areas.
- Create environmental efficiencies

The financial efficiencies generated will provide funding to:

- Meet new homes targets
- Invest in existing stock
- Improve customer services
- Maintain sustainable communities
- Support business growth and development

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Approach agreed by Board in delivering value for money

The strategy in place since merger has been updated and reviewed by the Audit & Risk Committee and has been scrutinised and approved at the Board on 31 July 2018.

The VFM agenda is embedded at Connexus through the creation of a Connexus Value Group (CVG). Chaired by the Director of Resources, the CVG includes colleagues across the Group at all levels. The Chair of the Audit and Risk Committee, Hilary Gardner, is Board champion for “value for money” and is a member of CVG alongside the Chief Executive.

Our approach is designed to ensure that value for money is provided for our customers. Specifically:

- Connexus has adopted a Customer First approach to focus on delivering to purpose and what matters most to the customer rather than being driven by costs, targets and budgets. All of these will be measured and monitored but will not drive delivery.
- Connexus has developed a Customer and Community Involvement Strategy and will listen to the concerns of customers in order to deliver better services and amend our approach in response to customer feedback. We communicate with our customers in a variety of ways, via our website, telephone and text messaging, meetings, face to face contact and social media but we principally communicate our VFM story and service changes etc. through our customer newsletters.
- Customer Involvement Panels are central to the process of service review and improvement.
- Connexus has partnership working as a key pillar and will work closely with other landlords across our core operating area of Shropshire and Herefordshire to better address the collective needs of residents, tenants and customers and to be responsive to priority issues facing our Council partners.

Ensure that optimal benefit is derived from resources and assets to optimise economy, efficiency and effectiveness.

The approved VFM strategy states that Connexus will:

- Prioritise our expenditure and ensure that expenditure is only incurred if it directly benefits our customers or indirectly benefits our wider customer base.
- Create a business case for major decisions and scrutinise these at Connexus Value Group, Senior Management Team meetings, Executive Management Team meetings, Enterprise Committee, Audit & Risk Committee, Operations Committee or Parent Board as appropriate. The business case will be backed up by a financial appraisal linked to the quality and benefits to our customers
- Understand our performance and cost base in relation to outcomes and review these in comparison to other similar organisations (including commercial organisations where available) on at least an annual basis using analysis to drive service improvement where appropriate.
- Monitor trends against performance on a monthly basis and have processes in place to improve, introducing continual learning cycles.
- Review our performance through balanced scorecards and management accounts on a monthly basis and at least quarterly report to Board and relevant Committees.
- Drive efficiencies in procurement by creating a procurement plan and monitoring outcomes.

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- Set annual targets for VfM efficiencies, recording and scrutinising efficiencies delivered.
- Have robust business planning and budget process and review to ensure that financial performance will comply with funders' covenants
- Include an annual efficiency target of 2% in our Long Term Financial Forecast.
- Where possible we will generate a profit by providing services to non-residents and use the profit to reduce costs or improve the service to our residents.
- Implement our Asset Management Strategy to optimise the return on our assets.
- Use a variety of data from a number of sources (including customer satisfaction, customer profiling and complaints/compliments analysis) to review and triangulate evidence to value for money
- Involve customers through representative tenant groups, resident inspectors and scrutiny panels
- Challenge our delivery models and ensure that our corporate structure provides VfM.

Specific expectations from the RSH are that Registered Providers must demonstrate:

Robust approach to achieving value for money, including "rigorous appraisal of potential options for improving performance"

Options appraisals are considered for significant decisions and reviewed by EMT, relevant Committees or the Group Board as appropriate which include merger savings and team restructures

Regular and appropriate consideration by the Board of potential value for money gains,

Gains have been considered at the internal Connexus Value Group and at Audit and Risk Committee and for particular items at Board. Options appraisal and VfM section of the Board reports ensure there is regular and appropriate consideration of VfM by the Board. We now plan to rationalise the structure and merge the entities in the business, to generate further efficiencies.

Consideration of value for money across their whole business and where they invest in non-social housing activity, they should consider whether this generates returns commensurate to the risk involved and justification where this is not the case.

The Enterprise Committee was established in 2018 to ensure that non-social housing returns were properly evaluated with a paper being approved in May 2018 identifying the criteria that management should follow. New business finances are prepared by the Finance Team and reviewed by the Interim Director of Resources in conjunction with the lead Director or, if material, by the Executive Management Team.

That they have appropriate targets in place for measuring performance in achieving value for money in delivering their strategic objectives, and that they regularly monitor and report their performance against these targets

Targets have been developed from the Business Case for merger, the efficiency targets approved by the Board, the standard metrics produced by the Regulator of Social Housing and other metrics that EMT and SMT have identified. These are included in the VfM Strategy. We report on our financial VfM targets (where they can be derived from the Statement of Comprehensive Income) in our quarterly financial reports to Board. A more detailed 6 monthly review of performance against targets is taken to Audit and Risk Committee and reported annually to the Board.

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Registered providers must annually publish evidence in the statutory accounts as follows

- Performance against VFM targets, metrics set by the regulator and performance compared to peers.
- Measurable plans to address any areas of underperformance

These are detailed below:

Overall VFM self-assessment

Connexus has engaged i4H to provide benchmarking information, with the full report for 2018/19 was provided in July 2019, and is benchmarked against 15 of its peers.

Methodology

The scoring is based on the quartile system presented below and the system will correspond the score to the quartile position.

Performance	Score	Percentile
Elite	40	76 - 100
Median/Upper	30	51 - 75
Low/Median	20	26 - 50
Poor	10	0 -25

Financial Performance and Position

The following table presents the new VFM Metrics introduced by the Regulator Social Housing in 2018. The new metrics are a requirement of the updated VFM Standard and are of importance to the regulator in the consideration of efficiency.

9 - Financial Indicator	2018 Outturn	2019 Outturn	Median
New Supply Delivered% (Social Housing)%	1.55%	1.52%	1.44%
Gearing Ratio %	58.03%	62.78%	48.65%
EBITDA MRI Interest Cover %	174.12%	168.27%	208.13%
Headline social housing cost per unit £	£3,204	£3,379	£3,278
Operating Margin % (Overall)	30.35%	28.51%	30.71%
Operating Margin % (SHL)	35.65%	27.33%	35.05%
Return on capital employed (ROCE)	5.72%	4.94%	5.37%
Total Score	180	120	175

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Overall, Connexus group has seen a reduced financial position for FY19 compared to FY18, reflected in lower quartile performance. A high gearing ratio can be offset against high new delivery performance.

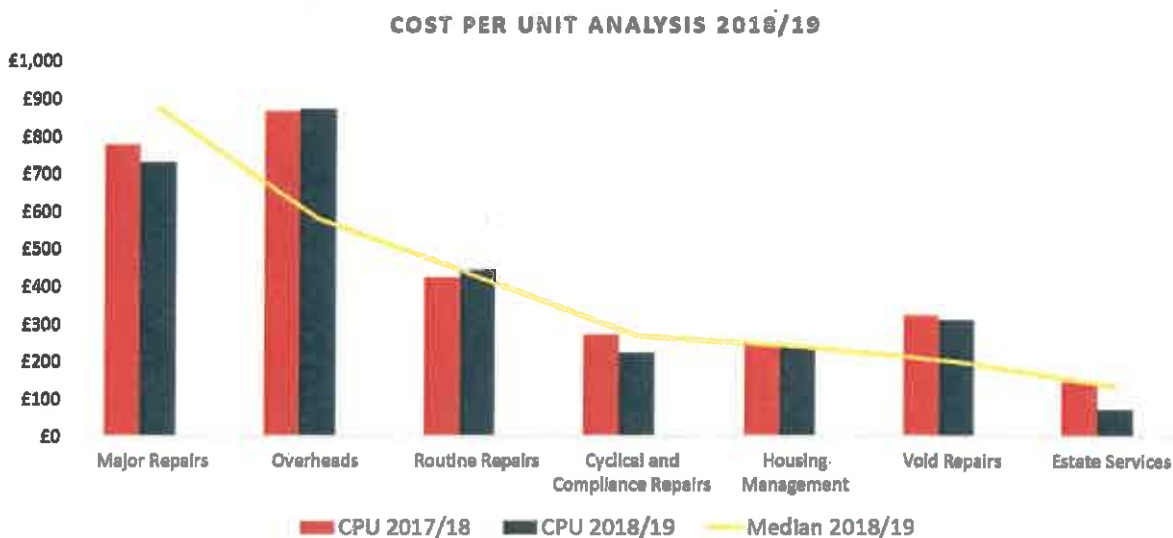
There was a c.33% decrease in Connexus Group’s overall finance score for FY19 in comparison to FY18, this is predominantly due to an increase in cost per unit and decrease of operating margin. Management costs have increased significantly and are a key driver into increased overall cost.

The analysis shows a c.47% performance gap between Connexus Group’s current position and the elite category in FY19. Cost per unit and operating margin should be targeted to improve overall financial performance.

Compared to all social housing providers, above 1,000 units Connexus Group’s performance is considerably improved, The quartile position moves from lower quartile to mid/lower quartile. In particular performance for headline social housing and ROCE performance is improved.

Operating costs

This is an overview of the Groups cost per unit across our key areas



Service Area	CPU 2017/18	CPU 2018/19	Median 2018/19
Major Repairs	£779	£733	£877
Routine Repairs	£425	£442	£427
Void Repairs	£325	£311	£199
Cyclical and Compliance Repairs	£272	£224	£241
Housing Management	£249	£230	£270
Estate Services	£146	£74	£135
Overheads	£873	£874	£582
Total Cost Per Unit	£3,067	£2,892	£2,973

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Connexus has an overall cost per unit of £2,892, (£3,019 including service charges). This is below the median cost level for the peer group (£2,973). Connexus Group was showing as above the median cost level for the peer group in FY18, there has been a £175 per unit (6%) decrease per unit over these two financial periods. We are working to reduce the total cost per unit in future years as the integration of the group is completed.

A review of overheads is an area that has the potential for the most cost reduction when compared to the peer group. Costs have remained at a similar level for FY18 and FY19.

IT and Central costs are both significantly above the median level for the peer group. There has been further investment in IT and integration of the group which as stated above would be expected to reduce.

Housing management costs have remained low cost and showing as upper quartile for FY19. This has been a consistent trend for the Connexus Group backed up with upper quartile arrears performance.

Connexus Group has seen a slight decrease in its overall repairs and maintenance cost per unit in FY19 in contrast to FY18 (£92 per unit, 5.13%). However, void repairs in particular remains high cost and stand out as an area for review. This is supported with lower quartile re-let times and rent lost due to voids.

Operational Costs

Performance Indicator	2017/18 Result	2018/19 Result	Peer Median
Rent collected current and former tenants (Including arrears B/f)	100.54%	100.15%	99.71%
Current tenant arrears (Excluding Voids)	1.25%	1.42%	2.83%
Former tenant arrears (Excluding Voids)	0.98%	0.56%	1.41%
Rent loss due to voids	0.87%	0.98%	0.69%
Average time complete repairs (Days)	13.96	15.85	11.00
Percentage of repairs completed at the first visit	90.61%	83.18%	89.10%
Satisfaction with the last repair (Transactional)	n/a	89.70%	93.65%
Appointments kept %	n/a	99.90%	97.70%
Average re-let time (Days)	33.75	35.85	20.90
Gas safety certificate %	100.00%	100.00%	100.00%
SAP rating	67.29	67.12	71.10
Average seconds to answer Inbound calls	119.50	66.80	55.70

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Connexus group is showing as mid/lower quartile performance for FY19. Direct comparison to last year is not available due to additional indicators being introduced.

Performance results are showing a similar trend to last year. Rent Arrears performance remains as upper quartile. Re-let times remain as lower quartile and there has been a decline in repairs performance.

Two areas preventing Connexus Group from achieving upper quartile performance, these are average days to complete repairs and re-let times. Average days taken to complete repairs has increased by 1.9 days (12%), whilst re-let times performance has declined by 2.10 days (6% increase). Percentage of repairs complete at the first visit is showing as lower quartile at 83% as well as satisfaction with repairs using transactional surveys.

Housing management costs have decreased slightly in FY19 in contrast to FY18, with upper quartile performance for rent arrears performance. Resourcing levels for housing management is showing Connexus as having low full-time equivalent (FTE) per 1000 units managed, compared to the peer group.

Satisfaction

Performance Indicator	Latest Result	Median 2017/18
Overall Services	93.00%	90.84%
Quality of Home	81.00%	85.90%
Neighbourhood	76.00%	83.97%
Repairs and Maintenance	89.00%	84.35%

Latest satisfaction data available for the group has been used to provide a consolidated result. The results show, the overall position for Connexus Group is mid/upper quartile performance (FY19, 110).

Overall performance and repairs satisfaction are showing as upper quartile. This is positive in terms of key driver studies of satisfaction have found a correlation between high repairs satisfaction and high overall performance.

In contrast, quality of home and neighbourhood satisfaction is showing as lower quartile performance.

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Overall score with our Peers

Our peers had an overall score of between 60 & 130, Connexus overall score was 90 and placed us in the low performance quartile

VfM Measure	2017/18	2018/19	Median 2018/19	Score 2018/19
Cost Per Unit	£3,067	£2,892	£2,973	30
Operational Performance Score	210	260	300	20
Customer Satisfaction Score	100	110	100	30
Financial Score	160	120	175	10
Total VfM Score	90	90	100	90

Connexus will continue to work on improving VfM and will put in measurable plans where required

Indicator	Issues / Actions taken to improve performance	Measurable Plan
Rent loss due to voids	A Connexus Voids and Lettings Improvement Project, led by the Head of Housing Services, is underway currently with improvements to rent loss, re-let times and void costs expected to be seen by 1 October 2019. The project will 're-set' the current system by allocating increased resource from both the housing and repairs teams, introduce and monitor new measures to further develop our understanding of the current system and focus on implementation of learning from this increased understanding in order to improve performance.	Measurable improvements due to be seen by October 2019.
Average time to complete repairs (Days)	The roll out of the Orchard Repairs system across all colleagues will support better measurement and understanding of performance in this area. Particularly in the sense of being able to look at our data joined up on a single system. Subject to how Shropshire repairs are implemented certain Orchard reports will only need minor adjustment to be reportable for all of Connexus. Additional measures are also being included in performance management in order to better track performance against all repair types e.g. emergency, urgent, routine and planned, rather than the current measure of	Implementation of Orchard Repairs: October 2019 (TBC. Subject to process review. Development of Performance dashboard with new measures: November 2019 (Timescale subject to Orchard implementation) December 2019 (Relative to above completion) Development of Exception reports: August 2019.

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	<p>an overarching average repair length. This will enable more focused work to better understand issues impacting performance.</p> <p>Exception reports are also being developed to better manage exceptions e.g. those repairs that are overdue/outstanding so recurring themes can be identified and performance improved. Likewise the steer towards setting a single reporting platform (Crystal Reports Server) for colleagues to access real-time repairs reporting –early 2020 subject to Orchard rollout.</p>	
<p>Percentage of repairs completed at the first visit</p>	<p>As part of the implementation of Orchard, we will fine tune the categories to measure those repairs which have not been completed at first visit – currently the system contains 50+ categories therefore it is difficult to really understand the drivers behind failed first time fix. Once the system is in place, we can better analyse the factors impacting performance.</p> <p>This will also include factors such as diagnosis, scheduling of repairs and the management of materials.</p> <p>Workshops have also been taking place with staff to better define what is meant by completed at first visit – it is proposed it is measured in two ways – the residents perception of if the repair was completed ‘right first time’ and the measure from the system in relation to ‘first time fix’.</p> <p>The exception reports mentioned above will also support this as we will be able to better manage and understand those repairs which are taking multiple visits to complete.</p>	<p>Implementation of Orchard Repairs: October 2019 (TBC. Subject to process review.</p> <p>Development of Performance dashboard with new measures: November 2019 (Timescale subject to Orchard implementation) December 2019 (Relative to above completion)</p> <p>Development of Exception reports: August 2019.</p> <p>Timeframe for outcome of RFT/First Time Fix: August 2019</p>
<p>Satisfaction with the last repair</p>	<p>The two areas above will lead to better day to day management of repairs – the logic being, if we can improve the basics of repairs and improve the percentage of repairs completed first time fix, the satisfaction of our residents will also increase.</p> <p>A recent review has also been carried out in relation to voids where residents were asked to define repairs carried out at void. This did lead to an increase in the number of</p>	<p>Implementation of Orchard Repairs: October 2019 (TBC. Subject to process review.</p> <p>Development of Performance dashboard with new measures: November 2019 (Timescale subject to Orchard implementation) December 2019 (Relative to above completion)</p>

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	<p>residents happy with the condition of their home. Customer survey was reviewed with CR team last quarter with notable improvements being a standardised scales and new questions, particularly around qualitative capture for I&C to review quarterly themes. Monthly stats dashboard also being provided to CR team for investigation which include demography slicers for understanding demand.</p>	<p>Development of Exception reports: August 2019.</p>
<p>Average re-let time (Days)</p>	<p>A Connexus Voids and Lettings Improvement Project, led by the Head of Housing Services, is underway currently with improvements to rent loss, re-let times and void costs expected to be seen by 1 October 2019. The project will 're-set' the current system by allocating increased resource from both the housing and repairs teams, introduce and monitor new measures to further develop our understanding of the current system and focus on implementation of learning from this increased understanding in order to improve performance.</p>	<p>Measurable improvements due to be seen by October 2019.</p>
<p>SAP Rating</p>	<p>The Asset Management Strategy's target for average thermal performance of the stock is 10% or 6 SAP points above the English average as published in the English Housing Survey, this figure currently stands at 66.1. We are currently exceeding that target at 66.5 for Connexus North and 67.7 for Connexus South. It is expected that average SAP will increase across Connexus once energy efficiency works and heating upgrades have been taken into account.</p> <p>Annual investment plans support the increase of our average SAP rating as well as works carried out at void.</p> <p>Significant work is also being carried out to our Asset Management system, along with an increase in the number of stock condition surveys being carried to further improve the data we hold on our stock and thus enable us to make sensible decisions about each property to increase the SAP rating.</p>	<p>Stock condition data transfer from legacy system to new Asset Management system (inc EPCs) and reporting in place: November 2019</p> <p>Mobile solution In place to better support collection of stock data: October 2019</p> <p>Increased stock condition surveys completed: March 2021</p> <p>All investment contracts run through new Asset Management system to better inform stock condition/energy performance data: April 2020</p> <p>Warmer Homes programme complete: April 2021</p>

	<p>We are also embarking on a significant project involving European funding which will see 132 properties invested in to improve the energy efficiency of these buildings. This project will enable us to model what work is required to improve the energy efficiency of our stock in general.</p>	
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Risk Management

Connexus is exposed to risks which may have material and adverse effects on its reputation, performance and financial position.

The Group measures these risks by reviewing the likelihood and impact of the inherent risk of an event occurring, identifying controls and actions to mitigate the risk and calculation of the residual risk remaining.

The most significant business risks facing the Group at the end of the March 2019 were:

Risk	Management Controls
<p>Governance</p> <p>Failing to meet governance and viability standards leading to a downgrade</p>	<p>Compliance check against NHF Code of Governance E-learning for all colleagues and board members Policies Up-dated Review of all governance processes Task and Finish Group on Improving Governance led by Chair and CEO</p>
<p>Development</p> <p>Development Sales (including shared ownership) not materialising as forecast / surpluses not achieved as forecast in business plan</p>	<p>Cashflow monitoring at operational level Development of internal controls Effective personal relationships with strategic and development control planning colleagues from the local authority Marketing Monthly reporting to EMT Board scrutiny and monitoring Professional advisors as and when required Professional Sales Team Set of operational development procedures in place Supply chain competence – use of experienced supply chain partners in the construction of the development</p>

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Financial	
<p>Financial Issues / Covenant Failure</p> <p>Impact of Brexit seriously affecting the business.</p> <p>The identified risks include but are not limited to:</p> <p>Deteriorating Housing Market Conditions bringing about falling house and land values.</p> <p>Interest, Inflation & Currency Risk BoE indicated that a no deal scenario would bring about increased inflation, interest rates and weaker Sterling.</p> <p>Access to Finance being restricted as a result of a no-deal Brexit, which would impact on the ability to develop.</p> <p>Availability of Labour in the construction industry being affected by EEA nationals leaving the UK workforce.</p> <p>Access to materials and Components as a result of the net deficit in building materials with the EU.</p> <p>Access to Data being restricted due to the data being held outside the UK due to Cloud based technology.</p>	<p>Monthly management accounts to budget holder</p> <p>Quarterly review of accounts at Board</p> <p>Quarterly review of covenants performance / levels and cashflows by Board</p> <p>Regular review of key ratios by EMT (monthly) and SMT (quarterly)</p> <p>Specialist Treasury advice</p> <p>A stress testing exercise was considered by board in March 2019 with overall Brexit Risk being reviewed by EMT on a monthly basis.</p> <p>The identified risks and controls are shown below</p> <p>Monthly monitoring of Development performance and sales, by SMT reviewed by Enterprise & Development Committee.</p> <p>Limiting exposure to floating rates, and taking timely refinancing decisions. Inflation risk will be monitored but is broadly mitigated by the resumption of rent indexation from 2020/21.</p> <p>Quarterly review by Board of undrawn credit facilities to ensure that approved facilities match LTFF requirements.</p> <p>Development team monitoring of contractor performance to ensure that there is no slippage in programmes.</p> <p>Supply chains have been checked with all major suppliers with minimum exposure to off shore market supply. This will continue to be reviewed as new suppliers are contracted.</p> <p>Review of Connexus data has been conducted with all cloud based data held with UK providers with the exception of one system which is not critical to operations.</p>
Health and Safety	
<p>Health and Safety Legal Compliance carried out poorly or not adequately</p>	<p>Benchmarking data analysis</p> <p>CDM policy implemented</p> <p>Data management systems to monitor delivery</p> <p>Internal Audit</p> <p>Operations Committee scrutiny</p> <p>Qualified and competent colleagues</p> <p>Reporting to EMT, Board and Operations Committee</p> <p>Use of specialist contractors as necessary</p> <p>Weekly/monthly compliance reporting</p>

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Good governance is key to delivering a merger and Connexus ensures that a prudent approach is in place to maintain good governance. The Group Board has a key role in governing the organisation to mitigate the risk of poor governance and utilises its powers appropriately.

The General Data Protection Regulation (GDPR)

The General Data Protection Regulation came into effect on the 25 May 2018, and applies to any data companies hold or process within the EU. The regulation also relates to companies outside the EU. Its overall goal is to safeguard consumer data and enforce data security rights. At the same time it forces organisations to think about what they collect, and how they use it.

Connexus is committed to the proper and appropriate use of data held regarding customers and colleagues, storing all data securely and only retaining whilst there is valid reason to do so. In July 2018 a Data Protection Officer was appointed to strengthen controls around GDPR. A Document and Data retention schedule is in place and all data is retained in line with this schedule, as such we are compliant with GDPR retention regulations.

In May 2018 the group had an internal audit completed and all the recommendations from the audit were implemented by February 2019.

Accounting Policies

The principal accounting policies are set out in note 2 to the financial statements on pages 45 to 58.

Capital Structure and Treasury Policy

The Group's financial instruments comprise borrowings, some cash and liquid resources and various items such as trade debtors, creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. It is the Group's policy to not trade in financial instruments. The main risk arising from the Group's financial instruments is liquidity risk. The Board reviews and agrees policies for managing this risk, details of which are summarised below. The policy was implemented following the refinancing in January 2018.

Treasury activities are controlled and monitored by the Director of Resources, with the assistance of external consultants as required, and are carried out in accordance with policies and strategies approved by the Board. The Board undertakes regular reviews of treasury management activity and covenant compliance. The Company has adopted a policy that balances the need to keep the cash levels necessary only to meet immediate business requirements, but also protecting the long-term position by taking advantage of long-term rates, when the opportunity arises.

The overall aim is to manage the Company's exposure to interest rates and have a debt profile that supports the needs of the business.

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The Group finances its operations through a mixture of retained profits, bank funding and bonds taken at fixed rates of interest. The Group has funding in place in the form of a £40m revolving credit facility (RCF) of which £25m is yet to be drawn. At 31 March 2019, borrowings stood at £223m (2018: £204m), with undrawn facilities of £25m (2018: £44m). At the year-end 89% of borrowings were at fixed rates.

All borrowings are at fixed rates in GBP and the Group has no currency exposures. Any movements in interest rates will therefore not impact on the surplus before tax.

The Group does not hold any derivative financial instruments.

The table below provides an analysis of when the debt falls due for repayment:

	2019	2018
	£'000	£'000
Within two to five years	15,000	11,000
After five years	207,701	192,984
Interest rate basis:		
Fixed	89%	93%
Floating	11%	7%

The weighted average percentage of financial liabilities is 4.62% in 2019. (2018: 4.66%).

Cash Flow

Cash inflows and outflows for the year ended 31 March 2019 are set out in the cash flow statement on page 44. Net cash inflows from operating activities are from the management of housing stock. Returns on investment and servicing of finance are due to interest income and interest charges on loans.

The net cash outflow from capital expenditure is the spend on capitalised repairs on existing housing stock, spend on development of new housing stock which has been capitalised less grant and sales proceeds from properties sold under the 'Right to Buy scheme', plus spend on other fixed assets. The net movement in financing is the difference between loans repaid and new loans.

The Group generated net cash from operating activities of £25.8m (2018: £30.84m). After investing and financing activities cash and bank balances for the year ended 31 March 2019 decreased by £1.394m (2018: £1.917m).

Current Liquidity

The Connexus Group treasury management policy requires that Connexus will maintain a minimum level of liquidity such that there is:

- i. sufficient cash to cover the next three months forecast net cash requirement
- ii. sufficient cash and committed loan facilities capable of immediate draw down to cover the next twelve months forecast cash requirement; and
- iii. sufficient cash and committed loan facilities (whether or not capable of immediate draw down) to cover the higher of total committed development spend and the next eighteen months forecast cash requirement

Cash and bank balances and short term investments at 31 March 2019 for the Group were £38.1m (2018: £27.8m), for the company were £0.314m (2018: £0.301m). Additionally the Group has a fully secured revolving credit facility in place with £25m available to draw. The main factor influencing the amount and timing of borrowings is the pace of the Planned Maintenance and Improvement and New Development programmes. This has a significant impact according to the timing of payments to contractors and receipt of any capital grants.

Statement of compliance

The Board confirms that this Strategic Review has been prepared in accordance with the principles set out in the Housing SORP 2014 Statement of Recommended Practice for registered social housing providers. Connexus Housing Limited is fully compliant with the Governance and Viability standard following the review undertaken during the year.

Statement of the responsibilities of the Board 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 Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

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

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

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

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.

The directors who held office at the date of approval of this statement confirm, so far as they are each aware, there is no relevant audit information of which our independent auditors are unaware; and each director has taken all the steps they ought to have taken as a director to make them aware of any relevant audit information and to establish that our independent auditors are aware of that information.



Ruth Cooke

Chair

19 September 2019

Independent Auditor's report to the members of Connexus Housing Limited

Opinion

We have audited the financial statements of Connexus Housing Limited ("the association") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Capital and Reserves, Consolidated Cash Flow Statement and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

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

Basis for opinion

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

Brexit other matters

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

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

Going concern

The association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the association or to cease their operations, and as they have concluded that the group and the association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant

doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

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

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

Other Information

The association’s Board is responsible for the other information, which comprises Chair’s Foreword, Chief Executive’s Foreword to the Financial Statements, Report of the Board, Strategic Report, and Statement of the Responsibilities of the Board. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Board’s responsibilities

As more fully explained in their statement set out on page 36, the association’s Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern;

and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

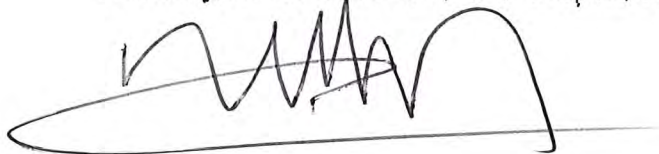
Auditor's responsibilities

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

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

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

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association as a body, for our audit work, for this report, or for the opinions we have formed.



Harry Mears
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

27 September 2019

Statement of Comprehensive Income

	Note	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Turnover	3	60,423	56,716	7,444	6,951
Operating expenditure	3	(45,298)	(40,001)	(6,398)	(5,971)
Surplus on disposal of fixed assets	5	2,102	2,827	(2)	34
Operating Surplus	3,4	17,227	19,542	1,044	1,014
Interest receivable and other income	7	149	37	1	-
Interest and financing costs	8	(9,004)	(9,255)	(2)	(24)
Surplus/(deficit) before tax		8,372	10,324	1,043	990
Taxation	9	18	(101)	12	(45)
Gift aid		-	-	-	-
Surplus/(deficit) for the year		8,390	10,223	1,055	945
Actuarial gain/(loss) in respect of pension schemes	31	(2,849)	2,162	-	-
Re-measurement of SHPS obligation	31	(2,053)	-	-	-
Total comprehensive income for the year		3,488	12,385	1,055	945

All results derive from continuing operations.

Statement of Financial Position as at 31 March 2019

	Note	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Fixed Assets					
Tangible Fixed Assets - housing properties	12	315,080	290,630	-	-
Other tangible fixed assets	13	5,201	5,322	152	199
Investment properties	14	4,880	4,987	-	-
		325,161	300,939	152	199
Current assets					
Properties held for sale	15	17,633	13,576	-	-
Stock	15	343	330	-	-
Trade and other debtors	16	4,612	5,133	2,863	1,931
Debtors: amounts due after more than one year	17	8,613	9,173	-	-
Short term investments	18	35,673	24,034	304	-
Cash and cash equivalents	18	2,420	3,814	10	301
		69,294	56,060	3,177	2,232
Creditors: amounts falling due within one year	19	(15,392)	(14,474)	(1,157)	(1,298)
Net current assets		53,902	41,586	2,020	934
Total assets less current liabilities		379,063	342,525	2,172	1,133
Creditors: amounts falling due after more than one year	20	(287,440)	(262,105)	-	-
Provisions for liabilities					
Pension provision	31	(16,973)	(9,348)	-	-
Other provisions	24	(427)	(337)	(39)	(55)
Total net assets		74,223	70,735	2,133	1,078
Reserves					
Share capital	25	-	-	-	-
Income and expenditure reserve		74,223	70,735	2,133	1,078
Total reserves		74,223	70,735	2,133	1,078

Report and financial statements for the year ended 31 March 2019

The financial statements were approved and authorised for issue by the Board on 19 September 2019.



Ruth Cooke
Chair



Nicola Griffiths
Company Secretary



Richard Woolley
Chief Executive

Statement of Changes in Capital and Reserves

Group	Share Capital £'000	Income and Expenditure Reserve £'000	Combined Total Capital and reserves £'000
At 31 March 2017	-	58,350	58,350
Surplus for the year ending 31 March 2018	-	10,223	10,223
Other comprehensive income for the year	-	2,162	2,162
As at 31 March 2018	-	70,735	70,735
Surplus for the year ending 31 March 2019	-	8,390	8,390
Other comprehensive income for the year	-	(4,902)	(4,902)
At 31 March 2019	-	74,223	74,223

Company	Share Capital £'000	Income and Expenditure Reserve £'000	Total Capital and reserves £'000
At 31 March 2017	-	133	133
Surplus for the year ending 31 March 2018	-	945	945
As at 31 March 2018	-	1,078	1,078
Surplus for the year ending 31 March 2019	-	1,055	1,055
At 31 March 2019	-	2,133	2,133

Consolidated Cash Flow Statement

Group	Note	2019 £'000	2018 £'000
Net cash generated from operating activities	26	25,797	30,841
Cash flow from Investing activities			
Purchase of tangible fixed assets		(32,983)	(35,906)
Purchase of other tangible fixed assets		(869)	(744)
Purchase/Sale of investment properties		107	(682)
Purchase of short term investments		(11,639)	(6,343)
Grants received		7,785	2,651
Interest received		149	37
		(37,450)	(40,987)
Cash flow from financing activities			
Interest paid		(10,015)	(9,762)
New secured loans		20,557	18,265
Repayments of borrowings		(283)	(274)
Capital element of finance lease repayments		-	-
Net Cash Inflow		10,259	8,229
Net change in cash and cash equivalents	28	(1,394)	(1,917)
Cash and cash equivalents at the beginning of the year		3,814	5,731
Cash and cash equivalents at the end of the year		2,420	3,814

Notes to the Financial Statements

1. Legal status

The Company, Connexus Housing Limited, is registered with the Cooperative and Community Benefit Societies Act 2014, Registered No. IP30269R. It is also registered as a social housing provider and regulated by the Regulator of Social Housing Agent in accordance with the Housing and Regeneration Act 2008, Registered No. LH4494.

2. Accounting policies

The following accounting policies have been adopted as being appropriate to the Group's circumstances with regard to giving a true and fair view and have been applied consistently in dealing with items which are considered to be material in relation to the Groups' financial statements.

a. Basis of Accounting

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS102) and the Housing SORP 2014: Statement of Recommended Practice for social housing providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

The individual accounts of Connexus Housing Group have also adopted the following disclosure exemption:

- The requirement to present a statement of cash flows and related notes

b. 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 programme, 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 the lender's 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 at least 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.

Accounting policies (continued)**c. Significant judgements and estimates**

The preparation of the financial statements requires management to make significant judgements estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes may differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognized in the financial statements.

- **Property, plant and equipment**

The Group has undertaken a review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals. The Group has determined that market rented property, as it is developed are investment properties. The Group has determined that the small number of shops held, due to their nature and low level of rentals charged are held as property, plant and equipment are held for their social benefit.

- **Capitalisation of property development costs**

The Group capitalises development expenditure in accordance with the accounting policy described within these notes. Initial capitalization of costs is based on management's judgement that development scheme is likely to proceed. Costs capitalised in this way are regularly reviewed and any costs identifies as abortive are charged to the Statement of Comprehensive Income. The total amount capitalised is disclosed in the notes.

- **Impairment**

The Group has identified a cash generating unit for impairment assessment purposes during development and construction at a programme level, with subsequent impairment assessment once in management at a property level.

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.

Useful lives of depreciable assets

Other than investment properties, tangible fixed assets are depreciated over their useful lives. Management reviews 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 in homes standards which may require more frequent replacement of key components.

The key judgements and estimates applied in respect of housing property are contained within these notes and include:

- The useful economic life of properties
- That properties have no residual value at the end of useful life.

Accounting policies (continued)

Defined benefit obligation (DBO)

The Group has obligations to pay pension benefits to colleagues. The cost of these benefits and the present value of the obligation depend on a number of critical underlying assumptions. These include standard rates of inflation, mortality, discount rate and anticipation of future salary increases provided by the pension administrators and actuaries. Variations in these assumptions may significantly impact the net pension obligation in the balance sheet and the annual defined benefit expenses.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimates fair values may vary from the actual prices.

d. **Exemptions taken**

The Group does not currently apply any exemptions.

e. **Basis of Consolidation**

The Group's financial statements consolidate the financial statements of Connexus Housing Limited, and its subsidiaries South Shropshire Housing Limited (SSHA), Meres and Mosses Housing Association (MMHA), Shropshire Housing Treasury Limited, Floreat Development Limited, Floreat Living Limited, Rise Partnership Developments Limited, Total Response Limited, Herefordshire Housing Limited and its wholly owned subsidiaries, Enterprise 4 Limited, Independence Trust Limited, and Herefordshire Capital Plc. in accordance with the requirements of Financial Reporting Standard 2 "Accounting for subsidiary undertakings". Subsidiaries are entities over which, either directly or indirectly, the Company has control through the power to govern financial operating policies so as to obtain benefit from their activities. Intra-group balances, transactions, income and expenses are eliminated.

f. **Investment in subsidiaries**

The consolidated financial statements incorporate the financial statements of the association and entities (including special purpose entities) controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in total comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate using accounting policies consistent with those of the parent.

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

Accounting policies (continued)

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

g. Turnover and revenue recognition

Turnover represents rental income receivable in the year, income from shared ownership first tranche sales, and properties built for open market sales is recognised at the point of legal completion of the sale, and other services included at invoice value (excluding VAT where recoverable) of goods and service supplied in the year and revenue grants receivable in the year. Government grants received for housing properties are included in turnover amortised over the expected useful life of the housing property structure.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids. Income from first tranche sales of properties built for sale is recognized at the point of legal completion of the sale.

h. Accrued Income

Where goods or services are provided but not yet invoiced, that revenue is accrued for.

i. Deferred Taxation

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognized to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

j. Loan interest costs

Interest payable and similar charges include interest payable, loan fees, and finance leases recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial liability.

k. Finance and issue costs

Costs directly connected with the raising of finance are deducted from loans and written off over the life of the loan to the Statement of Comprehensive Income (SOI).

Accounting policies (continued)

l. Preserved Right to Buy Income and Sales

Surpluses and deficits arising from the disposal of properties under the Preserved Right to Buy legislation are disclosed on the face of the Statement of Comprehensive Income before the operating result. On the occurrence of a sale a relevant proportion of the proceeds are clawed back by Herefordshire Council. There is no claw back arrangement in place for Shropshire Council. The surplus or deficit is calculated by comparing the net proceeds received with the carrying value of the property sold.

m. Management Costs

Management costs are allocated to revenue accounts on the basis of an estimation of colleague time allocated, except for specific items of expenditure, which are allocated directly.

n. Reserves

The Group establishes restricted reserves for specific purposes where their use is subject to external restrictions.

o. Tangible Fixed Assets

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 historical cost less accumulated depreciation and impairment losses. The cost of properties represents the acquisition price of land and buildings, development costs, interest charges incurred in the development period, and expenditure incurred in respect of improvements.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements.

Properties in the course of construction are stated at cost and are transferred into housing properties, when complete. Properties in the course of construction are not depreciated.

Donated land and other assets

Where land has been donated as part of an intended development, the land is recorded at its current value at the gifting date within cost of construction and the income treated as a grant if from a government body and as turnover if from a non-government body. Current value takes into account any restrictions on use.

Accounting policies (continued)Shared Ownership Properties

Shared ownership properties are split between fixed and current assets in line with the expectation relating to the first tranche sale percentage. The expected first tranche proportion is classified as a current asset until the point of the first tranche sale. The current asset is then transferred to cost of sales and matched against sales proceeds within the operating surplus in the Statement of Comprehensive Income. Any operating surplus is restricted to the overall surplus which takes into account the Existing Use Value-Social Housing (EUV-SH) of the remaining fixed asset element.

The remaining element of the asset is classified as a fixed asset and included in housing properties at cost, less any provision for depreciation or impairment.

p: Investment Properties

The classification of properties as Investment property or property plant and equipment is based upon the intended use of the property. Properties held to earn commercial rentals or for capital appreciation are treated as Investment properties and those that are held for the provision of social housing are treated as property plant and equipment.

Where land is acquired for use in the provision of social housing or for a social benefit it is accounted for as property, plant and equipment.

Investment properties are reported at market valuation.

q. Government Grants

Government grants include grants receivable from the Homes England (formerly Homes and Communities Agency), 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, where applicable, its individual components (excluding land) under the accruals method.

Grants relating to revenue are recognised in the Statement of Comprehensive Income 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 subordinate to the repayment of loans by agreement by the Homes England. Government grants released on sale of a property may be

Accounting policies (continued)

repayable but are normally available to be recycled 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 the Statement of Comprehensive Income.

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 the Statement of Comprehensive Income. Upon disposal of the associated property, the Group is required to recycle these proceeds and recognise them as a liability.

r. 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 specific future performance-related conditions on the associations is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

Accounting policies (continued)

s. Depreciation

Property, plant and equipment

The Group separately identifies the major components which comprise in its housing properties, and charges depreciation, to write-down the cost of each component to its estimated residual value on a straight-line basis.

A full year's depreciation is charged on all assets in the year of acquisition, but no charge is made in the year of disposal.

The expected useful lives of assets identified separately are as follows:

	SSHA, MMHA	HHL
Structure:		
Non-traditional	99 years	30 years
Pre-1974 construction	99 years	75 years
Post 1974 construction	99 years	100 years
Other Major Components:		
Roofs	60 years	60 years
Windows	40 years	30 years
Doors	25 years	not identified
Heating systems	20 years	36 years
Wiring	40 years	40 years
Kitchens	20 years	20 years
Bathrooms	30 years	30 years
Boilers	-	12 years
Lifts	20 years	20 years
Leasehold Properties:	Remaining life of lease	Remaining life of lease
Garages:	Not applicable	25 Years
Freehold land	Is not depreciated	

Other tangible fixed assets

Tangible fixed assets other than housing properties are stated at cost (less grant) less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use.

Accounting policies (continued)

Depreciation (to residual value) is charged on a straight line over the expected useful life of the asset from the month of acquisition, at the following annual rates:

Computers and other equipment	15% - 33%
Plant and Equipment	20% - 33%
Vehicles	25%
Furniture, fixtures and fittings	25%

Depreciation on offices is calculated in compliance with the SORP, on a straight line basis over the following periods:

Newly constructed offices:	50 Years from the date of practical completion
Leasehold offices	Over the period of the lease

t. Impairment

The Group's internal controls are designed to identify where the value of property, plant and equipment and work in progress held in the Statement of Financial Position is more than the lower of cost or net realisable value. Where there is evidence of impairment, fixed assets are written down to the recoverable amount, this is likely to be the value in use of the asset based on its service potential. The resulting impairment loss is recognized as expenditure in the Statement of Comprehensive Income. 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. Depreciated replacement cost is taken as a suitable measurable model.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply and included in surplus or deficit in the Statement of Comprehensive Income.

u. Capitalisation of Development Overheads and Interest

Only specific and directly attributable costs are capitalised in line with the Statement of Recommended Practice

Interest on loans financing new development is capitalised up to the date of practical completion if it represents either:

- Interest on borrowings specifically financing the programme after deduction of interest on Social Housing Grant (SHG) in advance or
- Interest on borrowings of the company as a whole after deduction of interest on SHG in advance to the extent that they can be deemed to be financing the development programme.

Accounting policies (continued)**v. Properties for sale**

Shared ownership first tranches sales and completed properties for outright sale are disclosed as a current asset, stated at the lower of cost and net realisable value. Cost comprises materials, direct labour costs and other direct overheads, as identified above. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal.

w. Debtors

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

x. Creditors

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

y. Employee Benefits

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

z. Finance Leases

Where the Group enters in to a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the Statement of Financial Position as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Statement of Comprehensive Income, and the capital element which reduces the outstanding obligation for future instalments.

aa. Operating Leases

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Accounting policies (continued)

bb. Stocks

The value of stock is shown at the lower of cost (the original purchase price) or net realisable value in accordance with accounting standards. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. The value of stores stock is calculated using the weighted average method.

cc. Bad and doubtful debts

Provision is made for current and former tenant arrears, as well as other miscellaneous debts (service charges, community alarm income, and fees receivable for the provision of services) to the extent that recovery is considered doubtful.

dd. Provisions

Due to the numbers of properties and the establishment of regular programme of repair and maintenance, the Group does not generally make a provision for future works. Actual costs are charged to the Statement of Comprehensive Income.

The Group will recognise provisions where it has a present obligation (legal or constructive) as a result of a past event or where a transfer of economic benefit will be required to settle the obligation and an estimate can be made.

Where properties are leased a provision will be made for dilapidations where specified in the terms of the lease based on the annual rent for that property.

The Group recognises a provision 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 provision is measured at the salary cost payable for the period of absence.

Accounting policies (continued)

ee. Pensions

Connexus Housing Group participates in the following defined benefit pension schemes:

Local Government Pension Scheme (LGPS)

The Group has three LGPS schemes in place – two with Shropshire Council Pension Fund (SSHA and MMHA) and one with Worcestershire County Council Local Government Pension Scheme.

The Group financial statements report pension obligations according to the requirements of FRS 17 – ‘Retirement Benefits’. Multi-employer defined benefit schemes that identify individual employers’ shares of underlying assets and liabilities are reflected in the Statement of Comprehensive Income and the Statement of Financial Position. The difference between the fair value of the assets held in the pension scheme and the scheme’s liabilities are recognised in the Statement of Financial Position as a pension scheme asset or liability. Changes in the defined benefit pensions scheme asset or liability arising from factors other than cash contribution by the employer are charged to the Statement of Comprehensive Income or the Statement of Changes in Reserves.

Social Housing Pension Scheme (SHPS)

This scheme is administered independently by the Pension Trust.

The group has two defined benefit schemes in place (SSHA and HHL). For the previous year it was not possible to identify the individual employer’s share of the underlying assets and liabilities therefore defined contribution accounting had been applied.

For the year ended 31 March 2018 contributions payable from the association to the SHPS under the terms of its funding agreement were recognised as a liability in the Statement of Financial position.

For the year ended 31 March 2019, the association is able to identify its share of the scheme assets and the scheme liabilities. It has therefore applied defined benefit accounting, the relevant date for accounting for this change from defined contribution to defined benefit accounting is 1 April 2018. The scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates.

The deficit funding agreement liability that was previously recognised in creditors was derecognised on the 1 April 2018, and an initial net defined benefit pension liability was recognised at this date in the statement of financial position. The resulting net difference on initial recognition of the SHPS obligation was recognised in other comprehensive income.

As at the year ended 31 March 2019, the net defined benefit pension liability has been included within the provisions for pension liability in the financial statements.

In the year ended 31 March 2019, the current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current

Accounting policies (continued)

reporting period within the income and expenditure account. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income. Refer to Note 31 for more details

ff. Corporation Tax

The charge for taxation is based on the results for the year and takes into account taxation deferred (or accelerated) because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax on a full provision basis.

Connexus Housing Limited, Meres and Mosses Housing and Independence Trust are exempt charities for tax purposes and are therefore not liable to corporation tax on surpluses on their charitable activities.

Total Response Limited, Enterprise 4 Limited, Shropshire Housing Treasury Limited, Herefordshire Capital plc, Floreat Development Limited and Floreat Living Limited are subject to taxation.

Where the Group undertakes activities that are outside of its charitable purpose and exceed the permitted threshold corporation tax will be payable.

gg. Value Added Tax (VAT)

The Group is VAT registered, with a large proportion of its income being housing rents, and Right to Buy sales which are exempt for VAT purposes, while other income sources being standard, zero rated or outside of scope gives rise to a partial exemption calculation.

Connexus Housing Limited, Meres and Mosses Housing Association, Herefordshire Housing Limited and Independence Trust are registered within the same VAT group. Rise Partnership Developments Limited and Floreat Development Limited have their own VAT registrations.

The financial statements include VAT to the extent that it is suffered and not recoverable from HM Revenue and Customs. The balance recoverable or payable at the year-end is included as a current liability or asset.

Accounting policies (continued)

hh. VAT Sharing Agreement

Meres and Mosses Housing Association via the transfer agreement with North Shropshire District Council shares VAT savings arising out of the transfer in equal amounts. The related expenditure is shown gross and the VAT recovered is shown as a credit against capital to identify it separately for future use.

Under the terms of the transfer agreement Meres and Mosses Housing Association has contracted to refurbish transferred properties and the amount due to the Association for the work is shown under debtors. The obligation to carry out these works is shown in the provisions for liabilities and charges

ii. Financial Instruments

Financial instruments which meet the criteria of basic financial instrument as defined in Section 11 of FRS102 are accounted for under an amortised historic cost model.

Basic financial instruments are recognised at amortised historical cost.

Non-basic financial instruments are recognised at fair value using a valuation technique with any gains or losses reported in surplus or deficit.

jj. Investments

Investments are stated at market value and the increase or decrease in value at the end of the year is taken to or deducted from reserves.

kk. Liquid resources

Liquid resources are readily disposable current asset investments. They include some money market deposits, held for more than 24 hours that can only be withdrawn without penalty on maturity or by giving some notice of more than one working day.

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

3. Turnover, operating costs and operating surplus

The company's activities consist solely of social housing and non-social housing activities within the UK.

Group 2019	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	47,246	-	(34,331)	12,915
Other Social Housing Activities				
Current asset property sales	1,613	(1,231)	-	382
Supporting People	703	-	(703)	-
Other support services	833	-	(833)	-
Non-social housing activities				
Market Sales	4,273	-	(3,945)	328
Wellbeing Services	1,397	-	(1,462)	(65)
Other	4,358	-	(2,793)	1,565
Total from Social and Non-Social Housing Activities	60,423	(1,231)	(44,067)	15,125
Surplus on disposal of fixed assets				2,102
Total Operating Surplus				17,227
<hr/>				
Group 2018	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	47,463	-	(31,058)	16,405
Other Social Housing Activities				
Current asset property sales	2,405	(1,865)	-	540
Supporting People	989	-	(1,083)	(94)
Other support services	550	-	(668)	(118)
Non-social housing activities				
Wellbeing Services	1,326	-	(1,268)	58
Other	3,983	-	(3,631)	352
Total from Social and Non-Social Housing Activities	56,716	(1,865)	(37,708)	17,143
Surplus on disposal of fixed assets				2,827
Exceptional items				(428)
Total Operating Surplus				19,542

Connexus Housing Limited
Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

3. Turnover, operating costs and operating surplus (continued)
Particulars of Income and Expenditure from social housing lettings:

Group	General Needs Housing	Supported Housing and Housing for older people	Temporary Social Housing	Low cost Home Ownership	Total 2019	Total 2018
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable	37,276	6,735	95	782	44,888	44,924
Service Charges Receivable	620	910	14	47	1,591	1,737
Amortised government grants	491	91	-	56	638	558
Other revenue grants	129	-	-	-	129	244
Turnover from social housing lettings	38,516	7,736	109	885	47,246	47,463
Management	(9,718)	(2,784)	(11)	(542)	(13,055)	(9,411)
Services	(1,283)	(351)	(14)	(2)	(1,650)	(1,682)
Routine maintenance	(7,690)	(850)	(13)	(18)	(8,571)	(8,146)
Planned maintenance	(1,370)	(371)	(5)	(34)	(1,780)	(2,584)
Bad debts	(190)	(42)	(1)	(1)	(234)	(232)
Depreciation of housing properties	(6,676)	(1,048)	(8)	(297)	(8,029)	(8,363)
Pension operating costs	(816)	(174)	(2)	(19)	(1,011)	(640)
Operating costs on social housing lettings	(27,743)	(5,620)	(54)	(913)	(34,330)	(31,058)
Operating surplus on social housing lettings	10,773	2,116	55	(28)	12,916	16,405
Void losses	(233)	(108)	(9)	(7)	(357)	(322)

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

4. Operating Surplus

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Operating surplus is arrived at after charging / (crediting):				
Depreciation and Impairment				
Depreciation of housing properties	8,511	8,363	-	-
Impairment of tangible fixed assets	-	-	-	-
Depreciation of other tangible fixed assets	966	924	80	85
Grant amortisation	(638)	(558)	-	-
Operating lease rentals				
Service Fleet	309	309	-	-
Office equipment	61	39	-	-
Auditors' remuneration (excluding VAT)				
- for external audit services	101	102	13	14
- for tax advice & loan covenant review	-	-	-	-
Exceptional Items	-	448	-	-

2018 Exceptional items relate to costs directly incurred in relation to the merger during the year.

5. Surplus on Disposal of Property, Plant and Equipment

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Disposal Proceeds	3,183	4,814	-	69
Carrying value of fixed assets	(1,081)	(1,987)	(2)	(35)
Surplus on disposal of fixed assets	2,102	2,827	(2)	34

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

6. Accommodation In Management

	2019 Number	2018 Restated Number	2018 Number
Units owned/managed at end of year:			
General housing - social rent	7,216	7,182	7,182
General housing - affordable rent	1,193	1,167	1,167
Housing for older people and other supported housing	1,515	1,496	1,496
Shared Ownership	284	251	251
Social housing owned	10,208	10,096	10,096
Market rent	11	11	11
Commercial units	43	44	44
Total Owned Units in Management	10,262	10,151	10,151
Leasehold market rent properties	7	7	7
Leasehold properties	424	*423	390
Total Managed Properties	10,693	10,581	10,548
Units out of management (included above)	45	54	54

*Restated from 2018/19

7. Interest receivable and other Income

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Interest receivable from deposits and investments	149	37	1	-
	149	37	1	-

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

8. Interest and financing costs

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Interest payable on loans	9,847	9,333	-	-
Interest on finance leases	-	-	-	-
Other charges	168	429	2	24
	10,015	9,762	2	24
Pension finance costs	329	281	-	-
Interest payable capitalised on housing properties under construction	(1,318)	(804)	-	-
Loan amortisation	59	61	-	-
Bond premium amortisation	(81)	(45)	-	-
	9,004	9,255	2	24
Capitalisation rate used to determine the finance costs capitalised during the financial year:	3.85%	4.59%	-	-

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

9. Taxation

Connexus Housing Limited is an exempt charity for tax purposes and is therefore not liable to corporation tax on surpluses on its charitable activities. However, during the year, the Group has undertaken a number of activities that are outside of its charitable purpose and has exceeded the £50,000 permitted threshold.

The tax charge on the surplus/(deficit) on ordinary activities for the year was as follows:

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Current tax:				
UK Corporation Tax charge / (credit) for the year	54	70	-	12
Under/(over) provision in the previous years	(72)	31	(12)	33
Total current tax	(18)	101	(12)	45
Surplus/(deficit) on ordinary activities before tax	8,372	10,324	1,043	990
Surplus/(deficit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	1,591	1,962	198	188
Effects of:				
Costs not deductible for tax purposes	-	-	-	-
Capital allowances in excess of depreciation	(11)	(12)	-	-
Adjustment in respect of prior years	(72)	31	(12)	33
Surplus relating to charitable entities	(1,489)	(1,880)	(198)	(176)
Group relief received	(37)	-	-	-
	(18)	101	(12)	45

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

10. Employees

Average monthly number of colleagues (including the Chief Executive), employed during the financial year:

	2019 Group Number	2018 Group Number	2019 Company Number	2018 Company Number
Management & Support	108	118	62	59
Development	18	14	-	-
Asset Management	35	31	21	18
Housing Management	75	79	32	30
Property and Maintenance	216	213	-	-
Care & Support	182	192	-	-
	634	647	115	107

Average monthly number of employees expressed in 37-hour full-time equivalents (full-time staff actually work 37 hours):

	2019 Group Number	2018 Group Number	2019 Company Number	2018 Company Number
Management & Support	100	106	56	55
Development	17	13	-	-
Asset Management	34	30	20	17
Housing Management	70	69	28	25
Property and Maintenance	217	211	-	-
Care & Support	112	117	-	-
	550	546	104	97

Employee costs:

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Salaries	14,180	14,445	2,926	2,753
Social security costs	1,313	1,243	269	255
Other pension costs	2,403	1,304	332	176
	17,896	16,965	3,526	3,184

Including past pension deficit of £554,519 (LGPS £247,113, SHPS £307,406) (2018 LGPS £107,213)

Employee numbers are calculated on the basis of the average number of colleagues employed at the end of each quarter.

Connexus Housing Limited
Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

10. Employees (continued)

Remuneration bandings for all employees earning over £60,000:	Group 2019 Number	Group 2018 Number	Company 2019 Number	Company 2018 Number
£160,000 to £170,000	1	-	1	-
£150,000 to £160,000	-	1	-	-
£140,000 to £150,000	-	-	-	-
£130,000 to £140,000	-	1	-	-
£120,000 to £130,000	1	1	-	1
£110,000 to £120,000	-	2	-	-
£100,000 to £110,000	1	2	-	1
£90,000 to £100,000	-	-	1	1
£80,000 to £90,000	5	6	-	2
£70,000 to £80,000	2	1	1	-
£60,000 to £70,000	5	3	1	-
	15	17	4	5

In addition to the above, £420,000 was paid to a third party in relation to management services provided by the Interim Chief Executive, Interim Director of Development, Interim Director of Assets and Repairs and Interim Director of Finance. This excludes loss of office payments.

11. Board Members and Executive Directors

The Directors of the Group are defined as the Chief Executive and any other person who is a member of the Executive Management Team, or its equivalent. There are 7 Executive Directors all of whom accrue benefits under either the SHPS or LGPS pension schemes.

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Aggregate Emoluments paid to Non-Executive Directors (Board Members)	79	116	79	79
Aggregate Emoluments paid to Executive Directors	762	753	351	447
Pension payments relating to services as Executive Directors	66	74	33	35
	907	943	463	561

The Board Members and Executive Directors are also directors of the subsidiaries within the Connexus Housing Group. Their emoluments are paid either by the parent company or HHL.

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

The emoluments of the highest paid Director, Richard Woolley, excluding pension contributions, were £113,000 (2018: £140,315). The Chief Executive is a member of the Local Government Pension Scheme. No further contributions were made to an individual pension arrangement for the Chief Executive.

In addition, payments totalling £420,000 was payable to third parties in relation to Interim Director Services provided to the Group during the year.

A severance payment amounting to £133,154 was payable to former Chief Executive, Peter Brown, in relation to the period of account in respect of loss of office (2018: £nil). Furthermore, additional payments of £97,000 in respect of contract termination were payable to 3 Executive Directors. These are reported in the aggregate emolument amounts in the above table.

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

11. Board Members and Executive Directors (continued)

Position	Director	Salaries & additional payments £'000	Taxable benefits £'000	Pension £'000	Total 2019 £'000	Total 2018 £'000
Chief Executive (resigned 17/9/18)	Peter Brown	195	6	7	208	154
Deputy Chief Executive (resigned 19/9/18)	Jake Berriman	82	5	3	90	133
Director of Housing & Communities	Christine Duggan	88	9	12	109	103
Director of Total Response Limited (resigned 13/7/18)	Francis Narweh	66	4	1	71	98
Director of Independent Living (resigned 31/3/19)	Ann Sutcliffe	129	7	27	163	112
Director of Assets & Development (resigned 17/9/18)	Paul Sutton	54	4	2	60	104
Chief Executive (appointed 1/4/19)	Richard Woolley	103	10	14	127	123
Group Director Corporate Services	Jen Hayball	-	-	-	-	26
		717	45	66	828	853

Following the merger of the Herefordshire Housing Group, Directors from the former Shropshire Housing Group were appointed as Directors of Herefordshire Housing. These Directors and Board members listed below are directly employed by the parent Connexus Housing Limited. Their emoluments are paid by the parent company.

	Appointed	Resigned	2019 £000	2018 £000
Ruth Cooke (Chair)	28/09/2010	-	15	4
James Williamson	27/07/2017	30/11/2018	7	-
Graham Biggs	27/07/2017	15/11/2018	5	-
Sonia Higgins	27/07/2017	30/11/2018	5	-
Gillian Jones	27/07/2017	-	7	-
David Lincoln	28/09/2010	-	7	2
Michael McCarthy	04/06/2013	31/12/2018	6	2
Allison Taylor	28/09/2010	-	8	2
Elizabeth Walford	27/07/2017	-	8	-
John Cross	11/12/2018	-	2	-
Hilary Gardner	11/12/2018	-	3	-
Philippa Jones	11/12/2018	17/04/2019	-	-
Paul Smith	11/12/2018	-	2	-
Paul O'Driscoll	20/03/2017	31/12/2018	4	-
			79	10

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

12. Tangible fixed assets - Housing Properties

Group	Housing properties held for letting £'000	Housing properties in the course of construction £'000	Completed shared ownership properties £'000	Housing Properties Total £'000
Cost				
At 1 April 2018	316,466	19,491	19,438	355,395
Additions	-	26,128	-	26,128
Works to existing properties	7,288	128	-	7,416
Interest capitalised	-	993	-	993
Schemes completed	15,785	(19,403)	3,618	-
Transfer to Investment Properties	-	-	-	-
Transfer to current assets	-	(561)	-	(561)
Disposals - Other	(2,509)	(141)	(231)	(2,881)
At 31 March 2019	337,030	26,635	22,825	386,490
Depreciation				
At 1 April 2018	63,563	-	1,202	64,765
In the Year	8,160	142	209	8,511
Impairment	-	-	-	-
Transfer to current assets	-	-	-	-
Released on disposal	(1,698)	(142)	(27)	(1,867)
At 31 March 2019	70,025	-	1,384	71,409
Net Book Value				
At 31 March 2019	267,005	26,635	21,441	315,081
At 31 March 2018	252,903	19,491	18,236	290,630

The Company does not hold any housing property fixed assets.

Connexus Housing Limited
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Notes to the financial statements

12. Tangible fixed assets – Housing Properties (continued)

Housing properties and offices book value, net of depreciation comprises:

Group	2019	2018
	£'000	£'000
Freehold land and buildings	314,917	290,458
Long leasehold land and buildings	164	172
Commercial property and offices at valuation	4,880	4,987
Office, Legion Way	3,854	3,965
	323,815	299,582

Expenditure on works to existing properties

Group	2019	2018
	£'000	£'000
Components capitalised	7,198	8,945
Amounts charged to Statement of Comprehensive Income	10,351	10,730
	17,549	19,675

Social housing assistance

Total social housing and other capital grants:

Group	2019	2018
	£'000	£'000
Social Housing Assistance		
Total accumulated grant received or receivable at 31 March	61,653	53,868
Recognised in the Statement of Comprehensive Income	7,129	6,476
Recycled capital grant	175	137
Grant in advance	-	78
Held as deferred income	54,349	47,177
At 31 March	61,653	53,868

Connexus Housing Limited

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Notes to the financial statements

12. Tangible fixed assets – Housing Properties (continued)

Impairment

Connexus Housing Limited assesses at each reporting date whether there is any indication that an asset (housing and non-housing) is impaired.

The following indicators of impairment must, as a minimum, be considered by a social landlord in assessing whether there is an indication that assets are impaired:

- a) Contamination not identified as part of a development which results in a material increase in development costs
- b) Change in government policy, regulation or legislation which has a material detrimental impact on the development scheme
- c) Change in demand for a property
- d) Material reduction in the market value of the property
- e) Obsolescence of the property e.g. Where it is probable that a plan to regenerate existing properties by demolishing them or replacing of components of existing properties will go ahead

Connexus does not consider that any such indication exists and therefore it has not undertaken an exercise to estimate the recoverable amount.

Where a property is to be demolished or is unable to be let the net book value of these assets has been compared with the market value on disposal to determine whether impairment is required. In the case of Beattie Avenue Bungalows where plans are being prepared for the regeneration of the scheme and tenant consultation has commenced the land value is deemed to be in excess of the net realisable value and therefore there is no requirement to impair these assets.

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

13. Other tangible fixed assets - Group

Group	Offices £'000	Furniture fixtures & fittings £'000	Computers & other equipment £'000	Vehicles, plant & equipment £'000	Total £'000
Cost					
At 1 April 2018	5,171	807	4,253	1,598	11,829
Additions	-	19	831	19	869
Disposals	-	-	(164)	(48)	(212)
At 31 March 2019	5,171	826	4,920	1,569	12,486
Capital Grants					
At 1 April 2018	-	-	6	-	6
Received in year	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 March 2019	-	-	6	-	6
Accumulated depreciation					
At 1 April 2018	1,204	773	3,202	1,322	6,501
Charged in year	112	33	700	121	966
Disposals	-	-	(150)	(38)	(188)
At 31 March 2019	1,316	806	3,752	1,405	7,279
Net Book Value					
At 31 March 2019	3,855	20	1,162	164	5,201
At 31 March 2018	3,967	34	1,045	276	5,322

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

13. Other tangible fixed assets - Company

Company	Computers & other equipment £'000	Total £'000
Cost		
At 1 April 2018	434	434
Additions	35	35
Disposals	(19)	(19)
At 31 March 2019	450	450
Accumulated depreciation		
At 1 April 2018	235	235
Charged in year	80	80
Disposals	(17)	(17)
At 31 March 2019	298	298
Net Book Value		
At 31 March 2019	152	152
At 31 March 2018	199	199

14. Investment properties and non-social housing properties held for letting

Group	2019 £'000	2018 £'000
Valuation		
At 1 April 2018	4,987	4,305
Additions	-	682
Disposals	(107)	-
At 31 March 2019	4,880	4,987

Investment properties were valued in 2017 by RICS registered valuers, JLL and Savills.

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

15. Stock and properties held for sale

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Stock and work in progress	343	330	-	-
Shared ownership schemes completed units	2,526	210	-	-
Shared ownership schemes work in progress	-	3,068	-	-
Properties developed for outright sale	15,107	1,805	-	-
Work in progress for outright sale	-	-	-	-
Property and land awaiting sale	-	8,493	-	-
Properties held for sale	17,633	13,576	-	-

16. Trade and other debtors

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Rent and service charges receivable	1,014	1,025	-	-
Less: Provision for bad and doubtful debts	(577)	(735)	-	-
Net rent arrears	437	290	-	-
Other debtors	1,091	1,129	1	8
Social housing grant receivable	-	136	-	-
Amounts owed by subsidiary undertakings	-	-	2,729	1,709
Other taxation and social security	139	598	-	-
Prepayments and accrued income	2,945	2,980	133	214
	4,175	4,843	2,863	1,931
	4,612	5,133	2,863	1,931

Connexus Housing Limited

Report and financial statements for the year ended 31 March 2019

Notes to the financial statements

17. Debtors: amounts due after more than one year

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Improvement works	8,464	9,173	-	-
Prepayments > 1 year	149	-	-	-
Loan to third party organisation	250	250	-	-
Prior year adjustment - bad debt provision	(250)	(250)	-	-
	8,613	9,173	-	-

Improvement works relate to expenditure agreed to as part of the stock transfer of Meres & Mosses.

18. Cash and Short Term Investments

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Short term investments	35,673	24,034	304	-
Cash and cash equivalents	2,420	3,814	10	301
Total financial assets	38,093	27,848	314	301

19. Creditors: amounts falling due within one year

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Loans	293	-	-	-
Trade creditors	4,191	4,534	366	171
Council's share of Right to Buy proceeds	546	-	-	-
Rent and service charges received in advance	1,458	1,218	-	-
Other taxation and social security	54	891	-	12
Accruals and deferred income	6,373	5,231	207	136
Other creditors	956	762	-	1
Recycled Capital Grant Fund (Note 21)	175	137	-	-
Deferred grant income (Note 20)	576	558	-	-
Amounts owed to Group undertakings	-	-	584	978
Pension contributions payable	-	307	-	-
Receipts in advance	770	836	-	-
Other capital grants received in advance	-	-	-	-
	15,392	14,474	1,157	1,298

Connexus Housing Limited

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Creditors: amounts falling due after more than one year

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Loans (Note 22 & Note 30)	222,408	203,984	-	-
Less: Issue costs	(2,036)	(2,099)	-	-
Finance Leases	-	-	-	-
Deferred income	-	-	-	-
Deferred grant income	53,773	46,618	-	-
Deferred bond premium	4,831	2,980	-	-
Improvement works	8,464	9,173	-	-
Pension deficit contributions (Note 31)	-	1,449	-	-
	287,440	262,105	-	-

20. Deferred Income

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
At 1 April	47,176	45,652	-	-
Grant received in the year	7,786	2,651	-	-
Grant received in advance	-	(78)	-	-
Transfer to RCGF (note 21)	39	-	-	-
Released to Property Sales	(15)	(491)	-	-
Released to income in the year	(637)	(558)	-	-
At 31 March	54,349	47,176	-	-
Amounts to be released within one year	576	558	-	-
Amounts to be released in more than one year	53,773	46,618	-	-
	54,349	47,176	-	-

21. Recycled capital grant fund

	2019 £'000
Balance as at 1 April 2018	137
Grants Recycled	50
Interest Accrued	-
Withdrawals	(12)
	175
Repayment of grant	-
At 31 March 2019	175

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22. Debt analysis

	Source	Terms of Repayment	2019 £'000	2018 £'000
RBS/Newcastle	SHTL	21 years	46,000	46,000
RBS Revolver	SHTL	3 years	15,000	11,000
Canada Life	SHTL	28 years	25,000	25,000
Shropshire Council	SSHA	18 to 22 years	8,701	8,984
Lloyds Bank	SHTL	19 years	8,000	8,000
Bond finance	HCapital	31 years	120,000	105,000
Total borrowings			222,701	203,984

The above funding has been sourced directly by the Registered Providers or by the funding vehicles Shropshire Housing Treasury Limited (SHTL) or Herefordshire Capital (HCap) and on-lent to the Registered Providers on the above terms.

Loans are fully secured against properties charged to the Prudential Security Trustee.

23. Financial Commitments

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Authorised expenditure not contracted	101,046	165,265	-	-
Authorised expenditure contracted	26,346	27,699	-	-
	127,392	192,964	-	-

At the reporting date the Group had £2.4m of cash and cash equivalents, £35.7m short term investments and £25.0m of undrawn funding. The remaining £64.3m is expected to be funded by reserves, future surpluses, Social Housing Grant, loan finance and new build asset sales.

The Group and Company were committed to making the following future minimum lease payments under non-cancellable operating leases:

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Due within one year	273	300	-	-
Due one to five years	491	708	-	-
	764	1,008	-	-

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24. Provisions for liabilities

The leave pay provision represents holiday balances accrued as a result of services rendered in the current period and which employees are entitled to carry forward. The provision is measured as the salary cost for the period of absence.

Group	Leave pay	SP Contracts	Dilapidations	Groundworks	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	216	-	21	100	337
Additions	52	71	40	-	163
Reversals	(73)	-	-	-	(73)
At 31 March 2019	195	71	61	100	427

Company	Leave pay
	£'000
At 1 April	55
Reversals	(16)
At 31 March	39

25. Called up share capital

	2019	2018	2019	2018
	Group	Group	Company	Company
	£	£	£	£
<i>Issued and fully paid shares of £1 each:</i>				
At 1 April	90	93	8	8
Issued during the year	12	16	4	5
Relinquished during the year	(14)	(19)	(4)	(5)
At 31 March	88	90	8	8

The shareholders do not have the right to dividends, redemptions or distributions.

Connexus Housing Limited

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Notes to the financial statements

26. Reconciliation of operating surplus to net cash flow from operating activities

Group	2019	2018
	£'000	£'000
Operating surplus	17,227	19,542
Depreciation of housing properties	8,511	8,363
Depreciation of other fixed assets	966	924
Carrying value of assets disposals	1,038	3,765
Transfer of fixed assets to properties for sale	(3,732)	(4,525)
Movement in stock	(13)	53
Movement in debtors	1,081	194
Movement in creditors	283	2,265
Movement in provisions	89	162
Pension cost less contributions payable	945	640
Other finance costs	-	-
Adjustments for investing or financing activities	22	16
Taxation paid in the year not provided for in prior year	18	-
Government grants utilised in the year	(638)	(558)
Net cash flow from operating activities	25,797	30,841

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27. Reconciliation of net cash flow to movement in debt

Group	2019 £'000	2018 £'000
Increase / (decrease) of cash in the year	(1,394)	(1,917)
Cash flow from increase / (decrease) in liquid resources	11,639	6,343
Cash flow from decrease / (increase) in debt	(18,780)	(15,839)
Increase / decrease in net debt from cash flows	(8,535)	(11,413)
Net debt at 1 April	(174,037)	(162,624)
Net debt at 31 March	(182,572)	(174,037)

28. Analysis of changes in net debt

Group	1 April 2018 £'000	Cashflow £'000	31 March 2019 £'000
Cash	3,814	(1,394)	2,420
Short term investments	24,034	11,639	35,673
	27,848	10,245	38,093
Debt (loans)	203,984	18,717	222,701
Debt (finance leases)	-	-	-
Issuance costs	(2,099)	63	(2,036)
	174,037	8,535	182,572

29. Financial assets and liabilities

Other than short-term debtors, financial assets held are cash deposits at bank or placed on money markets at call or invested in sterling gilts. They attract interest at variable rates and amounts held are shown below:

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Short term investments	35,673	24,034	304	-
Sterling	2,420	3,814	10	301
Total financial assets	38,093	27,848	314	301

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Financial liabilities excluding trade creditors

Group	2019	2018
	£'000	£'000
Within two to five years	15,000	11,000
After five years	207,701	192,984
Interest rate basis:		
Fixed	89%	93%
Floating	11%	7%

Financial risk management

Risk Management

The Corporate Finance team is responsible for the management of funds and control associated risks. Its activities are governed by the Group Board who are responsible for treasury issues in all Connexus Housing Limited legal entities which include this Company.

Interest rate risk

The Group currently borrows on a fixed rate basis from the capital market through Herefordshire Capital which on-lends these funds to Herefordshire Housing Ltd which then on-lends to the other entities in the Group on a similar fixed rate basis.

The Group does not have any hedging activities and it does not have any derivatives.

The interest rate on all borrowings is fixed at 4.193% until 2049.

30. Contingent liabilities

As at 31 March 2019 the Company had nil contingent liabilities (2018: £nil)

31. Pensions

All the Company's employees are eligible for membership of the Shropshire County Superannuation Fund (SCSF), Worcester County Council Pension Fund (WCCPF) or the Social Housing Pension Scheme (SHPS). Further information on each scheme is given below.

	2019	2018
	Group	Group
	£'000	£'000
Total pension liability comprises of:		
SHPS liability for SSHA	3,891	1,545
SHPS liability for HHL	465	211
Shropshire Council (LGPS) for SSHA	378	392
Shropshire Council (LGPS) for MMHA	1,606	1,309
Worcester County Council (LGPS) for HHL	10,633	7,647
	16,973	11,104

Connexus Housing Limited

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31. Pensions (continued)

Shropshire County Superannuation Fund (SCSF)

The Shropshire County Superannuation Fund is a local Government Pension Scheme and is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme.

Triennial actuarial valuations of the pension scheme are performed by an independent, professionally qualified actuary using the projected unit method. The last actuarial valuation was completed as at 31 March 2016.

The market value of the overall scheme assets at the last valuation date was £1,867m.

The market value of the Group's share of the scheme assets at 31 March 2019 was £9.601m (2018: £9.626m) representing a funding level of 83% (2018: 85%) based on liabilities valued on actuarial assumptions. Liabilities had a market value of £11,585m (2018: £11,327m).

Employers' contributions to the SCSF by the Group for the year ended 31 March 2019 were £0.296m (2018: £0.294m). Employer's contribution rates were between 21% and 27.1% during the financial year (2018: 21% to 27.1%) plus an annual past service deficit payment of £0.140m (2018: £0.139m).

Following the outcome of the valuation, the overall average employer contribution rate will be 14.7% of pensionable pay, plus £18.6m per annum increasing at 3.7% per annum on the basis that deficits are recovered over 16 years. In the absence of other factors, the contributions at the above level would mean a gradual improvement so that the Fund would have increased to 100% at the end of the 16 years.

In practice, each employer's position is assessed, and separate employer contribution rates are set based on individual employer circumstances.

There is no provision for unitising the assets of the SCSF under the Local Government Pension Scheme Regulations. The above assets are allocated as a whole to participating bodies on a consistent and reasonable basis and overall investment performance is attributed to employers on a pro-rata basis (i.e. a notional individual employer investment strategy that is identical to that adopted for the Scheme as a whole).

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31. Pensions (continued)

Assumptions

The principal assumptions at the Statement of Financial Position date are:

	2019	2018
	% per annum	% per annum
CPI inflation	2.3	2.1
Future salary increases	3.8	3.6
Future pension increases	2.4	2.2
Discount rate	2.4	2.6
	2019	2018
	No. of Years	No. of Years
Post retirement mortality assumptions:		
Current pensioners – Male	23.2	23.1
- Female	26.4	26.3
Future pensioners - Male	25.4	25.3
- Female	28.7	28.6

Analysis of the amount charged to the Statement of Comprehensive Income:

	2019	2018
	£'000	£'000
Current service costs	235	245
Employer contribution	(296)	(294)
Administration expenses	5	5
Curtailments	-	-
Amounts charged to operating costs	(56)	(44)
	2019	2018
	£'000	£'000
Interest on pension liabilities	283	284
Expected return on assets	(244)	(236)
Total pension gain charged to other finance income	39	48

Connexus Housing Limited
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31. Pensions (continued)

Statement of total recognised surpluses and deficits:

	2019	2018
	£'000	£'000
Remeasurements (liabilities and assets)	300	(325)

Analysis of the amount recognised in the Statement of Financial Position:

Year ended 31 March

	2019	2018
	£'000	£'000
Present value of funded benefit obligations	11,585	11,327
Fair value of plan assets	(9,601)	(9,626)
Deficit related to the Company	1,984	1,701
Net liability to the Company	1,984	1,701

Change in benefit obligation during financial year to 31 March

	2019	2018
	£'000	£'000
Opening scheme liabilities	11,327	11,424
Current service cost	235	245
Interest on pension liabilities	283	284
Member contributions	51	50
Re-measurements – loss: experience	-	-
Re-measurements – gain: assumptions	583	(395)
Curtailments	-	-
Benefits paid	(894)	(281)
Present value of benefit obligation at end of the year	11,585	11,327

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Notes to the financial statements

31. Pensions (continued)

Change in plan assets during financial year to 31 March

	2019	2018
	£'000	£'000
Opening fair value of plan assets	9,626	9,402
Interest on plan assets	244	236
Remeasurements (assets)	283	(70)
Administration expenses	(5)	(5)
Employer contributions	296	294
Member contributions	51	50
Benefits/ transfers paid	(894)	(281)
Closing fair value of plan assets	9,601	9,626

The actual return on the plan assets was £0.528m (2018: £0.089m).

Analysis of plan assets

The major categories of plan assets as a percentage of total plan assets are:

	2019	2018
	%	%
Equities	50.6	53.0
Other bonds	16.1	23.1
Property	5.3	4.9
Cash/Liquidity	6.4	2.0
Other	21.6	17.0

The Group expects to contribute £0.292m to this defined benefit pension plan in 2019/20

History of experience gains and losses (SCPF)

	2019	2018	2017	2016
	£'000	£'000	£'000	£'000
Defined benefit obligation	(11,585)	(11,327)	(11,424)	(9,772)
Plan assets	9,601	9,626	9,402	7,922
(Deficit)	(1,984)	(1,701)	(2,022)	(1,850)
(Losses)/gains on plan liabilities	(583)	395	(1,569)	534
Gains/(losses) on plan assets	283	(70)	1,356	(276)

Connexus Housing Limited

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31. Pensions (continued)

Worcestershire County Council Pension Fund (WCCPF)

The WCCPF is a multi-employer scheme with more than one participating employer, which is administered by Worcestershire County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

Triennial actuarial valuations of the pension scheme are performed by an independent, professionally qualified actuary using the projected unit method. The last actuarial valuation was completed as at 31 March 2016.

The market value of the overall scheme assets at 31 March 2019 was £2,795m.

The market value of the Company's share of the scheme assets at 31 March 2019 was £26,883m (2018: £25,314m) representing a funding level of 72% (2018: 77%) based on liabilities valued on actuarial assumptions. Liabilities had a market value of £37,516m (2018: £32,961m).

Employers' contributions to the WCCPF by the Company for the year ended 31 March 2019 were £0.709m (2018: £0.696m). The Company's employer's contribution rate was 13.9% during the financial year (2018: 13.9%).

Following the outcome of the valuation, the overall average employer contribution rate will be 15.1% of pensionable pay, plus £36.3m per annum increasing at 3.7% per annum on the basis that deficits are recovered over 18 years. In the absence of other factors, the contributions at the above level would mean a gradual improvement so that the Fund would have increased to 100% at the end of the 18 years.

In practice, each employer's position is assessed and separate employer contribution rates are set based on individual employer circumstances.

There is no provision for unitising the assets of the WCCPF under the Local Government Pension Scheme Regulations. The above assets are allocated as a whole to participating bodies on a consistent and reasonable basis and overall investment performance is attributed to employers on a pro-rata basis (i.e. a notional individual employer investment strategy that is identical to that adopted for the Scheme as a whole).

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31. Pensions (continued)

Assumptions

The principal assumptions at the balance sheet date are:

	2019	2018
	% per annum	% per annum
CPI inflation	2.2	2.1
Future salary increases	3.7	3.6
Future pension increases	2.3	2.2
Discount rate	2.5	2.7
	2019	2018
	No. of Years	No. of Years
Post retirement mortality assumptions:		
Current pensioners – Male	22.8	22.7
- Female	25.8	25.7
Future pensioners - Male	25.1	24.9
- Female	28.2	28.0

Analysis of the amount charged to the Statement of Comprehensive Income

	2019	2018
	£'000	£'000
Current service costs	1,293	1,380
Past service costs	275	-
Employer contribution	(709)	(696)
Administration expenses	17	16
Curtailments	-	-
Amounts charged to operating costs	876	700
	2019	2018
	£'000	£'000
Interest on pension liabilities	888	836
Expected return on assets	(695)	(629)
Total pension gain charged to other finance income	193	207

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31. Pensions (continued)

Amounts recognised in other comprehensive income:

	2019	2018
	£'000	£'000
Remeasurements (liabilities & assets)	(1,917)	1,837
Cumulative actuarial loss recognised in reserves	(6,992)	(5,075)

Analysis of the amount recognised in the Statement of Financial Position

Year ended 31 March

	2019	2018
	£'000	£'000
Present value of funded benefit obligations	37,516	32,961
Fair value of plan assets	(26,883)	(25,314)
Deficit related to the Company	10,633	7,647
Net liability to the Company	10,633	7,647

Change in benefit obligation during financial year to 31 March

	2019	2018
	£'000	£'000
Opening scheme liabilities	32,961	32,024
Current service cost	1,293	1,380
Interest on pension liabilities	888	836
Member contributions	297	289
Past service cost / (gain)	275	-
Re-measurements – loss: experience	-	-
Re-measurements – gain: assumptions	2,261	(1,566)
Curtailments	-	-
Benefits paid	(459)	(2)
Present value of benefit obligation at end of the year	37,516	32,961

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31. Pensions (continued)

Change in plan assets during financial year to 31 March

	2019 £'000	2018 £'000
Opening fair value of plan assets	25,314	23,447
Interest on plan assets	695	629
Remeasurements (assets)	344	271
Administration expenses	(17)	(16)
Employer contributions	709	696
Member contributions	297	289
Benefits/ transfers paid	(459)	(2)
Closing fair value of plan assets	26,883	25,314

The actual return on the plan assets was £1.039m (2018: £0.9m).

Analysis of plan assets

The major categories of plan assets as a percentage of total plan assets are:

	2019 %	2018 %
Equities	71.8	86.4
Government Bonds	8.1	-
Other bonds	4.9	4.8
Property	6.3	4.2
Cash/Liquidity	2.3	1.2
Other	6.6	3.4

The company expects to contribute £0.708m to its defined benefit pension plan in 2019/20.

History of experience gains and losses (WCCPF)

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Defined benefit obligation	(37,516)	(32,961)	(32,024)	(25,775)	(25,591)
Plan assets	26,883	25,314	23,447	18,671	18,376
(Deficit)	(10,633)	(7,647)	(8,577)	(7,104)	(7,215)
(Losses)/gains on plan liabilities	(2,261)	1,566	(4,749)	1,649	(3,900)
Gains/(losses) on plan assets	344	271	3,708	(960)	990

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31. Pensions (continued)

Social Housing Pension Scheme

Social housing pension scheme is 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 the 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 the 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 the 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.

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31. Pensions (continued)

Assumptions

The principal assumptions at the balance sheet date are:

	South Shropshire Housing Association		Herefordshire Housing Ltd	
	2019 % per annum	2018 % per annum	2019 % per annum	2018 % per annum
Discount rate	2.36	2.60	2.29	2.55
RPI inflation	3.24	3.14	3.30	3.20
CPI inflation	2.24	2.14	2.30	2.20
Salary Growth	3.24	3.14	3.30	3.20
Allowance for commutation of pension for cash at retirement	75% of max allow	75% of max allow	75% of max allow	75% of max allow

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

	Life expectancy at age 65 Years
Retiring today:	
Males	21.8
Females	23.5
Retiring in 20 years:	
Males	23.2
Females	24.7

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31. Pensions (continued)

Analysis of the amount charged to the Statement of Comprehensive Income

	2019
	£'000
Current service costs	217
Employer Contribution	(414)
Expenses	15
Amounts charged to operating costs	(182)
Interest on pension liabilities	381
Expected return on assets	(285)
Amounts charged to other finance costs	96
Total recognised in statement of comprehensive income	(86)

Statement of total recognised surpluses and deficits:

	2,019
	£'000
Difference on transition from defined contribution to defined benefit accounting	
Past service deficit liability as at 1 April de-recognised	1,756
Net pension scheme deficit under defined benefit	(3,809)
Loss recognised in other comprehensive income on initial recognition as at 1 April	(2,053)
Remeasurements in year (liabilities & assets)	(633)
Total loss recognised in other comprehensive income for year ended 31 March	(2,686)

Analysis of the amount recognised in the Statement of Financial Position

	2,019	2,018
	£'000	£'000
Present value of funded benefit obligations	16,331	15,023
Fair value of plan assets	(11,975)	(11,214)
Deficit related to the Group	4,356	3,809
Net liability to the Group	4,356	3,809

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31. Pensions (continued)

Change in benefit obligation during financial year to 31 March

	2019
	£'000
Opening benefit obligation	15,023
Current service cost	217
Expenses	15
Interest Cost	381
Member contributions	159
Actuarial losses (gains) – Experience	379
Actuarial losses (gains) – Demographics	43
Actuarial losses (gains) – Financial	1,142
Curtailments	-
Benefits paid and expenses	(1,028)
Closing benefit obligation	16,331

Change in plan assets during year to 31 March

	2019
	£'000
Opening fair value of plan assets	11,214
Interest income	285
Remeasurements - Experience gain (loss)	931
Employer contributions	414
Member contributions	159
Benefits paid and expenses	(1,028)
Closing fair value of plan assets	11,975

The actual return on the plan assets (including any change in share of assets) over the period ended 31 March 2019 was £1,216m

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31. Pensions (continued)

Analysis of plan assets

	2019	2018
	£'000	£'000
Global Equity	2,015	2,215
Absolute Return	1,036	1,370
Distressed Opportunities	218	109
Credit Relative Value	219	-
Alternative Risk Premia	690	425
Fund of Hedge Funds	54	370
Emerging Market Debt	413	452
Risk Sharing	361	103
Insurance-Linked Securities	344	294
Property	269	516
Infrastructure	628	288
Private Debt	161	100
Corporate Bond Fund	558	461
Long Lease Property	177	-
Secured Income	429	415
Over 15 Year Gilts	-	-
Liability Driven Investment	4,380	4,086
Net Current Assets	23	10
Total assets	11,975	11,214

32. Related parties

Grow, Cook, Learn and Discovery Centre

The Discovery Centre was purchased from the Council in 2016. A lease agreement is in place with Grow, Cook, Learn and SLA's to deliver various functions such as accounts preparation, HR and IT services. South Shropshire Housing has on lent £0.25m as at the balance sheet date and the Group made donations of £nil (2018: £0.08m) in support of the services provided by the organisation to the community in which the company operates.

Connexus Housing Limited

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33. Disclosure of Group activity

Intra Group Transactions

Debtor and creditor balances between members of the Group are either debt subject to a market rate of interest, or trading balances which are non-interest bearing and are due to be settled within one year of their recognition. Costs are recharged to non-regulated entities within the Group at cost plus 5%.

Connexus Housing Limited provides corporate services across the group entities.

Herefordshire Housing Limited provides corporate, ICT support and infrastructure across all the group entities.

Prior to the merger each incurred their own costs and these were recharged to other members of the respective group according to the methodologies in place.

For former members of the Herefordshire Housing Group, the main element of the recharge is colleague and corporate costs, which are allocated by department based on activity in the year. The other material allocations are: IT costs which are allocated by headcount and calls to the service desk; HR and training by colleague costs; and premises by floor space.

For former members of the Shropshire Housing Group a marginal approach was taken to commercial entities with any remaining costs recharged to the Registered Providers based on property numbers.

Aligned methodology for the Connexus Housing Group has applied since 1 April 2017 the methodology combines the corporate expenditure incurred by the parent and Herefordshire Housing. It first allocates direct costs to specific business areas, such as housing management, property development and community investment. The remaining central overheads have then been allocated equitably across the former groups, with subsidiaries recharged on an apportionment basis predominantly determined by time allocations across business areas or property numbers.

Herefordshire Housing Limited provides telecare services to both Meres & Mosses and South Shropshire Housing.

Total Response Limited has delivered maintenance and improvement services to the group, to the value of £6.379m in year (2018: £5.973m). These charges were based upon a combination of agreed schedule of rates and average price per property. Total Response Ltd also administers the facilities management for the Gateway on behalf of Connexus Housing Limited.

Floreat Living Ltd. is a subsidiary of Connexus Housing Limited providing development services.

In accordance with FRS102, the Group has taken advantage of the exemption from disclosing transactions or balances with entities which form part of the Group.

