

Arches Housing Limited
Annual Report and Financial Statements
For the year ended 31 March 2019

Registered Number: 21451R

Arches Housing Limited

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Arches Housing Limited

The Board, Executives and Advisors

Board of Management

Kay Dickinson – Chair	
Tony Jervis – Deputy Chair	
Ajman Ali	(Appointed 17 September 2018)
Iain Campbell	
Ian Falconer	(Appointed 17 September 2018)
Terry Gallagher	(Appointed 17 September 2018)
Mohammed Jamil	
Shamsa Latif	(Resigned 29 April 2019)
Andrew Liles	
Joice Rennie	(Appointed 17 September 2018)
Ken Torres	(Resigned 6 June 2018)
Lisa Bradley	(Co-opted 22 July 2019)

Executive Team

Paul Common - Chief Executive
John Hudson - Operations Director
Bill Truin – Strategic Financial Advisor

Secretary and registered office

J Hudson
122 Burngreave Road
Sheffield
S3 9DE

Auditor

Mazars LLP
45 Church Street
Birmingham
B3 2RT

Solicitors

Taylor & Emmet
20 Arundel Gate
Sheffield
S1 2PP

Bankers

Co-operative Bank plc
84-86 West Street
Sheffield
S1 3SX

Arches Housing Limited Strategic Report

An organisation with a business head and a social heart – Our vision

Arches exists to bring affordable housing to diverse communities across the Sheffield City Region, contributing to people's wellbeing by providing safe, secure, warm homes that meet their needs.

We reviewed our values in early 2019 and agreed a new set of statements of shared beliefs and values that we feel are more authentic and better reflect our unique nature.

Our Values:

Steel | Choosing to do the right thing over the easy thing; being determined to see things through and staying true to our roots.

Momentum | Being responsive to people and opportunities; generating solutions swiftly as a consequence of having the trust and freedom to take decisions.

Simplicity | Sticking to what actually matters; to make it easier to do a good job and achieve positive outcomes.

Connections | Recognising that we can achieve more with others than alone; building honest and supportive relationships inside Arches and beyond.

Individuality | Appreciating the life experience, skills and insights of others; listening with empathy, seeking to dignify everyone involved.

Our Strategic Priorities 2018 - 23:

Putting customers at the heart of what we do.

- Reviewing our approach to customer engagement
- Placing customer scrutiny at the heart of our engagement approach
- Offering a graduated approach to involvement so that there is something for everyone
- Improving the ways customers can access services both in their home and at our offices
- Reviewing our service offer to customers
- Providing a link from our Customer Excellence Panel, which will help us scrutinise services, into our governance framework

Providing homes that people want to live in.

- Investing in our homes so that all of our properties meet the 12-point Arches Home Standard by March 2021
- Gaining a better understanding of our customers views of their homes and the neighbourhoods in which they live
- Refining our approach to investing in our homes that ensures that we are spending the right money, in the right home at the right time
- Supporting local partnerships and initiatives to improve the neighbourhoods where we have volume of homes and we can influence
- Balancing the correct level of investment into our current homes with the need to generate surplus to allow us to build new homes for those that need them
- Improving our approach to repairs and maintenance services to customers

Playing our part in increasing the number of affordable homes in the Sheffield City Region.

- Bidding for grant funding from Homes England for the Shared Ownership and Affordable Homes Programme 2016-2021
- Building upon and strengthening our relationships with developers to take advantage of Section 106 planning opportunities
- Continuing to forge relationships with selected local authorities in the Sheffield City Region in relation to new build development opportunities

Arches Housing Limited Strategic Report

- Developing innovative models for developing new homes, through partnerships with others where this is appropriate
- Delivering our 2018-2028 Growth Strategy

Maintaining a sustainable and balanced business model

- Maximising our income potential to invest in our homes and new developments
- Developing an active asset management strategy to use it in our long term financial plan, ensuring value for money decisions are made
- Making sure we have a balanced appraisal model for investment proposals and understand how this impacts the long term financial plan of the business
- Reviewing our approach to Treasury management and raising additional funds for investment
- Being open to take further advantage of economies of scale, saving of VAT and improving customer satisfaction through existing and potential cost sharing vehicles
- Making sure that Value for Money is fully embedded within our business and performance is measured against our own targets and the metrics set by the regulator
- Ensuring evidence based decision making is embedded in our business to understand what drives our activities, customer satisfaction, cost, risk and reward
- Continuing to strengthen our approach to income collection, particularly in relation to the roll out of universal credit

Being a well-run organisation

- Making sure we have a strong board and leadership team with the right skills to lead and deliver a sustainable business
- Making sure we are compliant with the Code of Governance
- Being a forward-looking organisation, alert to changes in our operating environment
- Making sure that we always prioritise the Health and Safety of our customers and staff and ensuring we are compliant with all Health and Safety laws
- Operating within an effective risk management and assurance framework that appropriately supports the business to manage the risks faced
- Continuing to strive to make Arches a great place to work by implementing our People Strategy and our approach to Better Ways of Working

Business Model

Arches has been a social landlord providing affordable homes since the organisation was formed in 1975. Arches works in diverse neighbourhoods and around 55% of our tenants are from Black And Minority Ethnic (BAME) communities.

Key achievements in 2018/19 include:

- The completion of the final stage of a comprehensive review of the governance of Arches which concluded that we had made significant improvements in governance arrangements and effectiveness and made real progress in putting in place a sound governance framework and committee structure
- Agreed a new £6M Revolving Credit Facility with Yorkshire Building Society
- Reactivated our Investment Partner Status with Homes England, the governments 'housing accelerator', allowing us to access £840,000 grant in support of ongoing development in 18/19 and 19/20
- Developed a four-year pipeline of developments which will deliver around 190 properties, in line with the ten-year Growth Strategy agreed in 2018/19
- Delivered ten additional properties into ownership, with the purchase and subsequent upgrading of ten privately owned flats in our core area.
- Spent a total of £2,621,000 (2017/18: £1,635,000) on property maintenance and improvements to deliver the first year of the three year Arches Home Standard programme

Arches Housing Limited Strategic Report

- Conducted a comprehensive scrutiny review of our repairs service with our Customer Excellence Panel and implemented the findings
- Continuing strong operational performance including overall satisfaction with Arches services increasing by 6 percentage points to 85% and rent loss from empty properties reducing to 0.31% of the rent roll
- Ongoing compliance with all areas of property health and safety – gas servicing, electrical testing, fire risk assessments, water hygiene assessments and asbestos management
- Achieving a regulatory regrade from G2 to G1 in June 2018 after the board took the decision to self-disclose the discovery of shortcomings in our Asset compliance management systems to our regulator.

Summary of Annual Results

Statement of Comprehensive Income	2018/19 £'M	2017/18 £'M
Turnover	6.1	6.1
Operating Surplus	1.7	1.8
Surplus for the year before taxation	1.0	1.1

Statement of Financial Position	2018/19 £'M	2017/18 £'M
Fixed Assets	53.4	53.1
Net Current Assets	2.7	0.7
Long term creditors	44.1	42.5
Reserves	11.8	11.3

Accommodation (units)	2018/19	2017/18
Total owned and managed	1,200	1,193

Ratios	2018/19	2017/18
Operating Margin	28.6%	28.91%
Covenant Interest Cover	2.16	3.41
Covenant Net worth Gearing*	38%	36%
Covenant Historic cost Gearing	25%	24%

*This gearing ratio is the total loans repayable as a % of our tangible net worth. Tangible net worth in this case is the public sector grant on our balance sheet and our capital and reserves.

Performance

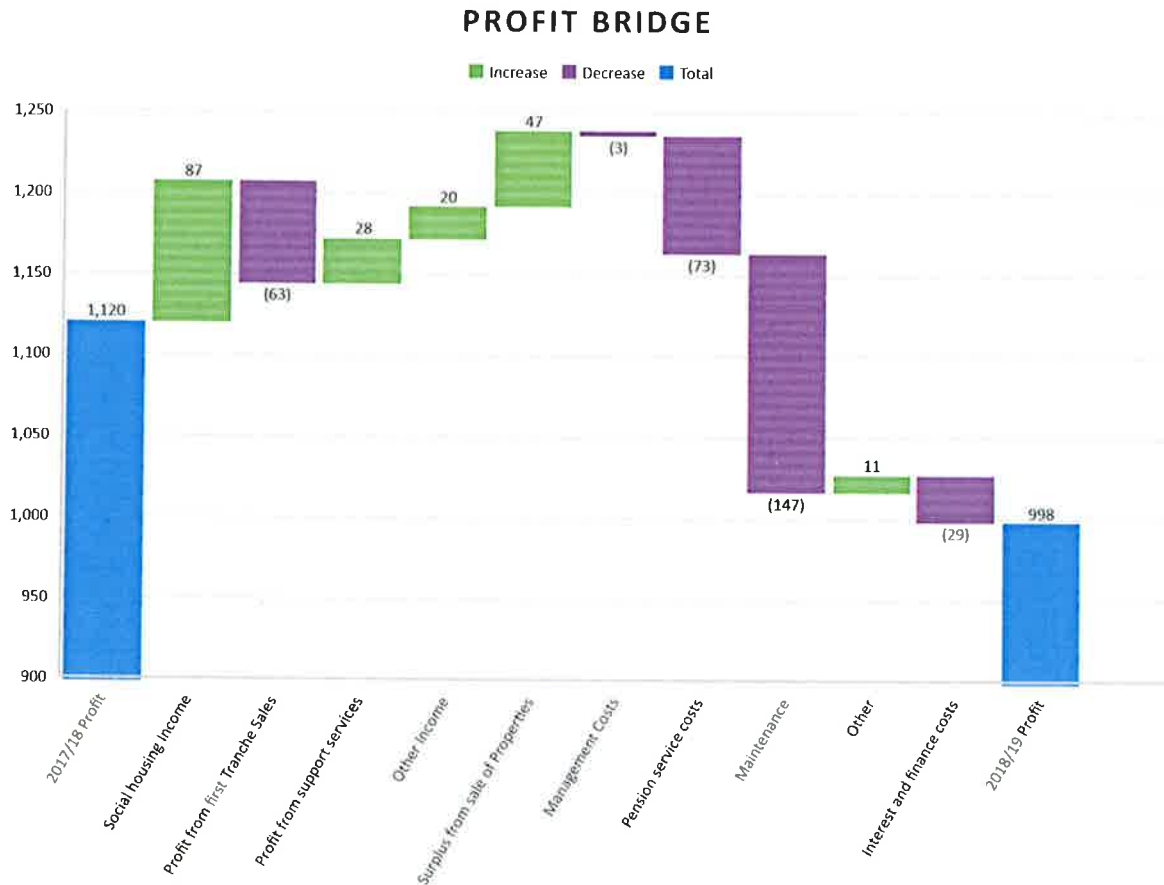
Arches has had another year of strong financial performance. The surplus achieved in the year was £54k above the budgeted surplus, the surplus has decreased from the prior year. The graph below shows the primary movements in income and expenditure from the prior year.

Turnover has remained stable despite the 1% rent reduction on our general needs housing stock. The addition of 10 new units in Grimesthorpe has given us additional income in the year, whilst having no first tranche shared ownership sales in the year has reduced turnover and profit from this income stream.

Profit from supported housing has increased primarily due to reduced repair costs in the year, while surplus from the sale of property's has increased with three shared ownership properties staircasing out in the year. The I&E impact of pension service costs has increased with the triennial review of the Social Housing Pension Scheme (SHPS) and change to the accounting of the defined benefit pension.

Arches Housing Limited Strategic Report

Maintenance costs have increased with Arches commitment to delivering the Arches Standard in all our homes over three years, this being the first year of that programme. Whilst Finance cost have increased due to the new YBS facility being agreed within the year and additional finance costs relating to the pension deficit.



Loan Covenant Compliance

The Association's loan covenants primarily consist of interest cover and gearing. All covenants within the year have been met. Covenants are monitored monthly and also through the long term financial plan. The plan shows that we are able to operate within our covenants under a number of scenarios.

Arches Housing Limited

Strategic Report

Going Concern

Arches is affected by uncertainty from the regulatory environment, government policy, and economic factors. These include a 1% reduction in social rents each year until and including 2019/20, the impact of Brexit, welfare reform and potential inflationary pressures on costs. Despite all of this, the Association continues to deliver a healthy annual turnover and growth in unit numbers and our long term financial plan aims to address these factors and retain headroom to deal with any negative impacts as they hit. Stress testing of the financial plan informs us of the combination of factors that could present extreme circumstances for the Association and our risk management activities provide a thorough review of all of our strategic risks (including financial ones) and prepares us to mitigate the impact should they occur.

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

Brexit

Officers have identified the potential impact of Brexit as a strategic risk as economic disruption could adversely impacts our finances, reducing capacity. The risk is regularly reviewed and a number of internal controls and sources of assurance have been developed to mitigate the impact of the risk.

Arches undertook a review of the risks highlighted in the letter received in February 2019 from the RSH on preparation for a no deal Brexit. A report was presented to the March 2019 board meeting which included an assessment by officers of the areas highlighted in the letter and their relative potential impact on Arches and actions and preparations made. The evaluation concluded the principal short term issue to consider was access to finance and funding was drawn accordingly to ensure appropriate levels of liquidity were in place.

Investing in the future

Our Delivery Plan for 2019/20 includes:

Putting customers at the heart of what we do:

- Develop the Arches Service Standard in partnership with our residents
- Further develop our approach to Neighbourhood Planning
- Deliver the next stages of our Better Ways of Working Strategy to enhance the customer experience and efficiency of our repairs and income recovery services

Providing homes that people want to live in:

- Implement the Strategic Repairs Review leading to the procurement of better responsive maintenance and reinvestment services from 2020/21
- Deliver Year 2 of Arches Home Standard enhancing the quality of our properties in line with the standard agreed with residents

Playing our part in increasing the number of affordable homes in the Sheffield City Region:

- Deliver Year 2 of Arches Growth Strategy bringing at least 42 new properties into management, including the sale of 15 Shared Ownership homes and continuing to grow our development pipeline

Arches Housing Limited Strategic Report

Maintaining a sustainable and balanced business model:

- Complete the procurement of an additional long term loan facility to complement the additional borrowing agreed in 2018/19 to support Arches growth and stock re-investment ambitions
- Deliver Year 2 of the VfM Strategy focussing on maximising value and quality from procurement

Being a well-run organisation:

- Implement the findings of the final phase of our Governance review
- Further preparation for a potential in depth assessment by the Regulator including the development of a resilience statement to capture our planned responses to material threats to the business
- Implement priority actions from the People Strategy Delivery Plan including completion of the job evaluation and salary benchmarking exercise and all staff undertaking a structured leadership development programme

Key Performance Indicators

Key operational performance indicators that we use to monitor delivery of our aspirations are:

Key Performance Indicators	2018/19	2017/18	Target
Property Turnover (%)	7.32%	8.52%	8.50%
Average Re-let Time (days)	13.7	12.3	13.0
Void Rent Loss (%)	0.31%	0.28%	0.32%
Rent Collection as a % of Rent Charged	101.3%	99.5%	100.5%
Overall Customer Satisfaction	85.3%	79.4%	81.2%
Arrears as a % of Annual Rent – Current and former tenants	3.9%	3.9%	3.9%

As can be seen, 2019/20 was another strong year for the Association in terms of its operational performance. Whilst operational performance has remained strong with all performance targets, with the exception of void relet, meeting or exceeding target. Customer satisfaction has seen a significant increase in the year, this is a direct result of increased focus in this area as well as increased investment in existing homes and services.

Value for Money

Housing associations are regulated against a number of standards, one of which is the Value for Money standard. The most recent version of the standard, introduced in April 2018, includes a required outcome of linking board agreed strategic objectives to achieving VfM. The standard also includes an expectation of a robust approach to VfM across the business and the setting of targets and the introduction of 'metrics' which associations are expected to report against.

The metrics introduced in 2018 are:

- Reinvestment %
- New supply delivered %
- Gearing %
- EBITDA major repairs included interest cover %
- Headline social housing cost per unit
- Operating margin %
- Return on capital employed

Arches Housing Limited Strategic Report

Arches Board considered the adoption of additional Arches-specific metrics at its Board strategy meeting in May 2018 and agreed to add:

- Customer satisfaction
- Rent as Value for Money

Arches has historically been a low cost provider of services. This is evidenced by comparisons with similar organisations which have been undertaken by independent third parties, namely:

- Housemark peer group data for 2017/18 showing a median social housing cost per unit of £3,292 compared to a comparative figure for Arches of £2,202.
- Arches were the lowest cost stand-alone traditional housing association in England in 16/17 and in 17/18 were one of the lowest cost of all types of housing providers.

Arches approach to VfM is guided by the five long term Corporate Plan priorities which are set out on page 2 and 3.

To achieve our long term priorities our key VfM actions are:

- Deliver the Arches Homes standard
- Deliver the Growth strategy
- Secure new funding
- Review and procure a new repairs service
- Improve our customer experience by implementing the better ways of working strategy

Our overarching VfM objectives for 2018/19 – 2020/21 are:

- Keep total social housing cost per unit (CPU) below Housemark peer group median – *ensuring overall costs are kept down*
- Maintain 'core' CPU at the same or reduced level - *producing real terms savings on central costs*
- Maintain major works CPU above peer group median, in line with the Arches Home Standard programme – *prioritising spend on improving our properties*
- Add 40 new properties per year to our stock, as per Arches Growth Strategy – *prioritising spend on new properties*
- Increase customer satisfaction – *keeping customers at the heart of what we do*

Highlights of 2018/19 Arches VFM

New long-term loan funding achieved - We received an excellent response to our funding prospectus and undertook a robust appraisal of all of the offers of funding taking account of a range of financial and non-financial comparisons. The outcome was the agreement of a £6m revolving credit facility with Yorkshire Building Society with an interest margin of 1.45%, which provides good value for money in terms of overall cost and also in terms of the effectiveness of the facility to meet Arches particular needs.

Procurement of Insurance Services - A tender exercise was undertaken in the first quarter of 2018/19 to procure insurance services from August 2018 for up to three years. The total budget for insurance for 2018/19 was set at £162,000 based on previous years' costs. The winning tender following the procurement exercise was £60,000.

Customer Scrutiny Panel review of repairs - Arches Customer Excellence Panel (CEP) undertook a detailed review of our repairs service, reporting findings to the Board in June 2018. A total of 18 recommendations were made, the majority of which were accepted. The recommendations have been implemented as part of the Better Ways of Working repairs project.

Arches Housing Limited Strategic Report

Review of Northern Shared Services gas contract - The review concluded that the actual cost for gas servicing and maintenance had increased from £129,000 in 2015/2016 to £144,000 in 2017/2018 instead of decreasing to the forecast £108,000. Approximately £48,000 of linked cost savings in staffing were made, and the net overall reduction in costs amounted to approximately £12,000. Performance to customers had improved substantially and was now consistently top quartile.

Increased development programme - To maximise the number of new properties that Arches can develop we have again become a development partner with Homes England and received £564,000 to date in grants towards two developments in 2018/19 and used a further £40,000 of recycled grant from internal sources of funding.

Review of development scheme appraisal parameters - A fundamental review was undertaken of the model that Arches uses to appraise new development opportunities which included the production of new parameters using real outturn data for Arches and from industry experts. The result is an updated and robust appraisal model, using demonstrably accurate data, which provides greater assurance when appraising development opportunities.

		2017/18 Housemark peer group (median)	2017/18 Arches actual	2018/19 Arches	2019/20 Arches Forecast	Target
	VfM finance metrics					
1	Reinvestment% (including development spend)	5.27%	1.20%*	4.08%	8.57%	>8%
2	New social housing units supply delivered %	0.94%	1.26%*	0.83%	3.69%	>3.3%
3	Gearing %	35.57%	34.31%	36.95%	35.61%	35%
4	Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %	198%	348%	205%	191%	>198%
5	Headline social housing cost per unit	£3,291	£2,202	£3,083	£3,045	<£3,291
6a	Operating Margin (social housing lettings only)	29.25%	28.25%	26.12%	24.04%	>24%
6b	Operating Margin (overall)	24.80%	28.91%	26.86%	26.31%	>25%
7	Return on capital employed (ROCE)	3.81%	3.31%	2.91%	2.95%	>3%

	Arches Metrics					
8	Customer Satisfaction	81.00%	79.40%	85.31%	87.00%	81.20%
9	Rent as Value for Money	86.00%	85.00%	90.48%	91.00%	86.41%

* The Arches 2017/18 figures for Reinvestment and New social housing units supply delivered were calculated in the prior year including the spend on the Riverside stock transfer of 25 units. These comparatives have been amended in these accounts from the original figures of 2.59% and 3.35% respectively.

Metrics commentary

The targets presented were agreed when the Value for Money strategy was approved and were set with the 2019/20 financial year in mind as no development was originally planned for the 2018/19 financial year. The forecasted figures represent the outturn of the 2019/20 budget.

- 1) Our reinvestment in both existing stock and development schemes has increased from the prior year. The beginnings of our growth plan have been realised with the addition of ten units and the introduction of the Arches standard has delivered the anticipated increase in our works to existing stock. We anticipate further development in 2019/20 which will take us to a reinvestment figure over 8%, above both our target and our peers.

Arches Housing Limited Strategic Report

- 2) At the outset of the financial year we had no schemes planned to deliver in the year. We brought the Grimesthorpe flats scheme in at short notice giving us 10 units and a modest new supply delivered metric of 0.83%. This is below the peer group median, however we believe the units anticipated in 2019/20 will take us above our target of 3.3%, placing us very favourably in the peer group dataset.
- 3) We have increased our borrowings with the addition of the new YBS facility, this has yet to impact our gearing as we are holding the cash in anticipation of significant development spend in the 2019/20 year. This spend will see our gearing increase towards the target of 35% in 2019/20.
- 4) The drop in EBITDA MRI from prior year is due to the planned increase in spend on Major works, up from £221k in 2017/18 to £1,060K in 2018/19. This trend will continue into 2019/20 as we deliver year two of the Arches Standard. This trend will bring us in line with the peer group median and target EBITDA MRI figure.
- 5) The spend on Major works described above is the primary reason for the increased Social Housing cost per unit. This was a planned increase other costs have remained largely unchanged. Again we anticipate this cost to continue into year 2 of the Arches Standard. Even with this increased investment we are still delivering a below peer group median cost per unit
- 6) Operating Margin has dropped primarily due to the continuing rent reduction. The peer group comparative is based on the prior year rent formula and so is not a direct comparative. We are maintaining a healthy surplus and a margin above target going into the final year of rent reduction
- 7) Our operating surplus has dropped, due to the rent reduction, while our asset base has increased, due to investment in existing stock and development, which has led to our ROCE falling to 3.10%. This is below the peer group median. As our development programme increases we anticipate a lag in realising the return on this investment of 2-3 years and so our targeted ROCE is 3% for 2019/20 which we are in line to achieve.
- 8) Customer satisfaction has improved by 6% as a result of increased focus in this area as well as increased investment in existing homes and services. This exceeded the target for the year of 81.20%. The forecasted figure of 87% is the operations target for 2019/20.
- 9) Rent as Value for Money has also achieved above target in the year and remains higher than the peer group median. The forecasted figure of 91% is the operations target for 2019/20.

Internal Control

The Board has overall responsibility for the system of internal control and risk management and for reviewing its effectiveness.

The internal control framework is designed to manage and reduce, rather than eliminate the risk of failing to achieve business objectives. It can only provide the board with reasonable, and not absolute, assurance against material misstatement or loss.

The key features of the association's system of internal control include:

Compliance with the NHF's Code of Governance 2015;

Audit and Risk Assurance Committee assurance – this committee meets regularly with members of the Executive team and the internal and external auditors to review specific reporting and internal control matters to satisfy themselves that the internal control systems are operating effectively. The Audit and Risk Assurance committee also reviews any follow up actions to correct identified weaknesses. All board members receive the minutes of the Audit and Risk committee.

Arches Housing Limited Strategic Report

Internal audit assurance - the internal audit function has a direct reporting line to the Audit & Risk committee. The internal audit programme is designed to review the key areas of risk and adherence to relevant law.

External audit assurance – the work of the external auditors provides some further independent assurance of the internal control environment, as described in their audit report. The association also receives a management letter from the external auditors identifying any internal control weaknesses. In accordance with best practice, the Audit and Risk committee and the board consider this letter.

The preparation and monitoring of budgets and long term financial plans. The board reviews performance on this throughout the year and the reports ensure variances are identified and acted upon.

A process for approving all investment decisions – all major investment decisions are subject to review and recommendation by the Investment Committee for approval by the board.

Risks and Assurance

The identification and assessment of key risks is undertaken through the review of strategic risks at board and committee meetings, and at ad hoc task and finish group meetings. The board reviews its risk appetite periodically.

The executive team regularly review the risk register and also review individual risks when there are material changes of circumstances relating to identified risks and in the wider operating environment. "Deep dives" are undertaken by the board and committee's dependent on the relevant risk and there is appropriate challenge to officers on the management of key risks as part of this process.

The Board applies the "three lines of defence" model for assurance and this supports the Boards assurance plan which in turn enables appropriate assurance to be sought, where needed, from the most appropriate source during the year. This approach is the foundation for the boards annual assurance plan. The Audit and Risk Assurance Committee monitor the delivery of the plan through the year and commission additional assurance as required.

The Association continues to utilise the Pentana Risk Management System to take a holistic view of risk management which enables transparency of risk management across the association and allows the board to take a holistic view of risk including internal controls, sources of assurance, indicators of potential effect and mitigating actions.

Governance

The Board of Arches Housing Limited is committed to upholding the highest standards of corporate governance and has adopted the NHF Code of Governance 2015.

During the year under review, a detailed external effectiveness review of governance has been undertaken leading to recommendations for improvement in Arches governance arrangements which will be taken forward in 2019/20. As part of this review, the board received external assurance that the association was compliant with the NHF Code of Governance and RSH Governance and Financial Viability Standard.

During the year, following consultation with shareholders, the board closed its shareholding except to current board members and amended its rules accordingly. The board wish to continue a relationship with former shareholders and wider stakeholders and have formed a "Friends of Arches" group and will seek to further develop this mechanism for stakeholder engagement in the coming year.

Arches Housing Limited

Strategic Report

Board

A board of nine non-executive members currently governs the association, with day to day management delegated to the executive team. Each member holds one fully paid up £1 share in the association.

The role of Arches' Board is to direct and determine strategic direction and business critical policies and meet all legal and regulatory requirements.

The Board delegates certain governance responsibilities to committees, which have their own approved terms of reference:

Audit and Risk Committee

The role of this committee is to oversee arrangements for considering how the organisation ensures value for money, maintains a sound system of internal controls and manages risk. It is also charged with reviewing the organisations financial statements and maintaining an appropriate relationship with its auditors.

Investment Committee

The purpose of this committee is to examine in detail investment proposals, both in terms of new development and investment in existing stock and make recommendations to the Board. It is also to scrutinise new funding proposals and make recommendations to the Board.

HR and Governance Committee

The role of this committee is to oversee the remuneration and appraisal of non-executive directors and the chief executive as well as overseeing the delivery of the People Strategy and Governance Review.

Attendance

A register of attendance for the board and committees is maintained to ensure that members are able to commit sufficient time to allow them to be effective in their roles. Attendance for the board for 2018/19, taking account of their appointment and resignation dates is set out below:

Member	Attendance 2018/19
Kay Dickinson	92%
Tony Jervis	93%
Iain Campbell	100%
Shamsa Latif	67%
Ken Torres	50%
Andrew Liles	80%
Mohammed Jamil	83%
Terry Gallagher	94%
Ian Falconer	88%
Joice Rennie	77%
Ajman Ali	64%

Arches Housing Limited

Statement of responsibilities of the Board of Management

The board is responsible for preparing the report of the Board and 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 United Kingdom Generally Accepted Accounting Practice (UK GAAP), including FRS 102. The financial statements are required by law to give a true and fair view of the state of affairs of the association and of the income and expenditure of the organisation 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 has been followed, subject to any material departures disclosed and explained in the financial statements;

Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the association will continue in business.

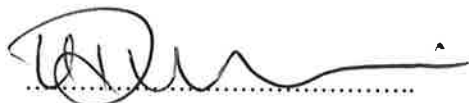
The board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. The board 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 Corporate and Financial information included on the Association's website. Legislation in the United Kingdom concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board has undertaken a review of the requirements of its chosen code of governance, the NHF Code of Governance (2015) and the Board certifies compliance with the code.

The Board has undertaken a review of the requirements of the Governance and Financial Viability Standard published by the Regulator of Social Housing, together with the associations assessment of compliance against this standard. Based on this review, the Board certifies its compliance with the Standard.

By order of the Board:



Kay Dickinson

Chair

22nd July 2019

Arches Housing Limited

Independent auditor's report to the members of Arches Housing Limited

Opinion

We have audited the financial statements of Arches Housing Limited (the 'association') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

Basis for opinion

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

The impact of uncertainties due to Britain exiting the European Union on our audit

The Board's view on the impact of Brexit is disclosed on page 5.

The terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Association's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Association as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Association's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible implications for the Association and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

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

the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Arches Housing Limited

Independent auditor's report to the members of Arches Housing Limited

Other information

The Board is responsible for the other information. The other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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

Responsibilities of the Board

As explained more fully in the Statement of the Board's responsibilities set out on page 12, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Arches Housing Limited

Independent auditor's report to the members of Arches Housing Limited

Use of the audit report

This report is made solely to the association's members as a body in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body for our audit work, for this report, or for the opinions we have formed.

Signed:



Mazars LLP

Chartered Accountants and Statutory Auditor

45 Church Street

Birmingham

B3 2RT

Date: 22 July 2019

Arches Housing Limited
Statement of Comprehensive Income
For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Turnover	3	6,062	6,147
Operating expenditure	3	(4,434)	(4,370)
Surplus/(deficit) on disposal of property, plant and equipment	5	108	61
Operating surplus		<u>1,736</u>	<u>1,838</u>
Interest receivable	7	19	10
Interest and financing costs	6	(757)	(728)
Surplus before tax		<u>998</u>	<u>1,120</u>
Taxation		-	-
Surplus for the year	8	<u>998</u> =====	<u>1,120</u> =====
Other comprehensive income			
Actuarial gains and losses on multi- employer defined benefit scheme	18	(210)	-
Initial recognition of multi- employer defined benefit scheme		(249)	-
Total comprehensive income for the year		<u>539</u> =====	<u>1,120</u> =====

Arches Housing Limited
Statement of Financial Position
At 31 March 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	11	39	36
Housing properties	12	52,882	52,649
Other property, plant and equipment	13	442	421
		<u>53,363</u>	<u>53,106</u>
Current assets			
Debtors	14	236	243
Investments	15	4,359	2,354
Cash		263	246
		<u>4,858</u>	<u>2,843</u>
Creditors: Amounts falling due within one year	16	(2,180)	(2,127)
Net current assets		<u>2,678</u>	<u>716</u>
Total assets less current liabilities		<u>56,041</u>	<u>53,822</u>
Creditors: Amounts falling due after more than one year	17	(43,421)	(42,513)
Defined benefit pension liability	18	(772)	-
Net assets		<u>11,848</u>	<u>11,309</u>
Capital and reserves			
Share capital	19	-	-
Revenue reserve		11,848	11,309
Total reserves		<u>11,848</u>	<u>11,309</u>

The financial statements of Arches Housing Limited were approved by the Board on 22 July 2019 and signed on its behalf by:


Kay Dickinson
Chair


Tony Jervis
Deputy Chair


John Hudson
Company Secretary

Arches Housing Limited
Statement of Changes in Reserves
For the year ended 31 March 2019

	Income and expenditure reserve 2019 £'000	Income and expenditure reserve 2018 £'000
At 1 April	11,309	10,189
Surplus for the year	998	1,120
Other comprehensive income	(459)	-
At 31 March	<u>11,848</u> =====	<u>11,309</u> =====

Arches Housing Limited
Statement of Cash Flows
For the year to 31 March 2019

		2019		2018	
	Note	£'000	£'000	£'000	£'000
Net cash generated from operating activities	20		2,635		2,763
Cash flows from investing activities					
Purchase of property, plant and equipment		(2,226)		(1,319)	
Proceeds from sale of property, plant and equipment		274		148	
Grants received		658		-	
Interest received		19		10	
Net cash flows from investing activities			(1,275)		(1,161)
Cash flows from financing activities					
Interest paid		(757)		(728)	
Decrease/(increase) in deposits		(2,005)		(331)	
New loans		2,000		-	
Repayments of borrowings		(581)		(436)	
Net cash flows from financing activities			(1,343)		(1,495)
Net increase in cash and cash equivalents			17		107
Cash and cash equivalents at beginning of year			246		139
Cash and cash equivalents at end of year			263		246

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

General information and basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and comply with the Statement of Recommended Practice for registered social housing providers 2018 (SORP), the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2019.

The March 2018 edition of FRS 102 includes amendments arising from the Financial Reporting Council's triennial review of the standard. There is no material effect on the amounts recognised in these financial statements as a result of early adopting these amendments.

Arches Housing Limited is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

Property, plant and equipment - housing properties

Housing properties are stated at cost, or deemed cost for assets held at valuation at the date of transition to FRS 102, less accumulated depreciation and accumulated impairment losses. Cost includes the cost of acquiring land and buildings, directly attributable development costs and borrowing costs directly attributable to the construction of new housing properties during the development. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Depreciation is charged so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis, over their useful economic lives. Freehold land is not depreciated.

New build	50 years
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Major components

Major components of housing properties, which have significantly different patterns of consumption of economic benefits, are treated as separate assets and depreciated over their expected useful economic lives at the following annual rates:

Structure	50 years
Roofs	60 years
Doors and windows	30 years
Kitchens	20 years
Bathrooms	30 years
Heating systems	30 years
Boilers	15 years
Electrical wiring	40 years

Properties held on long leases are depreciated over their estimated useful economic lives or the lease duration if shorter.

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

Improvements

Where there are improvements to housing properties that are expected to provide incremental future benefits, these are capitalised and added to the carrying amount of the property. Any works to housing properties which do not replace a component or result in an incremental future benefit are charged as expenditure in the Statement of Comprehensive Income.

Leaseholders

Where the rights and obligations for improving a housing property reside with the leaseholder or tenant, any works to improve such properties incurred by the Association is recharged and recognised in surplus or deficit in the Statement of Comprehensive Income along with the corresponding income from the leaseholder or tenant.

Non-housing property, plant and equipment

Non-housing property, plant and equipment are stated at historic cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all non-housing property, plant and equipment, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold offices	50 Years
Furniture, fixtures & fittings	3 years
Computer equipment	3 years

Intangible assets

Intangible assets are stated at historic cost or valuation, less accumulated amortisation and any provision for impairment. Amortisation is provided on all Intangible assets, within operating expenditure, at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life, as follows:

Computer software	3 years
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Impairment of social housing properties

Properties held for their social benefit are not held solely for the cash inflows they generate and are held for their service potential.

An assessment is made at each reporting date as to whether an indicator of impairment exists. If such an indicator exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is made. Where the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in surplus or deficit in the Statement of Comprehensive Income. The recoverable amount of an asset is the higher of its value in use and fair value less costs to sell. Where assets are held for their service potential, value in use is determined by the present value of the asset's remaining service potential plus the net amount expected to be received from its disposal. Depreciated replacement cost is taken as a suitable measurement 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.

Social Housing Grant and other Government grants

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

Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset. Grants received for housing properties are recognised in income over the expected useful life of the housing property structure. Where a grant is received specifically for components of a housing property, the grant is recognised in income over the expected useful life of the component.

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

Donation or acquisition of land or other asset at below market value

Where a donation of land and/or other assets is received or land and/or other assets are acquired at below market value from a government source, this is accounted for as a non-monetary government grant. The difference between the fair value of the asset donated or acquired and the consideration paid for the asset is recognised as a government grant and included in the Statement of Financial Position as a liability.

Where a donation of land and/or other assets is received or acquisitions of land and/or other assets at below their market value from a third party that does not meet the definition of a government source the transaction is recognised as an asset in the Statement of Financial Position at fair value, taking account of any restrictions on the use of the asset and income equivalent to the difference between any amounts paid or payable for the asset and the fair value of the asset is recognised in surplus or deficit in the Statement of Comprehensive Income as a donation when future performance-related conditions are met.

Recycling of grants

Where there is a requirement to either repay or recycle a grant received for an asset that has been disposed of, a provision is included in the Statement of Financial Position to recognise this obligation as a liability. When approval is received from the funding body to use the grant for a specific development, the amount previously recognised as a provision for the recycling of the grant is reclassified as a creditor in the Statement of Financial Position.

For shared ownership staircasing sales, when full staircasing has not taken place, the recycling of the grant may be deferred if the net sales proceeds are insufficient to meet the grant obligation relating to the disposal and is not be recognised as a provision. On subsequent staircasing sales, the requirement to recycle the grant becomes an obligation if sufficient sales proceeds are generated to meet the obligation and a provision is recognised at this point.

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, any unamortised grant remaining within liabilities in the Statement of Financial Position related to this asset is derecognised as a liability and recognised as revenue in surplus or deficit in the Statement of Comprehensive Income.

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

Leased assets

At inception the Association assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

Payments under operating leases are charged to surplus or deficit in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Interest payable

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are calculated using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument and is determined on the basis of the carrying amount of the financial liability at initial recognition. Under the effective interest method, the amortised cost of a financial liability is the present value of future cash payments discounted at the effective interest rate and the interest expense in a period equals the carrying amount of the financial liability at the beginning of a period multiplied by the effective interest rate for the period.

Taxation

The Association has Charitable status for taxation purposes and is not recognised for VAT.

SHPS Accounting Policy

Defined benefit pension plan (SHPS)

The entity operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Statement of Financial Position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at the end of the reporting period (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the entity engages independent actuaries to calculate the obligation. The present value is

Arches Housing Limited

Notes to the financial statements

For the year to 31 March 2019

determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate'). The fair value of plan assets is measured in accordance with fair value hierarchy and in accordance with the entities policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in the Statement of Comprehensive Income as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the Statement of Comprehensive Income as a 'finance expense'.

Turnover

Turnover represents rent and service charges receivable (net of rent and service charge losses from voids) and disposal proceeds of current assets such as properties developed for outright sale or shared ownership first tranche sales at completion together with revenue grants from local authorities and the Homes and Communities Agency and charitable fees and donations. Service charge income is recognised when expenditure is incurred as this is considered to be the point at which the service has been performed and the revenue recognition criteria met.

Supported housing and other managing agents

Where the Association has ownership of a supported housing or other scheme but also has an agreement with a third party to manage the scheme (including Supporting People funded schemes or services), where there has been a substantial transfer of the risks and benefits attached to the scheme to the third party, any scheme revenue and expenditure is excluded from these financial statements.

Shared ownership property sales

Shared ownership properties, including those under construction, are split between non-current assets and current assets. The split is determined by the percentage of the property to be sold under the first tranche disposal which is shown on initial recognition as a current asset, with the remainder classified as a non-current asset within property plant and equipment. Where this would result in a surplus on the disposal of the current asset that would exceed the anticipated overall surplus, the surplus on disposal of the first tranche is limited to the overall surplus by adjusting the costs allocated to current or noncurrent assets.

Proceeds from first tranche disposals are accounted for as turnover in the Statement of Comprehensive Income of the period in which the disposals occur and the cost of sale is transferred from current assets to operating costs. Proceeds from subsequent tranche sales are treated as disposals of fixed assets.

Investments

Investments that are publicly traded or whose fair value can be measured reliably are measured at fair value with changes in fair value recognised in surplus or deficit in the Statement of Comprehensive Income. Other investments are measured at amortised cost less impairment.

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

Service charge sinking funds and service costs

Unutilised contributions to service charge sinking funds and over-recovery of service costs which are repayable to tenants or leaseholders or are intended to be reflected in reductions to future service charge contributions are recognised as a liability in the Statement of Financial Position. The amount included in liabilities in respect of service charge sinking funds includes interest credited to the fund. Where there has been an under-recovery of leaseholders' or tenants' variable service charges and recovery of the outstanding balance is virtually certain, the balance is recognised in the Statement of Financial Position as a trade receivable. Debit and credit balances on individual schemes are not aggregated as there is no right of set-off.

Financial instruments

Financial assets and financial liabilities are recognised when Arches becomes a party to the contractual provisions of the instrument.

Financial assets carried at amortised cost

Financial assets carried at amortised cost comprise rent arrears, trade and other receivables and cash and cash equivalents. Financial assets are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. If there is objective evidence that there is an impairment loss, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced accordingly.

A financial asset is derecognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and reward are transferred.

If an arrangement constitutes a financing transaction, the financial asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities carried at amortised cost

These financial liabilities include trade and other payables and interest bearing loans and borrowings.

Non-current debt instruments which meet the necessary conditions in FRS 102 are initially recognised at fair value adjusted for any directly attributable transaction cost and subsequently measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the Statement of Comprehensive Income. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Financing transactions – rent arrears

For rent arrears where the arrangement constitutes, in effect, a financing transaction because of extended credit arrangements the arrears are derecognised as a financial asset and a new financial asset measured at the present value of the future payments discounted at an appropriate market rate of interest. The present value adjustment is recognised in surplus or deficit in the Statement of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

Arches Housing Limited

Notes to the financial statements

For the year to 31 March 2019

2. Significant management judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant management judgements

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

Impairment of social housing properties

Arches has to make an assessment as to whether an indicator of impairment exists. In making the judgement, management considered the detailed criteria set out in the SORP.

From 1 April 2016, Arches reduced social housing rents by one per cent per annum and will continue to do so in each year until 2019/20 in accordance with Welfare Reform and Work Act 2016. Despite cost efficiency savings and other changes to Arches' business, compliance with the new rent regime has resulted in a loss of net income for certain social housing property. This is a trigger for impairment.

In accordance with paragraphs 14.43 to 14.45 of the Housing SORP 2014, Arches is required to make the following disclosure:

- (a) Judgements made in defining the CGU (cash generating unit)
- (b) Estimation technique and judgement used in measuring recoverable amount
- (c) When VIU-SP is used to estimate the recoverable amount, the key assumptions used and details of the method used.

Arches estimated the recoverable amount of its housing properties as follows:

- (a) Determined the level at which the recoverable amount is to be assessed (i.e. the individual asset level or at cash-generating unit (CGU) level. The CGU was determined to be an individual property
- (b) Estimated the recoverable amount of the CGU
- (c) Calculated the carrying amount of the CGU and
- (d) Compared the carrying amount to the recoverable amount to determine if an impairment loss had occurred.

2. Significant management judgements and key sources of estimation uncertainty (continued.)

Based on this assessment, Arches calculated the Depreciated Replacement Cost (DRC) of each social housing property scheme, using appropriate construction costs and land prices. Comparing this to the carrying amount of each scheme, there was deemed to be no increase in impairment of social housing properties. The carrying value of any associated balances are disclosed in note 12.

Capitalisation of property development costs

Amounts capitalised within works to existing properties include the cost of replacing components of housing properties. This involves judgement and estimation around areas such as which costs to include in the amount capitalised, how much cost to de-recognise as a replacement, the number of different components and their assigned useful economic lives. The carrying value of any associated balances are disclosed in note 12.

Estimation uncertainty

The Association makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Determining asset lives (housing property components)

Major components of housing properties have significantly different patterns of consumption of economic benefits and estimates are made to allocate the initial cost of the property to its major components and to depreciate each component separately over its useful economic life. The entity considers whether there are any indications that the useful lives require revision at each reporting date to ensure that they remain appropriate. The carrying value of any associated balances are disclosed in note 12.

Defined benefit pension scheme

The Association has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. The carrying value of any associated balances are disclosed in note 18.

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

3. Particulars of turnover, cost of sales, operating costs and operating surplus

	2019				
	Turnover £'000	Costs of Sales £'000	Operating Costs £'000	Other Income £'000	Operating Surplus £'000
Social Housing Lettings (Note 4)	5,893	-	4,361	-	1,532
Other social housing activities					
1 st tranche property sales	-	-	-	-	-
Charges for support services	140	-	47	-	93
Development	-	-	26	-	(26)
	<u>6,033</u>	<u>-</u>	<u>4,434</u>	<u>-</u>	<u>1,599</u>
Activities other than social housing activities	29	-	-	-	29
Surplus/(deficit) on disposal of property, plant and equipment	-	-	-	108	108
	<u>6,062</u>	<u>-</u>	<u>4,434</u>	<u>108</u>	<u>1,736</u>

	2018				
	Turnover £'000	Costs of Sales £'000	Operating Costs £'000	Other Income £'000	Operating Surplus £'000
Social Housing Lettings (Note 4)	5,806	-	4,166	-	1,640
Other social housing activities					
1 st tranche property sales	193	130	-	-	63
Charges for support services	130	-	65	-	65
Development	-	-	9	-	(9)
	<u>6,129</u>	<u>130</u>	<u>4,240</u>	<u>-</u>	<u>1,759</u>
Activities other than social housing activities	18	-	-	-	18
Surplus/(deficit) on disposal of property, plant and equipment	-	-	-	61	61
	<u>6,147</u>	<u>130</u>	<u>4,240</u>	<u>61</u>	<u>1,838</u>

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

4. Particulars of Income and Expenditure from social housing lettings

	Total 2019 £'000	Total 2018 £'000
Income		
Rents receivable	5,002	4,931
Service charge income	90	61
Amortised government grant	801	814
	<u>5,893</u>	<u>5,806</u>
Turnover from social housing lettings	<u>5,893</u>	<u>5,806</u>
Expenditure		
Service charge costs	65	53
Management	941	865
Routine maintenance	913	1,063
Planned maintenance	648	351
Bad debts	26	56
Depreciation of housing properties	1,768	1,778
	<u>4,361</u>	<u>4,166</u>
Operating costs	<u>4,361</u>	<u>4,166</u>
Operating surplus social housing lettings	<u>1,539</u>	<u>1,640</u>
	<u>1,539</u>	<u>1,640</u>
Void losses	14	13
	<u>14</u>	<u>13</u>

5. (Deficit)/surplus on disposal of property, plant and equipment

	2019 £'000	2018 £'000
Sale of subsequent tranche shared ownership properties	274	49
Costs of Sale	166	(19)
	<u>108</u>	<u>30</u>
Disposal of Rented Units	-	99
Costs of Sale	-	(68)
	<u>-</u>	<u>31</u>
Surplus/(deficit) on disposal	<u>108</u>	<u>61</u>
	<u>108</u>	<u>61</u>

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

6. Interest and financing costs

	2019	2018
	£'000	£'000
Bank loans and overdrafts	754	721
Unwinding of discounts on provisions	3	7
	<u>757</u>	<u>728</u>
	<u>=====</u>	<u>=====</u>

7. Interest receivable

	2019	2018
	£'000	£'000
Bank interest receivable	19	10
	<u>19</u>	<u>10</u>
	<u>=====</u>	<u>=====</u>

8. Surplus for the year

Surplus for the year is stated after charging/(crediting):

	2019	2018
	£'000	£'000
Depreciation of property, plant and equipment	1,768	1,799
Impairment of property, plant and equipment	-	-
Amortisation of government grants	(801)	(814)
(Surplus)/deficit on disposal of fixed assets	(108)	(61)
Audit fees:		
- Statutory audit	11	12
- Audit-related assurance services	-	-
- Tax advisory services	-	-
Operating lease rentals	5	2
	<u>=====</u>	<u>=====</u>

Arches Housing Limited
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9. Staff costs

	2019 £'000	2018 £'000
Wages and salaries	760	747
Social security costs	68	74
Other pension costs (see note 18)	57	59
	<u>885</u>	<u>880</u>
	=====	=====

The Full Time Equivalent number of staff who received emoluments, including pension contribution, in excess of £60,000 were as shown below.

	2019 Number	2018 Number
Salary Band £'000		
60,000 – 69,999	1	1
70,000 – 79,999	1	1
80,000 – 89,999	-	-

The average full time equivalent number of employees was:

	2019 Number	2018 Number
	21	20
	<u>=====</u>	<u>=====</u>

The basis of the calculation of the full time equivalents was equivalent hours. The average is measured on a monthly basis.

10. Directors' remuneration and transactions

Key management personnel remuneration

	2019 £'000	2018 £'000
Directors who are executive staff members		
Wages and salaries	141	179
Social security costs	17	22
Other pension costs	12	15
Board members		
Wages and salaries	24	14
	<u>194</u>	<u>230</u>
	=====	=====

Directors are defined as the members of the Board, the Chief Executive and any other person who is a member of the Executive Management team.

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

10. Directors' remuneration and transactions (continued)

	2019	2018
	£'000	£'000
Remuneration of the highest paid director, excluding pension contributions:		
Emoluments	75	64
	=====	=====

The Chief Executive is an ordinary member of the pension scheme. No enhanced or special terms apply. The organisation contributed £5,000 to the Chief Executives pension within the year (2018: £7,500)

Board Member remuneration

Member	Remuneration	Social Security	Total
	£	£	£
Kay Dickinson (Chair)	5,000	690	5,690
Tony Jervis (Deputy Chair)	3,500	438	3,983
Mohammed Jamil (Committee Chair)	3,000	414	3,414
Iain Campbell (Committee Chair)	2,936	405	3,341
Andrew Liles	2,000	276	2,276
Terry Gallagher	2,000	276	2,276
Ian Falconer	2,000	276	2,276
Joice Rennie	2,000	276	2,276
Ajman Ali	2,000	276	2,276
Shamsa Latif	Nil	Nil	Nil
Ken Torres	Nil	Nil	Nil

11. Intangible assets

	Computer software
	£'000
Cost	
At 1 April 2018	380
Additions	29
Disposals	-

As at 31 March 2019	409
	=====
Amortisation	
At 1 April 2018	344
Charge for the year	26
Eliminated on disposals	-

As at 31 March 2019	370
	=====
Net book value	
As at 31 March 2019	39
	=====
As at 31 March 2018	36
	=====

Arches Housing Limited
Notes to the financial statements
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12. Tangible fixed assets – housing properties

	Completed properties £'000	Completed Under construction £'000	shared ownership £'000	Total £'000
Cost				
At 1 April 2018	70,890	124	5,452	76,466
Additions	546	552	-	1,098
Schemes completed	-	-	-	-
Disposals	-	-	(179)	(179)
Components capitalised	1,060	-	-	1,060
Component disposals	(347)	-	-	(347)
	<u>72,149</u>	<u>676</u>	<u>5,273</u>	<u>78,098</u>
At 31 March 2019	<u>72,149</u>	<u>676</u>	<u>5,273</u>	<u>78,098</u>
Impairment				
At April 2018	454	-	154	608
Charge for the year	-	-	-	-
Eliminated on disposals	-	-	-	-
	<u>454</u>	<u>-</u>	<u>154</u>	<u>608</u>
At 31 March 2019	<u>454</u>	<u>-</u>	<u>154</u>	<u>608</u>
Depreciation				
At 1 April 2018	22,435	-	774	23,209
Charge for the year	1,596	-	87	1,683
Component depreciation written back	(263)	-	-	(263)
Eliminated on disposals	-	-	(21)	(21)
	<u>23,768</u>	<u>-</u>	<u>840</u>	<u>24,608</u>
At 31 March 2019	<u>23,768</u>	<u>-</u>	<u>840</u>	<u>24,608</u>
Net book value				
At 31 March 2018	<u>47,927</u>	<u>676</u>	<u>4,279</u>	<u>52,882</u>
At 31 March 2019	<u>48,001</u>	<u>124</u>	<u>4,524</u>	<u>52,649</u>

Freehold land and buildings with a carrying amount of £41,989,000 (2018: £35,017,000) have been pledged to secure borrowings of the Association. The Association is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

13. Property, plant and equipment - other

	Freehold offices £'000	Furniture Fixtures and fittings £'000	Total £'000
Association			
Cost			
At 1 April 2018	597	225	822
Additions	6	33	39
	=====	=====	=====
At 31 March 2019	603	258	861
	=====	=====	=====
Depreciation			
At 1 April 2018	183	218	401
Charge for the year	12	6	18
	=====	=====	=====
At 31 March 2019	195	224	419
	=====	=====	=====
Net book value			
At 31 March 2019	408	34	442
	=====	=====	=====
At 31 March 2018	414	7	421
	=====	=====	=====

Freehold land and buildings are held at cost.

14. Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Rent arrears	220	203
Provision for bad debts	(143)	(128)
Other debtors	10	10
Prepayments and accrued income	149	158
	=====	=====
	236	243
	=====	=====

The net present value adjustment to arrears subject to repayment plans is not material when calculated.

Arches Housing Limited
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For the year to 31 March 2019

15. Current asset investments

	2019	2018
	£'000	£'000
Unlisted investments – at cost less impairment	4,359	2,354
	<u>4,359</u>	<u>2,354</u>
	=====	=====

16. Creditors – amounts falling due within one year

	2019	2018
	£'000	£'000
Housing loans (see note 18)	525	548
Rents received in advance	227	170
Trade creditors	367	106
Other taxation and social security	20	24
Growth Plan Pension deficit provision	31	80
Government grants	838	822
Accruals and deferred income	172	377
	<u>2,180</u>	<u>2,127</u>
	=====	=====

17. Creditors – amounts falling due after more than one year

	2019	2018
	£'000	£'000
Other creditors		
Loans	19,204	17,762
Sinking funds	19	17
Bond premium	575	583
Recycled Grant Fund (RCGF) - National	319	413
Recycled Grant Fund (RCGF) – Rotherham MBC	63	64
Growth Plan Pension deficit provision	155	171
Deficit funding liability	-	258
Government grants	23,076	23,235
Recycled other grants	10	10
	<u>43,421</u>	<u>42,513</u>
	=====	=====

The loans are secured on freehold housing properties. Interest is payable at between 0.7% and 12.25%.

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

17. Creditors – amounts falling due after more than one year (continued)

The total accumulated amount of capital grant received or receivable at the balance sheet date is £41,534,728 (2018: £40,973,335).

	2019	2018
	£'000	£'000
Deferred income - Government grants		
At 1 April	24,131	24,311
Grants receivable	657	634
Amortisation to Statement of Comprehensive Income	(801)	(814)
	<u>23,987</u>	<u>24,131</u>
At 31 March	23,987	24,131
Due within one year	838	822
Due after one year	<u>23,149</u>	<u>23,309</u>
	2019	2018
	£'000	£'000
Recycled Capital Grant Fund		
At 1 April	413	372
Inputs to RCGF	36	41
Recycling of grant	(130)	-
Interest accrued	-	-
	<u>319</u>	<u>413</u>
At 31 March	319	413

There are no amounts which are outstanding for three or more years or otherwise potentially due for repayment to the Homes England.

Borrowings are repayable as follows:

	2019	2018
	£'000	£'000
Bank loans		
Between one and two years	539	525
Between two and five years	1,591	1,608
After five years	17,146	15,629
Set up costs	(72)	-
	<u>19,204</u>	<u>17,762</u>
On demand or within one year	525	548
	<u>19,729</u>	<u>18,310</u>

The Association does not hold any finance leases.

18. Retirement benefit schemes

Defined contribution schemes

The company participates in the scheme, a multi-employer scheme which provides benefits to some 950 non-associated participating employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore, it accounts for the scheme as a defined contribution scheme.

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

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

A full actuarial valuation for the scheme was carried out at 30 September 2017. This valuation showed assets of £794.9m, liabilities of £926.4m and a deficit of £131.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

From 1 April 2019 to 31 January 2025: £11,243,000 per annum (payable monthly and increasing by 3% each on 1st April)

Unless a concession has been agreed with the Trustee the term to 31 January 2025 applies.

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2014. This valuation showed assets of £793.4m, liabilities of £969.9m and a deficit of £176.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

From 1 April 2016 to 30 September 2025: £12,945,440 per annum (payable monthly and increasing by 3% each on 1st April)

From 1 April 2016 to 30 September 2028: £54,560 per annum (payable monthly and increasing by 3% each on 1st April)

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the Series 1 and Series 2 scheme liabilities.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Arches Housing Limited
Notes to the financial statements
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18. Retirement benefit schemes (Continued)

Present value of provision

	2019 £'000	2018 £'000	2017 £'000
Present value of provision	185	196	221

Reconciliation of opening and closing provisions

	2019 £'000	2018 £'000
Provision at start of period	196	221
Unwinding of the discount factor (interest expense)	3	3
Deficit contribution paid	(25)	(25)
Remeasurements - impact of any change in assumptions	2	(3)
Remeasurements - amendments to the contribution schedule	9	-
Provision at end of period	185	196

Income and expenditure impact

	2019 £'000	2018 £'000
Interest expense	3	3
Remeasurements – impact of any change in assumptions	2	(3)
Remeasurements – amendments to the contribution schedule	9	-
Costs recognised in income and expenditure account	14	-

Assumptions

Rate of discount	1.39	1.71	1.32
------------------	------	------	------

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

18. Retirement benefit schemes (Continued)

Defined contribution schemes

The Pensions Trust – Social Housing Pension Scheme

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

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

The last triennial valuation of the scheme for funding purposes was carried out at 30th September 2017. This valuation was carried out as at 30th 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 entity is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

For prior financial years, it has not been possible for the entity to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the entity has accounted for the Scheme as a defined contribution scheme.

For the financial year ending 31 March 2019, it is possible to obtain sufficient information to enable the entity to account for the Scheme as a defined benefit scheme. Prior to this, it was not possible to obtain sufficient information to account for the scheme as a defined benefit scheme. Therefore, the association previously accounted for the Scheme as a defined contribution scheme and a liability was recognised on the Statement of Financial Position equating the present value of the deficit payments to be made.

Initial recognition

	2018 £'000
SHPS pension deficit funding liability	320
SHPS pension defined benefit liability	(569)
Initial recognition of multi-employer defined benefit scheme	(249)

Arches Housing Limited
Notes to the financial statements
For the year to 31 March 2019

18. Retirement benefit schemes (Continued)

Present Values of Defined Benefit Obligation, Fair Value of Assets and Defined Benefit Asset (Liability)

	2019 £'000	2018 £'000
Fair value of plan assets	2,163	1,851
Present value of defined benefit obligation	2,935	2,420
Surplus (deficit) in plan	(772)	(569)
Unrecognised surplus	-	-
Defined benefit asset (liability) to be recognised	(772)	(569)

Reconciliation of The Impact of the Asset Ceiling

	2019 £'000
Impact of asset ceiling at start of period	-
Effect of the asset ceiling included in net interest cost	-
Actuarial losses (gains) on asset ceiling	-
Impact of asset ceiling at end of period	-

Reconciliation of Opening and Closing Balances of the Defined Benefit Obligation

	2019 £'000
Defined benefit obligation at start of period	2,420
Current service cost	73
Expenses	4
Interest expense	63
Contributions by plan participants	30
Actuarial losses (gains) due to scheme experience	191
Actuarial losses (gains) due to changes in demographic assumptions	8
Actuarial losses (gains) due to changes in financial assumptions	219
Benefits paid and expenses	(73)
Liabilities acquired in a business combination	-
Liabilities extinguished on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Exchange rate changes	-
Defined benefit obligation at end of period	2,935

18. Retirement benefit schemes (Continued)

Reconciliation of Opening and Closing Balances of the Fair Value of Plan Assets

	2019
	£'000
Fair value of plan assets at start of period	1,851
Interest income	49
Experience on plan assets - gain (loss)	208
Contributions by the employer	98
Contributions by plan participants	30
Benefits paid and expenses	(73)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rate changes	-
Fair value of plan assets at end of period	2,163

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £257,000

Defined Benefit Costs Recognised in Statement of Comprehensive Income (SOCl)

	2019
	£'000
Current service cost	73
Expenses	4
Net interest expense	14
Losses (gains) on business combinations	-
Losses (gains) on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Defined benefit costs recognised in statement of comprehensive income	91

Defined Benefit Costs Recognised in Other Comprehensive Income

	2019
	£'000
Experience on plan assets- gain (loss)	208
Experience gains and losses arising on the plan liabilities - gain (loss)	(191)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	(8)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	(219)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	(210)
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in other comprehensive income - gain (loss)	(210)

Arches Housing Limited
Notes to the financial statements
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18. Retirement benefit schemes (Continued)

Assets

	2019 £'000	2018 £'000
Absolute Return	187	226
Alternative Risk Premia	125	70
Corporate Bond Fund	101	76
Credit Relative Value	40	-
Distressed Opportunities	39	18
Emerging Markets Debt	75	75
Fund of Hedge Funds	10	61
Global Equity	364	366
Infrastructure	113	47
Insurance-Linked Securities	62	49
Liability Driven Investment	791	674
Long Lease Property	32	-
Net Current Assets	4	2
Over 15 Year Gilts	-	-
Private Debt	29	16
Property	49	85
Risk Sharing	65	17
Secured Income	77	69
Total assets	2,163	1,851

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

Key Assumptions

	31 March 2019 % per annum	31 March 2018 % per annum
Discount Rate	2.33	2.60
Inflation (RPI)	3.28	3.15
Inflation (CPI)	2.28	2.15
Salary Growth	3.28	3.15

Allowance for commutation of 75% of maximum allowance 75% of pension for cash at retirement maximum allowance

18. Retirement benefit schemes (Continued)

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

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

Analysis of The Sensitivity to The Principal Assumptions of the Present Value of the Defined Benefit Obligation

	Change in assumption	Change in liabilities	Impact on Liability £'000
Discount rate	Increase of 0.1% p.a.	Decrease by 2.0%	(58.7)
Rate of inflation	Increase of 0.1% p.a.	Increase by 2.1%	61.6
Rate of salary growth	Increase of 0.1% p.a.	Increase by 0.2%	5.9
Rate of mortality	Probability of surviving each year increased by 10%	Increase by 2.3%	67.5

Arches Housing Limited**Notes to the financial statements**

For the year ended 31 March 2019

19. Share capital

	2019	2018
	£	£
At beginning of year	28	27
Issued during the year	-	6
Reclaimed in the year	(18)	(5)
	<u>-----</u>	<u>-----</u>
At end of year	10	28
	<u>=====</u>	<u>=====</u>

Each share has a nominal value of £1.

The shares provide members with the right to vote at general meetings but do not have a right to any dividend or distribution in a winding-up, and are not redeemable.

20. Net cash generated from operating activities

	2019	2018
	£'000	£'000
Cash flow generated from operating activities		
Surplus for the year	539	1,120
Adjustment for non-cash items:		
Depreciation of property, plant and equipment	1,727	1,799
Amortisation of intangible assets and government grants	(801)	(814)
(Increase)/decrease in Stock and Work in progress	-	179
(Increase) in debtors	7	67
(Decrease)/increase in creditors	623	(180)
Increase/(decrease) in provisions	2	1
Pension costs less contributions payable	(65)	(84)
Carrying amount of property, plant & equipment disposals	(32)	(67)
Impairment loss on property, plant and equipment	-	-
RCGF written off to Revenue	(95)	37
Interest payable	749	715
Interest received	(19)	(10)
	<u>-----</u>	<u>-----</u>
Cash generated by operations	2,635	2,763
	<u>=====</u>	<u>=====</u>
 Cash and cash equivalents		
Cash at bank and in hand	263	246
	<u>=====</u>	<u>=====</u>

21. Analysis of changes in net debt

	at 1 Apr	Cash flows	Other changes	at 31 Mar
	£'000	£'000	£'000	£'000
Cash	246	17	-	263
Debt due < 1 year	(548)	23	-	(525)
Debt due > 1 year	(17,762)	(1,442)	-	(19,204)
Current asset investments	2,354	2005	-	4,359
Total	(15,710)	603	-	(15,107)

22. Financial commitments

Capital commitments are as follows:

	2019 £'000	2018 £'000
Contracted for but not provided for	6,244	5,454
Approved by the directors but not contracted for	7,153	1,183
	13,397	6,637

These commitments are to be funded by a mixture of existing funds and new borrowings.

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2019 £'000	2018 £'000
Payments due:		
- within one year	5	3
- between one and five years	7	29
- after five years	-	-
	12	32

23. Units of housing stock

Owned and managed	2018	Purchased	Staircased out	2019
General needs housing	699	-	-	699
Housing at affordable rent	345	10	-	355
Housing at intermediate rent	3	-	-	3
Supported housing accommodation	48	-	-	48
Shared ownership accommodation	86	-	(3)	83
Housing for older people	12	-	-	12
	1,193	10	(3)	1,200

Arches Housing Limited

Notes to the financial statements

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24. Contingent commitments

In the prior year Arches Housing Limited entered into a stock transaction with another social landlord. Housing properties with a fair value of £586,000 were received in exchange for a cash payment. This transaction includes the transfer of the original government grant funding of £1,171,000 which has an obligation to be recycled in accordance with the original grant funding terms and conditions. Arches Housing Limited is responsible for the recycling of the grant in the event of the housing properties being disposed.

25. Related party transactions

There were no related party transactions carried out in the current year or prior year