Arches Housing Limited

Annual Report and Financial Statements

For the year ended 31 March 2020

Registered Number: 21451R

Arches Housing Limited
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Arches Housing Limited
The Board, Executives and Advisors

Board of Management

Kay Dickinson – Chair	
Ian Falconer – Deputy Chair	(appointed as Deputy Chair 16 September 2019)
Ajman Ali	
Lisa Bradley	(Joined 16 September 2019)
Andrea Brough	(Co-opted 16 September 2019)
Iain Campbell	
Terry Gallagher	
Brian Hamlin	(Co-opted 21 October 2019)
Mohammed Jamil	
Tony Jervis	(Resigned as Deputy Chair 16 September 2019)
Shamsa Latif	(Resigned 29 April 2019)
Andrew Liles	
Joice Rennie	

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 principles 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 2019 - 24:

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

- 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 52% of our tenants are from ethnic minority communities.

Key achievements in 2019/20 include:

- Achieved G1/V1 rating from the Regulator of Social Housing (RSH), the highest rating for governance and financial viability, following an in-depth assessment (IDA) review by the regulator in late 2019 and early 2020.
- Agreed a new £10M loan facility with Triodos Bank, the second stage of our treasury review that began in 2018.
- Delivered 31 new properties into ownership, completed the sale of 11 shared ownership properties.
- Invested a total of £2,631,000 (2018/19: £2,621,000) in property maintenance and improvements to deliver the second year of the three year Arches Home Standard programme.
- Continuing strong operational performance including overall satisfaction with Arches' services increasing by 4 percentage points to 89% and minimising void loss at 0.33%.
- Ongoing compliance with all areas of property health and safety – gas servicing, electrical testing, fire risk assessments, water hygiene assessments and asbestos management.

- Successful completion of strategic review of maintenance services and procurement of long term contracts to ensure value and resilience for the delivery of repairs to our residents.
- Concluded job evaluation and pay review for staff and implemented new pay structure.

Summary of Annual Results

Statement of Comprehensive Income	**2019/20 £'M**	**2018/19 £'M**
Turnover	6.2	6.1
Operating Surplus	1.8	1.7
Surplus for the year before taxation	1.1	1.0

Statement of Financial Position	**2019/20 £'M**	**2018/19 £'M**
Fixed Assets	57.2	53.4
Net Current Assets	1.2	2.7
Long term creditors	45.0	44.1
Reserves	13.5	11.8

Accommodation (units)	**2019/20**	**2018/19**
Total owned and managed	1,229	1,200

Ratios	**2019/20**	**2018/19**
Operating Margin	28.6%	28.6%
Covenant Interest Cover	2.05	2.16
Covenant Net worth Gearing*	44%	38%
Covenant Historic cost Gearing	27%	25%

*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

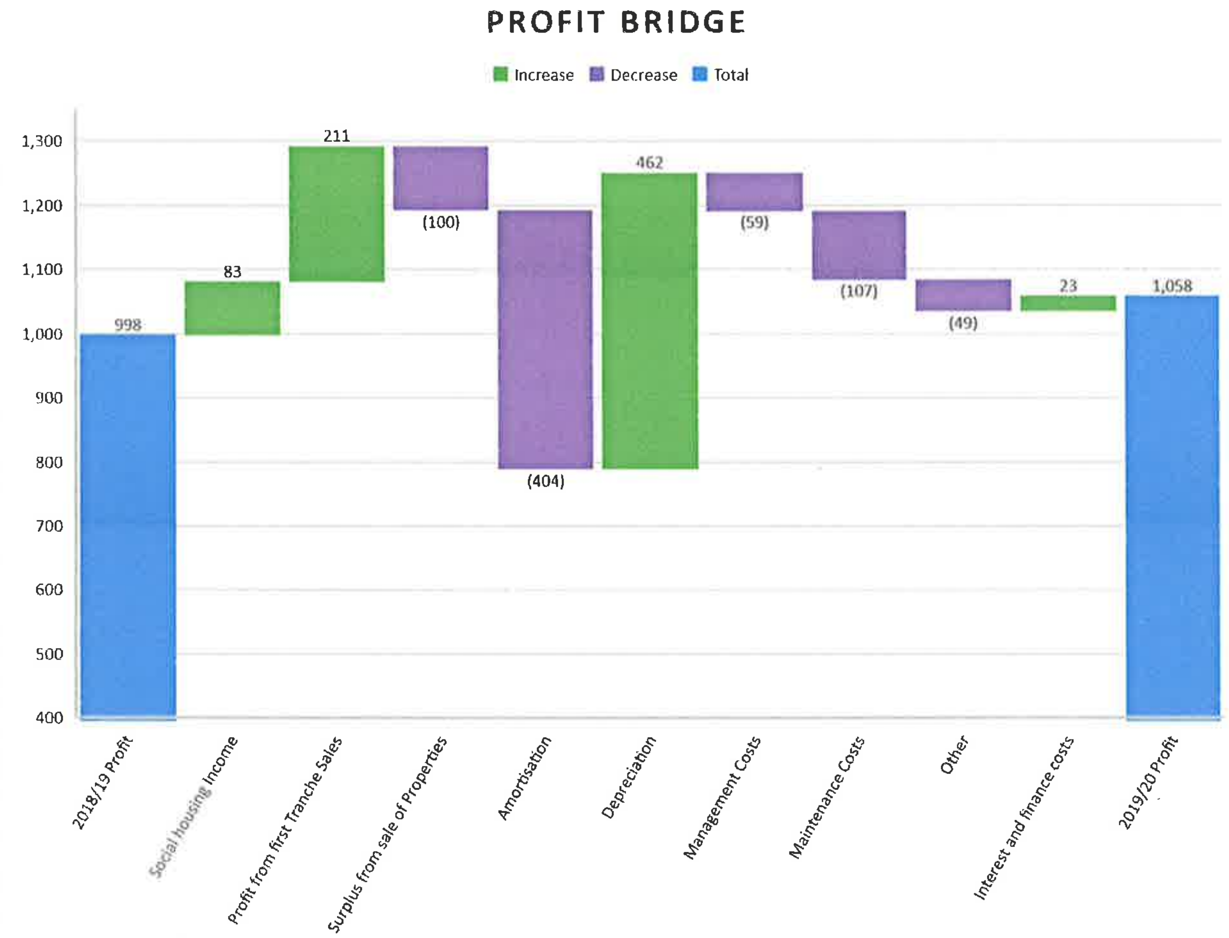
Arches has had another year of strong financial performance. Operating surplus and total surplus for the year both increased from the prior year. The graph below shows the primary movements in income and expenditure from the prior year.

Turnover continued to grow, despite the final year of the 1% rent reduction on our general needs housing stock. Predominantly the increase is due to the sale of the first tranche of 11 Shared Ownership properties in the year. Surplus from sale of existing properties has decreased as less staircasing of shared ownership properties has occurred in the year.

Our Amortisation of government grants, as well as our depreciation charge, has decreased from the prior year due to reassessment of the useful economic life of fabric, which has changed from 50 years to 80 years to better reflect the life of our stock.

Management costs have increased with additional posts being created during the year to help achieve our ambitious delivery plan. Maintenance costs have increased as severe flooding in the winter increased repairs costs.

Finance costs have reduced due increased capitalisation of financing expenditure as our spending on new homes has increased significantly.



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 risk-based scenarios.

Going Concern

Arches is affected by uncertainty from government policy, economic factors and the regulatory environment. These include the impact of Brexit and now the consequences of the COVID-19 pandemic. Despite all of this, the Association continues to deliver a healthy annual turnover and growth in property numbers. Our long-term financial plan has been created to provide flexibility and resilience to address challenges in the operating environment and retain headroom to deal with any negative impacts as they occur.

Stress testing of the long-term financial plan informs us of the combination of factors that could present extreme circumstances for the Association. Additionally, the Board has approved a Resilience Plan that includes agreed golden rules, triggers and operational responses to ensure a planned approach to any recovery. Our risk management activities provide a thorough review of all of our strategic risks (including financial ones) and enable the Association to develop strategies to mitigate the impact should risks crystallise.

On this basis the Board of Arches has every 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.

Impact of COVID-19

Officers have identified the financial repercussions of COVID-19 as a strategic risk as economic disruption can adversely impact on financial capacity. The financial consequences of the COVID-19 crisis are regularly reviewed and quantified, based on the latest available data. We have further developed our internal controls and sources of assurance and strengthened them to mitigate the impact of the risk.

Since the outset of the crisis officers have undertaken weekly reviews of rent collection and presented four weekly briefings to the Board assessing the current, and potential, outcomes of the crisis. These reports have included scenario modelling using current and projected income data. In each scenario we have demonstrated that our financial performance will remain sufficiently robust to ensure that there is no significant impact on our loan covenants.

Investing in the future

Our Delivery Plan for 2020/21 includes:

Putting customers at the heart of what we do:

- Implement the Arches Service Standard following the conclusion of the Big Conversation with residents in 2019
- Complete a redesign of systems to improve our income collection processes
- As part of our Better Ways of Working strategy, carry out an upgrade of our finance systems

Providing homes that people want to live in:

- Following the procurement exercises completed in 2019/20, effect the new repairs and maintenance partnering arrangements across responsive and planned maintenance and electrical contractors
- Deliver Year 3 of the Arches Home Standard
- Identify asset health and safety implications from the Hackitt Review and implement an action plan for Arches

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

- Deliver 50 properties into management including 13 shared ownership properties
- Secure a development pipeline for 2021/22 of at least 40 properties

Maintaining a sustainable and balanced business model:

- Undertake a treasury optimisation and compliance assurance review
- Deliver Year 3 of our VfM Strategy
- Review the business impact of the Green retrofit agenda and model costs of future energy efficiency works programmes

Being a well-run organisation:

- Implement the recommendations of the employment contract terms and conditions review
- Complete implementation of a new HR and payroll system
- Complete annual IIP review and prepare action plan for 2021 triennial review
- Move ICT systems to a hosted server environment and move existing applications to the Cloud
- Replace telephony system with virtual VOIP technology solution

Key Performance Indicators

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

Key Performance Indicators	2019/20	2018/19	Target
Property Turnover (%)	7.12%	7.32%	8.50%
Average Re-let Time (days)	12.8	13.7	13.0
Void Rent Loss (%)	0.33%	0.31%	0.32%
Rent Collection as a % of Rent Charged	101.0 %	101.3%	100.5%
Overall Customer Satisfaction	88.55%	85.31%	86.00%
Arrears as a % of Annual Rent – Current and former tenants	4.2%	3.9%	3.9%

As can be seen, 2019/20 was another strong year for the Association in terms of its operational performance. Operational performance has remained strong with all performance targets meeting or exceeding target, except Arrears as a % of the annual rent charged. Property turnover continues to decrease and we expect this to continue into 2020/21 and future targets will reflect this trend. Customer satisfaction has increased significantly 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 the requirement to link 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 regulator metrics are:

- Reinvestment %
- New supply delivered %
- Gearing %

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

In addition, Arches has added two more metrics:

- Customer satisfaction
- Rent as Value for Money

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 the experience of our customer by implementing the better ways of working strategy

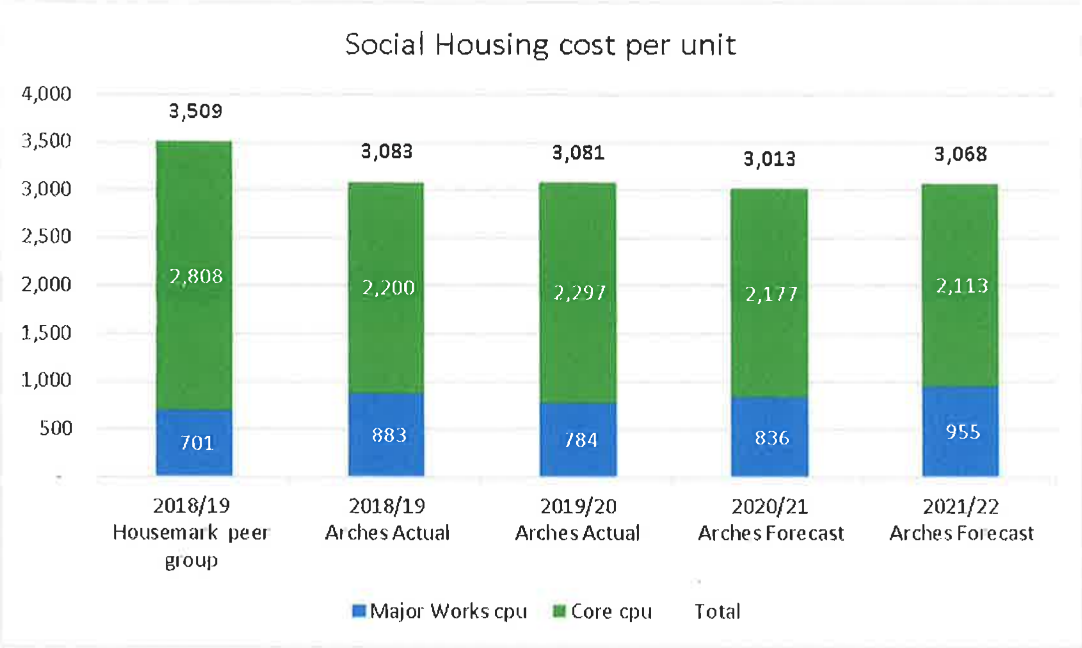
Our overarching VfM objectives for 2018/19 – 2020/21 are:

1. Keep total social housing cost per unit (CPU) below peer group median – *ensuring overall costs are kept down*
2. Maintain 'core' CPU (ie costs not investing in stock) at the same or reduced level - *producing real terms savings on central costs*
3. Maintain major works CPU above peer group median, in line with the Arches Home Standard programme – *prioritising spend on improving our properties*
4. Add 40 new properties per year to our stock, as per Arches Growth Strategy – *prioritising spend on new properties*
5. Increase customer satisfaction – *keeping customers at the heart of what we do*

2019/20 performance against overarching VfM objectives

1. The overall cost per unit is £3,081, £428 below the 2019/20 peer group median. We have been able to maintain below median cost per unit whist still investing heavily in the Arches Standard investment program. We are projecting that we will remain below this median for the next two years.
2. Our 'Core CPU' is up £97 per unit on the prior year an increase of 4.4%, this was more than we were expecting as we did not handover as many units in the year as we had planned. Our 'Lordons Hotel' development of 15 units was delayed to severe weather. These figures can be seen in the graph below.
3. Our 'major works cpu' is £784, £83 above the peer group median. Again we are projecting to continue to invest in our existing stock at a rate above our peer group median. This is a concerted effort to spend on improving our properties.
4. We delivered 31 new homes in the 2019/20 year, 15 anticipated homes at our 'Lordons Hotel' development were delayed until 2020/21. We are now forecasting to deliver 50 new homes in the 2020/21 year.
5. Customer satisfaction for the year was 88.55%, 1.55% above our target and up from 85.31% last year. This is due to increased activity in customer engagement and the Arches Standard investment.

Cost per Unit graph



Value for Money Metrics

	VfM finance metrics	2018/19 Housemark peer group (median)	2018/19 Arches Actual	2019/20 Arches Actual	2020/21 Arches Forecast	2021/22 Arches Forecast	Target
1	Reinvestment% (including development spend)	5.06%	4.08%	10.05%	10.31%	3.99%	>8%
2	New social housing units supply delivered %	1.22%	0.83%	2.52%	4.71%	1.60%	>3.3%
3	Gearing %	41.09%	36.81%	38.82%	40.27%	38%	35%
4	Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %	186%	205%	219%	212%	228%	>198%
5	Headline social housing cost per unit	£3,509	£3,083	£3,081	£3,103	£3,068	<£3,291
6a	Operating Margin (social housing lettings only)	26.98%	26.12%	25.21%	28.61%	23.02%	>24%
6b	Operating Margin (overall)	23.62%	26.86%	28.34%	29.04%	24.80%	>25%
7	Return on capital employed (ROCE)	3.37%	3.10%	3.00%	2.76%	2.57%	>3%

	Arches Metrics						
8	Customer Satisfaction	84.34%	85.31%	88.55%	89.00%	89.00%	87.00%
9	Rent as Value for Money	87.85%	90.48%	91.49%	91.00%	91.00%	91.00%

Metrics commentary

The targets presented were agreed when the Value for Money Strategy was approved. The forecasted figures represent the outturn of the 2020/21 budget. Our peer group is northern based traditional housing associations.

1) Our reinvestment in both existing stock and development schemes has increased significantly from the prior year. Our growth plan is is beginning to be realised with the addition of 31 units and the second year of the Arches Standard has delivered the anticipated increase in our works to existing stock. We expect to maintain this level of reinvestment into 2020/21 which will keep our reinvestment figure above the 8% target and our peer group.

2) Our target is to develop 40 homes a year. This was not achieved as poor weather over the winter months delayed a general needs scheme of 15 units into 2020/21. Due to this delay we are now forecasting to exceed the target next year by a considerable margin. Our performance for this year places us above our peer group median, which demonstrates our ambitious growth plan.

3) We have increased our borrowings, with the addition of a new facility in the year in order to fund our ambitious growth plan. This has impacted our gearing as our loan balance has increased, without this funding yet being turned into assets. We anticipate that we will increase our gearing over the next few years as we continue to fund the growth plan.

4) The EBITDA MRI has improved from the prior year as a result of our improved operating surplus. We anticipate finance costs will grow going forward as additional loans facilities are drawn down, this will cause a reduction next year, we still expect to outperform our target and the peer group median.

5) The Social Housing cost per unit has remained stable from the prior year. This was the second year of the Arches Standard, and therefore our spend on Major Repairs is high, in a historical context. We anticipate these costs will continue into year three of the Arches Standard. Even with this increased investment we are still delivering a below peer group median cost per unit.

6) Overall Operating Margin has increased with the improved surplus, primarily due to the increase sales of first tranche shared ownership properties. Operating Margin for social housing lettings does not include these sales and so has reduced from the prior year, as would be expected with the 1% rent reduction. The peer group figure is based on the prior year rent formula and so is not a direct comparative. With the new rent settlement we anticipate this metric to increase in 2020/21.

7) Our overall operating surplus has increased slightly, but our asset base has increased at a higher rate, causing our ROCE to fall from the prior year, but it remains below the peer group median. As our development programme increases we anticipate a lag of 2-3 years in realising the return on this investment. We anticipate that our ROCE will fall again next year and may be below target, however over time we expect it to increase toward the peer group median.

8) Customer satisfaction has continued to improved and is up 3% on the prior year. This is a direct 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 87%. The forecasted figure of 89% is the operations target for 2020/21.

9) Rent as Value for Money is also above target in the year and remains higher than the peer group median. The forecasted figure of 91% is the operations target for 2020/21.

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:

Review of 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, 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 Assurance committee.

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

Assurance from external advisors – The Audit and Risk Assurance Committee and Board commission assurance reports from specialist advisors. These reports, with the internal audit programme, form the annual assurance plan;

External audit assurance – the work of the external auditor provides some further independent assurance of the internal control environment, as described its 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 Assurance Committee and the Board consider this letter.

The preparation and monitoring of budgets and long-term financial plans. The Board reviews performance throughout the year and the reports it recives 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. The Board reviews its risk appetite periodically.

The Executive team regularly reviews 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 defense" 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 which facilitates a comprehensive overview of risk management. The system 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, the Regulator of Social Housing (RSH) engaged with the Association to undertake a detailed in-depth assessment of the Associations compliance with its Governance and Financial Viability Standards. The process was concluded in March 2020, when the RSH graded the Association G1/V1, which is the highest grading for Governance and Financial Viability that the RSH can award. This has provided the Board with external assurance that the Association is compliant with the RSH Governance and Financial Viability Standards.

Board

A Board of twelve non-executive directors currently governs the Association, with day to day management delegated to the Executive team. Ten members hold one fully paid up £1 share in the Association and two members are currently Co-opted onto the Board.

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

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

Audit and Risk Assurance 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 internal and external 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 to make recommendations to the Board. It is also to scrutinise new funding proposals and to 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 arrangements.

Attendance

A register of attendance for the Board and committees is maintained to ensure that members are committing sufficient time to allow them to be effective in their roles. Attendance for the Board for 2019/20, taking account of their appointment and resignation dates is set out below:

Member	Attendance 2019/20
Ajman Ali	73%
Andrea Brough	86%
Andrew Liles	91%
Iain Campbell	91%
Ian Falconer	64%
Brian Hamlin	83%
Joice Rennie	91%
Kay Dickinson	91%
Lisa Bradley	100%
Mohammed Jamil	75%
Shamsa Latif	0%
Terry Gallagher	77%
Tony Jervis	100%

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 has 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.

Arches Housing Limited
Statement of responsibilities of the Board of Management

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:

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Kay Dickinson

Chair

Date: 20 JULY 2020

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 2020 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 2020 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.

Emphasis of matter – Going concern and the impact of the COVID -19 outbreak on the financial statements

In forming our opinion on the financial statements, which is not modified, we draw your attention to the Board's view on the impact of the COVID-19 as disclosed on page 7, and the consideration in the going concern basis of preparation on page 23.

During the latter part of the financial year, there has been a global pandemic from the outbreak of COVID -19. The potential impact of COVID -19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK.

The impact of COVID -19 is still evolving and, based on the information available at this point in time, the Board has assessed the impact of COVID -19 on the business and reflected the Board's conclusion that adopting the going concern basis for preparation of the financial statements is appropriate

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

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company'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."

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.

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

Mazars LLP

Chartered Accountants and Statutory Auditor

45 Church Street

Birmingham

B3 2RT

Date: 14 AUGUST 2020

Arches Housing Limited
Statement of Comprehensive Income
For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Turnover	3	6,209	6,062
Operating expenditure	3	(4,442)	(4,434)
Surplus on disposal of property, plant and equipment	5	8	108
Operating surplus		1,775	1,736
Interest receivable	7	17	19
Interest and financing costs	6	(734)	(757)
Surplus before tax		1,058	998
Taxation		-	-
Surplus for the year	8	1,058	998
Other comprehensive income			
Actuarial gains and losses on multi- employer defined benefit scheme	18	565	(210)
Initial recognition of multi- employer defined benefit scheme		-	(249)
Total comprehensive income for the year		1,623	539

Arches Housing Limited
Statement of Financial Position
At 31 March 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Intangible assets	11	58	39
Housing properties	12	56,697	52,882
Other property, plant and equipment	13	451	442
		57,206	53,363
Current assets			
Stock	14	136	-
Debtors	15	202	236
Investments	16	2,512	4,359
Cash		611	263
		3,461	4,858
Creditors: Amounts falling due within one year	17	(1,700)	(2,180)
Net current assets		1,761	2,678
Total assets less current liabilities		58,967	56,041
Creditors: Amounts falling due after more than one year	18	(45,288)	(43,421)
Defined benefit pension liability	19	(208)	(772)
Net assets		13,471	11,848
Capital and reserves			
Share capital	20	-	-
Revenue reserve		13,471	11,848
Total reserves		13,471	11,848

The financial statements of Arches Housing Limited were approved by the Board on 20 July 2020 and signed on its behalf by:

Kay Dickinson	**Ian Falconer**	**John Hudson**
Chair	Deputy Chair	Company Secretary

Arches Housing Limited
Statement of Changes in Reserves
For the year ended 31 March 2020

	Income and expenditure reserve 2020 £'000	Income and expenditure reserve 2019 £'000
At 1 April	11,848	11,309
Surplus for the year	1,058	998
Other comprehensive income	565	(459)
At 31 March	13,471	11,848

Arches Housing Limited
Statement of Cash Flows
For the year to 31 March 2020

	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Net cash generated from operating activities	21		2,590		2,635
Cash flows from investing activities					
Purchase of property, plant and equipment		(5,491)		(2,226)	
Proceeds from sale of property, plant and equipment		219		274	
Grants received		-		658	
Grants paid		(45)		-	
Interest received		17		19	
Net cash flows from investing activities			(5,300)		(1,275)
Cash flows from financing activities					
Interest paid		(734)		(757)	
Decrease/(increase) in deposits		1,847		(2,005)	
New loans		2,500		2,000	
Repayments of borrowings		(555)		(581)	
Net cash flows from financing activities			3,058		(1,343)
Net increase in cash and cash equivalents			348		17
Cash and cash equivalents at beginning of year			263		246
Cash and cash equivalents at end of year			611		263

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.

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

Going Concern
Arches is affected by uncertainty from government policy, economic factors and the regulatory environment. Stress testing of the long-term financial plan informs us of the combination of factors that could present extreme circumstances for the Association. Additionally, the Board has approved a Resilience Plan that includes agreed golden rules, triggers and operational responses to ensure a planned approach to any recovery. Our risk management activities provide a thorough review of all of our strategic risks (including financial ones) and enables the Association to develop strategies to mitigate the impact should risks crystallise.

On this basis the Board of Arches has every expectation that the Association has adequate resources to continue as a going concern.

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.

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	80 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.

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

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.

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 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.

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.

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 continued 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 to14.45 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.

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

2020

	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Other Income £'000	Operating Surplus £'000
Social Housing Lettings (Note 4)	5,572	-	4,137	-	1,435
Other Social Housing activities					
1st tranche property sales	470	259	-	-	211
Charges for support services	152	-	25	-	127
Developments	-	-	21	-	(21)
	6,194	259	4,183	-	1,752
Activities other than social housing activities	15	-	-	-	15
Surplus on disposal of property, plant and equipment	-	-	-	8	8
	6,209	259	4,183	8	1,775

2019

	Turnover £'000	Cost 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					
1st tranche property sales	-	-	-	-	-
Charges for support services	140	-	47	-	93
Developments	-	-	26	-	(26)
	6,033	-	4,434	-	1,599
Activities other than social housing activities	29	-	-	-	29
Surplus on disposal of property, plant and equipment	-	-	-	106	106
	6,062	-	4,434	106	1,736

4. Particulars of Income and Expenditure from social housing lettings

	Total 2020 £'000	Total 2019 £'000
Income		
Rents receivable	5,058	5,002
Service charge income	109	90
Amortised government grant	405	801
Turnover from social housing lettings	5,572	5,893
Expenditure		
Service charge costs	115	65
Management	1,000	941
Routine maintenance	1,366	913
Planned maintenance	302	648
Bad debts	48	26
Depreciation of housing properties	1,306	1,768
Operating costs	4,137	4,361
Operating surplus social housing lettings	1,435	1,539
Void losses	11	14

5. Surplus on disposal of property, plant and equipment

	2020 £'000	2019 £'000
Sale of subsequent tranche shared ownership properties	59	274
Costs of Sale	(57)	(166)
	2	108
Other disposal proceeds	7	-
Costs of Sale	(1)	-
	6	-
Surplus on disposal	8	108

6. Interest and financing costs

	2020 £'000	2019 £'000
Bank loans and overdrafts	823	754
Unwinding of discounts on provisions	2	3
Capitalised Interest	(91)	-
	734	757

7. Interest receivable

	2020 £'000	2019 £'000
Bank interest receivable	17	19
	17	19

8. Surplus for the year

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

	2020 £'000	2019 £'000
Depreciation of property, plant and equipment	1,360	1,768
Impairment of property, plant and equipment	-	-
Amortisation of government grants	(405)	(801)
(Surplus)/deficit on disposal of fixed assets	(8)	(108)
Audit fees:		
- Statutory audit	22	11
- Audit-related assurance services	-	-
- Tax advisory services	-	-
Operating lease rentals	5	5

9. Staff costs

	2020 £'000	2019 £'000
Wages and salaries	955	760
Social security costs	81	68
Other pension costs (see note 18)	72	57
	1,108	885

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

Salary Band £'000	2020 Number	2019 Number
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:

	2020 Number	2019 Number
	26	21

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

	2020 £'000	2019 £'000
Directors who are executive staff members		
Wages and salaries	146	141
Social security costs	18	17
Other pension costs	3	12
Board members		
Wages and salaries	27	24
	204	194

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.

10. Directors' remuneration and transactions (continued)

	2020 £'000	2019 £'000
Remuneration of the highest paid director, excluding pension contributions:		
Emoluments	77	75

The Chief Executive is an ordinary member of the pension scheme. No enhanced or special terms apply. The organisation contributed £6,600 to the Chief Executives pension within the year (2019: £5,000)

Board Member remuneration

Member	Remuneration £	Social Security £	Total £
Kay Dickinson (Chair)	5,000	-	5,000
Ian Falconer (Deputy Chair)	2,808	-	2,808
Mohammed Jamil (Committee Chair)	3,000	-	3,000
Iain Campbell (Committee Chair)	3,000	-	3,000
Tony Jervis (Committee Chair)	2,692	-	2,692
Andrew Liles	2,000	-	2,000
Terry Gallagher	2,000	-	2,000
Joice Rennie	2,000	-	2,000
Ajman Ali	2,000	-	2,000
Lisa Bradley	1,388		1,388
Andrea Brough	1,085	-	1,085
Brian Hamlin	903	-	903

11. Intangible assets

	Computer software £'000
Cost	
At 1 April 2019	409
Additions	45
Disposals	-
As at 31 March 2020	454
Amortisation	
At 1 April 2019	370
Charge for the year	26
Eliminated on disposals	-
As at 31 March 2020	396
Net book value	
As at 31 March 2020	58
As at 31 March 2019	39

12. Tangible fixed assets – housing properties

	Completed Properties £'000	Completed Under Construction £'000	Shared Ownership £'000	Total £'000
Cost				
At 1 April 2019	72,149	676	5,273	78,098
Additions	-	4,227	-	4,227
Schemes completed	1,782	(2,718)	936	-
Disposals	(74)	-	(20)	(94)
Components capitalised	963	-	-	963
Component disposals	(253)	-	-	(253)
At 31 March 2020	74,568	2,184	6,189	82,941
Impairment				
At April 2019	454	-	154	608
Charge for the year	-	-	-	-
Eliminated on disposals	-	-	-	-
At 31 March 2020	454	-	154	608
Depreciation				
At 1 April 2019	23,768	-	840	24,608
Charge for the year	1,199	-	66	1,265
Component depreciation written back	(212)	-	-	(212)
Eliminated on disposals	(18)	-	(7)	(25)
At 31 March 2020	24,737	-	899	25,636
Net book value				
At 31 March 2020	**49,377**	**2,184**	**5,136**	**56,697**
At 31 March 2019	47,927	676	4,279	52,882

Freehold land and buildings with a carrying amount of £41,384,689 (2019: £41,989,000) 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.

13. Property, plant and equipment - other

	Freehold offices £'000	Furniture Fixtures and fittings £'000	Total £'000
Association			
Cost			
At 1 April 2019	603	258	861
Additions	-	36	36
At 31 March 2020	603	294	897
Depreciation			
At 1 April 2019	194	224	418
Charge for the year	13	15	28
At 31 March 2020	207	239	446
Net book value			
At 31 March 2020	396	55	451
At 31 March 2019	408	34	442

Freehold land and buildings are held at cost.

14. Stock

	2020 £'000	2019 £'000
Completed first tranche shared ownership properties	136	-
	136	-

15. Debtors

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Rent arrears	182	220
Provision for bad debts	(177)	(143)
Other debtors	11	10
Prepayments and accrued income	186	149
	202	236

16. Current asset investments

	2020 £'000	2019 £'000
Unlisted investments – at cost less impairment	2,512	4,359
	2,512	4,359

17. Creditors – amounts falling due within one year

	2020 £'000	2019 £'000
Housing loans (see note 19)	539	525
Rents received in advance	248	227
Trade creditors	204	367
Other taxation and social security	28	20
Growth Plan Pension deficit provision	31	31
Government grants	404	838
Accruals and deferred income	246	172
	1,700	2,180

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

	2020 £'000	2019 £'000
Other creditors		
Loans	21,135	19,204
Sinking funds	22	19
Bond premium	561	575
Recycled Grant Fund (RCGF) - National	319	319
Recycled Grant Fund (RCGF) – Rotherham MBC	63	63
Growth Plan Pension deficit provision	122	155
Government grants	23,056	23,076
Recycled other grants	10	10
	45,288	43,421

The loans are secured on freehold housing properties. Interest is payable at between 0.5% and 12.25%.

19. 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 £41,078,988 (2019: £41,534,728).

	2020 £'000	2019 £'000
Deferred income - Government grants		
At 1 April	23,987	24,131
Grants receivable	-	657
Grants payable	(49)	-
Amortisation to Statement of Comprehensive Income	(405)	(801)
At 31 March	23,533	23,987
Due within one year	404	838
Due after one year	23,129	23,149

	2020 £'000	2019 £'000
Recycled Capital Grant Fund		
At 1 April	319	413
Inputs to RCGF	-	36
Recycling of grant	-	(130)
Interest accrued	-	-
At 31 March	319	319

There is £242,438 which is outstanding for three or more years and therefore potentially due for repayment to the Homes England.

Borrowings are repayable as follows:

	2020 £'000	2019 £'000
Bank loans		
Between one and two years	554	539
Between two and five years	1,567	1,591
After five years	19,076	17,146
Set up costs	(62)	(72)
	21,135	19,204
On demand or within one year	539	525
	21,674	19,729

The Association does not hold any finance leases.

19. 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	£52,460 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.

19. Retirement benefit schemes (Continued)

Present value of provision

	2020 £'000	2019 £'000	2018 £'000
Present value of provision	152	185	196

Reconciliation of opening and closing provisions

	2020 £'000	2019 £'000
Provision at start of period	185	196
Unwinding of the discount factor (interest expense)	2	3
Deficit contribution paid	(31)	(25)
Remeasurements – impact of any change in assumption	(4)	2
Remeasurements – amendments to the contribution Schedule	-	9
Provision at end of period	152	185

Income and expenditure impact

	2020 £'000	2019 £'000
Interest expense	2	3
Remeasurements – impact of any change in assumption	(4)	2
Remeasurements – amendments to the contribution schedule	-	9
Contributions paid in respect of future service	-	-
Costs recognised in income and expenditure account	(2)	14

Assumptions	31 March 2020	31 March 2019	31 March 2018
Rate of discount	2.53	1.39	1.71

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.

The following schedule details the deficit contributions agreed between the company and the scheme at each year end period:

19. Retirement benefit schemes (Continued)

Deficit Contribution Schedule

Year Ending	31 March 2020 £s	31 March 2019 £s	31 March 2018 £s
Year 1	31,637	30,715	25,320,
Year 2	32,586	31,637	26,079
Year 3	33,563	32,586	26,862
Year 4	34,570	33,563	27,667
Year 5	29,673	34,570	28,497
Year 6	-	29,673	29,362
Year 7	-	-	30,233
Year 8	-	-	15,570

The company must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises.

The Pensions Trust – Social Housing Pension Scheme

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

	2020 £'000	2019 £'000
Fair value of plan assets	1,929	2,163
Present value of defined benefit obligations	2,137	2,935
(Deficit) in plan	(208)	(772)
Defined benefit (liability) to be recognised	(208)	(772)

19. Retirement benefit schemes (Continued)

Reconciliation of Opening and Closing Balances of the Defined Benefit Obligation

	2020 £'000	2019 £'000
Defined benefit obligation at start of period	2,935	2,420
Current service cost	86	73
Expenses	4	4
Interest expense	64	63
Contributions by plan participants	35	30
Actuarial losses (gains) due to scheme experience	(122)	191
Actuarial losses (gains) due to changes in demographic assumptions	(21)	8
Actuarial losses (gains) due to changes in financial assumptions	(301)	219
Benefits paid and expenses	(543)	(73)
Defined benefit obligation at end of period	2,137	2,935

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

	2020 £'000	2019 £'000
Fair value of plan assets at start of period	2,163	1,851
Interest income	46	49
Experience on plan assets - gain	121	208
Contributions by the employer	107	98
Contributions by plan participants	35	30
Benefits paid and expenses	(543)	(73)
Fair value of plan assets at end of period	1,929	2,163

The actual return on the plan assets (including any changes in share of assets) over the period from 01 April 2020 to 31 March 2020 was £167,000 (2019: £257,000).

19. Retirement benefit schemes (Continued)

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

	2020 £'000	2019 £'000
Current service cost	86	73
Expenses	4	4
Net interest expense	18	14
Defined benefit costs recognised in statement of comprehensive income (SOCI)	108	91

Defined Benefit Costs Recognised in Other Comprehensive Income

	2020 £'000	2019 £'000
Experience on plan assets- gain	121	208
Experience gains and losses arising on the plan liabilities - gain (loss)	122	(191)
Effects of changes in the demographic assumption underlying the present value of the defined benefit obligation - gain (loss)	21	(8)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	301	(219)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	565	(210)
Total amount recognised in other comprehensive income - gain (loss)	565	(210)

19. Retirement benefit schemes (Continued)

Assets

	2020 £'000	2019 £'000
Absolute Return	101	187
Alternative Risk Premium	135	125
Corporate Bond Fund	110	101
Credit Relative Value	53	40
Distressed Opportunities	37	39
Emerging Markets Debt	58	75
Fund of Hedge Funds	1	10
Global Equity	282	364
Infrastructure	144	113
Insurance-Linked Securities	59	62
Liability Driven Investment	640	791
Long Lease Property	33	32
Net Current Assets	8	4
Over 15 Year Gilts	-	-
Private Debt	39	29
Property	43	49
Risk Sharing	65	65
Secured Income	73	77
Opportunistic Liquid Credit	47	-
Liquid Credit	1	-
Total assets	1,929	2,163

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 2020 %per annum	31 March 2019 % per annum
Discount Rate	2.36	2.33
Inflation (RPI)	2.58	3.28
Inflation (CPI)	1.58	2.28
Salary Growth	2.58	3.28

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

19. Retirement benefit schemes (Continued)

The mortality assumptions adopted at 31 March 2020 imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2020	21.5
Female retiring in 2020	23.3
Male retiring in 2040	22.9
Female retiring in 2040	24.5

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 2.2%	(47)
Rate of inflation	Increase of 0.1% p.a.	Increase by 2.2%	47
Rate of salary growth	Increase of 0.1% p.a.	Increase by 0.1%	2
Rate of mortality	Probability of surviving each year increased by 10%	Increase by 2.7%	58

The sensitivities shown above are approximate. Each sensitivity considers once change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth where appropriate.

20. Share capital

	2020 £	2019 £
At beginning of year	10	28
Issued during the year	1	-
Reclaimed in the year	(1)	(18)
At end of year	10	10

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.

21. Net cash generated from operating activities

	2020 £'000	2019 £'000
Cash flow generated from operating activities		
Surplus for the year	1,623	539
Adjustment for non-cash items:		
Depreciation of property, plant and equipment	1,319	1,727
Amortisation of intangible assets and government grants	(409)	(801)
(Increase) in Stock and Work in progress	(136)	-
(Increase) in debtors	34	7
(Decrease)/increase in creditors	(624)	623
Increase in provisions	3	2
Pension costs less contributions payable	(33)	(65)
Carrying amount of property, plant & equipment disposals	110	(32)
Impairment loss on property, plant and equipment	-	-
RCGF written off to Revenue	-	(95)
Interest payable	720	749
Interest received	(17)	(19)
Cash generated by operations	2,590	2,635

Cash and cash equivalents

	2020	2019
Cash at bank and in hand	611	263

22. Analysis of changes in net debt

	At 1 April £'000	Cash flows £'000	Other changes £'000	at 31 March £'000
Cash	263	348	-	611
Debt due <1 Year	(525)	(14)	-	(539)
Debt due >1 year	(19,204)	(1,931)	-	(21,135)
Current asset investment	4,094	(1,847)	-	2,247
Total	(15,372)	(3,444)	-	(18,816)

23. Financial commitments

Capital commitments are as follows:

	2020 £'000	2019 £'000
Contracted for but not provided for	6,464	6,244
Approved by the directors but not contracted for	2,532	7,153
	8,996	13,397

These commitments are to be funded by a mixture of existing funding.

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

	2020 £'000	2019 £'000
Payments due:		
- within one year	5	5
- between one and five years	3	7
- after five years	-	-
	8	12

24. Units of housing stock

Owned and managed	2019	Developed	Sold	2020
General needs housing	671	-	(1)	670
Housing at affordable rent	383	16	-	399
Housing at intermediate rent	3	-	-	3
Supported housing accommodation	48	-	-	48
Shared ownership accommodation	83	15	(1)	97
Housing for older people	12	-	-	12
	1,200	31	(2)	1,229

25. Contingent commitments

In 2017/18 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.

26. Related party transactions

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