# Arches Housing Limited

## Annual Report and Financial Statements

## For the year ended 31 March 2018

**Registered Number: 21451R**

**Arches Housing Limited**
**Contents**

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

### Board of Management

| | |
|---|---|
| Kay Dickinson – Chair | |
| Tony Jervis – Deputy Chair | |
| Ajman Ali | (co-opted 11 December 2017) |
| Iain Campbell | |
| Ian Falconer | (co-opted 11 December 2017) |
| Terry Gallagher | (co-opted 11 December 2017) |
| Anne Hawkins | (resigned 24 April 2017) |
| Mohammed Jamil | |
| Shamsa Latif | |
| Andrew Liles | |
| Joice Rennie | (co-opted 11 December 2017) |
| Brian Thomas – Tenant | (resigned 19 April 2017) |
| Ken Torres | (resigned 6 June 2018) |
| Christine Woods - Tenant | (resigned 31 July 2017) |

### Executive Team

**Brian Summerson – Chief Executive (to 15 January 2018)**
Paul Common - Chief Executive (from 15 January 2018)
John Hudson - Operations Director
Caroline Bell – Director of Finance and Corporate Services (to 30 November 2017)
Bill Truin - Interim Finance Director (from 30 November 2017)

### Secretary and registered office

B Summerson (to 15 January 2018)
J Hudson (from 15 January 2018
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

**An organisation with a business head and a social heart**

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

**Our Values:**

| | |
|---|---|
| *Innovation* | We challenge ourselves to do things better, thinking outside of the box to bring better outcomes for our customers; |
| *Integrity* | We work in a professional and ethical manner; |
| *Empathy* | We care and plan for the needs of our diverse staff and customer base; |
| *Responsibility* | We take our commitments seriously, providing value services and delivering on our promises; |
| *Passion* | We are driven by our shared personal beliefs and commitment to the provision of quality affordable housing. |

**Our Strategic Priorities:**

*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
- 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.*

- Working towards achieving the Arches Home Standard in as many of our homes as possible
- Gaining a better understanding of our customers views of their homes and the neighbourhoods in which they live
- Developing an 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 the Homes and Communities Agency funding for the Shared Ownership and Affordable Homes Programme 2016-2021
- Building upon and strengthen 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

- Develop innovative models for developing new homes, through partnerships with others where this is appropriate
- Considering partnering opportunities with local authorities in development administration for local housing companies

*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 and 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
- Being open to take advantage of economies of scale, saving of VAT and improving customer satisfaction through existing and potential cost sharing vehicles
- Making sure ensure that Value for Money is fully embedded within our business
- Ensuring evidence based decision making is embedded in our business to understand what drives our activities, customer satisfaction, cost, risk and reward
- Redefining our approach to benchmarking including the 15 indicators adopted as a measure by the Homes England.
- Reviewing our internal finance reporting to ensure it meets the needs of the business
- Continuing to strengthen our approach to income collection, particularly in relation 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
- Working with the Regulator of Social Housing to achieve the highest possible ratings for Governance and Viability
- Making sure that we always prioritise the health and safety of our customers and staff and we are compliant with all health and safety laws
- Operating within an effective risk management framework that appropriately supports the business to manage the risks faced
- Continuing to strive to make Arches a great place to work

**Business Model**

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

The year has been one of significant change and we have achieved notable enhancements to our business processes. We have invested considerable time in preparing for a step change in future investment in our existing stock and developing new properties.

Key achievements in 2017/18 include:

- Enhancing Board level governance through new appointments to the board, the adoption of up to date model rules and streamlining committee structures
- The smooth transition to a new executive team with the retirement of Brian Summerson, Arches long-standing Chief Executive, and the appointment of a new Chief Executive.
- The completion of 15 new properties in Rotherham and the transfer of 25 properties in Sheffield into our ownership
- The successful implementation of a strategic partnership with other registered providers for the provision of gas servicing, associated repairs and out of hours calls, achieving improvements in service
- Finalising the three-year delivery programme for the aspirational Arches Standard for our homes following wide ranging consultation

- Completing a root and branch review of our Asset compliance management, with the aid of third party specialists, following our discovery of shortcoming in our systems. Arches board took the decision to self-disclose this to our regulator which resulted in a regulatory governance regrade from G1 to G2 in July 2017. However due to the work carried out in the year the regulator regraded Arches back to G1 in June 2018.
- Review of treasury arrangements and receipt of a wide range of funding offers for our ambitious development programme

**Summary of Annual Results**

| Statement of Comprehensive Income | 2017/18 £'M | 2016/17 £'M |
|---|---|---|
| Turnover | 6.1 | 5.9 |
| Operating Surplus | 1.8 | 2.2 |
| Surplus for the year before taxation | 1.1 | 1.5 |

| Statement of Financial Position | 2017/18 £'M | 2016/17 £'M |
|---|---|---|
| Fixed Assets | 53.1 | 53.7 |
| Net Current Assets | 0.7 | (0.1) |
| Long term creditors - debt | 17.8 | 18.3 |
| Long term creditors - grant | 23.7 | 23.9 |
| Long term creditors – pension deficit | 0.4 | 0.5 |
| Reserves | 11.3 | 10.2 |

| Accommodation (units) | 2017/18 | 2016/17 |
|---|---|---|
| Total owned and managed | 1,193 | 1,156 |

| Ratios | 2017/18 | 2016/17 |
|---|---|---|
| Operating Margin | 28.9% | 36.6% |
| Covenant Interest Cover | 3.41 | 3.27 |
| Covenant Gearing* | 38.45% | 41.65% |

**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 £100k above the budgeted surplus, although the surplus has decreased from the prior year. Turnover has increased despite the 1% reduction on general needs stock as 27 new units at the Brameld Road development began letting around the prior year end (12 in 2016/17 and 15 in 2017/18).

The costs of the business have increased in the year primarily due to spend on compliance as we have responded to the identified governance issues. In addition, we have had an increased deprecation charge with the new units coming into the housing stock around the prior year end.

*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.

*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 growth in annual turnover and 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.

**Investing in the future**

During the coming year we intend to continue developing our corporate infrastructure, so we can clarify our strategic capabilities and put in place a clear and specific plan for delivery.

Our delivery plan for 2018/19 includes:

- Implementing an approach to neighbourhood planning – focusing on two neighbourhoods and evaluating the impact of our work
- Developing and implementing an Arches IT Strategy – including enhanced customer access and a new Arches web site
- Undertaking a strategic review of the repairs service – identifying long term solutions to increase customer satisfaction
- Delivering the first year of Arches Home Standard (a three year programme of additional investment to enhance the standard of our existing homes) – ensuring quality and value for money and clear customer communications
- Developing and implementing a growth strategy – to increase the supply of social housing to the Sheffield city region
- Concluding the funding exercise for new developments – following careful scrutiny of the range of funding offers proposed by funders
- Developing a Value for Money Strategy – linked to corporate priorities, responding to the new VFM standard set by the Regulator for Social Housing
- Concluding Governance Review – finalising on-going actions and focusing on enhancing board effectiveness
- Preparing for an "In-Depth Assessment" – bringing together improvements in risk management and assurance, governance and executive management
- Developing and implementing a People Strategy – achieving IIP reaccreditation and providing more opportunities for our staff to develop and thrive

### Key Performance Indicators

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

| Key Performance Indicators | 2017/18 | 2016/17 | Target |
|---|---|---|---|
| Property Turnover (%) | 8.52% | 9.3% | 8.50% |
| Average Re-let Time (days) | 12.3 | 19.1 | 15.0 |
| Void Rent Loss (%) | 0.28% | 0.44% | 0.43% |
| Rent Collection as a % of Rent Charged | 99.52% | 100.6% | 100.5% |
| Overall Customer Satisfaction | 79.4% | 78% | 81.2% |
| Arrears as a % of Annual Rent | 3.9% | 3.62% | 3.9% |

2017/18 was another strong year for the Association in terms of its operational performance, whilst our rent collection was below our target, this related to the timing of housing benefit payments received from local authorities. We now have comprehensive data relating to customer satisfaction and we recognise that there is some work to do in increasing the satisfaction of our customers which will be a priority in 2018/19.

### Value for Money

In April 2018 The Regulator of Social Housing published a revised Value for Money Standard. The standard requires that organisations must demonstrate:

- A robust approach to achieving value for money.
- Regular and appropriate consideration by the Board of potential value for money gains.
- Consideration of value for money across the whole business.
- There are appropriate targets in place for measuring performance in achieving value for money in delivering our strategic objectives.
- There is regular monitoring and reporting our performance against these targets.

We are required to annually publish evidence in our statutory accounts to enable stakeholders to understand our:

- Performance against our own value for money targets and any metrics set out by the regulator, and how that performance compares to peers
- Measurable plans to address any areas of underperformance, including clearly stating any areas where improvements would not be appropriate and the rationale for this.

The Regulator believes that the suite of defined performance metrics provides a separate tool for us to demonstrate that we are making best use of our assets and resources to stakeholders, including tenants and the regulator. The metrics are set out in the table "Regulator Metrics" below, in addition Arches have selected two further metrics for inclusion, "Customer Satisfaction" and "Rent as Value for Money" taken from the most recent tenant feedback/surveys.

Both sets of metrics are compared to sector performance:

- The Regulator defined metrics are compared the calculation based on the Regulator's "Global Accounts" for 31 March 2017. The Global Accounts are the Regulator's sector wide summary of statutory accounts published annually.

- The Arches' metrics are compared to the equivalent key performance indicators from House Mark for traditional housing associations in the North of England and the Midlands. House Mark is a well established and widely used sector benchmarking club that Arches is a member of.

As the standard was only published in April the Board has not finalised its revised strategy, reporting and targets for Value for Money purposes. Work is ongoing to ensure that the organisation's approach to Value for Money is fully compliant with the revised standard.

| **Regulator Metrics** | **2017/18** | **2016/17** | **2016/17 Global accounts** |
|---|---|---|---|
| Reinvestment % | 2.59% | 8.30% | 6.52% |
| New social housing units supply delivered % | 3.35% | 2.25% | 1.73% |
| Gearing % | 34.03% | 34.98% | 41.70% |
| EBITDA MRI* Interest Cover % | 359% | 306% | 334% |
| Headline social housing cost per unit | £2,202 | £2,416 | £4,180 |
| Operating Margin (social housing lettings only) | 28.25% | 36.23% | 32.95% |
| Operating Margin (overall) | 28.91% | 36.60% | 29.87% |
| Return on capital employed (ROCE) | 3.42% | 4.05% | 5.20% |

| **Arches Metrics** | **2017/18** | **2016/17** | **2016/17 House Mark** |
|---|---|---|---|
| Customer Satisfaction | 79.40% | 78.00% | 88.00% |
| Rent as Value for Money | 85.26% | 88.00% | 84.89% |

** Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included*

The metrics show that Arches continues to perform strongly in the headline social housing cost per unit metric. This is due to further spending reduction brought about in response to the 1% rent reduction. However in the 2018/19 financial year Arches has committed to begin a three year investment project to implement the 'Arches Standard' across our existing stock. We therefore expect our headline social housing cost per unit to rise to circa £3,200. This investment in existing stock will also impact our reinvestment metric increasing it to circa 3.40%.

Arches gearing remains low compared to the global accounts data. We are currently in the process of negotiating new funding arrangements in order to support a more ambitious development programme. This new funding will be in place in 2018/19 and will enable us to continue to deliver an above average number of 'New social housing units supply delivered'.

Within the year we have achieved an improvement in customer satisfaction, however this falls below our targeted level of 81.2%. Our Rent as Value for Money metric of 85.26% is above the House Mark average of 84.89%, but remains below our target of 85.6% . These metrics focus on the value that the customer derives from our service. We have targeted improvement in these metrics for the next financial year through our commitment to an increased investment programme to deliver the 'Arches Standard' over the next three years. We expect that this increased spend will impact on these VfM metrics in a positive way as customers see improvements to their homes and neighbourhoods.

### Internal Control

The Board has overall responsibility for the system of internal control and risk management and for reviewing its effectiveness. The Board have reviewed the system of internal control and can confirm 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– 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 Assurance Committee.
- Internal audit assurance - the internal audit function is outsourced to TIAA and has a direct reporting line to the Audit & Risk Assurance 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 provide 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 Assurance 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 meetings, Audit and Risk Assurance Committee meetings and at ad hoc task and finish group meetings. The executive team review the risk register on a periodic basis and review individual risks when there are material changes of circumstances relating to identified risks and in the wider operating environment.

In 2017/18 Arches took a major step forward in enhancing the risk management processes at the organisation through the implementation of the Pentana performance management system. The system ensures automation and consistency, productivity and control and improved data management and business intelligence.

The system has been developed through the year to allow a more sophisticated approach to managing risk and linking internal controls, identification of internal and external lines of assurance and undertaking controls assessments for each risk. The system has enabled a more coherent and comprehensive approach to recording and assessing risk and facilitates a more holistic methodology for assessing the effectiveness of mitigations by including and linking data on delivery plan actions and live performance information.

## 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 first phase of a detailed review of governance has been undertaken leading to substantial improvements in Arches governance arrangements. These include:

Delegations – the adoption of a new delegations framework and financial regulations, the adoption of new rules based on the NHF 2015 model rules, the restructuring of the Board and committee structure to better reflect the governance needs of the organisation, the review and updating of terms of reference for the board and committees.

Chief Executive – a full review of the Chief Executive's contract of employment agreed by panel of board members was undertaken in the year.

Board member induction and training – the adoption of a formal induction programme. New board members have completed the induction programme and their feedback reviewed to further improve the process.

Work with shareholders – a new shareholder policy has been adopted and further engagement with shareholders is on-going to refine the organisations approach to shareholding.

*Board*

A board of eleven 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 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 organisation's 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 recruitment, remuneration and appraisal of non-executive directors and the chief executive as well as overseeing the delivery of the People Strategy.

The Terms of Reference for the committees and its membership can be found at http://www.archeshousing.org.uk/governance/

*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 2017/18, taking account of their appointment and resignation dates is set out below:

| Member | Attendance |
|---|---|
| Kay Dickinson | 100% |
| Tony Jervis | 89% |
| Iain Campbell | 89% |
| Christine Woods | 100% |
| Shamsa Latif | 67% |
| Ken Torres | 56% |
| Andrew Liles | 89% |
| Mohammed Jamil | 67% |
| Terry Gallagher | 67% |
| Ian Falconer | 100% |
| Joice Rennie | 100% |
| Ajman Ali | 67% |

## 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 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 2015. 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 were downgraded from G1 to G2 in July 2017 by the regulator following a self-referral in relation to a lack of assurance on health and safety compliance. The compliance issues have now been fully resolved and Arches have maintained regular contact with the regulator throughout the period. Following completion of the asset compliance action plan the regulator issued a revised regulatory judgement in June 2018 confirming Arches is again fully compliant with the governance requirements of the regulator and has achieved a G1 grade. The Association holds the highest viability rating of V1, demonstrating the financial capacity to deal with a wide range of adverse scenarios.

By order of the Board:

........................................................................

J. Hudson

Company Secretary

23rd July 2018

## 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 2018 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 2018 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 2015.

### Basis for opinion

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

### Conclusions relating to going concern

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

- the Board'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.

### Other information

The Board is responsible for the other information. The other information comprises the information included in the annual report, 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 10, 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.

Mazars LLP

Mazars LLP

Chartered Accountants and Statutory Auditor

45 Church Street

Birmingham

B3 2RT

Date: 6/8/18

# Arches Housing Limited
**Statement of Comprehensive Income**
For the year ended 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Turnover** | 3 | 6,147 | 5,891 |
| Operating expenditure | 3 | (4,370) | (3,735) |
| **Operating surplus** | | 1,777 | 2,156 |
| Surplus on disposal of property, plant and equipment | 5 | 61 | 14 |
| Interest receivable | 7 | 10 | 24 |
| Interest and financing costs | 6 | (728) | (739) |
| **Surplus before tax** | | 1,120 | 1,455 |
| Taxation | | - | - |
| **Surplus for the year** | 8 | 1,120 | 1,455 |
| **Total comprehensive income for the year** | | 1,120 | 1,455 |

## Arches Housing Limited
**Statement of Financial Position**
At 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 11 | 36 | 37 |
| Housing properties | 12 | 52,649 | 53,196 |
| Other property, plant and equipment | 13 | 421 | 434 |
| | | 53,106 | 53,667 |
| **Current assets** | | | |
| Stock and work in progress | 14 | - | 179 |
| Debtors | 15 | 243 | 310 |
| Investments | 16 | 2,354 | 2,023 |
| Cash | | 246 | 139 |
| | | 2,843 | 2,651 |
| **Creditors:** Amounts falling due within one year | 17 | (2,127) | (2,784) |
| **Net current assets/(liabilities)** | | 716 | (133) |
| **Total assets less current liabilities** | | 53,822 | 53,534 |
| **Creditors:** Amounts falling due after more than one year | 18 | (42,513) | (43,345) |
| **Net assets** | | 11,309 | 10,189 |
| **Capital and reserves** | | | |
| Share capital | 20 | - | - |
| Revenue reserve | | 11,309 | 10,189 |
| **Total reserves** | | 11,309 | 10,189 |

The financial statements of Arches Housing Limited were approved by the Board on 23 July 2018 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 2018

| | Income and expenditure reserve 2018 £'000 | Income and expenditure reserve 2017 £'000 |
|---|---|---|
| At 1 April | 10,189 | 8,734 |
| Total comprehensive income for the year | 1,120 | 1,455 |
| At 31 March | 11,309 | 10,189 |

## Arches Housing Limited
**Statement of Cash Flows**
For the year to 31 March 2018

| | Note | 2018 £'000 | 2018 £'000 | 2017 £'000 | 2017 £'000 |
|---|---|---|---|---|---|
| **Net cash generated from operating activities** | 21 | | 2,763 | | 3,026 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (1,319) | | (4,514) | |
| Proceeds from sale of property, plant and equipment | | 148 | | 341 | |
| Grants received | | - | | 259 | |
| Interest received | | 10 | | 23 | |
| **Net cash flows from investing activities** | | | (1,161) | | (3,891) |
| **Cash flows from financing activities** | | | | | |
| Interest paid | | (728) | | (765) | |
| Iincrease)/decrease in deposits | | (331) | | 1,384 | |
| New loans | | - | | - | |
| Repayments of borrowings | | (436) | | (463) | |
| **Net cash flows from financing activities** | | | (1,495) | | 156 |
| Net increase in cash and cash equivalents | | | 107 | | (709) |
| **Cash and cash equivalents at beginning of year** | | | 139 | | 848 |
| **Cash and cash equivalents at end of year** | | | 246 | | 139 |

1. **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 2014 (SORP), the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2015. Arches Housing 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.

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.

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 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.

**Pensions**

**SCHEME: The Pensions Trust – Social Housing Pension Scheme**
Arches participates in 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. 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.

For this multi-employer scheme, there is a contractual agreement between the scheme and the Association that determines how the deficit will be funded and a liability is recognised in the Statement of Financial Position and the resulting expense in surplus or deficit in the Statement of Comprehensive Income for the present value of the contributions payable that arise from the agreement to the extent that they relate to the deficit.

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.

**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 Homes England 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.

**Capitalisation of property development costs**
The association capitalises development expenditure in accordance with the accounting policy on housing projects. Judgement is exercised over the likelihood that projects will continue.

**Impairment of social housing properties**
Arches have 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 Housing 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 Housing's 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 Housing 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 Housing 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.

Based on this assessment, Arches Housing 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.

**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.

**Components of housing properties and useful lives**
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 Association considers whether there are any indications that the useful lives require revision at each reporting date to ensure that they remain appropriate.

**Fair value measurement**
Management uses valuation techniques to determine the fair value of assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management base the assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual process that would be achievable in an arm's length transaction at the reporting date.

**Provisions**
Provision is made for dilapidations and redundancy costs. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

**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.

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

| | 2018 Turnover £'000 | Cost of sales £'000 | Operating costs £'000 | Operating surplus £'000 |
|---|---|---|---|---|
| **Social housing lettings (note 4)** | 5,806 | - | 4,166 | 1,640 |
| **Other social housing activities** | | | | |
| 1st tranche property sales | 193 | 130 | - | 63 |
| Charges for support services | 130 | - | 65 | 65 |
| Development | - | - | 9 | (9) |
| | 6,129 | 130 | 4,240 | 1,759 |
| Activities other than social housing activities | 18 | - | - | 18 |
| | 6,147 | 130 | 4,240 | 1,777 |

| | 2017 Turnover £'000 | Cost of sales £'000 | Operating costs £'000 | Operating surplus £'000 |
|---|---|---|---|---|
| **Social housing lettings (note 4)** | 5,650 | - | 3,603 | 2,047 |
| **Other social housing activities** | | | | |
| 1st tranche property sales | 88 | 37 | - | 51 |
| Charges for support services | 133 | - | 54 | 79 |
| Development | - | - | 41 | (41) |
| | 5,871 | 37 | 3,698 | 2,136 |
| Activities other than social housing activities | 20 | - | - | 20 |
| | 5,891 | 37 | 3,698 | 2,156 |

## 4. Particulars of Income and Expenditure from social housing lettings

| | Total 2018 £'000 | Total 2017 £'000 |
|---|---|---|
| Income | | |
| Rents receivable | 4,931 | 4,790 |
| Service charge income | 61 | 59 |
| Amortised government grant | 814 | 801 |
| Turnover from social housing lettings | 5,806 | 5,650 |
| Expenditure | | |
| Service charge costs | 53 | 45 |
| Management | 865 | 809 |
| Routine maintenance | 1,063 | 830 |
| Planned maintenance | 351 | 262 |
| Bad debts | 56 | 3 |
| Depreciation of housing properties | 1,778 | 1,654 |
| Operating costs | 4,166 | 3,603 |
| **Operating surplus social housing lettings** | 1,640 | 2,047 |
| Void losses | 13 | 22 |

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Sale of subsequent tranche shared ownership properties | 49 | 58 |
| Costs of Sale | (19) | (77) |
| | 30 | (19) |
| Disposal of Rented Units | 99 | 283 |
| Costs of Sale | (68) | (250) |
| | 31 | 33 |
| Surplus/(deficit) on disposal | 61 | 14 |

## 6. Interest and financing costs

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Bank loans and overdrafts | 721 | 760 |
| Unwinding of discounts on provisions | 7 | 12 |
| | 728 | 772 |
| Borrowing costs capitalised | - | (33) |
| | 728 | 739 |

Borrowing costs that relate to housing stock under development have been capitalised in 2017 at a rate of 4.0 per cent which is the weighted average of rates applicable to the Association's general borrowings outstanding during the year.

## 7. Interest receivable

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Bank interest receivable | 10 | 24 |
| | 10 | 24 |

## 8. Surplus for the year

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment | 1,799 | 1,670 |
| Impairment of property, plant and equipment | - | (11) |
| Government grants | (814) | (801) |
| (Surplus)/deficit on disposal of fixed assets | (61) | (14) |
| Audit fees: | | |
| - Statutory audit | 12 | 11 |
| - Audit-related assurance services | - | 7 |
| - Tax advisory services | - | 5 |
| Operating lease rentals | 2 | - |

## 9. Staff costs

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Wages and salaries | 747 | 674 |
| Social security costs | 74 | 61 |
| Other pension costs (see note 19) | 59 | 54 |
| | 880 | 789 |

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** | 2018 Number | 2017 Number |
|---|---|---|
| 60,000 – 69,999 | 1 | 1 |
| 70,000 – 79,999 | 1 | - |

The average full time equivalent number of employees was:

| | 2018 Number | 2017 Number |
|---|---|---|
| | 20 | 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**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Directors who are executive staff members** | | |
| Wages and salaries | 179 | 107 |
| Social security costs | 22 | 13 |
| Other pension costs | 15 | 10 |
| **Board members** | | |
| Wages and salaries | 14 | - |
| | 230 | 130 |

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)

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Remuneration of the highest paid director, excluding pension contributions:** | | |
| Emoluments | 64 | 62 |

The Chief Executive is an ordinary member of the pension scheme. No enhanced or special terms apply.

**Board Member remuneration**

| Member | Remuneration £ | Social Security £ | Total £ |
|---|---|---|---|
| Kay Dickinson (Chair) | 2,479 | 342 | 2,821 |
| Tony Jervis (Deputy Chair) | 1,736 | 240 | 1,976 |
| Mohammed Jamil (Committee Chair) | 1,488 | 205 | 1,693 |
| Shasma Latif | Nil | Nil | Nil |
| Ken Torres | Nil | Nil | Nil |
| Iain Campbell | 992 | 137 | 1,129 |
| Andrew Liles | 992 | 137 | 1,129 |
| Terry Gallagher | 603 | 83 | 686 |
| Ian Falconer | 603 | 83 | 686 |
| Joice Rennie | 603 | 83 | 686 |
| Ajman Ali | 603 | 83 | 686 |

## 11. Intangible assets

| | Computer software £'000 |
|---|---|
| **Cost** | |
| At 1 April 2017 | 350 |
| Additions | 30 |
| Disposals | - |
| **As at 31 March 2018** | 380 |
| **Amortisation** | |
| At 1 April 2017 | 313 |
| Charge for the year | 31 |
| Eliminated on disposals | - |
| **As at 31 March 2018** | 344 |
| **Net book value** | |
| As at 31 March 2018 | 36 |
| As at 31 March 2017 | 37 |

## 12. Tangible fixed assets – housing properties

| | Completed properties £'000 | Under construction £'000 | Completed shared ownership £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2017 | 68,380 | 1,582 | 5,381 | 75,343 |
| Additions | 653 | 319 | 91 | 1,063 |
| Schemes completed | 1,777 | (1,777) | - | - |
| Disposals | (72) | - | (20) | (92) |
| Components capitalised | 221 | - | - | 221 |
| Component disposals | (69) | - | - | (69) |
| At 31 March 2018 | 70,890 | 124 | 5,452 | 76,466 |
| **Impairment** | | | | |
| At April 2017 | 454 | - | 154 | 608 |
| Charge for the year | - | - | - | - |
| Eliminated on disposals | - | - | - | - |
| At 31 March 2018 | 454 | - | 154 | 608 |
| **Depreciation** | | | | |
| At 1 April 2017 | 20,851 | - | 688 | 21,539 |
| Charge for the year | 1,662 | - | 88 | 1,750 |
| Component depreciation written back | (47) | - | - | (47) |
| Eliminated on disposals | (31) | - | (2) | (33) |
| At 31 March 2018 | 22,435 | - | 774 | 23,209 |
| **Net book value** | | | | |
| At 31 March 2018 | 48,001 | 124 | 4,524 | 52,649 |
| At 31 March 2017 | 47,075 | 1,582 | 4,539 | 53,196 |

Freehold land and buildings with a carrying amount of £35,017,000 (2017: £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.

## 13. Property, plant and equipment - other

| | Freehold offices £'000 | Furniture Fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2017 | 597 | 220 | 817 |
| Additions | - | 5 | 5 |
| At 31 March 2018 | 597 | 225 | 822 |
| **Depreciation** | | | |
| At 1 April 2017 | 170 | 213 | 383 |
| Charge for the year | 13 | 5 | 18 |
| At 31 March 2018 | 183 | 218 | 401 |
| **Net book value** | | | |
| At 31 March 2018 | 414 | 7 | 421 |
| At 31 March 2017 | 427 | 7 | 434 |

Freehold land and buildings are held at cost.

## 14. Stocks and work in progress

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Completed properties for sale | - | 179 |
| | - | 179 |

## 15. Debtors

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Rent arrears | 203 | 188 |
| Provision for bad debts | (128) | (96) |
| Other debtors | 10 | 53 |
| Prepayments and accrued income | 158 | 165 |
| | 243 | 310 |

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

## 16. Current asset investments

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Unlisted investments – at cost less impairment | 2,354 | 2,023 |
| | 2,354 | 2,023 |

## 17. Creditors – amounts falling due within one year

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Housing loans (see note 18) | 548 | 473 |
| Rents received in advance | 170 | 183 |
| Trade creditors | 106 | 369 |
| Other taxation and social security | 24 | 20 |
| Pensions deficit provision – Note 19 | 80 | 81 |
| Government grants | 822 | 814 |
| Accruals and deferred income | 377 | 264 |
| Grants in advance | - | 580 |
| | 2,127 | 2,784 |

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Other creditors** | | |
| Loans | 17,762 | 18,273 |
| Sinking funds | 17 | 16 |
| Bond premium | 583 | 596 |
| Recycled Grant Fund (RCGF) - National | 413 | 372 |
| Recycled Grant Fund (RCGF) – Rotherham MBC | 64 | 68 |
| Pension deficit provision – Note 19 | 429 | 513 |
| Government grants | 23,235 | 23,497 |
| Recycled other grants | 10 | 10 |
| | 42,513 | 43,345 |

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

## 18. 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 £25,717,000 (2017: £24,755,000).

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Deferred income - Government grants** | | |
| At 1 April | 24,311 | 24,993 |
| Grants receivable | 560 | 119 |
| Amortisation to Statement of Comprehensive Income | (814) | (801) |
| At 31 March | 24,057 | 24,311 |
| Due within one year | 822 | 814 |
| Due after one year | 23,235 | 23,497 |

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Recycled Capital Grant Fund** | | |
| At 1 April | 372 | 490 |
| Inputs to RCGF | 41 | 214 |
| Recycling of grant | - | (332) |
| Interest accrued | - | - |
| At 31 March | 413 | 372 |

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:**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Bank loans** | | |
| Between one and two years | 525 | 510 |
| Between two and five years | 1,608 | 1,619 |
| After five years | 15,629 | 16,144 |
| | 17,762 | 18,273 |
| On demand or within one year | 548 | 473 |
| | 18,310 | 18,746 |

The Association does not hold any finance leases.

## 19. Retirement benefit schemes

**Defined contribution schemes**
The Association operates defined contribution retirement benefit schemes for qualifying employees. The total expense charged to Statement of Comprehensive Income in the period ended 31 March 2018 was £27,000 (2017: £29,000)

**The Pensions Trust – Social Housing Pension Scheme**
The company participates in 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. 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 with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contributions

| | |
|---|---|
| **Tier 1** | From 1 April 2016 to 30 September 2020:<br>£40.6m per annum<br>(payable monthly and increasing by 4.7% each year on 1 April) |
| **Tier 2** | From 1 April 2016 to 30 September 2023:<br>£28.6m per annum<br>(payable monthly and increasing by 4.7% each year on 1 April) |
| **Tier 3** | From 1 April 2016 to 30 September 2026:<br>£32.7m per annum<br>(payable monthly and increasing by 3.0% each year on 1 April) |
| **Tier 4** | From 1 April 2016 to 30 September 2026:<br>£31.7m per annum<br>(payable monthly and increasing by 3.0% each year on 1 April) |

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

## 19. Retirement benefit schemes (continued)

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.

**Present values of provision**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Present value of provision | 509 | 594 |

**Reconciliation of opening and closing provisions**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Provision at start of period | 594 | 646 |
| Unwinding of the discount factor (interest expense) | 7 | 12 |
| Deficit contribution paid | (85) | (81) |
| Remeasurements - impact of any change in assumptions | (7) | 17 |
| Remeasurements - amendments to the contribution schedule | - | - |
| **Provision at end of period** | 509 | 594 |

**Income and expenditure impact**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Interest expense | 7 | 12 |
| Remeasurements - impact of any change in assumptions | (7) | 17 |
| Remeasurements - amendments to the contribution schedule | - | - |
| **Costs recognised in income and expenditure account** | - | 29 |

| **Assumptions** | 2018 % per annum | 2017 % per annum |
|---|---|---|
| Rate of discount | 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.

## 20. Share capital

| | 2018 £ | 2017 £ |
|---|---|---|
| At beginning of year | 27 | 27 |
| Issued during the year | 6 | - |
| Reclaimed in the year | (5) | - |
| At end of year | 28 | 27 |

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Cash flow generated from operating activities** | | |
| Surplus for the year | 1,120 | 1,455 |
| Adjustment for non-cash items: | | |
| Depreciation of property, plant and equipment | 1,799 | 1,670 |
| Amortisation of intangible assets and government grants | (814) | (779) |
| Decrease/(increase) in Stock and Work in progress | 179 | (139) |
| Decrease/(Increase) in debtors | 67 | (16) |
| (Decrease)in creditors | (180) | (33) |
| Increase in provisions | 1 | 1 |
| Pension costs less contributions payable | (84) | (70) |
| Carrying amount of property, plant & equipment disposals | (67) | 313 |
| Impairment loss on property, plant and equipment | - | (11) |
| RCGF written off to Revenue | 37 | (72) |
| Interest payable | 715 | 731 |
| Interest received | (10) | (24) |
| **Cash generated by operations** | 2,763 | 3,026 |

**Cash and cash equivalents**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Cash at bank and in hand | 246 | 139 |

## 22. Financial commitments

Capital commitments are as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Contracted for but not provided for | 5,454 | 969 |
| Approved by the directors but not contracted for | 1,183 | 1,233 |
| | 6,637 | 2,202 |

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:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Payments due: | | |
| - within one year | 3 | 1 |
| - between one and five years | 29 | 1 |
| - after five years | - | - |
| | 32 | 2 |

## 23. Housing stock

| | 2018 Units | 2017 Units |
|---|---|---|
| **Owned and managed** | | |
| General needs housing accommodation | 699 | 684 |
| Housing accommodation at affordable rent | 345 | 333 |
| Housing accommodation at intermediate rent | 3 | 4 |
| Supported housing accommodation | 48 | 48 |
| Shared ownership accommodation | 86 | 87 |
| Housing for older people | 12 | - |
| | 1,193 | 1,156 |

## 25. Contingent commitments

In the current 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 includes 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

During the year there were two Board members of Arches Housing Limited who are also tenants of the organisation. Their tenancies are on normal commercial terms.

The rent charges through the year total £4,641. The rental debtor balance at year end was £179 (2017 £153).