Coastal Housing Group Limited

Report and financial statements
For the year ended 31 March 2020

Information

Co-operative and Community Benefit Society number:	30438R
Welsh Government registration number:	L146
Registered office:	3rd Floor, 220 High Street, Swansea, SA1 1NW
Non-executive Board members:	**Roger Williams** (Chair) **Kirsty Ellis** (Vice Chair, and Chair of Governance, Remuneration & Audit Committee) **Patrick Hoare** **Jane Howells** **Dawn Mitchell** (Appointed September 2019) **Jeannette McLellan** (Appointed September 2019) **Alun Williams** (Chair of Finance & Development Committee) **Michael Burr** (Resigned September 2019) **Lowri Kenny** (Resigned May 2019) **Bonnie Navarra** (Appointed September 2019, resigned January 2020)
Executive Board members & Company Secretary	**Debbie Green** (Group Chief Executive) **Simon Jones** (Executive Director of Finance, Company Secretary)
Executive Directors:	**Caroline Belasco** (Executive Director of HR & Corporate Services) **Gareth Davies** (Executive Director of Growth & New Business) **Serena Jones** (Executive Director of Operations)
Bankers:	Barclays Bank PLC 262 Oxford Street, Swansea
Solicitors:	Blake Morgan One Central Square, Cardiff Devonshires 30 Finsbury Circus, London Hugh James Two Central Square, Central Square, Cardiff
Auditors:	Bevan Buckland LLP Langdon House, Langdon Road, SA1 Swansea Waterfront

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Chairman's statement

2019/20: Business, just not quite as usual

Coastal is a not-for-profit company that develops homes and commercial premises for rental and sale across south west Wales. We formed in 2008 through the merger of Swansea Housing Association and Dewi Sant Housing Association, so we've been around since the 1970s providing high quality, affordable homes.

At present we manage 6,000 homes across Bridgend, Carmarthenshire, Neath Port Talbot and Swansea. We also develop properties for sale through our dedicated home sales company Pennant Homes including homes with affordable home ownership options.

We are an important commercial landlord too, providing a number of commercial premises like offices, pubs, restaurants and shops, primarily in town and city centres where we're recognised as urban regeneration specialists.

This has been a year of two halves, divided by the coronavirus pandemic and the unprecedented impact it's had on businesses and society globally. As a serving non-executive director for some years and Chair since September 2019, I have been amazed at the speed and dexterity with which Coastal's staff adapted to the challenges presented by coronavirus, whilst retaining an absolute focus on residents, their safety and that of the wider community. It's left me feeling incredibly positive about the fantastic team we've assembled at Coastal and reassured about our ability to meet other future challenges such as further reducing the environmental impact of our business and the homes we provide.

Coastal has always had a culture of trust and empowerment – it's how we're able to consistently punch above our weight. This culture, alongside robust, early monitoring of the situation, prudent business continuity planning and the commitment and expertise of our HR and tech teams in particular, allowed us to move the majority of the business to remote working within the space of a few hours once that decision was made in mid-March.

There are some services Coastal provides that can't operate remotely. For the safety of our trades staff, residents and the wider community we quickly modified these services to focus on waste management, essential repairs and maintenance only. We joined industry calls for government to suspend routine gas servicing, which UK wide creates around 2 million face to face interactions during 8 weeks.

Coastal has an ambitious development programme so it's not surprising we had several sites under construction when lockdown was announced. Our development team worked quickly alongside contractors to understand the impact on site safety and the build programme. Where contractors have confirmed to us they're able to continue works on site safely and in line with government guidelines they've done so. Others were managed to a safe close whilst contractors waited on further government advice or developed new ways to continue construction without putting their people or local communities at increased risk. By June 2020 all Coastal development sites were operational again and Pennant's site is expected to be operational in July. We recognise that there will be some impact on completion dates for our developments and this is reflected in our updated financial planning.

Coastal staff working alongside local MP Carolyn Harris during the Holiday Hunger campaign

Chairman's statement

During the year 89 homes were developed and added to the existing portfolio as well as 10 developed properties completed as first tranche equity sales. At 1 April 2020 216 homes were under development and will be completed over the next two years.

Lockdown also risked affecting timescales for Gwynfaen: our joint development of 144 low carbon homes with Pobl Group. The development is part-funded by around £10 million from Welsh Government's Innovative Housing Programme and our committed project team worked tirelessly to ensure these funds could be drawn down in line with the original timescales, securing the future of this important development: the first in Wales to see low carbon homes developed at scale and made available for purchase on the open market.

At Coastal we recognise the importance of relationships, so we acted quickly to work with our commercial tenants, providing reassurance regarding rent deferment and signposting them to support initiatives made available by the Welsh and UK governments. These businesses play a crucial role, both in the local economy and their local community. We'll make every effort to ensure we continue to support these businesses, while also protecting our own financial position.

In June 2020 we concluded a refinance of our £250million loan portfolio including newly available funds. This included a 30 year private placement of £60million with Aviva Investors, a first for Coastal. The refinance has simplified our loans while also taking advantage of the low rates in the financial markets at the moment, and will support the Group's strategic objective for many years to come.

Winner of the Coastal resident 'Best all round garden' competition

Artist's impression of the Gwynfaen development showing the community green, community hub building and a range of house types.

Chairman's statement

Headline financial information for the Group is shown below.

	Group	
	2020	**2019**
	£'000	**£'000**
Turnover	36,934	40,528
Operating surplus before exceptional items	9,031	10,238
Operating surplus	2,379	10,238
Operating surplus %	6.4%	25.3%
Gearing %	37.3%	38.0%

The operating surplus shown above includes two exceptional charges in the year, and in both cases more detail is included in these financial statements. The first is a provision for expected fire safety remediation costs, as we work to ensure that all of our properties conform to the highest standards of safety. The second is an adjustment to the carrying value of our commercial properties, the value of which has understandably been affected by the coronavirus pandemic. These two charges have reduced our surplus in this year by £6.5million. The five year summary shows the operating surplus before the impact of these charges.

Our performance through the financial year, particularly its difficult end that saw the biggest social and economic upheaval since World War 2, is testament to the talent, energy and commitment Coastal's staff and the steady stewardship of its leadership team and Board. Whilst there have been significant challenges, the situation has also revealed how flexible and adaptable we can be as a business and presented us with huge opportunities to use that new knowledge to everyone's advantage in future.

Roger Williams

Chair of the Board

Coastal staff attending the finale of Learning at Work Week

Operating and financial review

Group highlights, five-year summary

Comprehensive income – Group highlights	**2020 £'000**	**2019 £'000**	**2018 £'000**	**2017 £'000**	**2016 £'000**
Total turnover	36,934	40,528	38,977	36,633	34,088
Operating surplus before exceptional items	9,031	10,238	9,684	9,060	9,399
Change in fair value of investment properties	(1,500)	-	-	-	-
Fire safety remediation costs	(5,152)	-	-	-	-
(Deficit)/surplus for the year	(4,272)	3,767	3,649	3,124	3,483

Cash flow – Group	**2020 £'000**	**2019 £'000**	**2018 £'000**	**2017 £'000**	**2016 £'000**
Net cash inflow from operating activities	10,039	118,577	10,375	13,824	12,980

Financial position – Group highlights	**2020 £'000**	**2019 £'000**	**2018 £'000**	**2017 £'000**	**2016 £'000**
Housing property at cost	444,635	427,726	409,382	394,536	377,177
Net current (liabilities)/assets	(27,647)	9,375	23,899	17,029	7,159
Total loans	(173,445)	(173,449)	(176,125)	(164,931)	(153,347)
Defined benefit pension liability	(3,343)	(7,462)	(3,590)	(4,156)	(4,498)
Net assets	43,262	43,679	43,953	40,255	37,248

Statistics – Coastal					
Units in management	5,955	5,814	5,713	5,569	5,392
Operating surplus	6.5%	25.2%	24.6%	24.3%	27.4%
Operating surplus (*before joint venture lease costs and exceptional items*)	29.2%	29.0%	28.0%	27.2%	30.6%
Social housing lettings surplus (*before joint venture lease costs and exceptional items*)	23.3%	25.7%	27.9%	28.0%	28.6%
Rent lost from voids and bad debts	2.8%	2.5%	2.9%	3.3%	3.4%
Rent arrears (*current residents*)	5.2%	4.3%	4.0%	4.0%	3.9%
Interest cover (*earnings before interest, tax, depreciation, amortisation and fire remediation costs to net interest payable*)	1.40	1.84	1.83	1.64	1.72
Gearing (*net loans to housing property at cost*)	37.5%	38.3%	39.4%	42.1%	40.9%

Operating and financial review

Principal activities

The Group comprises Coastal Housing Group Limited ('the Association'), and its subsidiary undertaking Pennant Housing Association Limited (‘Pennant’, together 'the Group').

The principal activities of the Group are the management of social rented housing, the construction of new housing for social rent and for sale, and associated regeneration activities.

The Association is charitable and Pennant is non-charitable. Both group members are not-for-profit Community Benefit Societies registered as social landlords with the Welsh Government.

The Group manages 6,000 properties in the Swansea, Neath Port Talbot, Carmarthenshire and Bridgend local authority areas and has a significant development programme. The Group also continues to specialise in urban housing-led regeneration projects. In addition the Group provides properties leased from the Welsh Housing Partnership joint ventures at intermediate rents to people who cannot rent a suitable home on the open market.

Business and financial review

Summary

The Group has a deficit for the year of £4.3m (2019: surplus of £3.8m) before pension adjustments. The specific reasons for this result are included in this report.

Social housing lettings income increased by £1.4m from £30.4 to £31.8, which primarily relates to increases in rents and service charges. We have changed the way that first tranche housing sales are accounted for and have adjusted the comparative figures accordingly. Previously these transactions were treated as a surplus on sale of assets and are now accounted for as part of turnover and operating costs. This has the effect of increasing turnover and operating costs compared to those previously reported but does not affect surpluses or net assets. The five year summary has been prepared on this updated basis.

The operating surplus and social housing lettings surplus percentages in the five year summary have been adjusted to exclude the impact of the one-off significant in the financial year referred to below. The figures also exclude the impact of joint venture lease costs as there would be no such operating cost had these been developed by the Association. These adjustments make this data more consistent with other similar associations.

Coronavirus

The coronavirus pandemic has of course had a huge impact on people and the economy, and sadly led to significant loss of life. Our finances are strong and the Group is able to manage the financial implications. The Board has ensured that financial plans are stress tested to cover a range of economic impacts including delays to sales and reductions in prices, and is satisfied that the Group is able to manage these risks effectively. In addition, the Association has significant cash reserves.

We are working hard to ensure that we support residents as far as possible to manage financial pressures resulting from the pandemic, as well as making sure that our properties remain safe and secure for the people who live in them.

We have also worked with tenants of commercial property, supporting them by being flexible around the timing of rent payments while they have had little or no income, while protecting our own financial position.

We have long been committed to prompt payment of debts to suppliers and contractors. During the pandemic this was maintained while employees were homeworking. Invoices were paid ahead of formal terms as far as possible when requested.

Operating and financial review

Business and financial review (continued)

Significant costs in the financial statements

We have made a provision in the financial statements of £5.1million for fire safety remediation costs (note 3). This relates to work we expect to carry out at a small number of our residential blocks. The exact works required are not yet certain and we have not been able to achieve this certainty during the pandemic, as we have been unable to carry out the required tests. However following expert advice we believe the provision to be appropriate to allow for the necessary works to ensure that these buildings meet all current expectations in terms of fire safety. We have sought and received support from our funders in the form of waivers so that this provision is excluded from our financial covenant compliance calculations.

In the meantime we have fully assessed our operational fire safety arrangements and where appropriate, have implemented additional measures including implementing a waking watch. We have communicated openly with residents and the Housing Regulator.

The coronavirus pandemic has placed significant financial pressure on commercial tenants across the nation, including our own. Our commercial property is accounted for as investment property under accounting standards, despite our long term interest in the properties as part of our regeneration activity. We have recognised a reduction in value of these properties of £1.5million following a valuation of the portfolio. This adjustment does not affect cash as we intend holding these properties for the long term. The reduction in value represents less than 10% of the initial carrying value.

We have carried out an in depth review of all of our assets and reclassified some assets within housing properties in line with the accounting standards as they are integral to social rented accommodation. These assets are being depreciated in accordance with our accounting policies.

Investment in new homes

We have continued both to invest in existing housing and to develop new housing, for both rent and sale. During the financial year, 89 newly developed properties were brought into management. We successfully delivered on our social housing grant commitments, demonstrating the Welsh Government's confidence in our ability to deliver on both commitments and value. While there have been small delays on many of our sites as contractors sought to implement safe and socially distant working practices, our overall development programme has not been materially affected.

Via Pennant, we are an investor in Welsh Housing Partnership and there are two joint venture companies – The Welsh Housing Partnership Limited ("WHP") and WHP2 Limited. During the financial year Pennant continued its planned investment in WHP2, and as a result 72 new rented homes were brought into use by the Association. More information is given in note 15.

Financial position

Our cash position at the balance sheet date is very strong. We also had access to £14m of immediately available funding. Following the end of the financial year the Association completed a refinance of its treasury portfolio, significantly increasing future liquidity.

During the year our annual self-evaluation was reviewed by the Welsh Government and the Regulatory Judgement was published in December 2019. It again confirmed assessments of "standard" for governance, and for financial viability on the basis that the Group meets viability requirements and has the financial capacity to deal with scenarios appropriately.

Operating and financial review

Business and financial review (continued)

Note 26 describes the accounting for the Group's participation in the Social Housing Pension Scheme. The financial statements reflect the Group's share of liabilities. The liability reduced from 2019 to 2020 particularly due to a change in corporate bond yields at the start of the pandemic. The Board has not changed the assumptions put forward by the scheme administrators, currently considering them to be prudent but reasonable. This will be reviewed each financial year. This improvement is not expected to be mirrored by an improvement in the actuarial valuation due as at 30 September 2020, which is set using actuarial assumptions and will be based on the economic conditions at that time.

Objectives and strategy

Our values drive our decision making from the Board and executive directors through the organisation to the services we provide. Our values are also at the heart of our corporate vision which is summarised below:

"To provide homes and services that enable our residents to thrive and the communities we serve to prosper; supported by growing our social business and extending the reach of our homes and services."

Our vision is supported by the 4 'pillars' of Coastal which we use to align our activities to our purpose:

- creating sustainable tenancies
- creating sustainable communities
- creating sustainable local economies
- creating a sustainable Coastal Group

Using Lean Systems Thinking, all of our activities are therefore assessed against their efficacy in delivering the following goals:

- **growth –** to grow by increasing the supply of housing and widening our offer
- **welfare cuts**– to support residents and applicants through the changes in welfare benefits
- **homes** – to improve the quality of our housing stock
- **regeneration** – to contribute to the regeneration of the areas that we serve
- **services** – to improve further our services to residents
- **services for older people** – to develop a wide range of housing and services for older people
- **support services** – to meet the housing needs of young people and support tenancies
- **organisation** – to create a lean, agile and innovative organisation
- **stakeholders** – to build support from partners, funders, contractors, suppliers and the regulator
- **financial strength** – to build financial strength and maintain close relationships with funders
- **transparency** – to be open and honest with all our stakeholders

The executive directors are responsible for assessing whether these goals are best placed to meet our corporate vision in the future. The heads of department are responsible for prioritising the activities within the year (the annual corporate plan) which will deliver tangible gains against the goals as defined above. The executive directors and heads of department form the senior management team, and meet regularly to assess achievement of the goals.

Value for money

Our value for money strategy directly supports our corporate objectives. We use value for money savings to:

- reinvest in service improvements,
- reinvest in our stock
- reinvest in our communities,
- reinvest in our local economy,
- reduce financing costs of delivering new homes,
- make capital repayments on loans, and
- retain surpluses

Operating and financial review

Value for money (continued)

The Board took the decision in January 2020 to implement a lower overall rent increase than that permitted by the Welsh Government's Rent Setting Policy. The Policy would have allowed a maximum increase of 2.7% in aggregate, subject to affordability considerations. Due to the sound financial position of the Group the Board felt able to limit the aggregate increase to 2.3%. No rents increased by more than the Welsh Government guidelines and many residents saw rents frozen to realign rents by property type and area.

Value for money methodology

The drive to pursue and achieve value for money is both explicit and implicit in the way we work at Coastal. Achieving value for money is not something that is considered separately from the day job, it is an integral part of it. In practice a number of interlinked practices support the delivery of value for money:

- clarity of, and focus on, purpose
- lean systems thinking,
- knowing and doing the things that matter to residents
- engaged empowered staff and an entrepreneurial culture,
- a collaborative governance model,
- pro-active relationships with stakeholders,
- procurement,
- treasury management, and
- asset management

In a lean systems model, rather than manage people and budgets, we act on the system and system conditions as an integrated whole to achieve results (delivering what matters to residents) by managing the flow of work and eliminating waste. Therefore we do not look to measure budget savings in silos as this can simply drive costs elsewhere. We measure ourselves at an organisational level against the Community Housing Cymru indicators published in global accounts, and additional measures agreed by the Board. This was reported to the Board in September 2019 and the Board was satisfied with the Group's position and plans.

During the year we carried out a review of service charges covering service charge data, calculations and service charge setting. Notwithstanding the current restrictions on normal business activity we now plan to consult with residents to ensure we continue to deliver the services that people want.

Risks and uncertainties

Risks that may prevent the Group achieving its objectives are reviewed annually by the senior management team and Board as part of corporate planning. Strategic risks were reviewed and agreed by the Board in May 2020. This review was in the midst of the coronavirus pandemic.

Strategic risks have been identified and discussed and we have possible consequences (severity and likelihood). Risks have agreed action plans and consideration has been given to the compound impact of risks occurring in combinations. These were factored into the `severity' and 'likelihood' scores. Major risks, presenting the greatest threats to the Group, are reported to the Board every six months together with action taken to manage the risks.

Operating and financial review

Top 5 strategic risks

The top five risks (measured in terms of potential likelihood and severity) are listed below:

1. **Business continuity and coronavirus**. While the rate of loss of life is slowing, and some easing of lockdown restrictions have taken place, there is no short term prospect of 'getting back to normal'. It has significantly changed the way we and others work and there remains the prospect of future waves of the virus.
2. **Financial hardship faced by residents**. Universal Credit has been rolled out in our operational areas. Residents are impacted by increased financial hardship from insecure employment or loss of employment due to pandemic, design of Universal Credit and/or delays to payments. This could affect affordability of rents and service charges.
3. **Fire risk**. Coastal has identified a small number of properties where fire safety remediation work will be necessary.
4. **Commercial tenants and property**. Businesses, particularly in hospitality and other non-essential retail activities, have been hugely affected by lockdown during the pandemic. This sector will take time to recover, risking loss in income and pressure on value of the property portfolio.
5. **Social Housing Pension Scheme**. The Social Housing Pension Scheme has a substantially increased deficit and the next valuation as at 30 September 2020 comes at a very difficult time in the economy. The Group needs to ensure that long term cost risk is managed while also offering quality pensions as a responsible employer aiming to attract high quality staff.

Capital structure and treasury policy

At the year end the Group's borrowings amounted to £173.4 million:

Maturity	**2020 £m**	**2019 £m**
Within one year	37.0	3.7
Between one year and two years	1.6	3.4
Between two and five years	3.4	13.0
After more than five years	131.4	153.3
	173.4	173.4

The Group completed a refinance of its borrowings in June and July 2020. The facilities that were repaid as part of this exercise are classified as due within one year at the balance sheet date. Deferred fees and break costs of £659,000 will be written off in the following financial year as the associated borrowings have been repaid.

At the balance sheet date the Group's borrowings are from banks, building societies and the capital markets, at both fixed and floating rates of interest. The fixed rates of interest range from 1.76% to 11.6% as compared with variable rates which had a range of 0.60% to 2.52%.

The refinance replaced a range of bank and building society facilities with capital market funding, via a private placement of £60million from Aviva Investors, of which £20million is deferred for 24 months. Liquidity requirements are met by £50million of new revolving credit facilities with a number of lenders.

The five year summary shows our performance against interest cover and gearing measures. The additional costs relating to fire safety remediation were discussed ahead of the balance sheet date with our funders and with their agreement this provision is excluded from interest cover covenant calculations.

Operating and financial review

Capital structure and treasury policy (continued)

Loan agreements require compliance with a number of other financial and non-financial covenants. The position is monitored and reported to the Finance & Development Committee quarterly. The Group was in compliance with its loan covenants at the balance sheet date and the Group expects to remain compliant for the foreseeable future.

The Group's borrowings include a development loan facility lent directly to Pennant and more information is provided in Pennant's financial statements.

The Group has cash balances of £18.8million at 31 March 2020 (2019: £23.3 million). Cash flow forecast are closely monitored to ensure that sufficient funds are available to meet liabilities when they fall due, whilst not incurring unnecessary finance costs.

Investment in new and existing properties

A key influence on the timing of borrowings is the rate at which development activity takes place and the levels of grant funding available. The Board has approved plans to spend £29 million during the next financial year to develop general housing for rent and for sale.

We continue to invest in our stock and in the year we spent £3.1m million maintaining our homes to Welsh Housing Quality Standard.

Statement of compliance

In preparing this Operating and Financial Review and Board report, the Board has followed the principles set out in the SORP 2018.

Report of the Board and strategic report

The Board of Coastal Housing Group Limited is pleased to present its strategic report together with audited financial statements of Coastal Housing Group Limited ('the Association') and the Group for the year ended 31 March 2020.

Principal activities, business review and future developments

Details of the Group's principal activities, its performance during the year and factors likely to affect its future development are contained within the Operating and Financial Review, which precedes this report.

Board members and executive directors

The non-executive and executive Board members and other executive directors of the Group are set out on the information page. The executive directors are the Chief Executive and other members of the Group's team of directors. They act as executives within the authority delegated by the Board. Group insurance policies indemnify Board members and officers against liability when acting for the Group.

The Group has operated unitary Boards (i.e. a Board made up of executive and non-executive directors) during the financial year and has also implemented remuneration of non-executive directors. This change followed a careful review of options by the Board, which was externally supported, and consultation with the Welsh Government and residents. The Group believes that these changes will help the Board maintain strong corporate governance.

Executive director terms and conditions

The executive directors are employed on the same terms as other staff, their notice periods ranging from three to six months. The executive directors are also members of the Social Housing Pension Scheme, a defined benefit pension scheme. They participate in the scheme on the same terms as all other eligible staff, subject to the open benefit structure in place at the time they joined the Group.

Employees

We recognise that the success of our business depends on the quality and engagement of our employees. We continued to invest in our employees through a program of tailored learning and development, which includes an ILM accredited bespoke leadership programme and a University of Wales accredited Housing Management qualification, along with a number of coaching and mentoring programmes to further build skill and capability.

We have undertaken employee surveys to help us understand and further improve engagement, knowledge and working practices, and have carried out workshops and a world café focused on being the best we can all be. We have been recognised for our outstanding achievements in both health and well-being and our approach to health and safety. The Board is aware of its responsibilities on all matters relating to health and safety and the Group has clear health and safety policies, on which employees are fully trained and educated accordingly.

Financial risk management objectives and policies

The Group uses financial instruments, including loans and cash to finance the Group's operations. The existence of these financial instruments exposes the Group to a number of financial risks. The main risks arising from the Group's financial instruments are considered by the Board to be interest rate risk, liquidity risk and credit risk. The Board review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group finances its operations through a mixture of retained surpluses and borrowings from financial institutions. The Group's exposure to interest fluctuations on its borrowings is managed by the use of both fixed and variable rate facilities, with no use of standalone financial instruments. The Group considers its average cost of funds to be well managed.

Report of the Board and strategic report

Financial risk management objectives and policies (continued)

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and invests cash assets prudently, also limiting the amount of cash held with any one institution. At any one time the Group aims to maintain sufficient undrawn facilities to fund the committed development programme for 24 months into the future.

Credit risk

The Group's principal credit risk relates to resident arrears. This risk is managed primarily by an area based generic housing service and the close relationship our staff have with their residents. We also have a dedicated income team within the finance department. We have adapted our services to meet the challenge of welfare reform.

Going concern

The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Operating and Financial Review. The Group has in place long-term debt which provides adequate resources to finance committed reinvestment and development programmes, along with the Group's day to day operations. The Group also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

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

Internal controls assurance

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

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and has been in place throughout the period commencing 1 April 2019 up to the date of approval of the report and financial statements.

Key elements of the control framework include:

- board approved terms of reference and delegated authorities for committees
- clearly defined management responsibilities for the identification, evaluation and control of significant risks
- robust strategic and business planning processes, with detailed financial budgets and forecasts
- appropriate recruitment, retention, training and development policies for all staff
- established authorisation and appraisal procedures for development and other significant commitments
- a documented approach to strategic treasury management
- regular reporting to the appropriate committee on key business objectives and outcomes
- board approved whistleblowing and anti-fraud policies covering prevention, detection and reporting, together with recoverability of assets
- regular monitoring of loan covenants and requirements for new loan facilities

Report of the Board and strategic report

Internal controls assurance (continued)

The Board cannot delegate ultimate responsibility for the system of internal control but has delegated authority to the Governance, Remuneration and Audit committee to regularly review the effectiveness of the system of internal control. The Board receives Governance, Remuneration and Audit committee meeting minutes. The annual report of the internal auditor has been reported to the Board.

Code of Governance

The Group is committed to achieving the highest standards of Governance in everything it does. The Group's Governance and Services Regulatory Judgement, published by Welsh Government in December 2019, is "Standard" on the basis that the Group identifies and manages new and emerging risks appropriately. Our governance arrangements have been reviewed against the Community Housing Cymru Code of Governance, updated in June 2018.

The Finance & Development Committee provides scrutiny of financial and development related issues. The Governance, Remuneration & Audit Committee considers internal control and assesses effectiveness of internal and external audit. This committee also considers the pay award (making its recommendation to the Board), and matters around governance, staffing structure, staff pay progression and remuneration.

In 2019 the Group updated Coastal's Rules in line with the current Model Rules issued by Community Housing Cymru, having already updated Pennant's Rules in the same way.

Statement of the responsibilities of the Board for the report and financial statements

The Board is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

Housing Association legislation requires the Board to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS102) Under the Housing Association legislation the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the Association and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers SORP 2018, have 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 maintaining an adequate system of internal control and keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015. It is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Board and strategic report

Statement of the responsibilities of the Board for the report and financial statements (continued)

In so far as each of the directors are aware:

- there is no relevant audit information of which the Association's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Association's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

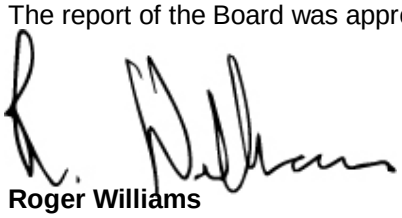
Annual general meeting

The annual general meeting will be held on 24 September 2020 at 220 High Street, Swansea, SA1 1NW.

External auditors

A resolution to re-appoint Bevan Buckland LLP will be proposed at the forthcoming annual general meeting.

The report of the Board was approved by the Board on 23 July 2020 and signed on its behalf by:



Roger Williams

Chair of the Board

Independent auditor's report to the members of Coastal Housing Group Limited on corporate governance

In addition to our audit on the financial statements for the year ended 31 March 2020, we have reviewed the Board's statement of Coastal Housing Association Limited's (“the Association”) compliance with the Welsh Government Circular 02/10, Internal Financial Control and Financial Reporting ("the Circular").

The objective of our review is to enable us to conclude on whether the Board has provided the disclosures required by the Circular and whether the statement is consistent with the information of which we are aware from our audit work on the financial statements.

We are not required to form an opinion on the effectiveness of the Association's corporate governance procedures or its internal financial control.

Opinion

With respect to the Board's statement on internal controls assurance on pages 12 and 13, in our opinion the Board of Management has provided the disclosures required by the Circular and the statement is consistent with the information of which we are aware from our audit work on the financial statements.

Bevan Buckland.

Bevan Buckland LLP
Chartered Accountants & Statutory Auditors
Langdon House
Langdon Road
Swansea
SA1 8QY

Date: 27 July 2020

Bevan Buckland
Chartered accountants, tax and financial planners

Independent auditor's report to the members of Coastal Housing Group Limited

We have audited the financial statements of Coastal Housing Group Limited (the parent association) and its subsidiary for the year ended 31 March 2020 which comprise the consolidated and Association statements of comprehensive income, the consolidated and Association statements of changes in reserves, the consolidated and Association statements of financial position, the consolidated cash flow statement and its related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”.

In our opinion the financial statements:

- give a true and fair view of the state of the group and parent association's affairs as at 31 March 2020 and of the group’s income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the group 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 have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group’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 are responsible for the other information. The other information comprises the information included in the Group 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.

Independent auditor's report to the members of Coastal Housing Group Limited

Matters on which we are required to report by exception

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

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

Responsibilities of the board

As explained more fully in the Statement of Responsibilities of the Board (set out on pages 13 and 14), 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate the group or the parent 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 https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our 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. Our audit work has been undertaken so that we might state to the Group'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.

Bevan Buckland.

Bevan Buckland LLP
Chartered Accountants & Statutory Auditors
Langdon House
Langdon Road
Swansea
SA1 8QY

Date: 27 July 2020

Bevan Buckland
Chartered accountants, tax and financial planners

Consolidated Statement of Comprehensive Income

	Note	2020 £'000	2019 £'000
Turnover		38,366	41,839
Less: share of turnover of joint ventures	**15**	(1,432)	(1,311)
Group turnover: continuing activities	**2**	36,934	40,528
Operating costs	**2**	(33,400)	(30,641)
Surplus on sale of fixed assets – housing properties	**2**	345	351
Change in fair value of investment properties	**2**	(1,500)	-
Group operating surplus: continuing activities	**2**	**2,379**	**10,238**
Share of operating profit of joint ventures	**15**	1,276	1,166
Operating surplus		**3,655**	**11,404**
Interest receivable and other income			
Group	**6**	96	155
Joint ventures	**15**	-	5
Interest payable and similar charges			
Group	**7**	(6,737)	(6,555)
Joint ventures	**15**	(1,267)	(1,213)
(Deficit)/surplus on ordinary activities before taxation		**(4,253)**	**3,796**
Tax on (deficit)/surplus on ordinary activities	**11**	2	(18)
Tax on deficit of joint ventures	**15**	(21)	(11)
(Deficit)/surplus for the year		**(4,272)**	**3,767**
Initial recognition of multi-employer defined benefit scheme	**26**	-	(2,920)
Actuarial gain/(loss) in respect of pension schemes	**26**	3,855	(1,121)
Total comprehensive income for the year		**(417)**	**(274)**

The accompanying notes form part of these financial statements.

Historical cost surpluses and deficits were identical to those shown in the income and expenditure account.

The financial statements were approved by the Board on 23 July 2020 and were signed on its behalf by:

Chairperson	**Board member**	**Secretary**
Roger Williams	Alun Williams	Simon Jones

Association Statement of Comprehensive Income

	Note	2020 £'000	2019 £'000
Turnover	**2a**	36,933	39,985
Operating costs	**2a**	(33,377)	(30,274)
Surplus on sale of fixed assets – housing properties	**2a**	333	378
Change in fair value of investment properties	**2a**	(1,500)	-
Operating surplus	**2a**	**2,389**	**10,089**
Interest receivable and other income	**6**	135	151
Interest payable and similar charges	**7**	(6,737)	(6,513)
Deficit/(surplus) on ordinary activities before taxation		**(4,213)**	**3,727**
Tax on (deficit)/surplus on ordinary activities	**11**	-	-
Deficit/(surplus) for the year		**(4,213)**	**3,727**
Initial recognition of multi-employer defined benefit scheme	**26**	-	(2,920)
Actuarial gain/(loss) in respect of pension schemes	**26**	3,855	(1,121)
Total comprehensive income for the year		**(358)**	**(314)**

The accompanying notes form part of these financial statements.

Historical cost surpluses and deficits were identical to those shown in the income and expenditure account.

The financial statements were approved by the Board on 23 July 2020 and were signed on its behalf by:

Chairperson	**Board member**	**Secretary**
Roger Williams	Alun Williams	Simon Jones

Consolidated Statement of Changes in Reserves

	Income and Expenditure reserve £'000	Restricted reserves £'000	Total reserves £'000
At 1 April 2019	43,665	14	43,679
Deficit from statement of comprehensive income	(417)	-	(417)
Transfer between reserves	14	(14)	-
At 31 March 2020	**43,262**	**-**	**43,262**

Association Statement of Changes in Reserves

	Income and expenditure reserve £'000	Restricted reserves £'000	Total reserves £'000
At 1 April 2019	42,308	14	42,322
Deficit from statement of comprehensive income	(358)	-	(358)
Transfer between reserves	14	(14)	-
At 31 March 2020	**41,964**	**-**	**41,964**

Consolidated Statement of Financial Position

	Note	2020 £'000	2019 £'000
Fixed assets			
Housing properties	**12**	444,635	427,726
Depreciation	**12**	(43,061)	(39,768)
		401,574	387,958
Other tangible fixed assets	**16**	5,362	5,246
Investments	**13**	20,893	24,124
Investments in joint ventures	**15**	11,536	9,563
Homebuy loans	**14**	2,997	3,235
Total fixed assets		442,362	430,126
Current assets			
Debtors due within one year	**18**	10,965	1,680
Properties for sale and work in progress	**17**	8,010	2,076
Cash at bank and in hand		18,818	23,328
		37,793	27,084
Debtors due after more than one year	**18**	4,320	4,184
Creditors: due within one year	**21**	(63,733)	(16,057)
Social housing grant due in one year	**24**	(1,707)	(1,652)
Net current (liabilities)/assets		**(27,647)**	**9,375**
Total assets less current liabilities		**419,035**	**443,685**
Creditors: due in more than one year	**22**	(137,641)	(170,930)
Social housing grant due after more than one year	**24**	(207,567)	(201,369)
Other grants due after more than one year	**19**	(1,584)	(1,355)
Housing grant relating to joint ventures		(11,296)	(9,816)
Homebuy grants due after more than one year	**14**	(2,825)	(3,037)
Housing finance grant	**20**	(5,654)	(5,247)
Provisions for liabilities and charges	**27**	(5,863)	(790)
Defined benefit pension liability	**26**	(3,343)	(7,462)
Net assets		**43,262**	**43,679**
Capital and reserves			
Restricted reserve		-	14
Revenue reserve		43,262	43,665
Total capital and reserves		**43,262**	**43,679**

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board on 23 July 2020 and were signed on its behalf by:

Chairperson	**Board member**	**Secretary**
Roger Williams	Alun Williams	Simon Jones

Association Statement of Financial Position

	Note	2020 £'000	2019 £'000
Fixed assets			
Housing properties	**12**	444,635	427,726
Depreciation	**12**	(43,061)	(39,768)
		401,574	387,958
Other tangible fixed assets	**16**	5,362	5,246
Investments	**13**	20,654	23,885
Homebuy loans	**14**	1,894	2,118
Total fixed assets		429,484	419,207
Current assets			
Debtors due within one year	**18**	12,750	2,807
Properties for sale and work in progress	**17**	4,561	222
Cash at bank and in hand		18,201	22,159
		35,512	25,188
Debtors due after more than one year	**18**	4,320	4,184
Creditors: due within one year	**21**	(62,270)	(15,857)
Social housing grant due in one year	**24**	(1,707)	(1,652)
Net current (liabilities)/assets		**(28,465)**	**7,679**
Total assets less current liabilities		**405,339**	**431,070**
Creditors: due in more than one year	**22**	(137,641)	(170,605)
Social housing grant due after more than one year	**24**	(207,567)	(201,369)
Other grants due after more than one year	**19**	(1,584)	(1,355)
Homebuy grants due after more than one year	**14**	(1,723)	(1,920)
Housing finance grant	**20**	(5,654)	(5,247)
Provisions for liabilities and charges	**27**	(5,863)	(790)
Defined benefit pension liability	**26**	(3,343)	(7,462)
Net assets		**41,964**	**42,322**
Capital and reserves			
Restricted reserve		-	14
Revenue reserve		41,964	42,308
Total capital and reserves		**41,964**	**42,322**

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board on 23 July 2020 and were signed on its behalf by:

Chairperson	**Board member**	**Secretary**
Roger Williams	Alun Williams	Simon Jones

Consolidated Statement of Cash Flow

	Note	2020 £'000	2019 £'000
Net cash inflow from operating activities	**30**	10,039	18,577
Cash flow from financing activities			
Loan drawdown		887	325
Interest payable		(6,986)	(6,436)
Loan repayments		(891)	(3,001)
Cash flow from investing activities			
(Increase) in WHP investment		(1,985)	(1,877)
Interest received		96	155
Purchase and construction of housing properties		(15,220)	(17,466)
Component replacements		(138)	(1,255)
Proceeds from sale of other fixed assets		1,026	1,003
Purchase and construction of fixed asset investments		(676)	(309)
New capital expenditure		(674)	(670)
Other grants received		636	1,516
Social housing grant received		7,896	4,215
Social housing grant received for joint venture properties		1,480	1,526
Net change in cash and cash equivalents		**(4,510)**	**(3,697)**
Cash and cash equivalents at beginning of year		23,328	27,025
Cash and cash equivalents at end of the year		**18,818**	**23,328**

Association Statement of Cash Flow

	Note	2020 £'000	2019 £'000
Net cash generated from operating activities	**30**	10,806	18,775
Cash flow from financing activities			
Loan drawdowns		-	-
Interest payable		(6,953)	(6,393)
Loan repayments		(891)	(3,001)
Cash flow from investing activities			
Interest received		135	151
Purchase and construction of housing properties		(15,113)	(17,466)
Component replacements		(138)	(1,255)
Proceeds from sale of other fixed assets		1,014	1,030
Purchase and construction of fixed asset investments		(676)	(336)
New capital expenditure		(674)	(670)
Other grants received		636	1,516
Social housing grant received		7,896	4,215
Net change in cash and cash equivalents		**(3,958)**	**(3,434)**
Cash and cash equivalents at beginning of year		22,159	25,593
Cash and cash equivalents at end of the year		**18,201**	**22,159**

Notes to the Financial Statements

Legal status

The Association is a registered under the Co-operative and Community Benefit Societies Act 2014 and is a Registered Social Landlord with charitable status, registered with the Welsh Government.

1. Accounting policies

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

Format of accounts

The Association is a public benefit entity with a trading subsidiary. 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) in the United Kingdom issued by the Financial Reporting Council and comply with the Statement of Recommended Practice for “Registered Social Housing Providers” as updated in 2018 (Housing SORP 2018), and comply with the Accounting Requirements for Social Landlords registered in Wales General Determination 2015.

Basis of consolidation

The consolidated financial statements include the results of Coastal Housing Group Limited and its subsidiary Pennant Housing Association Limited which is also a registered social landlord – 'the Group'.

The Association has the right to appoint members to the Board and thereby exercise control over the subsidiary.

The Group accounts consolidate the accounts of the Association and all its subsidiaries at 31 March under the requirements of FRS 102. The Association is required under the Co-operative and Community Benefit Societies Act 2014 to prepare Group accounts. The consolidation has been carried out in accordance with current accounting standards in order to show the financial information for the Group as a single economic entity. Where any conflict arises between the Housing SORP 2018 and applicable financial reporting standards, then the Housing SORP 2018 prevails.

Turnover and revenue recognition

Turnover comprises rental income receivable in the year, income from shared ownership first tranche sales, amortisation of social housing and other government grants, and other services included at the invoiced value (excluding VAT) of goods and services supplied in the year and revenue grants receivable in the year. Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting. Surpluses or deficits resulting from the sale of properties and fixed asset investments are shown in the income and expenditure account under surpluses/deficits from the sale of fixed assets. Revenue is recognised when sale completion of the property has been achieved.

Revenue grants are receivable when the conditions for receipt of agreed grant funding have been met. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with Administering Authorities. Amortisation of Social Housing and other government grants is accounted for in line with the accounting policy.

Debtors

Short term debtors are measured at transaction price less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method less any impairment. Where deferral of payment terms have been agreed at below market rate and where material, the balance is shown at the present value, discounted at a market rate.

Notes to the Financial Statements

Value Added Tax

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

Deferred taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Except as noted below, full provision for deferred taxation is made under the liability method on all timing differences that have arisen, but not reversed by the balance sheet date.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Interest payable

Interest is capitalised on borrowings to finance developments to the extent that it accrues in respect of the period of development if it represents either:

a) interest on borrowings specifically financing the development programme after deduction of social housing grant (SHG) received in advance; or

b) a fair amount of interest on borrowings of the Association as a whole after deduction of SHG received in advance to the extent that they can be deemed to be financing the development programme.

Other interest payable is charged to the income and expenditure account in the year.

Pensions – defined contribution scheme

The Association makes payments to defined contribution schemes on behalf of its employees. The schemes are funded by fixed contributions from both employees and the Association. The scheme assets are invested separately from the Association assets in independently administrated funds in the names of employees concerned and there is no residual liability for the Association beyond remittance of these contributions.

The associated expenditure is recognised immediately in the statement of comprehensive income in the year in which contributions are earned.

Pensions – defined benefit scheme

The Association makes payments to defined benefit pension schemes on behalf of its employees. The schemes are funded by contributions partly from the employees and partly by the Association at rates determined by independent actuaries. The scheme assets are invested separately from the Association assets in independently administrated multi-employer funds.

The cost of these benefits and the present value of the obligation depends on a number of factors including life expectancy, salary increases 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. Variations from in these assumptions could significantly impact the liability.

Notes to the Financial Statements

Housing properties

Housing properties are principally properties available for rent and are stated at cost. The cost of properties is their purchase price together with incidental costs of acquisition and direct costs of the development process. Where properties come into the ownership of the Association under Section 106 agreements, these are often purchased at below cost price. Where this is the case the cost is increased to the full cost and the difference is shown as imputed cost within property acquisitions, with the corresponding balance shown as imputed grant within creditors.

Housing properties – depreciation is charged on the historic cost of property components. The depreciable amounts are written off over the estimated useful economic lives from the date of purchase / build. Freehold land is not depreciated. Leasehold properties are depreciated over the remaining period of the lease.

Properties in the course of construction are stated at cost and are transferred into social housing properties when completed. Any incremental overhead costs directly attributable to bringing fixed assets into their working condition for their intended purpose are capitalised. Expenditure on the initial purchase of land and buildings is capitalised and disclosed as part of properties in the course of construction.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements. Where a housing property comprises two or more components with substantially different useful economic lives then each component is accounted for separately. Expenditure relating to the subsequent replacement or renewal of components is capitalised as incurred. Depreciation is charged on cost on a straight line basis over the components expected economic lives. Housing properties are broken down into the following three components, structure, windows and roofs.

Shared ownership properties are not depreciated on the basis that the residual value is likely to be greater than the net cost.

Profit or loss on disposal of property is recognised at the date a sale becomes certain. The profit or loss arising on disposal is the difference between the sale price, SHG income previously recognised within income, and the total of depreciated cost together with any associated costs of disposal such as legal and valuation fees.

Depreciation of housing properties

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

The depreciable amount is arrived at on the basis of original cost, less residual value.

The Group depreciates the major components of its housing properties at the following annual rates:

Structure	1% to 10%
Roofs	2%
Windows	3%

Freehold land is not depreciated.

Properties held on leases are amortised over the life of the lease or their estimated useful economic lives in the business, if shorter.

Notes to the Financial Statements

Social housing grant

Social housing grant (SHG) is receivable from the Welsh Government (the WG) and is repayable in the event of disposal, demolition or change of use to an ineligible activity, save in circumstance where the Welsh Government considers it appropriate to reduce the amount repayable. These are designed as a contribution towards the capital cost of providing new social housing and are received when a property is developed or acquired.

Government grants received for housing properties are recognised in income over the useful life of the housing property structure under the accruals method.

SHG due from the WG or received in advance is included as a current asset or liability. SHG received in respect of revenue expenditure is credited to the Statement of Comprehensive Income in the same period as the expenditure to which it relates.

SHG is subordinated to the repayment of loans by agreement with the WG. SHG released on sale of a property may be repayable but is normally available to be recycled and is credited to a Recycled Capital Grant Fund and included in the statement of financial position in liabilities.

Where individual components are disposed of, this does not create a relevant event for recycling purposes. Upon disposal of the associated property, the Group is required to recycle the full amount of the original grant received. A contingent liability is disclosed in the accounts in relation to SHG amortised to date, due to the potential requirement to recycle upon sale of a property.

Housing finance grants

Housing finance grants (HFG) are capital grants receivable from the Welsh Government which are repayable to the extent that such amounts have been received in the event of the disposal, demolition or change of use to an ineligible activity. These are designed as a contribution towards the capital cost of providing new social housing and are received in instalments over a term of 30 years commencing once a scheme is approved for development.

Investment properties

Government grants received in respect of investment properties are recognised under the performance method. Where such grants are not subject to specified future performance related conditions they are recognised as income. Any grant received before the revenue recognition criteria are satisfied is recognised as a liability.

Other grants

Other grants are receivable from local authorities and other organisations. Capital grants are shown as a liability on the statement of financial position. Grants in respect of revenue expenditure are credited to the Statement of Comprehensive Income in the same period as the expenditure to which they relate.

Amortisation of grants

Grants relating to assets are recognised in income on a straight line basis over the expected useful life of the asset. Government grants received for housing properties are recognised in income over the expected useful life of the housing property structure – over 10 – 100 years.

Where grants are received in advance they are carried forward as current liabilities to be matched against future capital expenditure as it is incurred. Grants receivable in respect of completed schemes or those under construction are included as debtors in the financial statements.

Notes to the Financial Statements

Development costs

Development costs are capitalised in as much as they comprise purchase price, directly attributable costs to bring the properties into working condition for their intended use and incremental costs that would have been avoided only if the properties had not been constructed as required. Any other development costs which are not directly attributable have been written off to the Statement of Comprehensive Income.

Accommodation managed by agents

Revenue grant received in relation to these schemes is included in turnover. A substantial portion of the grant is paid over to the managing agent, this expenditure being incorporated in operating costs.

Managing agents collect rent on the schemes, which are applied by them towards the cost of housing the residents. This income and expenditure has been excluded for the accounts of the Association.

Impairment

Housing properties, including those with individual components and other assets are assessed whether an indication of impairment exists at each reporting date.

Where there is evidence of impairment, assets are written down to their recoverable amount, being the higher of the value in use and fair value less costs to sell. Any such write down is charged to operating surplus.

Other tangible fixed assets

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

Buildings	10 - 150 years
Fixed plant & machinery	4 - 30 years
Furniture, fixtures and fittings	5 - 10 years
Computers and office equipment	3 - 5 years
Motor vehicles	5 years
Scheme assets	4 - 30 years

Depreciation

Tangible fixed assets, other than investment properties, are depreciated over their useful lives based on various factors. The actual lives of the assets are re-assessed on a periodic basis and may vary depending on the standard of the asset. For housing property assets, the assets are broken down into components based on management's assessment of the properties and the specific costs incurred in replacing these components. Individual useful economic lives are assigned to these components.

Leased assets

Assets held under finance leases are included in the balance sheet and depreciated in accordance with the Group's normal accounting policies. The present value of future rentals is shown as a liability.

The interest element of rental obligations is charged to expenditure over the period of the lease in proportion to the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to expenditure on a straight-line basis over the lease term.

Notes to the Financial Statements

Properties for sale

Shared ownership first tranche sales, completed properties for outright sale and property under construction are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Investment in Subsidiary

Investment in the subsidiary is accounted for at cost less any impairment.

Fixed asset investments

Investments held as fixed assets are stated at market value.

Home buy option

Where the Group received an allowance from Welsh Assembly Government to administer the sale of property under the “Home Buy Option” initiative and in turn has made an interest free loan to the purchaser secured by a charge on the property, the loan is accounted for under investments at cost with the associated grant included in long term liabilities on the statement of financial position.

Employee benefits

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

Investment property

Investment properties consist of commercial properties held in connection with regeneration activity. Investment properties are measured at costs on initial recognition and subsequently at fair value at the year end, with any changes in fair value recognised in income and expenditure.

Loans

Basic financial instruments are recognised at amortised historical cost. Loan arrangement fees are capitalised and recognised over the term of the loan through the effective interest rate applied to the loan and amendments there to when subsequent fees arise during the course of such loans. Interest on loans is recognised in like manner using the present value of estimated future interest payments.

Joint ventures

The Group accounts for joint ventures under the gross equity method in line with Housing SORP 2018. The investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in share of net assets.

Restricted reserve

A special reserve has been created representing funds transferred from Hanover Housing Association to cover improvements or major repair costs on traditionally funded schemes.

Notes to the Financial Statements

Provisions for liabilities

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

Significant management judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, 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 on-going 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

The Association 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. Specifically this includes whether there is an impairment indicator for a cash-generating unit. For these purposes a cash-generating unit is defined as a property scheme.

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.

Categorisation of properties between investment properties and property, plant and equipment

The Association bases this assessment depending on the use of the asset and the level of rent charged.

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.

Notes to the Financial Statements

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

Group – continuing activities

	Note	Turnover	Operating costs	Surplus on disposal of fixed assets	Change in fair value of investment properties	Operating surplus
				2020		
		£'000	£'000	£'000	£'000	£'000
Social housing lettings	3	31,820	(31,253)	-	-	567
Other social housing activities						
First tranche shared equity sales		1,888	(1,330)	-	-	558
Management services		1,679	(76)	-	-	1,603
Development costs not capitalised		-	(194)	-	-	(194)
Surplus on disposal of fixed assets		-	-	345	-	345
Non social housing activities						
Commercial rents		1,547	(547)	-	-	1,000
Properties developed for outright sale		-	-	-	-	-
Change in fair value of investment properties		-	-	-	(1,500)	(1,500)
		36,934	(33,400)	345	(1,500)	2,379

	Note	Turnover	Operating costs	Surplus on disposal of fixed assets	Change in fair value of investment properties	Operating surplus
				2019		
		£'000	£'000	£'000	£'000	£'000
Social housing lettings	3	30,407	(24,103)	-	-	6,304
Other social housing activities						
First tranche shared equity sales		200	(97)	-	-	103
Management services		1,693	(86)	-	-	1,607
Development costs not capitalised		-	(34)	-	-	(34)
Surplus on disposal of fixed assets		-	-	351	-	351
Non social housing activities						
Commercial rents		1,568	(611)	-	-	957
Properties developed for outright sale		6,660	(5,710)	-	-	950
		40,528	(30,641)	351	-	10,238

Notes to the Financial Statements

2a. Particulars of turnover, cost of sales, operating costs and operating surplus (continued)

Association – continuing activities

	Note	Turnover £'000	Operating costs £'000	2020 Surplus on disposal of fixed assets £'000	Change in fair value of investment properties £'000	Operating surplus £'000
Social housing lettings	**3**	31,820	(31,284)	-	-	536
Other social housing activities						
First tranche shared equity sales		1,888	(1,277)	-	-	611
Management services		1,679	(76)	-	-	1,603
Development costs not capitalised		-	(194)	-	-	(194)
Surplus on disposal of fixed assets		-	-	333	-	333
Non social housing activities						
Commercial rents		1,546	(546)	-	-	1,000
Properties developed for outright sale		-	-	-	-	-
Change in fair value of investment properties		-	-	-	(1,500)	(1,500)
		36,933	(33,377)	333	(1,500)	2,389

	Note	Turnover £'000	Operating costs £'000	2019 Surplus on disposal of fixed assets £'000	Change in fair value of investment properties £'000	Operating surplus £'000
Social housing lettings	**3**	30,407	(24,103)	-	-	6,304
Other social housing activities						
First tranche shared equity sales		200	(97)	-	-	103
Management services		1,693	(86)	-	-	1,607
Development costs not capitalised		-	(34)	-	-	(34)
Surplus on disposal of fixed assets		-	-	378	-	378
Non social housing activities						
Commercial rents		1,569	(610)	-	-	959
Properties developed for outright sale		6,116	(5,344)	-	-	772
		39,985	(30,274)	378	-	10,089

Notes to the Financial Statements

3. Particulars of income and expenditure from social housing lettings

Group

	2020			2019
	General needs and sheltered housing £'000	Other Social Lettings £'000	Total £'000	Total £'000
Rent receivable net of identifiable service charges	23,832	2,521	26,353	24,888
Rent loss due to voids	(356)	(50)	(406)	(326)
	23,476	2,471	25,947	24,562
Service charge income	3,933	-	3,933	3,871
Other revenue grants	266	-	266	327
Amortisation of grants	1,674	-	1,674	1,647
Turnover from social lettings	29,349	2,471	31,820	30,407
Overhead costs	(5,947)	(1,697)	(7,644)	(8,084)
Management	(3,277)	(281)	(3,558)	(1,699)
Services	(3,607)	-	(3,607)	(3,508)
Routine maintenance	(4,338)	(145)	(4,483)	(4,218)
Major repairs expenditure	(2,964)	-	(2,964)	(2,971)
Depreciation of housing properties	(3,396)	-	(3,396)	(3,233)
Fire safety remediation costs (Note 27)	(5,152)	-	(5,152)	-
Bad debts	(415)	(34)	(449)	(390)
Operating costs on social housing lettings	(29,096)	(2,157)	(31,253)	(24,103)
Operating surplus on social housing lettings	253	314	567	6,304

Notes to the Financial Statements

3a. Particulars of income and expenditure from social housing lettings

Association

	2020			2019
	General needs and sheltered housing £'000	Other social lettings £'000	Total £'000	Total £'000
Rent receivable net of identifiable service charges	23,832	2,521	26,353	24,888
Rent loss due to voids	(356)	(50)	(406)	(326)
	23,476	2,471	25,947	24,562
Service charge income	3,933	-	3,933	3,871
Other revenue grants	266	-	266	327
Amortisation of grants	1,674	-	1,674	1,647
Turnover from social lettings	29,349	2,471	31,820	30,407
Overhead costs	(5,947)	(1,728)	(7,675)	(8,084)
Management	(3,277)	(281)	(3,558)	(1,699)
Services	(3,607)	-	(3,607)	(3,508)
Routine maintenance	(4,338)	(145)	(4,483)	(4,218)
Major repairs expenditure	(2,964)	-	(2,964)	(2,971)
Depreciation of housing properties	(3,396)	-	(3,396)	(3,233)
Fire safety remediation costs (Note 27)	(5,152)	-	(5,152)	-
Bad debts	(415)	(34)	(449)	(390)
Operating costs on social housing lettings	(29,096)	(2,188)	(31,284)	(24,103)
Operating surplus on social housing lettings	253	283	536	6,304

Notes to the Financial Statements

4. Accommodation in management and development

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

	Group		Association	
	2020	2019	2020	2019
	No	No	No	No
Social housing				
General needs	5,296	5,225	5,296	5,225
Property ownership in joint ventures	459	387	459	387
Shared ownership	61	63	61	63
Leaseholder	139	139	139	139
Total managed	5,955	5,814	5,955	5,814

5. Operating surplus

The operating surplus is arrived at after charging:

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Other non-audit services (including VAT)	9	9	9	7
Auditor's remuneration (including VAT)	37	26	30	23

6. Interest receivable and other income

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Interest receivable and similar income	96	155	135	151

7. Interest payable and similar charges

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Loans and bank overdrafts	6,904	6,747	6,871	6,705
Interest payable capitalised on housing properties under construction	(338)	(356)	(305)	(356)
Unwinding of discount factor on pension liability	171	164	171	164
	6,737	6,555	6,737	6,513

Notes to the Financial Statements

8. Employees

Average monthly number of employees expressed as full time equivalents:

	Group		Association	
	2020 No	2019 No	2020 No	2019 No
Corporate support	37	33	37	33
Development and Pennant	19	17	14	12
Housing	200	182	200	182
	256	232	251	227

9. Employee costs:

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Wages and salaries	7,420	6,780	7,294	6,646
Social security costs	720	651	708	639
Other pension costs	1,101	844	1,092	834
Apprentice levy	22	19	22	19
	9,263	8,294	9,116	8,138

10. Board members and executives

Key management and personnel remuneration

Directors who are executive staff members

	2020 £'000	2019 £'000
Basic Salary	484	425
Social security costs	61	52
Pension Contributions	107	74
Aggregate emoluments	652	551

The number of senior executives accruing retirement benefits is 5 (2019:5). During the year four directors have opted to pay their pension contributions by salary sacrifice, which lowers the gross salary and increases the employer contributions respectively. This option is available to all employees.

Non-executive directors

	2020 £'000	2019 £'000
Basic salary	25	-
Benefit in kind	-	-
Pension contributions	-	-
Aggregate emoluments	25	-

Notes to the Financial Statements

10. Board members and executives (continued)

Expenses paid to non-executive directors amounted to £4,448 (2019: £5,206).

Remuneration of the highest paid director, excluding pension contributions:

	2020 Total £'000	2019 Total £'000
Emoluments	138	124

The Group Chief Executive is an ordinary member of the pension scheme. No enhanced or special terms apply and the Association makes no contribution to any individual pension arrangement.

The full time equivalent number of key management personnel whose remuneration payable (including pension costs) in the period fell within the following bands was:

	2020	2019
£80,000 - £89,999	-	1
£90,000 - £99,999	-	3
£100,000 - £110,000	2	-
£110,000 - £119,000	2	-
£120,000 - £129,999	-	-
£139,999 - £149,999	-	1
£140,000 - £149,999	1	-

11. Tax on surplus on ordinary activities

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Current tax reconciliation				
Taxable (loss)/surplus on ordinary activities before tax	(11)	96	-	-
Theoretical tax at UK corporation tax rate				
Group – (19% (2019:19%)	(2)	18	-	-
Depreciation	-	-	-	-
Non-taxable income	-	-	-	-
Losses utilised in the year	-	-	-	-
Current tax charge	(2)	18	-	-

Notes to the Financial Statements

12. Tangible fixed assets – properties (Group and Association)

	Social Housing Properties held for letting £'000	Housing Properties for letting under construction £'000	Completed shared ownership housing properties £'000	Total reserves £'000
Cost				
At 1 April 2019	395,130	26,221	6,375	427,726
Additions	670	14,241	-	14,911
Schemes completed in year	15,835	(15,835)	-	-
Transfers	(2)	(269)	-	(271)
Reclassification from investment properties	4,061	-	-	4,061
Reclassification to investment properties	(1,383)	-	-	(1,383)
Disposals	(255)	-	(154)	(409)
At 31 March 2020	414,056	24,358	6,221	444,635
Depreciation				
At 1 April 2019	(39,315)	-	(453)	(39,768)
Charged in year	(3,283)	-	(42)	(3,325)
Eliminated on disposal	22	-	10	32
At 31 March 2020	(42,576)	-	(485)	(43,061)
Net book value				
At 31 March 2020	371,480	24,358	5,736	401,574
At 31 March 2019	355,815	26,221	5,922	387,958

Additions to completed properties held for letting	**2020 £000**	**2019 £000**
Replacement of components	138	1,255
Purchase of existing properties	354	96
Developments	178	154
Total additions	670	1,505

Notes to the Financial Statements

13. Fixed asset investments

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Commercial properties				
At 1 April 2019	22,119	21,589	22,119	21,589
Additions	383	395	383	395
Transfers to housing property	(4,061)	-	(4,061)	-
Transfers from housing property	1,383	-	1,383	-
Transfers to other tangible fixed assets	-	(366)	-	(366)
Transfers from other tangible fixed assets	-	501	-	501
Change in fair value of investment properties	(1,500)	-	(1,500)	-
At 31 March 2020	**18,324**	**22,119**	**18,324**	**22,119**
Shared equity loans				
At 1 April 2019	2,005	2,091	1,766	1,825
Additions	598	42	598	42
Disposals	(34)	(128)	(34)	(101)
At 31 March 2020	**2,569**	**2,005**	**2,330**	**1,766**
	20,893	**24,124**	**20,654**	**23,885**

In line with the accounting policy commercial property investments are accounted for at valuation and shared equity loans are held at historical cost. The Board of Management are confident that the carrying value of commercial properties is a fair reflection of their market value based upon the leases that are in place.

The commercial properties were valued by CLC Chartered Surveyors dated March 2020.

14. Homebuy

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Homebuy loans	2,997	3,235	1,894	2,118
Homebuy grants	2,825	3,037	1,723	1,920

The homebuy loans represent secured interest free loans to freeholders on properties acquired under the 'Home Buy Option Initiative' which has been part funded by Social Housing Grant.

At 31 March 2020 the Group had 123 (2019: 130) homebuy loans, and the Association had 49 (2019: 55) homebuy loans.

Notes to the Financial Statements

15. Joint ventures

The joint ventures relate to 30% holdings held by Pennant Housing Association in The Welsh Housing Partnership Limited (WHP) and WHP2 Limited (WHP2), both companies being incorporated in the United Kingdom. The principle activity of the companies is to purchase properties and lease them to housing associations connected to the investors. Their principle place of business is the Pobl Group offices at The Old Post Office, Exchange House, High Street, Newport, NP20 1AA.

WHP was incorporated in August 2011 and WHP2 was incorporated in December 2016.

The latest financial statements of WHP and WHP2 have been prepared to 31 December 2019. The year end does not coincide with the Group's year end of 31 March 2020. The Association's share of the deficit of WHP and surplus of WHP2 from the 31 December 2019 period has been absorbed into the Group's March 2020 year end via the gross equity method.

The Group's share of the joint ventures at 31 December 2019 was as follows:

	WHP December 2019 £'000	**WHP2 December 2019 £'000**	**December 2019 £'000**	**December 2018 £'000**
Turnover	1,130	302	1,432	1,311
Administrative expenses	(96)	(60)	(156)	(145)
Operating surplus	1,034	242	1,276	1,166
Surplus on sale of fixed assets	-	-	-	5
Interest payable and similar charges	(1,054)	(213)	(1,267)	(1,213)
Other finance costs	-			
Surplus on ordinary activities before taxation	(20)	29	9	(42)
Tax on surplus on ordinary activities	(12)	(9)	(21)	(11)
Surplus for the financial year	(32)	20	(12)	(53)
Fixed assets	32,952	13,086	46,038	38,570
Current assets	950	126	1,076	1,414
Creditors: falling due within one year	(3,432)	(876)	(4,308)	(606)
Creditors: falling due after more than one year	(24,753)	(6,517)	(31,270)	(31,690)
Shareholders' funds	5,717	5,819	11,536	7,688

Notes to the Financial Statements

15. Joint ventures (continued)

Group share in joint ventures:	March 2020 £'000	March 2019 £'000
WHP		
WHP investment as at 31 December	4,891	4,891
Interest in WHP	825	857
Total interest in WHP	5,716	5,748
WHP2		
WHP2 investment as at 31 December	5,750	1,890
Capital Investment in WHP2 March 2019	-	1,875
Interest in WHP2	70	50
Total interest in WHP2	5,820	3,815
Investment in joint ventures	**11,536**	**9,563**

16. Tangible fixed assets – other (Group and Association)

	Freehold offices £'000	Computers and office equipment £'000	Furniture, Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2019	3,600	1,219	5,425	2	10,246
Additions	-	60	614	-	674
Disposals	-	(302)	-	(2)	(304)
At 31 March 2020	3,600	977	6,039	-	10,616
Depreciation					
At 1 April 2019	(462)	(1,000)	(3,536)	(2)	(5,000)
Charged in year	(92)	(114)	(352)	-	(558)
Eliminated on disposal	-	302	-	2	304
At 31 March 2020	(554)	(812)	(3,888)	-	(5,254)
Net book value					
At 31 March 2020	3,046	165	2,151	-	5,362
At 31 March 2019	3,138	219	1,889	-	5,246

Notes to the Financial Statements

17. Properties for sale and work in progress

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Properties for sale and work in progress	8,010	2,076	4,561	222

18. Debtors

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Due within one year				
Rent and service charge receivable	1,995	1,610	1,995	1,610
Less: provision for bad and doubtful debts	(1,388)	(1,111)	(1,388)	(1,111)
	607	499	607	499
Welsh Government grant	9,273	-	9,273	-
Prepayments and accrued income	686	570	686	570
Other debtors	314	551	289	544
Accrued income	85	60	85	60
Amounts owed by Pennant	-	-	1,810	1,134
	10,965	1,680	12,750	2,807

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Due in more than one year				
Housing finance grant	4,320	4,184	4,320	4,184
	4,320	4,184	4,320	4,184

19. Other government grants

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Innovative housing programme grant	667	-	667	-
Commercial grants	917	1,355	917	1,355
	1,584	1,355	1,584	1,355

20. Housing finance grant

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Housing finance grant	5,654	5,247	5,654	5,247
	5,654	5,247	5,654	5,247

Notes to the Financial Statements

21. Creditors: amounts falling due within one year

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Social housing grant received in advance	17,557	2,833	17,557	2,833
Recycled capital grant fund	3,123	4,192	3,123	4,192
Debt (note 22)	36,990	3,745	35,778	3,745
Accruals and deferred income	2,816	2,215	2,687	2,140
Capital expenditure on housing property	1,272	1,719	1,272	1,612
Other creditors	1,059	542	937	542
Rent and service charges received in advance	553	467	553	467
Other taxation and social security	363	344	363	326
	63,733	16,057	62,270	15,857

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

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Deferred income	1,186	1,226	1,186	1,226
Debt (note 23)	136,455	169,704	136,455	169,379
	137,641	170,930	137,641	170,605

23. Debt analysis

Based on the lender's earliest repayment date, borrowings are repayable as follows:

Terms of repayment

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Within one year	36,990	3,745	35,778	3,745
Between one and two years	1,582	3,419	1,582	3,419
Between two and five years	3,467	13,053	3,467	13,053
More than five years	131,406	153,232	131,406	152,907
	173,445	173,449	172,233	173,124

Security

The loans with banks, building societies and capital markets are secured by fixed charges on individual properties.

Terms of repayment and interest rates

Rates of interest during the year range from 0.6% to 11.6%. The weighted average rate of interest for 2020 was 3.68% (2019: 3.75%). As at 31 March 2020, 70% (2019: 70%) of loans bore interest at fixed rates and 30% (2019: 30%) at variable rates

Notes to the Financial Statements

24. Social housing grant (Group and Association)

	Social Housing Properties held for letting £'000	Housing properties for letting under construction £'000	Completed Share Ownership Housing properties £'000	Total reserves £'000
Cost				
At 1 April 2019	(210,610)	(12,156)	(1,430)	(224,196)
Additions	(135)	(9,830)	-	(9,965)
Schemes completed in year	(7,748)	7,748	-	-
Transferred to investments/other assets	-	3,341	-	3,341
Disposals	110	-	40	150
At 31 March 2020	(218,383)	(10,897)	(1,390)	(230,670)
Amortisation				
At 1 April 2019	22,974	-	152	23,126
Charged in year	1,624	-	13	1,637
Schemes completed in year	-	-	-	-
Eliminated on disposal	(21)	-	(7)	(28)
At 31 March 2020	24,577	-	158	24,735
Other grants				
At 1 April 2019	(2,107)	(21)	-	(2,128)
Additions	-	(907)	-	(907)
Schemes completed in year	(615)	100	-	(515)
Disposals	-	-	-	-
At 31 March 2020	(2,722)	(828)	-	(3,550)
Amortisation				
At 1 April 2019	177	-	-	177
Charged in year	34	-	-	34
Eliminated on disposal	-	-	-	-
At 31 March 2020	211	-	-	211
Net Creditor				
At 31 March 2020	(196,317)	(11,725)	(1,232)	(209,274)
At 31 March 2019	(189,566)	(12,177)	(1,278)	(203,021)

Notes to the Financial Statements

24. Social housing grant (Group and Association) (continued)

Terms of repayment

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Within one year	1,707	1,652	1,707	1,652
Between one and two years	1,707	1,652	1,707	1,652
Between two and five years	5,120	4,806	5,120	4,806
More than five years	200,740	194,911	200,740	194,911
	209,274	203,021	209,274	203,021

25. Obligations under operating leases

	Land and Buildings		Other	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Within one year	1,904	1,679	258	237
Between one and two years	1,904	1,679	178	152
Between two and five years	5,713	5,037	187	103
More than five years	11,772	13,136	-	-
	21,293	21,531	623	492

26. Social Housing Pension Scheme (Group and Association)

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

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

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

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

Notes to the Financial Statements

26. Social Housing Pension Scheme (Group and Association) (continued)

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

From 1 April 2019 to 30 September 2026	£717,553 per annum (increasing by 2% per annum)

Expenses for death-in-service insurance, administration and Pension Protection Fund (PPF) Levy are included in the contribution rate. 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.

Two of the existing structures are now closed to new members, one based on a final salary with a 1/60th accrual rate, and the other based on career average revalued earnings (CARE), with a 1/60th accrual rate. The structures still open to new members are either based on a final salary with a 1/80th accrual rate or a CARE with a 1/80th accrual rate.

During the accounting period the Group paid contributions at the average rate of 7.9% in respect of all defined benefit pension schemes and 11% and 5% in respect of the defined contribution scheme. As at the statement of financial position date there were 116 (2019: 88) active members of the defined benefit schemes and 117 (2019.122) active members of the defined contribution scheme.

From April 2016 the group introduced a salary sacrifice arrangement for employees to pay their pension contributions where the employees can sacrifice their salary in exchange for pension contributions. The amount of salary sacrificed ranges from 2% to 20% of the employee's salary depending on which pension scheme they are a member of.

During the year the association made payments of £720,000 (2019: £592,000) to the Social Housing Pension Scheme for the recovery plan of the past service deficit and employer contributions towards current service cost of £725,500 (2019: £502,000)

Present values of defined benefit obligation, fair value of assets and defined benefit asset (liability)

	31 March 2020 £'000	31 March 2019 £'000
Fair value of plan assets	23,509	21,729
Present value of defined benefit obligation	26,852	29,191
(Deficit) in plan	(3,343)	(7,462)
Unrecognised surplus	-	-
Defined benefit asset (liability) to be recognised	(3,343)	(7,462)

Recognition of the impact of the asset ceiling

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

Notes to the Financial Statements

26. Social Housing Pension Scheme (Group and Association) (continued)

Reconciliation of opening and closing balances of the defined benefit obligation

	31 March 2020 £'000
Defined benefit obligation at start of period	29,191
Current service cost	997
Expenses	19
Interest expense	697
Contributions by plan participants	25
Actuarial losses (gains) due to scheme experience	679
Actuarial losses (gains) due to changes in demographic assumptions	(257)
Actuarial losses (gains) due to changes in financial assumptions	(4,061)
Benefits paid and expenses	(438)
Liabilities acquired in a business combination	-
Liabilities extinguished on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Exchange rate changes	-
Defined benefit obligation at end of period	26,852

Reconciliation of opening and closing balances of the fair value of plan assets

	31 March 2020 £'000
Fair value of plan assets at start of period	21,729
Interest income	526
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	216
Contributions by the employer	1,451
Contributions by plan participants	25
Benefits paid and expenses	(438)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rate changes	-
Fair value of plan assets at end of period	23,509

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2020 was £742,000.

Notes to the Financial Statements

26. Social Housing Pension Scheme (Group and Association) (continued)

Defined benefit costs recognised in statement of comprehensive income (SOCI)

	Period 31 March 2019 to 31 March 2020 £'000
Current service cost	997
Expenses	19
Net interest expense	171
Losses (gains) on business combinations	-
Losses (gains) on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Defined benefit costs recognised in statement of comprehensive income (SoCI)	1,187

Defined benefit costs recognised in other comprehensive income

	31 March 2020 £'000
Experience on plan assets (excluding amounts included in net interest cost) - gain (loss)	216
Experience gains and losses arising on the plan liabilities - gain (loss)	(679)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	257
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	4,061
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	3,855
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in other comprehensive income - gain (loss)	3,855

Notes to the Financial Statements

26. Social Housing Pension Scheme (Group and Association) (continued)

Assets

	31 March 2020 £'000	31 March 2019 £'000
Absolute Return	1,226	1,880
Alternative Risk Premia	1,644	1,253
Corporate Bond Fund	1,340	1,014
Credit Relative Value	645	398
Distressed Opportunities	453	395
Emerging Markets Debt	712	750
Fund of Hedge Funds	14	98
Global Equity	3,438	3,656
Infrastructure	1,749	1,139
Insurance-Linked Securities	722	623
Liability Driven Investment	7,801	7,946
Long Lease Property	407	320
Net Current Assets	101	42
Opportunistic Illiquid Credit	569	-
Over 15 Year Gilts	-	-
Liquid Credit	10	-
Private Debt	474	292
Property	518	489
Risk Sharing	794	656
Secured Income	892	778
Total assets	23,509	21,729

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	2.35	2.36
Inflation (RPI)	2.55	3.24
Inflation (CPI)	1.55	2.24
Salary Growth	2.55	3.24
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

	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

Notes to the Financial Statements

27. Provisions for liabilities and charges

The group recognises provisions and liabilities of uncertain timings and amounts. Provisions are made for specific and quantifiable liabilities measures at the best estimate of expenditure and only where probable that it is required to settle a legal or constructive obligation that existed at the Statement of Financial position date.

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Restructuring provision	134	115	134	115
Provision for upgrades to existing housing	675	675	675	675
Provision for fire safety remediation costs	5,054	-	5,054	-
	5,863	790	5,863	790

An analysis of the movement in each specific provision is set out below.

A covenant waiver has been agreed with funders for the fire safety remediation costs.

Restructuring provision

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
As at April 1	115	128	115	128
Increase in provision	25	(13)	25	(13)
Release of Provision	(6)	-	(6)	-
At 31 March	134	115	134	115

Provision for upgrades to existing housing

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
As at April 1	675	500	675	500
Increase in provision	-	218	-	218
Release of Provision	-	(43)	-	(43)
At 31 March	675	675	675	675

Provision for fire safety remediation costs

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
As at April 1	-	-	-	-
Increase in provision	5,054	-	5,054	-
Release of Provision	-	-	-	-
At 31 March	5,054	-	5,054	-

Notes to the Financial Statements

28. Share capital

	2020 £	2019 £
Shares of one pound each fully paid and issued	37	41

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

29. Analysis of changes in net debt

Group

	At 1 April 2019 £	Cash flows £	Movement in creditors due within one year £	At 31 March 2020 £
Cash at bank and in hand	23,328	(4,510)	-	18,818
Housing loans due less than one year	(3,745)	-	(33,245)	(36,990)
Housing loans due in more than one year	(169,704)	4	33,245	(136,455)
	(150,121)	(4,506)	-	(154,627)

Association

	At 1 April 2019 £	Cash flows £	Movement in creditors due within one year £	At 31 March 2020 £
Cash at bank and in hand	22,159	(3,958)	-	18,201
Housing loans due less than one year	(3,745)	-	(32,033)	(35,778)
Housing loans due in more than one year	(169,379)	891	32,033	(136,455)
	(150,965)	(3,067)	-	(154,032)

Notes to the Financial Statements

30. Net cash flow from operating activities

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
(Deficit)/surplus for the year	(4,272)	3,767	(4,213)	3,727
Adjustments for non-cash items;				
Depreciation of tangible fixed assets	3,579	3,798	3,579	3,798
Amortisation of bond premium	(40)	(39)	(40)	(39)
Amortisation of intangible assets	(1,643)	(1,574)	(1,643)	(1,574)
Surplus on sale of fixed assets	(345)	(351)	(333)	(378)
Change in fair value of investment properties	1,500	-	1,500	-
Re-measurement of pension liability	3,855	(1,121)	3,855	(1,121)
Unwinding of discount factor on pension liability	(171)	(164)	(171)	(164)
Reduction in home loans	26	26	26	26
Share of operating (deficit) in joint ventures	12	53	-	-
Working capital movements				
Decrease/(increase) in properties for sale and work in progress	(5,597)	4,956	(4,034)	6,465
(Increase) in trade and other debtors	(9,420)	(383)	(10,078)	(1,480)
Increase in trade and other creditors	14,960	2,095	14,802	2,039
Increase in provisions	5,073	162	5,073	162
(Decrease)/increase in pension provision	(4,119)	952	(4,119)	952
Adjustments for investing or financing :				
Interest payable	6,737	6,555	6,737	6,513
Interest receivable	(96)	(155)	(135)	(151)
Net cash generated from operating activities	10,039	18,577	10,806	18,775

31. Capital commitments

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Capital expenditure				
Contracted less certified	40,212	31,614	37,276	27,173
Expenditure authorised by the Board, but not contracted	37,601	19,105	37,601	19,105
	77,813	50,719	74,877	46,278

The above commitments will be financed primarily through borrowings, which are available for draw-down under existing loan arrangements, with the balance funded through social housing grant.

Notes to the Financial Statements

32. Related party transactions

The following Board Member was also a resident during the year:

Dawn Mitchell (appointed September 2019)

The Board Member has a standard tenancy agreement on normal commercial terms and received no advantage in being a member of the Board of Management.

During the year Coastal made lease payments to the joint venture companies for properties purchased by the joint ventures and leased to the association. Charges in the year from WHP were £1,178,000 (2019: £1,280,000) and from WHP2 were £520,000 (2019: £231,000).

Coastal has a loan agreement with Pennant Housing Association Limited in that a maximum borrowing of £5m can be given at any one given time and interest is charged at a rate of 4.0% per annum (variable) on this loan to the extent that it is funding Pennant's day to day activities. Interest charged to Pennant during the year amounted to £39,639 (2019: £3,342). Under this arrangement Pennant is also able to loan surplus funds to Coastal and interest is charged at 3.5% (variable) on this loan. Interest charged to Coastal during the year amounted to £nil (2018: £nil).

During the year Pennant sold properties and managed other property transactions on behalf of Coastal. This resulted in payments of commissions and fees to Pennant of £127,590 (2019: £543,916).

33. Contingent assets/liabilities

The Group and Association had no contingent assets or contingent liabilities at 31 March 2020 (2019: nil).

The Group receives capital grant from the Welsh Government, which is used to fund the acquisition and development of housing properties and their components. In certain circumstances upon disposal of grant funded properties the Group is required to recycle this grant by crediting the Recycled Capital Grant Fund.

Social Housing Grant may become repayable in the following circumstances:

- Disposal of a property (including disposals on assisted ownership terms) other than to another RSL;
- Change of use of a property to a use that would be eligible for a lesser amount of grant;
- Change of use of a property to a use that would not be eligible for a grant;
- Demolition of a property where the site does not form part of a new social housing development by a RSL;
- Disposal giving rise to a repayment of discount under Schedule 2 to the Housing Association Act 1985.

The Association is a participating employer member of the Social Housing Pension Scheme (SHPS). An employer debt could arise on withdrawal from the Social Housing Pension Scheme. The estimated employer debt for the Association on withdrawal from the SHPS plan based on the financial position of the scheme as at 30th September 2019 was £29,219,127. At the date of approval of these financial statements no update to this position was available. As events which could crystallise the debt are unlikely to arise in the foreseeable future, no specific provision is deemed necessary.