howard cottage
housing association

Financial statements

April 2016 to March 2017

Co-operative and Community Benefit Societies Act 2014 - R5305

Homes and Communities Agency - L1312

HOWARD COTTAGE HOUSING ASSOCIATION

Financial Statements

Year ended 31 March 2017

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For the year ended 31 March 2017

ASSOCIATION INFORMATION
For the year ended 31 March 2017

LEGAL STATUS

Registered under the Co-operative and Community Benefit Societies Act 2014 - R5305.

Registered Social Housing Provider with the Homes and Communities Agency, reference number L1312.

Accepted by HM Revenue and Customs as a charity exempt from Corporation Tax under reference number X68656

BOARD MEMBERS

Jim Briscoe
Gary Grindal
Steve Henning
Gareth Hillier
Shaun McLean
Barry Moss
Carol Rooker

DIRECTOR & COMPANY SECRETARY

Michelle Cross

REGISTERED OFFICE

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SOLICITORS

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Level 6, Metropolitan House
321 Avebury Boulevard
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MK9 2GA

The Board presents its report and the audited accounts for the year ended 31 March 2017.

PRINCIPAL ACTIVITIES
The Association's principal activity is the provision of affordable accommodation to people in housing need. The Association is based in Letchworth Garden City, Hertfordshire and other key locations are North Hertfordshire and Central Bedfordshire.

In 2012/13, the Association became sole trustee of "The St Saviour's Almshouses", an unincorporated charity and registered social housing provider responsible for the management of a scheme of almshouses known as The Cloisters, Hitchin. As Trustee, the Association has title to the land on which the properties are built, in trust for the Charity and is required to administer and manage the properties. Howard Cottage Housing Association is regarded as the parent of "The St Saviour's Almshouses'' and group financial statements are prepared.

REVIEW OF THE ASSOCIATION

The Group has made a surplus of £3,206,199 for the year (2016: £2,909,104) which is reinvested in the provision and development of housing.

The Group's borrowings have decreased from £25,300,507 to £24,030,961 (note 16). The Group has undrawn facilities of £4.5 million that will be used to fund future improvement programmes and new developments.

The total number of units managed at the year end was 1,646 of which 1,622 are owned.

LAND AND BUILDINGS
Properties in the Statement of Financial Position are stated at cost. At 31st March 2017 the Group's completed properties at cost totalled £82,444,912 compared to a valuation of £191,853,774 for insurance purposes.

FUTURE DEVELOPMENTS
The Group is continuing with an extensive programme of works that will maintain the good condition of both its current and older properties. The Association achieved Decent Homes Standard a year ahead of the Government deadline of 2010 and continues to maintain this as a minimum level for our properties. The Association has a development programme to build 314 properties over a five-year period, which includes a number of Shared Ownership properties. The Association will start the development of 71 two-bedroom units for the over 55's in the Autumn of 2017. Loan facilities of £28.6 million (of which £24 million is drawn) are in place to support the achievement of this programme.

FINANCIAL RISK MANAGEMENT

The Association's activities expose it to a number of potential financial risks including credit risk, cash flow risk and liquidity risk. The Association's principal financial assets are bank balances, rent arrears, other receivables and investments.

VALUE FOR MONEY

1. Our strategic approach to ensuring Value for Money (VFM) in achieving our objectives

Since our inception over 100 years ago as part of the early garden city movement, we have operated in and around the Letchworth Garden City area, putting our residents and their quality of life at the heart of our business. Our strong identity and long history are founded on relevant services that provide VFM.

Achieving good value is embedded in the way we work from the top down through our strong governance arrangements. A Board lead on Value for Money and with the Executive Staff continue to develop and monitor our VFM Strategy and gain a greater understanding of our activity costs in order to shape our future activities and services. Our Financial Regulations, policies and procedures also incorporate VFM principles which help to ensure competitive procurement of goods and services. This approach reaches all members of staff through organisational and departmental work plans which are devolved into individual staff targets. In addition, our risk management and counter-fraud arrangements further minimize loss and waste.

We aim to keep residents and other stakeholders informed on our work in this area as part of our review of the year which can be found at https://www.howard-cottage.co.uk/publications

A key part of our approach is therefore to involve our residents and other stakeholders as much as possible to ensure we are providing services that are relevant and are effective in meeting local needs and aspirations.

The Howard Cottage Tenants' Association (HeCTA), our Resident Review and Study Panel (RaSP) and our resident focus groups all scrutinize and help to shape our services, including the value for money they provide. This is underpinned by comprehensive resident satisfaction surveys and feedback on repairs, lettings and major works. As well as our Communications Focus Group reviewing our VFM statement for us each year, our Repairs Focus Group asked us to consider expanding our Direct Labour Organisation (DLO) service. A number of trade activities were evaluated and benchmarked. This identified the areas where internalizing work currently issued to contractors would provide either an enhanced service, cost reduction or both. As a result we will be increasing the size of our DLO during 2017/18 in order to carry out a wider range of works. As well as the VAT saving on labour we have estimated we can save in the region of £320 per kitchen and £600 per bathroom.

We also work with and consult our local partners through a range of formal and informal meetings, networks, forums and events, and have built excellent working relationships such as our membership of the Grand Union Housing Group development consortium where we are a key partner. We circulate our VFM statement with our Annual Report to around 100 partner agencies and contacts each year.

2. Understanding our costs and performance and how we compare with others

Understanding and controlling our costs is central to securing VFM. Our budgeting and budgetary control processes together with our thirty year financial plan help us to manage our finances both on a daily basis and in a planned and proactive way into the future.

Four of our largest areas of cost are:

- Our development programme (£1.3m) (2016/17) our approach is outlined in section 3.1 below.
- Repairs (£1.84m) for which contracts are tendered for each significant project. Term contracts are reviewed every three to five years in line with our procurement policy to ensure that they are keenly priced and provide excellent quality and service.
- Staffing costs (£1.9m) are benchmarked at least every three years to keep us in line with the market. We have used this information to reduce overall salary costs where possible but at the same time ensure we offer a rewards package that attracts and retains high quality staff.
- Interest on loans (£692k) and repayments on loans (£1.27m) where regular loan portfolio reviews are carried out by Treasury Consultants to ensure that the rates we pay are competitive, and that we are not unduly exposed to market changes.

During the year we have worked to analyse management costs by area of activity these figures and the comparison to 2014/16 has enabled the Board to understand the Associations costs to target areas of savings for 2017/18 and the analysis of 2016/17 costs will be used by the Board to facilitate strategic decisions for the next Corporate Plan at the Boards two off site strategic development events.

We use 32 key performance indicators (KPIs) for which our Board set performance targets each year, and which form the basis of our annual budget. Actual performance against KPIs and benchmarking against our peers is monitored by the Executive Team. KPI performance is reported to each Board meeting. Resident satisfaction is monitored through our annual survey as shown in the Housing Management VFM Analysis below.

The following table shows our main indicators and how we compare with others. The published sector Global Accounts provide a financial overview of registered providers of social housing. The 2016 Global Accounts provide financial analysis of the providers which own or manage at least 1,000 homes, relating to more than 95% of the sector's stock. There are two very clear sub-sectors within the total – traditional and stock transfer providers. Stock transfers have financial characteristics, particularly in their early years, which are very distinct from existing traditional providers and are therefore analyzed separately. The comparisons used in this document are for traditional providers like HCHA.

As the tables show, we perform well in a number of areas (rent arrears, void losses, and resident satisfaction for example) but our maintenance costs are above average, and may be an area for potential efficiency gains, and we will be considering this as part of our review of our Asset Management Strategy.

Following the regulators publication of "*Delivering better value for money: understanding differences in unit costs*" in June 2016 we have analyzed our costs by comparison the headline costs of social housing per unit to target areas where greater potential savings might be made or where we might benefit from further discussion with providers achieving lower costs.

In addition we have begun to collect data for the newly launched and piloted Sector Scorecard which will be used for VFM comparison purposes moving forward. Whilst we already collected much of this data we believe that this can only assist us in becoming more efficient.

Housing Management VFM Analysis	**2016**	**2017**	**Target 2017**	**2016 Global Accounts**
Current rent arrears %	2.55%	**2.09%**	2.7%	4.6%
% of Properties let within 22 days		**72%**	100%	
Residents satisfaction Overall	91%	**92%**	91%	87%*
Residents satisfaction with Repairs and Maintenance Service	87%	**83%**	84%	80%*
Quality of Home	92%	**92%**	90%	84%*
Neighbourhood as a place to live	90%	**90%**	87%	85%*
Value for money of rent	83%	**88%**	85%	84%*

*Housemark star survey

Notes

<u>% of Properties let within 22 days</u>

36% of all voids in the year required major works where the void works target is 21 calendar days. This is above the projected level of voids at this level and so impacts significantly on our ability to meet the overall target of 22 days.

<u>Residents satisfaction with Repairs and Maintenance Service</u>

The drop in resident satisfaction has identified a need to improve communications around repairs. Residents as well as receiving a text message notifying them when the work has been arranged, will now also receive a text message on completion to confirm their satisfaction with the work. Any dissatisfaction will then be followed up with a phone call.

GROUP

Financial VFM Analysis

	2016	**2017**	**Target 2016/17**	**2016 Global Accounts**
Major Repairs costs per unit (expensed)	£486	**£407**	£458	£195
Major Repairs costs per unit (capitalised)	£949	**£929**	£776	£693
Rent Void losses per home £	£30	**£24**	£38	
Rent Loss due to voids for the year (% of gross rent)	0.51%	**0.42%**	0.50%	1.67%
Growth in turnover	12.5%	**-12.6%**	-14.7%	8%
Growth in total assets	3.2%	**2.3%**		3.5%
Return on Assets	5.03%	**5.19%**		3.94%
Growth in debt	-3.42%	**-5.02%**		3.4%
Social housing lettings operating margin %	35%	**39%**	34%	32%
Operating cost per home	£4,456	**£3,792**	£3,741	£4,654
Bad debts per home £	-£3	**£23**	£14	£36
Bad Debts for the year (% of Gross Rents)	0.0%	**0.4%**	0.5%	0.7%
Effective Interest Rate	3.8%	**3.1%**	4%	5%
EBITDA MRI Interest Cover	689%	**733%**	525%	170%
Gearing	44%	**38%**	55%	50%
Debt to Turnover	222%	**240%**	260%	340%
Debt per unit	£15,618	**£14,816**	£16,500	£24,299

Notes

Major Repairs costs per unit (capitalised)

Whilst we have seen considerable reduction in the cost per property of Major Works, this is primarily due to a reduction in the programme to that originally anticipated during the year. In addition to some work being put back due to the need to obtain LGC Heritage Foundation approval other works have been advanced from future years. Our Asset Management team have evaluated this and established that on a "like for like" we would have otherwise achieved our target for average cost per property of Major Works.

Operating cost per home

The target was set based on a pre FRS 102 figure for housing properties depreciation of £975k compared to an actual for 2016/17 of £1,137,894. We now also have planning permission to demolish Hamonte one of our sheltered schemes currently 39 units and rebuild 71 new two bedroom properties this has been impaired to a land value only and resulted in an impairment of £294,917 in 2016/17 which was not included in the target. Excluding these two items the Operating cost per home would have been £3,544.

Bad debts per home

Bad debts per home have increased due to an increase in the level of re-charged invoices raised and which are fully provided for in the bad debt provision.

Headline Housing Costs Comparison Cost	Global Accounts 2016	Howard Cottage Group 2016	Howard Cottage Group 2017	Movement
Management Costs	£1,080	£1037	£1011	↓
Service charge costs	£530	£330	£319	↓
Maintenance costs	£1,010	£863	£728	↓
Major repairs costs	£890	£1435	£1336	↓
Other social housing costs	£470	£319	£309	↓
Headline social housing cost per unit	£3970	£3984	£3703	↓

Summary Position

Our comparison of the key headline housing costs for this year against the Global Accounts 2016 validates the work we are doing to provide value for money in our services. Whilst we have not always fully achieved everything we targeted in 2016-17 our direction of travel is consistently positive. We are a relatively small association with specialist and aging stock and this is reflected in our high major repairs costs, which despite the uniqueness of our stock, costs are still reducing year on year. In all other areas we compare favourably with the sector generally and have seen a reduction on costs without impact on performance to residents.

2.1 Performance of our Assets and Resources

Because of the nature of our stock, with around over half of the stock leasehold, a quarter in conservation areas and nearly 10% Grade II listed, we have developed a bespoke model for assessing the performance of our assets which has been reviewed and tested by our internal Auditors to ensure its robustness and accuracy. This has been used primarily for the leasehold stock in Letchworth Garden City. They advised that it gave a good assessment of the specialist nature of our stock in both quantitative and qualitative terms.

We have calculated a Net Present Value (NPV) for each individual property and prepared cash flows for each over a 30 year period.

This has been done by collating data from the Housing Management System (IBS) and Stock Condition database, linked together using a unique property reference number (UPRN) and importing it into the database showing all expenditure for each individual property in the following areas:

- Responsive spend
- Capital spend
- Static management costs
- Variable management costs

We have then taken information relating to the revenue streams of income related to the individual property, (excluding service charges, as they are generally cost neutral) and profiled each individual property over a 30 year period at 5 year intervals to generate a NPV which considers the return on investment (ROI). The database also includes scoring for social factors, rent versus market value, percentage of market rent being charged currently and potential of unit using "what if" scenarios.

All properties have been placed in one of three categories, red, amber or green ("RAG" status).

Red – Properties deemed to be of high risk (i.e. require higher than average levels of investment, high maintenance costs, high management costs, high level of voids and low or no demand.

Amber – Those properties that offer peripheral performance and that require further investigation before being classified as either red or green. This review will identify additional/supplementary information which will enable HCHA to determine focused action either to reduce costs or to increase income. As a general rule assets will not remain in the amber category for longer than three years.

Green – Those properties that are in high demand, requiring average or below management and maintenance costs, require average or below average levels of investment and will provide a significant contribution in achieving HCHA's long term business objectives. This category may otherwise be described as core stock.

This approach is enabling our Board to make fully informed decisions about the future use of our stock, particularly about the lowest performing properties. Over the next few years we envisage that up to 25 disposals, or retention under a different tenure arrangement may result from this exercise. This is particularly applicable to our listed buildings where their long term use as social/affordable rent tenure is in doubt, although they retain attractive capital values and market rent potential.

In 2017 we disposed of our first unit under this assessment and are currently replacing it with a more suitable unit, which provides a similar income but with fewer costs and meets the needs of our residents more readily. This individual exercise will also generate around £100,000 surplus which will be used to contribute to the development of new more homes.

We regularly re-evaluate all of our stock data through validation check. Following last year's migration of all data into new enhanced software we are now about to undertake another 10% check on data. This exercise will now be a biannual event so as to ensure that intelligence upon which we make decisions is contemporary and correct.

We have used this type of information to evaluate the future of our sheltered schemes. Following the initial details in our VFM statement last year we have now decanted one sheltered block, received planning permission and will shortly begin demolition works to replace it with a much larger scheme, more suitable and cost effective scheme.

We are based in a town with a population that has a higher than national average age. Therefore we view our schemes as community hubs as well as just homes for residents who actually live there. We provide visiting services and are continuing to train and develop staff as Community Health Champions, Dementia Champions etc. Added to this we partner with other agencies such as Age Concern, our local County Council and the voluntary sector to bring in preventative services. We align these approaches with the strategic priorities of the Health and Wellbeing Partnership to ensure we are able to gain the maximum impact and out turn benefits for the resources we commit.

To evaluate the social return on investment we have looked at waiting lists, the health and well being of clients following a visit to the club, as well as anecdotal evidence from family members. These all show very positive outcomes. Family members at home need more support and they can now also access Howard Cottage's Home Support Service which is funded by our partners Letchworth Garden City Heritage Foundation.

3 What we achieved in 2016/2017

3.1 Capital Expenditure

This year we spent £1,342k on new development and £1,196k (2016: £1,537k) on major repairs to existing stock – (see note 12). We have a comprehensive appraisal model for assessing the viability of proposed new developments, and progress only those that both fit our social objectives and pay back the investment in a reasonable period. The parameters used in this model are reviewed by our Board at least every year. Major repairs and renewals are pre-planned, based on our stock condition survey data.

The annual surplus we generate is used in lieu of borrowing to finance our development and capital programme. This year £3.2m (2016 £2.9m) from reserves went into funding development and increasing cash balances which would otherwise have been borrowed. We therefore have a relatively low debt per home which gives us future capacity to maintain our programme of development and stock enhancement.

We continue to provide a consistently vibrant and proportionally high development programme relative to our size. We have grown by over 30% in the last ten years and continue to achieve or exceed average growth of 3% per annum.

As detailed above we have a unique stock in a unique setting in Letchworth the world's first garden city, much of which is very valuable in heritage and planning terms. Despite this we have been able to balance the needs of the residents who live in these homes to achieve and maintain 100% Decent Homes compliance and in most cases we

have exceeded the standard. We have also ensured homes are as affordable as possible in running terms by consistently increasing our SAP ratings.

3.2 How we delivered on what we said last year

In last year's Financial Statements we set out a number of Value for Money initiatives that we would be taking in 2016/17. These are set out once again with the outcomes reported

- Implementing our new Corporate Plan 2017-22 which was approved in March 2017;

  The 2016-21 plan was reviewed by the Board in late 2016 and a new and more ambitious five year plan was approved in March 2017.

- Continue to analyse our cost bases for operating costs per home, service costs per home, management costs per home.

  As part of the strategy of looking at costs we have reduced our costs of disbursements on mutual exchanges by £5,500 in 2016/17 which is an approximate projected annual saving moving forward.

  We negotiated strongly with the local planning department on replacement roof tiles to around 100 of our listed buildings. Over the whole project this will save approximately £60,000 and still retain the heritage aspect of the buildings.

  We have looked at the level of repairs we undertake that are strictly resident repairs and reduced this. This combined with other budget efficiencies and reduced repairs budget has meant a £200,000 reduction in maintenance expenditure from 2105.16 to 2016/17. Whilst some of this may be due to differing needs from year to year we have been able to establish that a large proportion is due to efficiencies and the change in repair priorities/resident responsibilities etc so is a true "like for like" saving which translates in a reduction in the average cost per property from £450 in 2015/16 to £437 in 2016/17.

  A number of meetings have now been held with the Repairs Focus Group about renegotiating the relationship with residents over repairing responsibility working towards a "New Offer to resident". Anticipated overall saving based on draft year end Management accounts £247k

- Based on our 2016-21 Corporate Plan we will be taking advice on new funding models to ensure we maximise our assets to deliver as much as possible; this will encompass both future borrowing and consideration of refinancing existing debt, this had originally been planned for 2015-16 but was delayed whilst we looked at the impact of rent reductions and changes to services and costs.

  We have adopted a growth strategy and future funding estimate that should see an additional £30m of funding secured during 2017/18 by making greater used of capacity within the business. This will allow an increase and step change in our development pipeline from 40 units per year to 75 per year for the next five years. A further 175 units by 2025 above that initially projected.

- Commercial activity – we have explored the possibilities for the income generation from wider use of some of our services including our Direct Labour Organisation and cleaning services; however the cleaning services were not financially viable due to TUPE costs

  Although we were unable to use the cleaning services commercially we have now in-sourced this service and have made around £15,000 per annum in savings with effect from quarter 4 2016/17.

Our DLO has now undertaken a far greater proportion of repairs works than in previous years. They are paid the same price as external contractors for the work but the savings in VAT this year amounted to £28,000.

- Continuing to invest in our communities through our training programmes, apprenticeship schemes, internships and community benefit activities.

We carried a resident benefit event which included publicising our services, clearing gardens and rubbish collection. Whilst cash savings are hard to quantify we believe the efficiency gain buy operating proactively rather than reactively saved in the region of £2,000 as well as gave considerable resident reassurance and support

We have recently employed a member of staff in our DLO as a kitchen fitter who went through our own apprenticeship some years ago via Project Mackenzie

12 residents have participated in computer tablet training since summer 2016 - 9 improvers and 3 beginners .

Working with young people 2 of the teenage dancers in last years Streetdance project developed their skills as mentors and we have reports that the daughter of our resident has not only started to excel at school but has recently commenced a part time job. Its a small but important intervention that we really believe will benefit that young person for life and has a positive impact on the whole family who live on a tight budget.

We've collaborated with Aragon HA and Central Beds Council to organise an autumn 2016 and a spring 2017 employment and advice fair in Biggleswade. The tangible outcomes of this are tied to the bigger picture in terms of rent arrears and our contribution, albeit small, assists with the overall fall in the numbers claiming UC/JSA so we are doing our bit for the Central Beds economy.

- Social Enterprise project: Explore the opportunity to create a social enterprise/Community Interest Company (CIC) to expand the Kingfisher dementia clubs.

We have continued to run our very successful dementia clubs at no increase in fees to users despite a loss of grant funding from our County Council. Subsidy has been created in the service through the use of Intensive Housing Management HB payments to contribute to services such as Money Advice, Tenancy Support etc. The additional income totals £69,000 which has allowed the loss of around £6,000 of grant to be accommodated.

- Complete the review of Asset Management Strategy, Board approval and implement. This has been moved back into 2016/17 whilst we implement changes to the leases on properties in Letchworth

We have consolidated our asset management data and now use this successfully to make decisions about property investments at an enhanced level. Whilst the lease issue has yet to be finally resolved we have been able to dispose of one property and are in the process of replacing it with a more suitable property, requiring less maintenance, retaining the same level of rental income and generating £100,000 plus from the exercise to contribute towards our development programme.

- Continue our review of all paper based processes to streamline services and reduce costs.

We have implemented electronic invoicing for our major repairs contractor which saves around £5,000 per annum in staff resources than be utilized elsewhere from 16/17 onwards;

We have implemented text messaging residents instead of writing letters for communal items such as rubbish clearances etc. This will save £300 per annum from 16/17 onwards;

We have automated our VAT returns process and enhanced cash flow processes saving around £1,000 per year.

- In 2015/16 we reviewed the collection of our grounds maintenance service charges to ensure that we are recovering all our costs and are now in the process of consulting with Residents to recover all costs. This will result in a potential increase recovery of £14,000 of costs per year. We also re-tendered the grounds maintenance contract and now have a new schedule in place.

  There were delays in implementing this due to the need for greater checking and consolidation of areas being maintained and cross checking this with tenancy agreements and residents consultation. This has now been completed and as of 1 May 2017 the uncharged areas are now being fully charged. Following the consolidation exercise the anticipated saving has decreased slightly to £10,000 per annum.

- We have Implemented recommendations from review of our shared ownership service including introducing charges for services provided to residents selling or stair-casing. In 2016/17 we will also bringing sales paperwork on-line to reduce time and cost.

  We have now completed outsourcing of shared ownership sales, re-sales and staircasing. This has resulted in a saving of staff resources to process these functions and deal with enquiries even after netting off some costs. Also a saving of Resident Services Team time as enquiries are now forwarded directly to Fusion Homes. A reduction in costs which are not recharged to shared owner of around £5,000.

- We will continue to look at ways of reducing office overheads in 2016/17 compared to 2015/16. An ambitious budget has been set which reduces total management costs from lettings from £6,192k to £5,874k..

  We moved the final members of our team who were on 36 hour contracts to 37.5 hours. This equates to an extra staff resource of around 17 hours per week for no additional costs. At an average hourly rate of £15 per hours this equates to £15k per year from 1 January 2017 onwards.

  We have achieved around £6k in annual savings in office overheads through re-tendering and alternative supply arrangements for items such as photo copiers, stationary provision, office supplies (tea, coffee, milk etc)

4. Future Gains

Although many of the actions we have taken will bring ongoing benefits and savings, we appreciate that we have more work to do to maximise our financial and social returns. In short, we are committed to continuous improvement and in 2017/18 have programmed may VFM initiatives including:-.

- **Reviewing postal arrangements to maximise electronic communication and target the end of the need for franking charges and equipment**
- **Reviewing the management structure within our supported housing services**
- **Increasing collaborative working with likeminded organisations where further shared services can lead to savings or improved VFM**
- **Generating a £60,000 surplus from our DLO to reduce maintenance costs further**
- **Maximise the opportunities for free and shared training initiatives for staff**
- **Fully recovering all costs for administration of shared ownership sales**
- **Our board have moved to more strategic meetings and will be piloting paperless meetings reducing the cost of paper production and postage of bulky documents**
- **We will seek to reduce the costs and rental on our DLO depot premises**
- **We will re-tender our IT hardware support services with a view to reducing cost/increasing value**

The Board of Management presents their report and financial statements for the year ended 31 March 2017

BOARD OF MANAGEMENT

BOARD MEMBERS

Jim Briscoe
Gary Grindal
Steve Henning
Gareth Hillier
Shaun McLean
Barry Moss
Carol Rooker

CODE OF GOVERNANCE

The Association has adopted the National Housing Federation's model Code of Governance, issued in 2015. The Association has an Audit Committee which meets at least three times during the year. The Board and Committee structure is governed and supported by Rules, Standing Orders and Financial Regulations and Service Level Agreements that provide a structured approach to decision making. It also ensures closer monitoring of activities across the key operational departments. The group has received the highest possible ratings in Governance and Financial Viability from the Homes and Communities Agency.

As at the 31 March 2017 the Association did not comply with the nine year rule for Board members. Gary Grindal, the current Chairman, was a co-opted board member via a local authority nomination without full voting rights. However, during his current term of office the local authority withdrew his nomination due to the changing political majority within the authority itself in 2008. The board at the time were extremely reluctant to lose a member who was providing a huge input, had invaluable local community knowledge and was then chairing the operations committee. Therefore, they chose to appoint him as an independent board member, and took the view that as he was now a "full" Board member rather than an LA co-optee his term of office would begin again. As a result his projected retirement date became September 2018. During a Governance review in 2017, the Association was advised that this interpretation was incorrect. A succession plan is now in place for a new Chairman to be in post by September 2018.

RISK MANAGEMENT STRATEGY

The Association's Risk Management Strategy operates as part of the assurance process and is focused on identifying risks that might impede achievement of the 30 year Business Plan and ensuring that controls are in place that mitigate and minimize the potential effects of these risks on the business.

The approach is one that involves the identification of risks on a Risk Map. The Risk Map describes the risk and its potential impact on the business. It also describes the controls in place or in development to mitigate each risk and identifies the individual responsible for the maintenance of those controls.

Each quarter the Leadership Team present an updated Risk Map to each Committee and to the Board. The Risk Map is then reviewed by the Audit Committee.

BOARD MEMBERS AND THEIR INTERESTS

The Association maintains, by annual review, a register of members' interests which is held at the Association's offices. Each Board member holds one share in the Association.

Board membership is open to members and Residents who wish to take an active interest in the Association's work. This includes individuals within the communities that the Association serves and having an interest in meeting the social housing needs of those communities. The Association aims to provide a pool of actual and potential Board Members with the skills, commitment and enthusiasm to understand the complex affairs of the Association. Every application will be considered by the Board using the above criteria, and application forms are available from the Secretary.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period the Association made no political contributions and any charitable contributions are made within the Association's normal activities.

STATEMENT OF THE BOARD'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Co-operative and Community Benefit Societies Act 2014 requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus of the Association for that period. In preparing these accounts the Board are required to: -

- Select suitable accounting policies, and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed
- Prepare the accounts on the going concern basis unless it is inappropriate

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Association and to ensure that the accounts comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are 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, by establishing and maintaining a satisfactory system of control over the Association's accounting records, cash holdings and all its receipts and remittances.

BOARD STATEMENT ON INTERNAL CONTROLS

The Board is responsible for the Association's 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 can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board ensures that the process for identifying, evaluating and managing the significant risks faced by the Association is ongoing. These risks are regularly reviewed by the Board.

The Board discharges its responsibilities for internal controls through the following key procedures:

- A commitment to quality and competence with an appropriate organisational structure with clearly defined lines of responsibility and delegation of authority, which combine to create an appropriate control environment.
- Procedures to identify major business risks in a timely manner.
- Information systems for detailed financial reporting, budgeting and planning against which performance is monitored. Performance indicators are used to identify trends in current financial and non-financial data.
- Financial control procedures based upon clearly defined responsibilities and authorities of the Board, the committees, and delegation to staff members.
- The Board monitors that there are appropriate control procedures in place and that these procedures are being followed through the work of both internal and external audit. The Board delegates this review to the Audit Committee.

The Board has received an annual report on internal control from the Chief Executive. On behalf of the Board, the Audit Committee has reviewed the effectiveness of the systems of internal control for the period from 1st April 2016 to the date on which these accounts were approved. The review revealed no material weaknesses in internal control that required disclosure.

GOING CONCERN

After making enquiries the Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in the financial statements.

DISCLOSURE OF INFORMATION TO THE AUDITOR

In the case of each of the persons who are Board members of the Association at the date when this report was approved;

- so far as each of the Board members is aware, there is no relevant audit information of which the Association's auditor is unaware; and
- each of the Board members has taken all the steps that they ought to have taken as a Board member to make them aware of any relevant audit information and to establish that the Association's auditor is aware of that information.

ANNUAL GENERAL MEETING

The annual general meeting will be held on 21st September 2017.

AUDITORS

A resolution to re-appoint Mazars LLP as external auditor will be proposed at the forthcoming annual general meeting.

COMPLIANCE WIITH THE HCA GOVERNANCE AND FINANCIAL VIABILITY STANDARD

The Board confirms that the Association did not comply with the requirements of the Governance and Financial Viability Standard applicable for the year from 1 April 2016, as at the 31 March 2017 the Association did not comply with the nine year rule for Board members. Gary Grindal, the current Chairman, was a co-opted board member via a local authority nomination without full voting rights. However, during his current term of office the local authority withdrew his nomination due to the changing political majority within the authority itself in 2008. The board at the time were extremely reluctant to lose a member who was providing a huge input, had invaluable local community knowledge and was then chairing the operations committee. Therefore, they chose to appoint him as an independent board member, and took the view that as he was now a "full" Board member rather than an LA co-optee his term of office would begin again. As a result his projected retirement date became September 2018. During a Governance review in 2017, the Association was advised that this interpretation was incorrect. A succession plan is now in place for a new Chairman to be in post by September 2018.

The Strategic Report and Report of the Board of Management were approved by the Board on 20th July 2017 and signed on its behalf by:

Gary Grindal
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOWARD COTTAGE HOUSING ASSOCIATION
For the year ended 31 March 2017

We have audited the financial statements of Howard Cottage Housing Association for the year ended 31 March 2017 which comprise the Group and Association Statements of Comprehensive Income, the Group and Association Statement of Financial Position, the Group and Association Statements of Changes in Reserves, the Consolidated Statement of Cash Flows and the 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 Financial Reporting Standard FRS102 "The Financial Reporting Standard" applicable in the UK and Republic of Ireland).

Respective responsibilities of the Board and the auditor
As explained more fully in the Statement of Board's Responsibilities set out on page 12, the Board is responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements
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 2017 and of the Group and parent Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 Direction for Private Registered Providers of Social Housing 2015.

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 requires 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 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.

Mazars LLP

Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street
Birmingham
B3 2RT

30/8/2017

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2017

		Group		Association	
	Notes	**2017**	2016	**2017**	2016
		£	£	**£**	£
TURNOVER	3	**10,015,395**	11,396,863	**9,967,462**	11,349,887
Operating costs	3	**(6,206,912)**	(7,240,259)	**(6,158,131)**	(7,218,049)
Exceptional: Pension re-measurement	23	**-**	(485,000)	**-**	(485,000)
OPERATING SURPLUS		**3,808,483**	3,671,604	**3,809,331**	3,646,838
Surplus on disposal of property	5	**71,446**	30,156	**71,446**	30,156
Finance income	6	**13,197**	5,029	**13,100**	4,930
Interest payable and financing costs	7	**(691,531)**	(797,685)	**(691,531)**	(797,685)
Gain on financial asset at fair value	26	**4,604**	-	**-**	-
SURPLUS FOR THE YEAR		**3,206,199**	2,909,104	**3,202,346**	2,884,239
Other comprehensive income		**-**	-	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,206,199**	2,909,104	**3,202,346**	2,884,239

STATEMENT OF FINANCIAL POSITION
For the year ended 31 March 2017

	Notes	Group 2017 £	Group 2016 £	Association 2017 £	Association 2016 £
INTANGIBLE ASSETS	11	**14,686**	10,334	**14,686**	10,334
TANGIBLE FIXED ASSETS					
Housing properties - cost less depreciation	12	**69,133,823**	68,145,182	**68,111,250**	67,079,510
Other property, plant & equipment	13	**2,587,960**	2,651,351	**2,587,960**	2,651,351
		71,736,469	70,806,867	**70,713,896**	69,741,195
CURRENT ASSETS					
1st tranche shared ownership properties		**-**	156,271	**-**	156,271
Stock		**8,893**	11,114	**8,893**	11,114
Debtors	14	**650,005**	610,062	**1,498,733**	1,486,016
Investment	26	**32,051**	27,447	**-**	-
Short term deposits		**2,000,000**	2,000,000	**2,000,000**	2,000,000
Cash and cash equivalents		**1,353,192**	471,080	**1,351,177**	467,322
		4,044,141	3,275,974	**4,858,803**	4,120,723
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	**(3,541,040)**	(3,333,381)	**(3,539,859)**	(3,317,375)
NET CURRENTASSETS/(LIABILITIES)		**503,101**	(57,407)	**1,318,944**	803,348
TOTAL ASSETS LESS CURRENT LIABILITIES		**72,239,570**	70,749,460	**72,032,840**	70,544,543
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	**41,141,916**	42,858,003	**41,127,296**	42,841,343
CAPITAL AND RESERVES					
Called up share capital	18	**33**	35	**33**	35
Revenue reserves		**31,097,621**	27,891,422	**30,905,511**	27,703,165
		72,239,570	70,749,460	**72,032,840**	70,544,543

The financial statements were approved by the Board on 20th July 2017 and were signed on its behalf by:

Board Chairman   Board Member   Secretary

STATEMENT OF CHANGES IN RESERVES
For the year ended 31 March 2017

	Group		Association	
	Revenue Reserves	Revenue Reserves	**Revenue Reserves**	Revenue Reserves
	2017	2016	**2017**	2016
	£	£	**£**	£
Balance at 1 April	**27,891,422**	24,982,318	**27,703,165**	24,818,926
Surplus from Statement of Comprehensive Income	**3,206,199**	2,909,104	**3,202,346**	2,884,239
Balance at 31 March	**31,097,621**	27,891,422	**30,905,511**	27,703,165

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2017

	2017	2016
	£	£
Net Cash Generated From Operating Activities		
Surplus for the year	**3,206,199**	**2,909,104**
Adjustments for non-cash items:		
Depreciation charges	1,220,276	1,232,546
Impairment	294,917	201,000
Amortisation of capital grant	(215,225)	(214,712)
Pension costs less contributions (receivable)/payable	(122,000)	352,000
Decrease in debtors	(39,943)	(4,206)
Increase in creditors	98,343	188,709
Increase in 1st tranche share-ownership properties	239,955	1,040,005
Decrease in provisions	2,221	12,454
Redemption of shares	(2)	(1)
Surplus on disposal of property	(71,446)	(30,156)
Adjustments for investing or financing activities:		
Interest payable	691,531	797,685
Finance income	(13,197)	(5,029)
Gain on financial assets at fair value through the SOCI	(5,033)	-
Net cash generated from operating activities	**5,286,596**	**6,479,399**
Cash flows from financing activities		
Loan advances received	-	-
Loan principal repayments	(1,273,664)	(900,329)
Interest received and other income	13,197	5,029
Interest paid	(687,413)	(793,567)
Gain on financial assets at fair value through the SOCI	5,033	-
Net cash flows from financing activities	**(1,942,847)**	**(1,688,867)**
Cash flows from investing activities		
Acquisition and construction of housing properties	(2,548,501)	(2,806,154)
SHG and other capital grants receivable/(repayable)	-	(16,750)
Purchase of other fixed assets	(24,582)	(126,356)
Proceeds from sale of property	116,050	50,592
Net cash flows from investing activities	**(2,457,033)**	**(2,898,668)**
Net increase in cash and cash equivalents	**886,716**	**1,891,864**
Cash and cash equivalents at beginning of the year	2,498,527	606,663
Cash and cash equivalents at end of the year	**3,385,243**	2,498,527

1 ACCOUNTING POLICIES

Howard Cottage is a public benefit entity, as defined in FRS102 and applies the relevant paragraphs prefixed 'PBE' in FRS102. Howard Cottage meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside these consolidated financial statements. Exemptions have been taken in relation to the Statement of Cash Flows.

(a) Basis of Accounting

The financial statements are prepared under the historical cost convention as modified by the revaluation of current asset investments, in accordance with Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council and comply with the Accounting Direction for private Registered Providers of Social Housing 2015, the Statement of Recommended Practice for Registered Social Housing Providers 2014 (SORP) and the Housing and Regeneration Act 2008.

(b) Basis of preparation of consolidated financial statements

The group financial statements consolidate the financial statements of Howard Cottage Housing Association and its subsidiary undertaking, "The St Saviour's Almshouses''. The surpluses and deficits of the subsidiary undertaking are consolidated from the date of "acquisition".

(c) Turnover

Turnover represents rental income and service charges receivable, first tranche sales of shared ownership properties, grants from local authorities, the Homes and Communities Agency and other income relating to the letting of properties.

(d) Depreciation and impairment

Freehold land is not depreciated. Depreciation is charged so as to write down the cost of housing properties other than freehold land to their estimated residual value on a straight line basis over their expected useful economic lives at the following annual rates:

Housing properties	Pre 1980	2%	straight line
	1980 onwards	1%	straight line

Impairment of Social Housing Properties

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

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

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

ACCOUNTING POLICIES (Continued)

Major components are treated as separable assets and depreciated over their expected useful economic lives or the lives of the properties to which they relate, if shorter, at the following annual rates:

Roofs	50 years
Kitchens	20 years
Bathrooms	30 years
Windows	30 years
Central heating	15 years
Lift	30 years

Other property, plant and equipment (PP&E)

Depreciation is calculated to write off the cost of other PP&E on a straight-line basis over their estimated useful lives as follows:

Furniture	10%	straight line
Office equipment and motor vehicles	20%	straight line
Computer equipment	33.3%	straight line

Leasehold office property is depreciated over the life of the lease.

Housing properties in the course of construction are stated at cost and not depreciated. Housing properties are transferred to completed properties when they are ready for letting.

(e) Capitalisation of administration costs

Administration costs relating to development activities have not been capitalised as they are not directly attributable to bringing the property into use.

(f) Interest payable and financing costs

Interest charges incurred on the financing of housing properties are capitalised up to the date of practical completion. Interest charges arising after that date are charged to the Statement of Comprehensive Income.

(g) Works to existing properties

The Association capitalises expenditure on housing properties which increases the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the rental income, a reduction in future maintenance costs or a significant extension in the life of a property.

(h) Sales of Housing Properties

The surplus or deficit on the disposal of housing properties, including second or subsequent tranches of shared ownership properties, is accounted for in the Statement of Comprehensive Income in the period in which the disposal occurs as the difference between the net sale proceeds and the net carrying value.

First tranche sales proceeds are recognised in the Statement of Comprehensive Income as turnover with the appropriate proportion of the cost of the properties as cost of sales. All shared ownership properties, including those under construction, are proportionally split between fixed assets and current assets, the split determined by the percentage of the property to be sold under the first tranche sale, which is shown as a current asset, with the remainder classified as a fixed asset.

ACCOUNTING POLICIES (Continued)

(i) Social Housing Grant (SHG) and other grants

Where grants are received from government agencies such as the Homes and Communities Agency, local authorities, devolved government agencies, health authorities and the European Commission which meet the definition of government grants they are recognised when there is reasonable assurance that the conditions attached to them will be complied with and that the grant will be received.

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

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

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

Recycling of grants

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

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

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

(j) Pension Costs

The Association is a member of a multi-employer defined benefit pension scheme and also operates a defined contribution scheme. The costs of the defined contribution scheme are taken to the Statement of Comprehensive Income in the year that they are incurred and no future liability is recognised in the accounts. The Association contributes to a deficit reduction plan in respect of the defined benefit scheme and has made a provision based on the net present values of the agreed future payments. Any movement in that provision is then taken to the Statement of Comprehensive Income.

(k) Stock

Shared ownership properties under construction are stated at the lower of cost and net realisable value.

ACCOUNTING POLICIES (Continued)

l) Financial instruments

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

Financial assets carried at amortised cost

Financial assets carried at amortised cost comprise rent arrears, trade and other receivables and cash and cash equivalents. Financial assets are initially recognised at fair value plus directly attributable transaction costs. After initial recognition they are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

If there is objective evidence that there is an impairment loss, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced accordingly.

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

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

Financial liabilities carried at amortised cost

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

Non-current debt instruments, which meet the necessary conditions in FRS102, are initially recognised at fair value adjusted for any directly attributable transaction costs and subsequently measured as amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the Statement of Comprehensive Income. Discounting is omitted where the effect of discounting is immaterial.

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

Financing transactions

For rent arrears where the arrangement constitutes, in effect, a financing transaction because of extended credit arrangements, the arrears are measured at present value of the future payments discounted at an appropriate market rate of interest.

2 SIGNIFICANT MANAGEMENT JUDGEMENTS & 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 evidence and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements 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 Group have to make an assessment as to whether an indicator of impairment exists. In making the judgement, management considered the detailed criteria set out in the SORP. From 1 April 2016, the Association reduced social housing rents by one per cent per annum and will continue to do so in each year until 2019/20 in accordance with Welfare Reform and Work Act 2016. Despite cost efficiency savings and other changes to the business, compliance with the new rent regime has resulted in a loss of net income for certain social housing property. This is a trigger for impairment and the Association has estimated the recoverable amount of its housing properties where appropriate and compared the carrying amount to the recoverable amount to determine if an impairment loss had occurred. Based on this assessment, the Association calculated the value in use (in certain circumstances based on a discounted cash flow model) and recognised impairment losses in surplus or deficit in the Statement of Comprehensive Income where appropriate.

Estimation uncertainty

The Group 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.

Depreciation of housing properties

Major components of housing properties, which have significantly different patterns of consumption of economic benefits, are treated as separate assets and depreciated over their expected useful economic lives. Management estimates these lives using assumptions reflecting historical experience and current trends.

3 TURNOVER AND OPERATING COSTS

Group

	2017		
	Turnover	**Operating costs**	**Operating surplus**
	£	**£**	**£**
Social housing lettings (note 4)			
Housing accommodation	**9,538,074**	**(5,897,805)**	**3,640,269**
Other social housing activities			
Shared ownership first tranche sales	**267,500**	**(236,816)**	**30,684**
Other income	**209,821**	**(72,291)**	**137,530**
Total	**10,015,395**	**(6,206,912)**	**3,808,483**
Pension charge	**-**	**-**	**-**
	10,015,395	**(6,206,912)**	**3,808,483**

	2016		
	Turnover	Operating costs	Operating surplus
	£	£	£
Social housing lettings (note 4)			
Housing accommodation	9,570,519	(6,198,380)	3,372,139
Other social housing activities			
Shared ownership first tranche sales	1,700,126	(967,659)	732,467
Other income	126,218	(74,220)	51,998
Total	11,396,863	(7,240,259)	4,156,604
Pension charge	-	(485,000)	(485,000)
	11,396,863	(7,725,259)	3,671,604

Within Operating Cost is £236,816 (2016: £967,659) relating to costs of shared ownership sales.

3 TURNOVER AND OPERATING COSTS

Association

	2017		
	Turnover	**Operating costs**	**Operating surplus**
	£	**£**	**£**
Social housing lettings (note 4)			
Housing accommodation	**9,490,141**	**(5,849,024)**	**3,641,117**
Other social housing activities			
Shared ownership first tranche sales	**267,500**	**(236,816)**	**30,684**
Other income	**209,821**	**(72,291)**	**137,530**
Total	**9,967,462**	**(6,158,131)**	**3,809,331**
Pension charge	**-**	**-**	**-**
	9,967,462	**(6,158,131)**	**3,809,331**

	2016		
	Turnover	**Operating costs**	**Operating surplus**
	£	**£**	**£**
Social housing lettings (note 4)			
Housing accommodation	9,523,543	(6,176,170)	3,347,373
Other social housing activities			
Shared ownership first tranche sales	1,700,126	(967,659)	732,467
Other income	126,218	(74,220)	51,998
Total	11,349,887	(7,218,049)	4,131,838
Pension Charge	-	(485,000)	(485,000)
	11,349,887	(7,703,049)	3,646,838

Within Operating Cost is £236,816 (2016: £967,659) relating to costs of shared ownership sales.

4 PARTICULARS OF INCOME AND EXPENDITURE FROM LETTINGS

Group

	2017		2016	
	£	**£**	£	£
Housing accommodation				
Income				
Rent		**8,860,695**		8,822,088
Charges for support services	**50,456**		47,021	
Service charges eligible for housing benefit	**322,659**		359,510	
Service charges not eligible for housing benefit	**89,039**		127,188	
Grant amortisation	**215,225**		214,712	
		677,379		748,431
		9,538,074		9,570,519
Expenditure				
Cost of services charged		**518,126**		534,634
Management		**1,639,958**		1,680,243
Depreciation of housing properties		**1,137,894**		1,159,298
Impairment of housing properties		**294,917**		201,000
Routine maintenance		**1,181,568**		1,397,470
Major repairs expenditure		**660,033**		787,812
Bad debts		**37,227**		(4,549)
Other costs:				
Cost of other services	**306,933**		309,487	
Legal fees and bank charges	**121,149**		132,985	
		428,082		442,472
Operating costs		**5,897,805**		6,198,380
Operating surplus on letting activities		**3,640,269**		3,372,139
Rent losses from voids		**39,439**		47,881

4 PARTICULARS OF INCOME AND EXPENDITURE FROM LETTINGS

Association

		2017		2016
	£	**£**	£	£
Housing accommodation				
Income				
Rent		**8,813,782**		8,775,452
Charges for support services	**50,456**		47,021	
Service charges eligible for housing benefit	**322,659**		359,510	
Service charges not eligible for housing benefit	**89,039**		127,188	
Grant amortisation	**214,205**		214,372	
		676,359		748,091
		9,490,141		9,523,543
Expenditure				
Cost of services charged		**518,126**		534,634
Management		**1,635,592**		1,681,649
Depreciation of housing properties		**1,094,714**		1,137,550
Impairment of housing properties		**294,917**		201,000
Routine maintenance		**1,180,333**		1,395,602
Major repairs expenditure		**660,033**		787,812
Bad debts		**37,227**		(4,549)
Other costs:				
Cost of other services	**306,933**		309,487	
Legal fees and bank charges	**121,149**		132,985	
		428,082		442,472
Operating costs		**5,849,024**		6,176,170
Operating surplus on letting activities		**3,641,117**		3,347,373
Rent losses from voids		**39,439**		47,881

5 SURPLUS ON DISPOSAL OF PROPERTY

	Group		Association	
	2017	2016	**2017**	2016
	£	£	**£**	£
Increase in share ownership	**116,000**	50,592	**116,000**	50,592
Cost of sales: increase in shared ownership	**(43,365)**	(18,759)	**(43,365)**	(18,759)
	72,635	31,833	**72,635**	31,833
Disposal proceeds on fixed assets	**50**	-	**50**	-
Carrying value of fixed assets	**(1,239)**	(1,677)	**(1,239)**	(1,677)
	71,446	30,156	**71,446**	30,156

6 FINANCE INCOME

	Group		Association	
	2017	2016	**2017**	2016
	£	£	**£**	£
Interest receivable from short term bank deposits and bank accounts	**13,197**	5,029	**13,100**	4,930
	13,197	5,029	**13,100**	4,930

7 INTEREST PAYABLE AND FINANCING COSTS

	Group		Association	
	2017	2016	**2017**	2016
	£	£	**£**	£
On bank loans, overdrafts and other loans:				
Total interest repayable wholly or partly in more than 5 years by instalments	**701,925**	820,817	**701,925**	820,817
Less development loan interest capitalised at a rate of 4%	**(10,394)**	(23,132)	**(10,394)**	(23,132)
	691,531	797,685	**691,531**	797,685

8 AUDITOR'S REMUNERATION

	Group		Association	
	2017	2016	**2017**	2016
	£	£	**£**	£
In their capacity as auditor	**19,740**	24,830	**19,740**	24,830

9 EMPLOYMENT COSTS – GROUP AND ASSOCIATION

	2017 Number	2016 Number
The average number of persons (excluding Board members) employed during the year (full time equivalents) was:		
Office staff	**27.1**	29.5
Scheme managers	**3.8**	5.0
Caretaker	**0.9**	0.9
Direct Labour Operatives	**5.9**	4.7
	37.7	40.1

The definition of a full time equivalent staff post is based on a 37.5 hour week for staff starting from 2009. For staff starting before 2009 it is based on a 35 hour week up to December 2015, and a 36 hour week from January 2016 onwards.

	£ 2017	£ 2016
Staff costs (for above persons):		
Wages and salaries	**1,425,325**	1,437,458
Social security costs	**140,711**	125,930
Other pension costs	**272,016**	228,103
Redundancy and pay in lieu	**23,300**	38,837
	1,861,352	1,830,328

10 DIRECTORS' EMOLUMENTS

	2017 £	2016 £
The aggregate emoluments paid to or receivable by Directors who are executive staff members	**260,657**	264,160
The emoluments paid to the highest paid Director of the Association excluding pension contributions	**100,367**	100,065

Directors are defined as the members of the Board, the Chief Executive and any other person who is a member of the Executive team. The Chief Executive is an ordinary member of the pension scheme. No enhanced or special terms apply. A contribution by the Association of £7,805 (2016 £7,652) was paid in addition to the personal contributions of the Chief Executive.

Directors' emoluments are exclusive of pension contributions.

Salary Band £	**2017 Number**	2016 Number
70,000 – 79,999	-	1
80,000 – 89,999	2	1
90,000 – 99,999	-	-
100,000 – 109,999	1	1

11 INTANGIBLE ASSETS

Group and Association – computer software

	2017	2016
	£	£
COST		
At 1 April	**118,096**	118,096
Additions	**16,038**	-
Disposals	**-**	-
At 31 March	**134,134**	118,096
DEPRECIATION		
At 1 April	**107,762**	100,188
Written off on disposal	**-**	-
Charge for the year	**11,686**	7,574
At 31 March	**119,448**	107,762
NET BOOK VALUE		
At start of year	**10,334**	17,908
At end of year	**14,686**	10,334

12 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES

Group	Housing properties completed schemes	Housing properties schemes in development	Shared ownership completed schemes	Shared ownership schemes in development	Total
	£	£	£	£	£
COST					
At 1 April 2016	76,079,556	330,417	5,591,480	-	82,001,453
Additions in year	1,195,842	877,285	-	464,980	2,538,107
Recategorisation to current assets	-	-	(83,684)	-	(83,684)
Shared ownership disposals	-	-	(43,365)	-	(43,365)
Capitalised interest	-	10,394	-	-	10,394
Impairment	(294,917)	-	-	-	(294,917)
At 31 March 2017	76,980,481	1,218,096	5,464,431	464,980	84,127,988
DEPRECIATION					
At 1 April 2016	13,752,719	-	103,552	-	13,856,271
Charge for the year	1,078,611	-	59,283	-	1,137,894
At 31 March 2017	14,831,330	-	162,835	-	14,994,165
NET BOOK VALUE					
At 31 March 2016	62,326,837	330,417	5,487,928	-	68,145,182
At 31 March 2017	62,149,151	1,218,096	5,301,596	464,980	69,133,823

Total expenditure on works to existing properties:-

Amounts capitalised:
Replacement of components £1,195,842

Amounts charged to SOCI:
Major works £660,033

	2017	2016
	£	£
Completed housing properties comprise:		
Freehold	**52,687,454**	52,546,198
Long leasehold	**14,763,293**	15,268,567
	67,450,747	67,814,765

12 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES

Association	Housing properties completed schemes	Housing properties schemes in development	Shared ownership completed schemes	Shared ownership schemes in development	Total
	£	£	£	£	£
COST					
At 1 April 2016	74,992,136	330,417	5,591,480	-	80,914,033
Additions in year	1,195,761	877,285	-	464,980	2,538,026
Recategorisation to current assets	-	-	(83,684)	-	(83,684)
Shared ownership disposals	-	-	(43,365)	-	(43,365)
Capitalised interest	-	10,394	-	-	10,394
Impairment	(294,917)	-	-	-	(294,917)
At 31 March 2017	75,892,980	1,218,096	5,464,431	464,980	83,040,487
DEPRECIATION					
At 1 April 2016	13,730,971	-	103,552	-	13,834,523
Charge for the year	1,035,431	-	59,283	-	1,094,714
At 31 March 2017	14,766,402	-	162,835	-	14,929,237
NET BOOK VALUE					
At 31 March 2016	61,261,165	330,417	5,487,928	-	67,079,510
At 31 March 2017	61,126,578	1,218,096	5,301,596	464,980	68,111,250

Total expenditure on works to existing properties:-

Amounts capitalised:	
Replacement of components	£1,195,761
Amounts charged to SOCI:	
Major works	£660,033

	2017	2016
	£	£
Completed housing properties comprise:		
Freehold	**51,664,881**	51,480,526
Long leasehold	**14,763,293**	15,268,567
	66,428,174	66,749,093

13 TANGIBLE FIXED ASSETS – OTHER

Group and Association

	Leasehold office buildings £	Furniture and equipment £	Computer equipment £	Motor vehicles £	Total £
COST					
At 1 April 2016	2,569,493	452,506	250,496	104,577	3,377,072
Additions	-	4,206	4,338	-	8,544
Disposals	-	(4,956)	-	-	(4,956)
At 31 March 2017	2,569,493	451,756	254,834	104,577	3,380,660
DEPRECIATION					
At 1 April 2016	125,742	294,917	248,686	56,376	725,721
Written off on disposal	-	(3,717)	-	-	(3,717)
Charge for the year	20,553	27,865	2,172	20,106	70,696
At 31 March 2017	146,295	319,065	250,858	76,482	792,700
NET BOOK VALUE					
At 31 March 2016	2,443,751	157,589	1,810	48,201	2,651,351
At 31 March 2017	2,423,198	132,691	3,976	28,095	2,587,960

14 DEBTORS

Amounts falling due within one year:

	Group 2017 £	Group 2016 £	Association 2017 £	Association 2016 £
Rental debtors	**465,595**	276,960	**465,595**	276,810
Less: provision for bad debts	**(156,958)**	(113,337)	**(156,958)**	(113,337)
	308,637	163,623	**308,637**	163,473
Prepayments and accrued income	**290,803**	269,047	**290,803**	269,047
Amounts owed from subsidiary	**-**	-	**854,409**	876,635
Other	**50,565**	177,392	**44,884**	176,861
	650,005	610,062	**1,498,733**	1,486,016

No disclosure has been made of the amount of the net present value adjustment where a repayment schedule is in place as the amount is considered to be insignificant.

15 CREDITORS:
Amounts falling due within one year

	Group 2017 £	Group 2016 £	Association 2017 £	Association 2016 £
Loan instalments*	**1,238,463**	1,182,000	**1,238,463**	1,182,000
Rent creditors	**224,443**	159,964	**224,443**	159,964
Trade creditors	**1,555,113**	1,524,434	**1,555,113**	1,508,428
PAYE and National Insurance	**32,868**	29,756	**32,868**	29,756
Pension creditor	**26,982**	25,143	**26,982**	25,143
Government grants (note 17)	**215,225**	214,372	**214,205**	214,372
Pension liability (note 23)	**205,000**	153,000	**205,000**	153,000
Other creditors	**42,946**	44,712	**42,785**	44,712
	3,541,040	3,333,381	**3,539,859**	3,317,375

16 CREDITORS: amounts falling due after more than one year

	Group 2017 £	Group 2016 £	Association 2017 £	Association 2016 £
Housing loans	**22,792,498**	24,118,507	**22,792,498**	24,118,507
Government grants (note 17)	**17,040,418**	17,256,496	**17,025,798**	17,239,836
Pension liability (note 23)	**1,309,000**	1,483,000	**1,309,000**	1,483,000
	41,141,916	42,858,003	**41,127,296**	42,841,343
Loans repayable by instalments*				
Between one and two years	**1,258,999**	1,183,000	**1,258,999**	1,183,000
Between two and five years	**3,764,816**	3,522,000	**3,764,816**	3,522,000
In five or more years	**17,863,387**	19,512,329	**17,863,387**	19,512,329
Less; loan issue costs	**(94,704)**	(98,822)	**(94,704)**	(98,822)
	22,792,498	24,118,507	**22,792,498**	24,118,507

Housing loans from banks and building societies are secured by specific charges on the Association's housing properties. The loans are repayable at varying rates of interest, in instalments. *(£22,792,498 + £1,238,463 = £24,030,961 Group's Borrowings).

17 DEFERRED INCOME – GOVERNMENT GRANTS

	Group		Association	
	2017	2016	**2017**	2016
	£	£	**£**	£
At 1 April	**17,470,868**	17,702,330	**17,454,208**	17,685,330
Grants repayable	**-**	(16,750)	**-**	(16,750)
Amortisation to statement of comprehensive income	**(215,225)**	(214,712)	**(214,205)**	(214,372)
At 31 March	**17,255,643**	17,470,868	**17,240,003**	17,454,208
Due < 1 year	**215,225**	214,712	**214,205**	214,372
Due > 1 year	**17,040,418**	17,256,156	**17,025,798**	17,239,836
Original value of grant	**22,555,424**	22,555,424	**22,538,424**	22,538,424

18 CALLED UP SHARE CAPITAL

	2017	2016
	£	£
Allotted issued and fully paid		
At 1 April	**35**	36
Net redeemed	**(2)**	(1)
At 31 March	**33**	35

The above shares carry equal voting rights but do not provide any rights to dividends. They also have no rights to a distribution upon winding up of the Association or any provision for the redemption of the shares.

19 CAPITAL COMMITMENTS – GROUP AND ASSOCIATION

	2017	2016
	£	£
Capital expenditure contracted for but not provided for in the financial statements	**3,834,594**	406,973
Capital expenditure authorised by the Board but not yet contracted for	**8,579,949**	10,431,982

Shared ownership sales are forecast at 10% to fund £ 883,000 of these commitments. Grant funding of £40,000 is forecast. The remainder are funded by loans.

20 CONTINGENT LIABILITIES

At 31 March 2016 and 31 March 2017 there were no known contingent liabilities.

21 LEGISLATIVE PROVISIONS

The Association is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is regarded as the ultimate parent of 'The St Saviour's Almshouses', a registered charity.

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22 POST BALANCE SHEET EVENT

On the 30th June 2017 the Association signed new 125 year ground rent leases for 823 properties in Letchworth Garden City; these replaced the current short ground rent leases which had less than 80 years remaining. No capital payment was made.

23 PENSION OBLIGATIONS

The Association participates in the Social Housing Pension Scheme (the 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. It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

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

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the Trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme.

Howard Cottage has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the scheme as at 30 September 2015. As of this date the estimated employer debt for Howard Cottage was £8.6 million.

Pension liability recognition

The Pensions Trust funding shortfall requires participating employers to pay additional contributions to the scheme. The Association is party to a deficit funding arrangement and 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.

	2017	2016
	£	£
Present value of provision		
Present value of provision (note 15 & 16)	**1,514,000**	1,636,000
Reconciliation of opening and closing provisions		
Provision at start of period	**1,636,000**	1,284,000
Unwinding of the discount factor (interest expense)	**32,000**	23,000
Deficit contribution paid	**(197,000)**	(146,000)
Re-measurements – impact of any change in assumptions	**43,000**	(10,000)
Re-measurements – amendments to the contribution schedule	**-**	485,000
Provision at end of period	**1,514,000**	1,636,000
Impact on Statement of Comprehensive Income		
Interest expense	**32,000**	23,000
Re-measurements – impact of any change in assumptions	**43,000**	(10,000)
Re-measurements – amendments to the contribution schedule	**-**	485,000
	75,000	498,000

24 HOMES - GROUP AND ASSOCIATION

	Units in management	Units in development	Total
2017			
Freehold	**573**	**33**	**606**
Leasehold	**1,049**	**-**	**1,049**
	1,622	**33**	**1,655**
Managed	**24**	**-**	**24**
Total	**1,646**	**33**	**1,679**
2016			
Freehold	573	-	573
Leasehold	1,049	-	1,049
	1,622	-	1,622
Managed	24	-	24
Total	1,646	-	1,646

	2017	2016
Analysis of mortgaged properties		
Units charged as security for loans made to the Association	**877**	885
Unencumbered properties	**671**	662
Shared ownership properties	**74**	75
	1,622	1,622

Operating lease commitments

The classification of property leases the group holds as a lessee, as operating or finance leases, requires the Group to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

25 RELATED PARTY TRANSACTIONS

Shareholders of the Association include 11 members (two of whom are Board Members). One Board member is also tenant of the Association. These members are subject to the Association's standard tenancy agreements and the Association's standard rent levels and they are not able to use their position to their advantage.

Board members with tenancy agreement:

1. Mr B Moss
   - **Address:** Letchworth
   - **Rental**: **£4,402 p.a** (2016 £4,446 p.a.)
   - **Service charge**: **£75 p.a** (2016 £163 p.a.)
   - **Account balance**: **£ Nil** (2016, £Nil)

There is also one Council Co-optee on Board. Transactions with the Council are on normal commercial terms and Council Board Members are not able to use their position to gain any advantage.

In 2012/13, the Association became sole trustee of "The St Saviour's Almshouses", an unincorporated charity and registered social housing provider responsible for the management of a scheme of almshouses known as The Cloisters, Hitchin. As Trustee, the Association has title to the land on which the properties are built, in trust for the Charity and is required to administer and manage the properties.

Howard Cottage Housing Association has taken advantage of the exemption conferred to it in FRS102 not to disclose related party transactions with its wholly owned subsidiaries.

26 CURRENT ASSET INVESTMENTS

	Group		Association	
	2017	2016	**2017**	2016
	£	£	**£**	£
397 NAACIF Accumulation shares				
At 1 April	**27,447**	27,447	**-**	-
Revaluation	**4,604**	-	**-**	-
At 31 March	**32,051**	27,447	**-**	-

27 RELATED PARTIES - TRUST

	Services Received 2017 £'000	**Services Provided 2017 £'000**	**Debtor/(Creditor) as at 31 March 2017 £'000**
Regulated			
Howard Cottage Housing Association		854	854
Non-Regulated			
St Saviour's Almshouses	854		(854)

howard cottage
housing association

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