



Financial statements

April 2017 to March 2018

HOWARD COTTAGE HOUSING ASSOCIATION

FINANCIAL STATEMENTS

Year ended 31 March 2018

HOWARD COTTAGE HOUSING ASSOCIATION

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HOWARD COTTAGE HOUSING ASSOCIATION

ASSOCIATION INFORMATION

For the year ended 31 March 2018

LEGAL STATUS

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

Registered Social Housing Provider with the Regulator of Social Housing, 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

Alan Humphreys Joined 25th January 2018

Yinka Bolaji Joined 25th January 2018

Neil Mawson Joined 25th January 2018

Chris Withnall Joined 25th January 2018

Richard Laval Joined 14th June 2018

COMPANY SECRETARY

Michelle Cross

REGISTERED OFFICE

Pioneer House

Norton Way South

Letchworth Garden City

Hertfordshire

SG6 1NY

AUDITOR

Mazars LLP

45 Church Street

Birmingham

B3 2RT

SOLICITORS

Trowers & Hamblins LLP

3 Bunhill Row

London

EC1Y 8YZ

BANKERS

HSBC Bank plc

Level 6, Metropolitan House

321 Avebury Boulevard

Milton Keynes

MK92GA

HOWARD COTTAGE HOUSING ASSOCIATION

STRATEGIC REPORT

For the year ended 31 March 2018

The Board presents its report and the audited accounts for the year ended 31 March 2018.

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 £3,537,296 for the year (2017: £3,206,199) which is reinvested in the provision and development of housing.

The Group's loan finance has decreased from £24,030,961 to £23,540,120 (note 15 and 16). The Group has undrawn facilities of £23.5 million that will be used to fund future improvement programmes and new developments.

The total number of units managed at the year end was 1,621 of which 1,606 are owned.

LAND AND BUILDINGS

During the year, the Association extended its existing Heritage Foundation leases on 861 properties to a 125 year term with an effective date of 25th March 2017. This extension means that the leases cover the expected useful life of the properties and therefore these have been treated as finance leases. At 31st March 2018, this adds assets with net book value of £33,681,666 and a liability for future lease payments of £33,604,007. For the year ended 31st March 2018, this removes rental charges previously accounted through management costs, creates additional depreciation of £271,626 per annum and unwinding discount through an interest charge of £4,340.

Properties in the Statement of Financial Position are stated at cost. At 31st March 2018 the Group's completed properties, including the new Heritage Lease asset, at cost totalled £120,741,795 compared to a valuation of £195,060,515 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 327 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 2018. Loan facilities of £47,378 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.

HOWARD COTTAGE HOUSING ASSOCIATION

STRATEGIC REPORT

For the year ended 31 March 2018

Achieving good value is embedded in the way we work from the top down through our strong governance arrangements. The Board lead on VFM 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 minimise 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 scrutinise 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 internalising work currently issued to contractors would provide either an enhanced service, cost reduction or both. As a result we have increased 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 for new installations we now 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 this VFM statement as part of 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.

This year, we have researched and selected a peer group so we can compare our performance to a group of similar organisations, as well as to the sector as a whole. Our region of operation and our stock holding are considered to be the key factors driving performance, so the peer group was selected by taking all Associations in the East of England with social housing stock of less than 5,000 units. This selection process has created a peer group of 14 Associations as follows:

Association	Social Housing Units
Hundred Houses Society Limited	1,318
Howard Cottage Housing Association	1,646
Axiom Housing Association Limited	2,268
The Cambridge Housing Society Limited	2,741
Suffolk Housing Society Limited	2,874
Colne Housing Society Limited	3,232
Orwell Housing Association Limited	3,693
Estuary Housing Association Limited	4,041
Thrive Homes Limited	4,431
B3 Living Limited	4,568
Watford Community Housing Trust	4,768
Hightown Housing Association Limited	4,825
Broadland Housing Association Limited	4,915
Victory Housing Trust	4,986

HOWARD COTTAGE HOUSING ASSOCIATION

STRATEGIC REPORT

For the year ended 31 March 2018

We have now adopted VFM metrics, calculated in accordance with new guidance from our regulator. An explanation of the calculation of each of the metrics can be found at <https://www.gov.uk/government/publications/value-for-money-metrics-technical-note>. Our performance using these metrics is analysed in the following sections.

2.1 Current year performance compared to the sector and peer group

The following table shows our current year performance against the sector as a whole and against our selected peer group:

	Global Accounts							
	HCHA group		Sector mean value		Peer group mean		HCHA group	
	2016/17		2016/17		2016/17		2017/18	
1 Reinvestment Percentage	3.7%		6.5%		7.1%		37.6%	
2 a) New Supply Delivered (social housing units) - percentage	0.0%		1.7%		1.5%		1.5%	
2 b) New Supply Delivered (non-social housing units) - percentage	0.0%		3.0%		0.2%		0.0%	
3 Gearing %	34.8%		49.7%		56.9%		52.9%	
4 Earnings before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest cover %	517%		334%		228%		511%	
5 Headline Social Housing Cost Per Unit	£	3,417	£	4,180	£	3,939	£	3,638
<i>5 a) Management cost per unit</i>	£	996	£	1,045	£	1,094	£	887
<i>5 b) Service charge cost per unit</i>	£	315	£	669	£	642	£	286
<i>5 c) Maintenance cost per unit</i>	£	718	£	970	£	880	£	841
<i>5 d) Major repairs cost per unit (includes capital)</i>	£	1,128	£	771	£	631	£	1,294
<i>5 e) Other social housing cost per unit</i>	£	260	£	724	£	691	£	330
6 a) Operating Margin % (social housing lettings only)	38.2%		33.0%		37.1%		37.6%	
6 b) Operating Margin % (overall)	38.0%		29.9%		33.5%		38.8%	
7 Return on Capital Employed	5.4%		5.2%		4.7%		3.9%	

The reinvestment percentage measures our total investment in properties as a proportion of our property holding; the investment represents our development of new homes and works to maintain the condition of our existing properties. During 2016/17 our reinvestment was low compared to both our peers and the sector as a whole. It is difficult for us to smooth our long term investments in new homes and in the maintenance of our properties due to the cyclical nature of this work and our relatively low number of units compared to our peers. Our re-investment performance in 2017/18, in contrast to 2016/17 in a like for like comparison is 9.56% due to an increase in the development pipeline target from 40 to 70 units per year; however this has also been inflated due to the accounting treatment of our extended Heritage Foundation ground rent lease agreements as finance leases as explained earlier. The accounting treatment of these extended leases has also reduced our return on capital employed which in 2016/17 at 5.4% was broadly comparable to our peers and to the sector as a whole, but is reduced by the addition of lease assets with net book value at 31 March 2018 of £33.6m to 3.9% (pre lease adjustments 5.7%).

Our gearing has been historically low compared to both our peers and the sector as a whole due to the age profile of our properties. Over 40% (688) of our properties were built before 1948 and the Association did not start to fund development by bank loans until the 1990's and therefore have low historic loan costs. The Association in recent years has maintained an investment programme of around 4%. However, the accounting treatment of our extended lease agreements as finance leases has substantially increased our gearing in 2017/18 due to a new finance lease obligation of £33.6m. The Association has always adopted a prudent value for money approach to all development expenditure.

Earnings before interest, tax, depreciation, amortisation, major repairs included (EBITDA MRI) interest cover percentage measures our ability to generate cash to meet our interest payment obligations. We perform better than both our peers and the sector as a whole on this measure, driven by our healthy operating margin and relatively low borrowing costs. This demonstrates strong liquidity and financial capacity.

Our headline social housing cost per unit is broadly comparable to our peers and to the sector as a whole. The Association has driven down the management cost per unit by reviewing processes and procedures and maximising income recovered. Service costs have been reduced by a number of initiatives including bring the cleaning service in house and a review of the structure of the team. Major repairs cost have increased in 2017/18 due to a major works

HOWARD COTTAGE HOUSING ASSOCIATION

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For the year ended 31 March 2018

programme which replaced roofs to 38 properties at a cost of £416k, the replacement of communal boilers at one of our sheltered schemes and the replacement of fire doors in our sheltered schemes. Around 25% of our housing stock is within Conservation Areas and over 100 are Grade II listed. This means there can be considerable volatility in our major repairs programmes when these properties have works undertaken compared to newer and less historically significant homes. We understand this impact and are able to factor in the differential when establishing value for money comparisons. As we continue to develop and grow the volatility and impact will reduce as this stock as a percentage reduces. In addition we constantly review the specifics of repairing these homes to ensure that despite their age and character they provide good quality homes for our residents and adapt to modern living, they also provide excellent value for security purposes. At the same time our procurement approach is focussed on cost reduction without any compromise on quality, such as the use of our DLO following the in sourcing exercise mentioned above.

In the same way the stock profile can impact on our performance data. During 2017/18 a greater proportion of our voids came from within our older properties. This increases the costs of re-servicing works as we take the opportunity to carry out extensive and potentially disruptive thermal improvements. Although costly and time consuming, these works add greatly to the future sustainability of the property in terms of affordable warmth and reduced condensation.

2.2 Current year performance compared to prior years, and target 2018/19

The following table shows our current year performance against prior years and shows the budget set for financial year 2018/19:

		Target			
		HCHA group	HCHA group	HCHA group	HCHA group
		2015/16	2016/17	2017/18	2018/19
1	Reinvestment Percentage	4.2%	3.7%	37.6%	4.0%
2 a)	New Supply Delivered (social housing units) - percentage	1.2%	0.0%	1.5%	3.0%
2 b)	New Supply Delivered (non-social housing units) - percentage	0.0%	0.0%	0.0%	0.0%
3	Gearing %	37.1%	34.8%	52.9%	<65%
4	Earnings before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest cover %	394%	517%	511%	429%
5	Headline Social Housing Cost Per Unit	£ 3,829	£ 3,417	£ 3,638	£ 3,774
5 a)	Management cost per unit	£ 1,021	£ 996	£ 887	£ 1,057
5 b)	Service charge cost per unit	£ 325	£ 315	£ 286	£ 289
5 c)	Maintenance cost per unit	£ 849	£ 718	£ 841	£ 903
5 d)	Major repairs cost per unit (includes capital)	£ 1,365	£ 1,128	£ 1,294	£ 1,226
5 e)	Other social housing cost per unit	£ 269	£ 260	£ 330	£ 299
6 a)	Operating Margin % (social housing lettings only)	35.2%	38.2%	37.6%	37%
6 b)	Operating Margin % (overall)	32.2%	38.0%	38.8%	38%
7	Return on Capital Employed	5.2%	5.4%	3.9%	4.5%

Howard Cottage continues to maintain above average operating margins by careful control of costs and taking limited low level risks in non social diversification.

Over the next five years we have planned to increase our reinvestment in building new social housing properties compared to prior years, including the building of a 71 unit over 55's development in Letchworth Garden City. This planned investment increases the targeted new supply delivered to 3% an average of 70 properties over the next 5 years and will be funded by new borrowing.

The Board have set golden rules and KPI's on financial performance and monitor against them at regular Board meetings.

HOWARD COTTAGE HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

For the year ended 31 March 2018

The Board of Management presents their report and financial statements for the year ended 31 March 2018

BOARD OF MANAGEMENT

BOARD MEMBERS

Jim Briscoe

Gary Grindal

Steve Henning

Gareth Hillier

Shaun McLean

Barry Moss

Carol Rooker

Alan Humphreys Joined 25th January 2018

Yinka Bolaji Joined 25th January 2018

Neil Mawson Joined 25th January 2018

Chris Withnall Joined 25th January 2018

Richard Laval Joined 14th June 2018

CODE OF GOVERNANCE

The Association has adopted the National Housing Federation's model Code of Governance, issued in 2015. The Association has an Audit and Risk 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. In 2018 the group had an In Depth Assessment by The Regulator for Social Housing and received the Rating Governance G2, Viability V1 which is compliant with the regulatory code. Over the coming months The Association will be working on areas for development to ensure we maintain and improve Compliance in the areas identified to get us back to G1.

As at as at the 31 March 2018 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 new Chairman has been recruited and will be in post from 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 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.

HOWARD COTTAGE HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

For the year ended 31 March 2018

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 2017 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.

HOWARD COTTAGE HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

For the year ended 31 March 2018

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 20th September 2018.

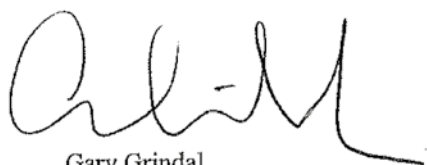
AUDITORS

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

COMPLIANCE WITH 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 2017, as at the 31 March 2018 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 successor has now been recruited and will be post from September 2018.

The Strategic Report and Report of the Board of Management were approved by the Board on 19th July 2018 and signed on its behalf by:



Gary Grindal
Chairman

HOWARD COTTAGE HOUSING ASSOCIATION

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 March 2018

Opinion

We have audited the financial statements of Howard Cottage Housing Association (the 'Association') and its subsidiary (the 'group') for the year ended 31 March 2018 which comprise the Group and the Association's Statements of Comprehensive Income, the Group and the Association's Statements of Financial Position, the Group Statement of Cash Flows and the Group and the Association's Statements of Changes in Reserves and notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2018 and of the Group's and the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- the Association has not kept proper books of account; or

HOWARD COTTAGE HOUSING ASSOCIATION

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 March 2018

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

Responsibilities of the Board

As explained more fully in the Statement of the Board's responsibilities set out on page 7, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of the audit report

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



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

Date:

HOWARD COTTAGE HOUSING ASSOCIATION

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	Notes	Group		Association	
		2018 £	2017 £	2018 £	2017 £
TURNOVER	3	10,226,910	10,015,395	10,177,433	9,967,462
Operating costs	3	(6,255,971)	(6,206,912)	(6,225,625)	(6,158,131)
OPERATING SURPLUS		3,970,939	3,808,483	3,951,808	3,809,331
Surplus on disposal of property	5	287,982	71,446	287,982	71,446
Finance income	6	6,866	13,197	6,770	13,100
Interest payable and financing costs	7	(728,887)	(691,531)	(728,887)	(691,531)
Gain on financial asset at fair value	26	396	4,604	-	-
SURPLUS FOR THE YEAR		3,537,296	3,206,199	3,517,673	3,202,346
Other comprehensive income		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,537,296	3,206,199	3,517,673	3,202,346

HOWARD COTTAGE HOUSING ASSOCIATION

STATEMENT OF FINANCIAL POSITION

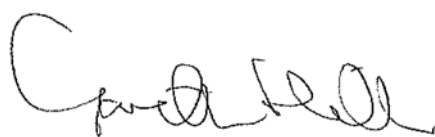
For the year ended 31 March 2018

	Notes	Group		Association	
		2018	2017	2018	2017
		£	£	£	£
INTANGIBLE ASSETS	11	6,580	14,686	6,580	14,686
TANGIBLE FIXED ASSETS					
Housing properties - cost less depreciation	12	108,107,752	69,133,823	107,106,929	68,111,250
Other property, plant & equipment	13	2,589,942	2,587,960	2,589,942	2,587,960
		110,704,274	71,736,469	109,703,451	70,713,896
CURRENT ASSETS					
1 st tranche shared ownership properties		461,922	-	461,922	-
Stock		37,920	8,893	37,920	8,893
Debtors	14	866,938	650,005	1,674,769	1,498,733
Investment	26	32,447	32,051	-	-
Short term deposits		-	2,000,000	-	2,000,000
Cash and cash equivalents		1,641,088	1,353,192	1,639,157	1,351,177
		3,040,315	4,044,141	3,813,768	4,858,803
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	(5,507,947)	(3,541,040)	(5,507,610)	(3,539,859)
NET CURRENT (LIABILITIES)/ASSETS		(2,467,633)	503,101	(1,693,842)	1,318,944
TOTAL ASSETS LESS CURRENT LIABILITIES		108,236,642	72,239,570	108,009,609	72,032,840
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	73,601,688	41,141,916	73,586,388	41,127,296
CAPITAL AND RESERVES					
Called up share capital	18	37	33	37	33
Revenue reserves		34,634,917	31,097,621	34,423,184	30,905,511
		108,236,642	72,239,570	108,009,609	72,032,840

The financial statements were approved by the Board on 19th July 2018 and were signed on its behalf by:



Board Chairman



Board Member



Secretary

HOWARD COTTAGE HOUSING ASSOCIATION

STATEMENT OF CHANGED IN RESERVES

For the year ended 31 March 2018

	Group		Association	
	Revenue Reserves	Revenue Reserves	Revenue Reserves	Revenue Reserves
	2018	2017	2018	2017
	£	£	£	£
Balance at 1 April	31,097,621	27,891,422	30,905,511	27,703,165
Surplus from Statement of Comprehensive Income	3,537,296	3,206,199	3,517,673	3,202,346
Balance at 31 March	34,634,917	31,097,621	34,423,184	30,905,511

HOWARD COTTAGE HOUSING ASSOCIATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

	2018	2017
	£	£
Net Cash Generated From Operating Activities		
Surplus for the year	3,537,296	3,206,199
Adjustments for non-cash items:		
Depreciation charges	1,457,346	1,220,276
Impairment	-	294,917
Amortisation of capital grant	(214,000)	(215,225)
Pension costs less contributions (receivable)	(204,000)	(122,000)
(Increase) in debtors	(216,933)	(39,943)
Increase in creditors	1,691,514	98,343
(Increase)/decrease in 1st tranche share-ownership properties	(461,922)	239,955
(Increase)/decrease in provisions	(29,027)	2,221
Issue/(redemption) of shares	4	(2)
Surplus on disposal of property	(287,982)	(71,446)
Adjustments for investing or financing activities:		
Interest payable	728,887	691,531
Finance income	(6,866)	(13,197)
Gain on financial assets at fair value through the SOCI	(396)	(5,033)
Net cash generated from operating activities	5,993,921	5,286,596
Cash flows from financing activities		
Loan advances received	1,000,302	-
Loan principal repayments	(1,241,537)	(1,273,664)
Heritage Foundation lease repayment	(353,625)	-
Interest received and other income	6,866	13,197
Interest paid	(974,153)	(687,413)
Gain on financial assets at fair value through the SOCI	396	5,033
Net cash flows from financing activities	(1,561,751)	(1,942,847)
Cash flows from investing activities		
Acquisition and construction of housing properties	(6,768,585)	(2,548,501)
SHG and other capital grants receivable/(repayable)	40,000	-
Purchase of other fixed assets	(64,393)	(24,582)
Proceeds from sale of property	649,100	116,050
Net cash flows from investing activities	(6,143,878)	(2,457,033)
Net increase in cash and cash equivalents	(1,711,708)	886,716
Cash and cash equivalents at beginning of the year	3,385,243	2,498,527
Cash and cash equivalents at end of the year	1,673,535	3,385,243

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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.

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

Leases, where they are capitalised, are depreciated over the life of the lease.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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.

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

ACCOUNTING POLICIES (Continued)

1) 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.

Heritage Foundation leases

Where the term for leases represents the major part of the economic life of the asset, the Group recognises its rights of use and obligations under finance leases as assets and liabilities in the statement of financial position at amounts equal to the present value of the minimum lease payments, determined at the inception of the lease. The present value of the minimum lease payments is calculated using the Group's weighted average cost of capital. The assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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 considers the detailed criteria set out in the SORP. The Group considers each scheme to be a cash generating unit and has therefore assessed all schemes to consider whether there is any change in circumstance that would trigger an impairment assessment. The Group considers that there has been no trigger to undertake an impairment review of any of its schemes.

Capitalisation of works to existing properties

The Group capitalises improvement expenditure in accordance with the accounting policy on housing properties. Judgement is exercised around areas such as which costs to include in the amount capitalised, how much cost to de-recognise on replacement, the number of different components and their assigned useful economic lives.

Capitalisation of property development costs

The Group capitalises development expenditure in accordance with the accounting policy on housing properties. Judgement is exercised over the likelihood that projects will continue, setting the period over which interest can be capitalised and establishing which development costs should be capitalised and which costs should be written off.

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 and components

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

Heritage Foundation leases

The Group carries its extended Heritage Foundation leases as finance leases based on a discounted cash flow model. The calculated amount of the finance lease liability therefore requires estimates judgements, of which the most sensitive relate to the quantum of the cash flows and the interest rate used to establish the present value of the leases.

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

3 TURNOVER AND OPERATING COSTS

Group

	2018		
	Turnover £	Operating costs £	Operating surplus £
Social housing lettings (note 4)			
Housing accommodation	9,532,783	(5,953,102)	3,579,681
Other social housing activities			
Shared ownership first tranche sales	580,300	(246,594)	333,706
Other income	113,827	(56,275)	57,552
Total other social housing activities	694,127	(302,869)	391,258
Total	10,226,910	(6,255,971)	3,970,939
	=====	=====	=====
	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 other social housing activities	477,321	(309,107)	168,213
Total	10,015,395	(6,206,912)	3,808,483
	=====	=====	=====

Within Operating Cost is £246,594 (2017: £236,816) relating to costs of shared ownership sales.

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

3 TURNOVER AND OPERATING COSTS

Association

	2018		
	Turnover	Operating costs	Operating surplus
	£	£	£
Social housing lettings (note 4)			
Housing accommodation	9,483,306	(5,922,756)	3,560,550
Other social housing activities			
Shared ownership first tranche sales	580,300	(246,594)	333,706
Other income	113,827	(56,275)	57,552
Total other social housing activities	<u>694,127</u>	<u>(302,869)</u>	<u>391,258</u>
Total	<u><u>10,177,433</u></u>	<u><u>(6,225,625)</u></u>	<u><u>3,951,808</u></u>

	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 other social housing activities	<u>477,321</u>	<u>(309,107)</u>	<u>168,213</u>
Total	<u><u>9,967,462</u></u>	<u><u>(6,158,131)</u></u>	<u><u>3,809,331</u></u>

Within Operating Cost is £246,594 (2017: £236,816) relating to costs of shared ownership sales.

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

4 PARTICULARS OF INCOME AND EXPENDITURE FROM LETTINGS

Group

	2018		2017	
	£	£	£	£
Housing accommodation				
Income				
Rent		8,802,776		8,860,695
Charges for support services	94,101		50,456	
Service charges eligible for housing benefit	325,764		322,659	
Service charges not eligible for housing benefit	95,802		89,039	
Grant amortisation	214,340		215,225	
		<u>730,007</u>		<u>677,379</u>
		<u>9,532,783</u>		<u>9,538,074</u>
Expenditure				
Cost of services charged		462,877		518,126
Management		1,438,166		1,639,958
Depreciation of housing properties		1,387,399		1,137,894
Impairment of housing properties		-		294,917
Routine maintenance		1,363,381		1,181,568
Major repairs expenditure		716,426		660,033
Bad debts		50,507		37,227
Other costs:				
Cost of other services	400,244		306,933	
Legal fees and bank charges	134,102		121,149	
		<u>534,346</u>		<u>428,082</u>
Operating costs		<u>5,953,102</u>		<u>5,897,805</u>
Operating surplus on letting activities		<u><u>3,579,681</u></u>		<u><u>3,640,269</u></u>
Rent losses from voids		<u>68,792</u>		<u>39,439</u>

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

4 PARTICULARS OF INCOME AND EXPENDITURE FROM LETTINGS

Association

	2018		2017	
	£	£	£	£
Housing accommodation				
Income				
Rent		8,753,639		8,813,782
Charges for support services	94,101		50,456	
Service charges eligible for housing benefit	325,764		322,659	
Service charges not eligible for housing benefit	95,802		89,039	
Grant amortisation	214,000		214,205	
		<u>729,667</u>	<u>676,359</u>	
		<u>9,483,306</u>	<u>9,490,141</u>	
Expenditure				
Cost of services charged		462,877		518,126
Management		1,432,761		1,635,592
Depreciation of housing properties		1,365,650		1,094,714
Impairment of housing properties		-		294,917
Routine maintenance		1,360,189		1,180,333
Major repairs expenditure		716,426		660,033
Bad debts		50,507		37,227
Other costs:				
Cost of other services	400,244		306,933	
Legal fees and bank charges	134,102		121,149	
		<u>534,346</u>	<u>428,082</u>	
Operating costs		<u>5,922,756</u>	<u>5,849,024</u>	
Operating surplus on letting activities		<u><u>3,560,550</u></u>	<u><u>3,641,117</u></u>	
Rent losses from voids		<u>66,134</u>	<u>39,439</u>	

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

5 SURPLUS ON DISPOSAL OF PROPERTY

	Group		Association	
	2018 £	2017 £	2018 £	2017 £
Increase in share ownership	249,100	116,000	249,100	116,000
Cost of sales: increase in shared ownership	(182,072)	(43,365)	(182,072)	(43,365)
	<u>67,028</u>	<u>72,635</u>	<u>67,028</u>	<u>72,635</u>
Disposal proceeds on fixed assets	400,000	50	400,000	50
Carrying value of fixed assets	(179,046)	(1,239)	(179,046)	(1,239)
	<u>220,954</u>	<u>(1,189)</u>	<u>220,954</u>	<u>(1,189)</u>
	<u>287,982</u>	<u>71,446</u>	<u>287,982</u>	<u>71,446</u>

6 FINANCE INCOME

	Group		Association	
	2018 £	2017 £	2018 £	2017 £
Interest receivable from short term bank deposits and bank accounts	6,866	13,197	6,770	13,100
	<u>6,866</u>	<u>13,197</u>	<u>6,770</u>	<u>13,100</u>

7 INTEREST PAYABLE AND FINANCING COSTS

	Group		Association	
	2018 £	2017 £	2018 £	2017 £
On bank loans, overdrafts and other loans:				
Total interest repayable wholly or partly in more than 5 years by instalments	747,306	701,925	747,306	701,925
Unwind lease liability discount	4,340	-	4,340	-
Less development loan interest capitalised at a rate of 4%	(22,759)	(10,394)	(22,759)	(10,394)
	<u>728,887</u>	<u>691,531</u>	<u>728,887</u>	<u>691,531</u>

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

8 AUDITOR'S REMUNERATION

	Group		Association	
	2018	2017	2018	2017
	£	£	£	£
In their capacity as auditor	21,544	19,740	21,544	19,740

9 EMPLOYMENT COSTS – GROUP AND ASSOCIATION

	2018	2017
	Number	Number
The average number of persons (excluding Board members) employed during the year (full time equivalents) was:		
Office staff	26.3	27.1
Scheme managers	3.4	3.8
Caretaker	0.9	0.9
Direct Labour Operatives	10.5	5.9
	41.1	37.7

The definition of a full time equivalent staff post is based on a 37.5 hour week for all staff.

	2018	2017
	£	£
Staff costs (for above persons):		
Wages and salaries	1,649,975	1,425,325
Social security costs	141,667	140,711
Other pension costs	278,783	272,016
Redundancy and pay in lieu	12,807	23,300
	2,083,232	1,861,352

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

10 DIRECTORS' EMOLUMENTS

	2018	2017
	£	£
The aggregate emoluments paid to or receivable by Directors who are executive staff members	251,307	260,657
The emoluments paid to or receivable by Directors who are not executive staff members:	2018	2017
	£	£
J Briscoe	2,977	2,701
G Grindal	4,997	4,920
S Henning	2,980	2,733
G Hillier	3,943	3,280
S McLean	1,948	1,025
B Moss	1,948	1,367
C Rooker	1,948	1,367
A Humphreys	0	0
Y Bolaji	0	0
N Mawson	0	0
C Withnall	0	0
	20,741	17,393
The emoluments paid to the highest paid Director of the Association excluding pension contributions	104,255	100,367

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 on by the Association of £7,890 (2017: £7,805) was paid in addition to the personal contributions of the Chief Executive.

Directors' emoluments are exclusive of pension contributions.

	2018	2017
	Number	Number
Salary Band £		
50,000 – 59,999	1	-
60,000 – 69,999	-	-
70,000 – 79,999	-	-
80,000 – 89,999	1	2
90,000 – 99,999	-	-
100,000 – 109,999	1	1

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

11 INTANGIBLE ASSETS

Group and Association – computer software

	2018	2017
	£	£
COST		
At 1 April	134,134	118,096
Additions	-	16,038
	<hr/>	<hr/>
At 31 March	134,134	134,134
	<hr/> <hr/>	<hr/> <hr/>
DEPRECIATION		
At 1 April	119,448	107,762
Charge for the year	8,106	11,686
	<hr/>	<hr/>
At 31 March	127,554	119,448
	<hr/> <hr/>	<hr/> <hr/>
NET BOOK VALUE		
At start of year	14,686	10,334
	<hr/> <hr/>	<hr/> <hr/>
At end of year	6,580	14,686
	<hr/> <hr/>	<hr/> <hr/>

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

12 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES

Group	Housing properties completed schemes £	Heritage Foundation lease asset £	Housing properties schemes in development £	Shared ownership completed schemes £	Shared ownership schemes in development £	Total £
COST						
At 1 April 2017	76,980,481	-	1,218,096	5,464,431	464,980	84,127,988
Additions in year	1,381,425	33,953,292	4,339,385	-	947,795	40,621,897
Capitalised interest	-	-	22,759	-	-	22,759
Re-categorisation to completed	2,216,910	-	(2,216,910)	855,962	(855,962)	-
Disposals	(110,706)	-	-	-	(182,073)	(292,779)
At 31 March 2018	<u>80,468,110</u>	<u>33,953,292</u>	<u>3,363,330</u>	<u>6,320,393</u>	<u>374,740</u>	<u>124,479,865</u>
DEPRECIATION						
At 1 April 2017	14,831,330	-	-	162,835	-	14,994,165
Written off on disposal	(9,451)	-	-	-	-	(9,451)
Charge for the year	1,055,592	271,626	-	60,181	-	1,387,399
At 31 March 2018	<u>15,877,471</u>	<u>271,626</u>	<u>-</u>	<u>223,016</u>	<u>-</u>	<u>16,372,113</u>
NET BOOK VALUE						
At 31 March 2017	<u>62,149,151</u>	<u>-</u>	<u>1,218,096</u>	<u>5,301,596</u>	<u>464,980</u>	<u>69,133,823</u>
At 31 March 2018	<u>64,590,639</u>	<u>33,681,666</u>	<u>3,363,330</u>	<u>6,097,377</u>	<u>374,740</u>	<u>108,107,752</u>

Total expenditure on works to existing properties:-

Amounts capitalised:

Replacement of components £1,381,425

Amounts charged to SOCI:

Major works £716,426

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

12 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES

Association	Housing properties completed schemes £	Heritage Foundation lease asset £	Housing properties schemes in development £	Shared ownership completed schemes £	Shared ownership schemes in development £	Total £
COST						
At 1 April 2017	75,892,980	-	1,218,096	5,464,431	464,980	83,040,487
Additions in year	1,381,425	33,953,292	4,339,385	-	947,795	40,621,897
Capitalised interest	-	-	22,759	-	-	22,759
Re-categorisation to completed	2,216,910	-	(2,216,910)	855,962	(855,962)	-
Disposals	(110,706)	-	-	-	(182,073)	(292,779)
At 31 March 2018	<u>79,380,609</u>	<u>33,953,292</u>	<u>3,363,330</u>	<u>6,320,393</u>	<u>374,740</u>	<u>123,392,364</u>
DEPRECIATION						
At 1 April 2017	14,766,402	-	-	162,835	-	14,929,237
Written off on disposal	(9,451)	-	-	-	-	(9,451)
Charge for the year	1,033,842	271,626	-	60,181	-	1,365,649
At 31 March 2018	<u>15,790,793</u>	<u>271,626</u>	<u>-</u>	<u>223,016</u>	<u>-</u>	<u>16,285,435</u>
NET BOOK VALUE						
At 31 March 2017	<u>61,126,578</u>	<u>-</u>	<u>1,218,096</u>	<u>5,301,596</u>	<u>464,980</u>	<u>68,111,250</u>
At 31 March 2018	<u>63,589,816</u>	<u>33,681,666</u>	<u>3,363,330</u>	<u>6,097,377</u>	<u>374,740</u>	<u>107,106,929</u>

Total expenditure on works to existing properties:-

Amounts capitalised:

Replacement of components £1,381,425

Amounts charged to SOCI:

Major works £716,426

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

13 TANGIBLE FIXED ASSETS – OTHER

Group and Association

	Leasehold office buildings £	Furniture and equipment £	Computer equipment £	Motor vehicles £	Total £
COST					
At 1 April 2017	2,569,493	451,756	254,834	104,577	3,380,660
Additions	-	42,913	-	21,480	64,393
Disposals	-	(44,677)	-	-	(44,677)
At 31 March 2018	<u>2,569,493</u>	<u>449,992</u>	<u>254,834</u>	<u>126,057</u>	<u>3,400,376</u>
DEPRECIATION					
At 1 April 2017	146,295	319,065	250,858	76,482	792,700
Written off on disposal	-	(44,107)	-	-	(44,107)
Charge for the year	20,553	26,003	1,446	13,839	61,841
At 31 March 2018	<u>166,848</u>	<u>300,961</u>	<u>252,304</u>	<u>90,321</u>	<u>810,434</u>
NET BOOK VALUE					
At 31 March 2017	<u>2,423,198</u>	<u>132,691</u>	<u>3,976</u>	<u>28,095</u>	<u>2,587,960</u>
At 31 March 2018	<u>2,402,645</u>	<u>149,031</u>	<u>2,530</u>	<u>35,736</u>	<u>2,589,942</u>

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

14 DEBTORS

Amounts falling due within one year:

	Group		Association	
	2018	2017	2018	2017
	£	£	£	£
Rental debtors	430,624	465,595	430,418	465,595
Less: provision for bad debts	(156,495)	(156,958)	(156,495)	(156,958)
	274,129	308,637	273,923	308,637
Prepayments and accrued income	563,557	290,803	563,557	290,803
Amounts owed from subsidiary	-	-	809,834	854,409
Other	29,252	50,565	27,453	44,884
	866,938	650,005	1,674,769	1,498,733

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		Association	
	2018	2017	2018	2017
	£	£	£	£
Loan instalments*	1,223,580	1,238,463	1,223,580	1,238,463
Heritage Foundation liability	282,957	-	282,957	-
Rent creditors	231,494	224,443	231,494	224,443
Trade creditors	3,240,541	1,555,113	3,240,541	1,555,113
PAYE and National Insurance	33,550	32,868	33,550	32,868
Pension creditor	28,476	26,982	28,476	26,982
Government grants (note 17)	214,545	215,225	214,205	214,205
Pension liability (note 22)	213,000	205,000	213,000	205,000
Other creditors	39,804	42,946	39,807	42,785
	5,507,947	3,541,040	5,507,610	3,539,859

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

16 CREDITORS: amounts falling due after more than one year

	Group		Association	
	2018	2017	2018	2017
	£	£	£	£
Housing loans	22,316,540	22,792,498	22,316,540	22,792,498
Heritage Foundation lease	33,321,050	-	33,321,050	-
Government grants (note 17)	16,867,098	17,040,418	16,851,798	17,025,798
Pension liability (note 22)	1,097,000	1,309,000	1,097,000	1,309,000
	<u>73,601,688</u>	<u>41,141,916</u>	<u>73,586,388</u>	<u>41,127,296</u>
Loans repayable by instalments*				
Between one and two years	1,200,448	1,258,999	1,200,448	1,258,999
Between two and five years	3,712,059	3,764,816	3,712,059	3,764,816
In five or more years	17,748,343	17,863,387	17,748,343	17,863,387
Less; loan issue costs	(344,310)	(94,704)	(344,310)	(94,704)
	<u>22,316,540</u>	<u>22,792,498</u>	<u>22,316,540</u>	<u>22,792,498</u>

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. * (£22,316,540 + £1,223,580 = £23,540,120 Group's Borrowings).

Finance lease commitments – Heritage Foundation leases

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.

The re-negotiation of our Heritage Foundation leases, previously classified as operating leases, to extend their life to 125 years has led to their reclassification from operating to finance leases. At 31 March 2018 the carrying value of the assets held under these finance leases is £33,681,666 (2017: nil).

	2018	2017
	£	£
Analysis of undiscounted lease payment obligations		
Lease payments due within one year	282,957	-
Lease payments due from year two to five inclusive	1,394,284	-
Lease payments due after five years	51,192,070	-
	<u>52,869,311</u>	<u>-</u>

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

17 DEFERRED INCOME – GOVERNMENT GRANTS

	Group		Association	
	2018 £	2017 £	2018 £	2017 £
At 1 April	17,255,643	17,470,868	17,240,003	17,454,208
Amortisation to statement of comprehensive income	(214,340)	(215,225)	(214,000)	(214,205)
Adjustment to prior year subsidiary balance	340	-	-	-
Grants receivable	40,000	-	40,000	-
At 31 March	<u>17,081,643</u>	<u>17,255,643</u>	<u>17,066,003</u>	<u>17,240,003</u>
Due < 1 year	<u>214,545</u>	<u>215,225</u>	<u>214,205</u>	<u>214,205</u>
Due > 1 year	<u>16,867,098</u>	<u>17,040,418</u>	<u>16,851,798</u>	<u>17,025,798</u>
Original value of grant	<u><u>22,595,424</u></u>	<u><u>22,555,424</u></u>	<u><u>22,578,424</u></u>	<u><u>22,538,424</u></u>

18 CALLED UP SHARE CAPITAL

	2018 £	2017 £
Allotted issued and fully paid		
At 1 April	33	35
Net Issued/redeemed	4	(2)
At 31 March	<u>37</u>	<u>33</u>

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

	2018 £	2017 £
Capital expenditure contracted for but not provided for in the financial statements	<u>4,559,103</u>	<u>3,834,594</u>
Capital expenditure authorised by the Board but not yet contracted for	<u>25,083,772</u>	<u>8,579,949</u>

Shared ownership sales are forecast at 35% to fund £ 883,000 of these commitments. Grant funding of £2,484,000 is forecast. The remainder are funded by loans.

20 CONTINGENT LIABILITIES

At 31 March 2018 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.

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

22 PENSION OBLIGATIONS

The Association participates in the Social Housing Pension Scheme (the Scheme). The Scheme is 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.

	2018 £	2017 £
Present value of provision		
Present value of provision (note 15 & 16)	1,310,000	1,514,000
Reconciliation of opening and closing provisions		
Provision at start of period	1,514,000	1,636,000
Unwinding of the discount factor (interest expense)	19,000	32,000
Deficit contribution paid	(205,000)	(197,000)
Re-measurements – impact of any change in assumptions	(18,000)	43,000
Re-measurements – amendments to the contribution schedule	-	-
Provision at end of period	1,310,000	1,514,000
Impact on Statement of Comprehensive Income		
Interest expense	19,000	32,000
Re-measurements – impact of any change in assumptions	(18,000)	43,000
Re-measurements – amendments to the contribution schedule	-	-
	1,000	75,000

HOWARD COTTAGE HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

23 HOMES - GROUP AND ASSOCIATION

	Units in management	Units in development	Total
2018			
Freehold	557	28	585
Leasehold	1,049	-	1,049
	<u>1,606</u>	<u>28</u>	<u>1,634</u>
Managed	15	-	15
Total	<u>1,621</u>	<u>28</u>	<u>1,649</u>
2017			
Freehold	573	33	606
Leasehold	1,049	-	1,049
	<u>1,622</u>	<u>33</u>	<u>1,655</u>
Managed	24	-	24
Total	<u>1,646</u>	<u>33</u>	<u>1,679</u>
		2018	2017

Analysis of mortgaged properties

Units charged as security for loans made to the Association	1,204	877
Unencumbered properties	326	671
Shared ownership properties	76	74
	<u>1,606</u>	<u>1,622</u>

24 OPERATING LEASE COMMITMENTS

At 31 March 2018 there are no operating lease commitments.

25 RELATED PARTY TRANSACTIONS

Shareholders of the Association include 11 Board Members (one of whom is a resident). 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 (2017 £4,446 p.a.)
 - **Service charge:** £75 p.a (2017 £165 p.a.)
 - **Account balance:** £ Nil (2017 £Nil)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

26 CURRENT ASSET INVESTMENTS

	Group		Association	
	2018	2017	2018	2017
	£	£	£	£
397 NAACIF Accumulation shares				
At 1 April	32,051	27,447	-	-
Revaluation	396	4,604	-	-
At 31 March	32,447	32,051	-	-

27 RELATED PARTIES - TRUST

	Services Received	Services Provided	Debtor/(Creditor)
	2018	2018	as at 31 March 2018
	£	£	£
Regulated			
Howard Cottage Housing Association		809,834	809,834
809,834			
Non-Regulated			
St Saviour's Almshouses	809,834		(809,834)



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A charitable housing association



business for neighbourhoods