# ISLINGTON & SHOREDITCH HOUSING ASSOCIATION LIMITED

## CONSOLIDATED REPORT AND FINANCIAL STATEMENTS
For the year ended

31 MARCH 2019

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| **Co-operative and Community Benefit Societies Act 2014 Number** | 11614R |
| **Homes and Communities Agency registration number** | LO457 |
| **Registered Office** | 102 Blackstock Road<br>LONDON N4 2DR |
| **Board** | Stephen Stringer (Chair)<br>Julian Elve<br>Merlene Emerson (Resigned 26 March 2019)<br>Ruth Gee<br>Yasmin Khan (Appointed 18 September 2018)<br>Philip Newby<br>Alice Powell<br>Roz Spencer<br>Benjamin Tansey<br>Andrew Wade (Resigned 18 September 2019)<br>Jackie Kelly (Appointed 18 September 2018, resigned 26 March 2019) |
| **Chief Executive and Secretary** | Clare Thomson (Retired 14 December 2018)<br>Ruth Davison (Appointed 7 January 2019) |

**Executive Directors**

Colin Archer, Director of Development and New Business
Tim Hall, Customer Operations Director (Resigned 31 May 2019)
Dawn Harrisson, Interim Director of Operations (Appointed 10 June 2019)
Judith Leigh, Head of People and Organisational Development
Gary Pliskin, Finance Director
Yung Yung Lee, Deputy Finance Director

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| **Bankers** | Barclays Bank Plc<br>Islington and Camden Group<br>PO Box 3474<br>London NW1 7NQ |
| **Auditor** | Grant Thornton UK LLP<br>Registered Auditor<br>Victoria House<br>199 Avebury Boulevard<br>Milton Keynes<br>MK9 1AU |

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## Statement from the Chair

In terms of the wider operating environment, the past year has been unlike any other. The fallout from the referendum vote on Britain's membership of the European Union (EU) has dominated political discourse and Parliamentary time. The issues raised by the tragedy at Grenfell tower, two years ago now, are yet to be fully resolved, be they building safety issues, trust in institutions or ensuring that the voice of residents and customers is heard and responded to. The date we were to have left the EU, March 29th, came and went.

At ISHA, amidst this uncertainty, we have therefore concentrated on doing what we exist to: providing safe homes, aiming to be a great a landlord to existing residents and customers; and building high-quality, genuinely-affordable new homes to help keep our communities the thriving, vibrant, mixed places they currently are and play our part in solving the housing crisis facing the country.

The Board has continued to prioritise health and safety. All our fire risk assessments have been published. Where we unfortunately discovered we had remedial work to do on buildings, we have instituted 'waking watches' until we reach resolution. We have also focused on compliance generally and volunteered to be early adopters of the National Housing Federation's Together with Tenants work.

That means rebooting our resident involvement to amplify the voice of customers internally. We also rolled out a new framework for complaints, which aims to provide timely resolution, rather than escalation. Service delivery remains a top priority and is still not where we want it to be. We are not yet a 'great' landlord. But we see some improvement in terms of our repairs and maintenance contract and have made more investment this year in planned repairs, specifically in new kitchens and bathrooms. Work has been ongoing to deliver the systems staff need to join-up and deliver for customers. We've also progressed modelling work on St Mary's Path estate in Islington and have just begun consultation on possible works.

In the five years of this strategic plan we set ourselves ambitious growth targets – 400 homes in five years or between three and four per cent year on year growth. In this financial year, fewer homes than we anticipated were delivered, but this was because completion slipped into the first quarter of 2019/2020. We are thrilled with the quality of our new homes and that more than 50 per cent of them are for social rent.

At the end of the financial year Lien Viet ceased to be an independent housing association and was merged into ISHA. We have committed to continuing to deliver culturally sensitive services for our customers and communities and to maintaining the branding of Lien Viet. It was established by communities from Vietnam who had faced war and then faced discrimination in terms of access to homes. We celebrated this achievement with a bequest to the Geffrye Museum, the museum of the home and will continue to honour its founding principles and values.

I am pleased to report that Islington and Shoreditch Housing Association Limited's (ISHA) financial performance remains robust and our underlying business continues to be resilient despite the uncertainties in the economic environment. However, given that we assess we may need to spend up to £10 million on St Mary's Path to ensure quality homes for the future there, the Regulator of Social Housing reassessed our Financial Viability as a still compliant V2.

We were delighted to have the top grade for governance re-instated, G1. The Board has assessed that it is compliant with its code of governance and the regulatory economic and consumer standards.

During the year we also said farewell to our long-standing Chief Executive, Clare Thomson. She retires with our good wishes and thanks. We welcomed as her replacement, Ruth Davison, who started with us in January and who is already making good progress in the role.

This is my final year of six-year term as Chair. I am proud of what we have achieved during that time and have been pleased to serve the communities of North and East London.

Stephen Stringer
Chair

## Operating and financial review

### Principal activities

To provide a local community-based service that manages, maintains and develops quality affordable housing for people in need in Camden, Hackney, Haringey, Islington, Tower Hamlets and Waltham Forest.

Islington & Shoreditch Housing Association Limited(ISHA) is a charitable housing association incorporated as a Co-operative and Community Benefit Society and registered with the Regulator of Social Housing (RSH). The Association operates in the London Boroughs of Camden, Hackney, Islington and Waltham Forest and at 31 March 2019 had 2,297 (2018: 2,267) homes.

On 31 March 2019 we transferred engagements with Lien Viet Housing Association Limited (Lien Viet). It had joined ISHA as a subsidiary in October 2008 was a community based housing association which owned 122 units (2018: 122 units) including 1 shared ownership unit (2018: 1 unit) and 19 hostel rooms (2018: 19), and also managed 35 units (2018: 35) on behalf of ISHA and London and Quadrant. Lien Viet's residents are predominantly Vietnamese and South East Asian and we have committed to continuing to provide culturally sensitive service.

The Regulator upgraded ISHA's governance grading to G1 and regraded its financial viability grading to V2 mainly due to St. Mary's Path Estate works.

The Association's development programme is designed to address housing needs in our area of operation. To achieve this, we work in partnership with our local authorities, Homes England and the Greater London Authority (GLA). As well as a programme of rented accommodation, we develop shared ownership housing for people who cannot afford to purchase on the open market outright. In 2018/19 the Group achieved a surplus of £7.9m (2018: £7.3m) which will help us build more homes for low cost rent. To support our ambition of building at least 400 more homes from 2015 to 2020 we have revised our development strategy to broaden opportunities to fund this ambition.

The North River Alliance (NRA), is a development consortium of housing associations operating in North and East London led by ISHA. The NRA is a trusted development partner of the GLA. There are currently eleven members of the NRA including ISHA:

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| Bangla Housing Association Limited; | Christian Action (Enfield) Housing Association Limited |
| Barnsbury Housing Association Limited; | Gateway Housing Association Limited; |
| North London Muslim Housing Association Limited | Providence Row Housing Association Limited; |
| Spitalfields Housing Association Limited; | Tower Hamlets Community Housing Limited |
| Innisfree Housing Association Limited; | Industrial Dwelling Society Limited |

## Business and financial review

The Board is pleased to report a surplus for the year to 31 March 2019 of £7.9m (2018: £7.3m) for the Group.

Customer communication and service excellence have remained the top priorities for ISHA this year. The Board's ambition to transform ISHA from a well-respected local housing association to a top performing service provider remains the driver of our Strategic Plan, which has five strands:

- To be a great landlord
- Valuing our customers and meeting their housing needs
- Good Quality and Affordable Homes
- Speaking up for housing
- Total assurance framework underpinned by risk and business planning

ISHA has sufficient funds to continue to build new homes and will generate the necessary income to maintain and improve services to our customers, and meet loan repayments.

## Value for Money

The Value for Money Sector Scorecard metrics for the Group are summarised in a table on page 7. The Board has set a quartile target for ISHA, the peer group used are London based associations with stock size from 500 to 10,000 units. As the peer group data for 2018/19 is not available until the Autumn of 2019, we have used the 2017/18 quartile metrics for benchmarking.

The metric where the Group has not met the target is the New Supply Delivered (Social Housing). This was due to the delay in handover of new schemes. We are pleased to see the Headline Social Housing Cost per unit metric has performed better than target. The Group has noted that for 2017/18, ISHA was an outlier when benchmarked against the whole sector, however, this was mainly due to the increased costs associated with operating within central London.

A new Value for Money Standard was put in place by the Regulator of Social Housing from 1 April 2018. The Board has reviewed these changes in detail, and as a result changed how Value for Money is reported to our stakeholders. Whilst the basic principles remain as before, the revised approach seeks to strengthen board accountability and enhance consistency, comparability and transparency as well as significantly overhaul regulatory tools.

ISHA's Board remains committed to maximise organisational objectives by maintaining a comprehensive and strategic approach to delivering and demonstrating value for money. ISHA's Board has evaluated ISHA's Sector Scorecard results against our peers and have set targets on where ISHA should position itself.

| Metric | ISHA Group Actual Result 18/19 | Quartile ISHA is in within the peer group* | Quartile target for 18/19 |
|---|---|---|---|
| 1 Reinvestment | 5.91% | 2 | 2 |
| 2 New Supply Delivered | | | |
| A – Social Housing | 1.62% | 2 | 1 |
| B – Non-social housing | 0.00% | N/A | N/A |
| 3 Gearing | 29.14% | 1 | 2 |
| 4 EBITDA-MRI** | 333.31% | 1 | 2 |
| 5 Headline Social Housing Cost per unit | £ 4,882.40 | 1 | 2 |
| 6 Operating margin | | | |
| A - Social housing lettings | 23.46% | 2 | 2 |
| B - Overall | 41.42% | 1 | 2 |
| 7 Return on capital employed | 3.68% | 1 | 2 |

* Calculated using the HouseMark 17/18 Sector Scorecard comparison tool. The peer group selected was London based housing associations with stock size from 500 to 10,000 units. Peer group results for 18/19 are not yet available.
** EBITDA-MRI: Earnings before interest, Tax, Depreciation, Amortisation, Major Repairs (EBITDA MRI) Interest cover % is a key indicator of liquidity and investment capacity.

The Group's performance against its own internal key VFM targets is as follows:-

| Key internal VFM target | Actual Result March 2019 | 18/19 target | Actual Result March 2018 |
|---|---|---|---|
| | | | |
| **Excellent modernised customer Service** | | | |
| Customer satisfaction with ISHA as a landlord | TBC* | >= 85% | 73% |
| Customer satisfaction with repairs | 77% | >= 85% | New Measure |
| Customer satisfaction with cleaning | 87% | >= 75% | 67% |
| Customer satisfaction with gardening | 60% | >= 75% | 67% |
| Resolution of caller's issue at first point of contact | 81% | >= 85% | 90% |
| | | | |
| **Efficient services to customers** | | | |
| Current general needs arrears as a percentage of the rent roll | 4.9% | <= 4.2% | 5% |
| First time fix of repairs | 62% | >= 85% | 75% |
| | | | |
| **Motivated and developed staff to provide an effective and efficient service** | | | |
| Average staff sickness days | 7.9 days | <= 6.5 days | 7 days |
| Employee engagement | 68% | >= 75% | 71% |
| | | | |
| **Excellent and efficient team working culture** | | | |
| Satisfaction with complaints handling | 72% | >= 80% | New Measure |
| Average re-let days for General Needs | 99 days | <= 20 days | 38 days |
| | | | |
| **Good quality new homes that address the housing demand in London** | | | |
| Number of new homes handed over | 37 | 117 | 2 |
| Percentage of residents satisfied with their new homes | 100% | 90% | 78% |
| | | | |
| **Cost** | | | |
| Overhead spend within budget | £408k saving | Not applicable | £645k saving |
| Capital spend within budget | £508k saving | Not applicable | £164k saving |

* Survey being carried out and results are expected in August 2019

**What has been delivered and plans to address areas of underperformance**
The Board and the Leadership Team has recognised that a number of areas require significant improvement and although ISHA has met almost all of the Sector Scorecard targets the Board has set, it has not met most of its own internal targets. What has been delivered and the plan to address the areas of underperformance is outlined below:

| Area | Performance Indicators | What has been delivered and the plan to address areas of underperformance |
|---|---|---|
| Customer Service | Customer satisfaction with gardening | Currently in discussion with our cleaning and grounds maintenance contractor to carry out gardening services on a different frequency based on the seasons. |
| | Resolution of caller's issue at first point of contact | ISHA have launched the first phase of Microsoft Dynamics 365 CRM system in June 2019. This first launch will provide a CRM system that can direct the customer service team to resolving a query on first point of contact by providing the information within the CRM system. When the CRM system is embedded in the customer service team, it will be rolled-out to other departments. |
| Repairs | Customer satisfaction with repairs | Surveys have been carried out by ISHA Home Team (“IHT”) and required multiple SMS responses. An introduction of a simpler SMS survey has been introduced to enable focus on lower score areas in more depth to gather information on trends and issues. IHT also has a new function to carry out on-site surveys.<br><br>We are developing a shorter repairs satisfaction in-house across various departments using HouseMark questions that will enable us to benchmark with peers once we have consulted with customers on what matters to them. |
| | First time fix of repairs | First time fix is low, and this has been partly due to clearing out old legacy work orders that had not been managed effectively. Closer monitoring has been introduced to address the issue.<br><br>The introduction of van stock for all operatives will also allow more first-time fixes as materials will be available straight away, with replenishments managed centrally. |

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| Staff Satisfaction | Average staff sickness days | Meetings between HR and managers will be held to discuss staff sickness.<br>Health & Wellbeing day held in May 2019 where staff could have free health checks and participate in activities. |
| | Employee engagement | New CEO has set-up two staff groups to look at how things work in ISHA and the customer journey. Engagement and participation have been encouraging so far and have generated measurable and meaningful actions and activities. |
| Team Working | Satisfaction with complaints handling | A new complaints handling process was launched in Q3 of 2018/19 and satisfaction has been increasing, although still below target. Process is also under review by the staff group. |
| | Average re-let days for General Needs | Void turnaround time has been an issue as there have been multiple contractors who have failed to deliver. A new sub-contractor is now on board with dedicated teams to deliver all trades within the tighter time frames.<br><br>Nominations have also been an issue in some areas and meetings are being set up with respective colleagues in the relevant Local Authorities. |

**Maintaining financial viability**
ISHA's financial strategy underpins the strategic objectives. Our first priority is to make sure that the business remains financially viable and protects service delivery to customers.

We review annually the mitigating assumptions to make sure we are financially viable. These have been particularly challenging in recent years because of the 1% year on year reduction in rent which results in loss of income. We estimate by 2020 this will be over £2m per annum.

Mitigating assumptions have been incorporated into the 30-year plan. Overall, the model demonstrates that these mitigations are still sufficient to keep the Group financially viable.

ISHA has met and is forecast to meet all its loan covenants and has sufficient headroom with its existing facilities to fund its development programme to 2020.

We have further strengthened our assessment of long-term viability to make sure our assets are protected by:

- Maintaining a record of assets and liabilities, and all contractual agreements, and a method for making sure it is kept up to date;
- Stress tested the business plan across a range of scenarios that would break the plan. From these tests we have identified further key mitigations to protect the business from breach of viability.

The 2018/19 financial statements are compliant with the accounting standards introduced by the Statement of Recommended Practice; Accounting by registered social housing providers update 2014.

**Equality and diversity and employees**
ISHA is committed to ensuring that at the point of service, the needs of the individual have been considered and actively examines its practices to ensure that services do not have a differential impact on a group or groups of people within the communities it serves. At the year end, ISHA had 64 (2018: 62) full time equivalent staff. Across the boroughs we operate in, a significant proportion of people in housing need are from black and ethnic minority communities. This is reflected at ISHA where 57% of our staff are from black and ethnic minority communities.

**Health and Safety**
ISHA recognises its responsibilities on all matters relating to Health and Safety, and has been implementing an improvement plan since the end of 2016. The Board commissioned an independent review of ISHA's Health and Safety Assurance Framework, and approved an improvement action plan in March 2018 to provide clear evidence of the Board's decisions that it is adequately assured on all areas of Health and Safety. This was completed at the end of 2018.

The Board regularly reviews and monitors its policies and provides staff training and education. ISHA ensures good practice and compliance with fire regulations and maintained its compliance with fire safety standards in 2018/19. Following the Grenfell fire tragedy ISHA has identified buildings where remedial works may be required, and has put in place additional interim measures to keep its customers living in those buildings safe.

**Governance**
The Board is responsible for the overall strategic direction of ISHA, which includes the approving, monitoring and compliance of key policies and to ensure that the objectives of the Group are achieved. The Board meets at least six times a year. Its structure provides for sub-committees, namely the Finance and Resource Sub-committee, the Private Finance Sub-committee, the Development Sub-committee, the Housing Services Sub-committee and the Governance Sub-Committee. The specialist areas of the Group's operations are considered under these sub-committees and reported to the Board. Customer involvement in Governance is encouraged with customers sitting on all levels of governance and over the next year we plan to improve customer scrutiny and reporting of that scrutiny to Board. The day-to-day operational control of the Association is delegated to the Leadership Team. ISHA is committed to attaining the highest standards of corporate governance and will keep its Board structure and procedures under review.

To assist in achieving a high standard, the Board has delegated responsibility for audit supervision to the Finance and Resource Sub-committee and employs independent auditors for both internal and external audit. The Finance and Resource Sub-committee consists of voluntary members who by virtue of their position are themselves independent from the paid officers of the Association.

The Board has commissioned an external evaluation of the effectiveness of the Board, as part of its triennial assurance, and a report was presented to the Board in September 2018. A Board effectiveness action plan is currently in place with the aim for all the recommendations to be implemented by the end of 2019/20.

All Board members are required to subscribe to the agreed aims of the Association. The Board responsibilities in respect of the financial statements are set out as follows.

### Internal control

The Board is responsible for ISHA's system of internal control and reviewing its effectiveness. The Board recognises that no system of internal control can provide absolute assurance or eliminate all risks. However, the system of internal control is designed to manage risk and to provide reasonable assurance regarding the safeguarding of assets, control of risk, maintenance of proper accounting records and the reliability of financial information.

The Board approved an improved Assurance Control Framework to provide a better overview for the Board. The Board now has a dedicated Control and Assurance Framework area on the Board member website so that the Board can cross reference its decisions and strategies with the expectations and requirements set out by the Regulator.
ISHA's Board has strengthened its annual cycle of formal review as follows:

- Assurance Control Framework approved by July Board meeting and supports the annual internal controls report.
- The November Finance and Resources Sub Committee will receive the second quarter assurance report for review, prior to recommending for approval to the Board in December
- The end of year assurance report will be reviewed by the Governance Committee, as part of their detailed review of the regulatory standards, and improvement actions for the following year will be reported in a similar way to the other self-assessment compliance reports.

The Board and its Finance and Resource Sub-committee carry out monitoring activities to ensure that appropriate control procedures are in place and changes required to these are identified and actioned. To this end, they are assisted by internal audit arrangements carried out by a professional firm. There are formal procedures for reporting weaknesses in internal controls or fraud and as part of these controls, internal audit and senior officers of the Association have access to the Board and Finance and Resource Sub-committee. No material weaknesses in internal control have been identified which require disclosure in the financial statements.

There is a clearly defined organisational structure based upon the system of delegation set out in standing orders, financial regulations, policies and procedures, which were updated and approved on 13 December 2018 as part of the regular review of our systems.

ISHA is committed to regular, timely and accurate financial management reporting. Such reporting includes quarterly budgetary control arrangements, including reporting on variances and regular reports on the revised performance management framework. All of the Leadership Team take internal control seriously. Staff are encouraged to discuss ways in which procedures can be improved with their managers in an open way. Directors are required to report to the Chief Executive on the effectiveness of the controls. The Chief Executive reports to the Board on the appropriateness and effectiveness of the systems of internal control.

The Board receives confirmation that controls continue to operate from three main sources. These are:

- Internal audit reports prepared according to an agreed plan over a three-year cycle;
- External auditors' management letters;
- Compliance reports issued by the Regulator.

There were no major instances of the failure of controls to operate and this was reported to the Board.

The Board is aware that neither the external auditor nor the Regulator of Social Housing have any specific responsibility to identify shortcomings in ISHA's systems of internal control. The responsibility rests solely with the Board.

The Board obtains additional assurance through other sources including the internal audit process as the principal reassurance on control matters.

**Statement of compliance**
ISHA's Shareholders approved the rescinding of the existing Rules and adoption of the amended Rules in September 2014, to take account of legislative changes and adoption of an updated version of the National Housing Federation's Model Rules. The Board has adopted the NHF 2015 Code of Governance. A self-assessment of compliance against the adopted code was fully reviewed by the Board in June 2018. The Board is satisfied that the annual report can state that ISHA and its subsidiary Lien Viet Housing Association Limited complies with the NHF 2015 Code of Governance. In addition, the Board confirm that they have complied with the RSH's Governance and Financial Viability Standard.

**Risk management**
The risk management framework was last reviewed and improved by the Board in June 2018. The process for identifying, evaluating and managing the significant risks faced by ISHA has been operational throughout the year and the risks are aligned to ISHA's four strategic objective areas. The risk management strategy of ISHA requires continuous assessment of ISHA's risk profile and an annual risk evaluation report submitted to the Board. The Board is updated with any changes in risk during the year.

As part of the evaluation and monitoring of risks, the Leadership Team and the Board have reviewed the risks facing ISHA in the current economic climate. The main risks facing ISHA are monitored closely and reported on a regular basis with reports to key Board members outside the normal reporting cycles.

The Board's risk management framework includes aligning key performance indicators to every strategic risk area, to use as a reality check against progress and likelihood of the risk occurring. The Board confirmed its risk appetite as cautious in June 2018, and has reviewed its articulation of what a risk appetite means operationally, strategically, reputationally and financially.

ISHA has responded to and has taken appropriate action to mitigate the impact of risks arising from:

- Health and Safety implications arising from the Grenfell tragedy;
- the continued impact of Government imposition of four year rent reduction;
- the need to improve the efficiency and auditability of our services to ISHA and Lien Viet customers;
- the continuing uncertainties of the impact from BREXIT.

Financial viability remains the highest monitored risk at Executive, Board and Regulator level.

**Post balance sheet events**

On 9 June 2019, a fire broke out on a balcony in a block of flats in Barking. The fire spread through to other balconies in the same block, fortunately, no life changing injuries or lives were lost in this event. However, it has raised concerns on the use of wood on balconies and the Ministry of Housing, Communities and Local Government (MHCLG) issued new advice regarding residential buildings' balconies. The impact of the advice is currently being assessed by ISHA and a letter has been sent to ISHA residents living in buildings that has timber cladding, is timber framed or has a timber cladding with advice on fire prevention. This advice is also on ISHA's website.

The transfer of engagements from Lien Viet to ISHA was registered with the FCA on 31 May 2019.

**Auditors**

A resolution to re-appoint Grant Thornton UK LLP will be proposed at the forthcoming annual general meeting.

The report of the Board was approved on 25 July 2019 and signed on its behalf by:

Stephen Stringer
Chair of the Board

## STATEMENT OF THE RESPONSIBLITIES OF THE BOARD FOR THE REPORT AND THE FINANCIAL STATEMENTS

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

Co-operative and Community Benefit Society legislation requires the board to prepare financial statements for each financial year. Under that law the board have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under the Co-operative and Community Benefit Society legislation the board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the association and group for that period. In preparing these financial statements, the board are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers 2014; have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and association and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014; the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing (April 2015). It is also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Disclosure of information to auditors

In so far as each member of the Board is aware:

- there is no relevant audit information of which the Association’s auditors are unaware; and
- the Board have taken steps that they ought to have taken as Board members in order to makes themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

# Independent auditor's report to the members of Islington & Shoreditch Housing Association Limited

**Opinion**

We have audited the financial statements of Islington and Shoreditch Housing Association Limited (the 'parent society') and its subsidiaries (the 'group') for the year ended 31 March 2019, which comprise group and association statements of comprehensive income, the group and association statements of changes in reserves, group and association statements of financial position, 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 including Financial Reporting Standard 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 parent society's affairs as at 31 March 2019 and of the group's and parent society's income and expenditure for the year then ended;
- 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.

**Basis for opinion**

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with regulations made under that Act. 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 society 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 parent society'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 Statement from the Chair and the Operating and financial review, set out on pages 3 to 14 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 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 society has not kept proper accounting records;
- 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.

**Responsibilities of the board for the financial statements**

As explained more fully in the Statement of Board's Responsibilities set out on page 15, 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 parent society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intend to liquidate the group or parent society 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.

# Independent auditor's report to the members of Islington & Shoreditch Housing Association Limited

**Use of our report**

This report is made solely to the society's members, as a body, in accordance with regulations made under Sections 87 and 98(7) of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society'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 society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Fiona Baldwin**

Senior Statutory Auditor

For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Milton Keynes

Date:

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Notes | GROUP | | ASSOCIATION | |
|---|---|---|---|---|---|
| | | | Restated* | | Restated* |
| | | 2019 | 2018 | 2019 | 2018 |
| | | £'000 | £'000 | £'000 | £'000 |
| **Turnover** | 2 | 23,130 | 21,959 | 23,130 | 21,104 |
| Operating costs | 2 | (16,239) | (15,216) | (16,239) | (14,540) |
| Surplus on sale of properties and land | 20 | 1,878 | 2,715 | 1,878 | 2,719 |
| Donation | 29 | 2,689 | - | 2,689 | - |
| **Operating surplus** | 2 | **11,458** | **9,458** | **11,458** | **9,283** |
| Interest receivable | | 48 | 30 | 48 | 28 |
| Interest and financing costs | 7 | (3,409) | (3,751) | (3,409) | (3,753) |
| Movement in fair value of investment properties | 9 | (222) | 1,607 | (222) | 1,562 |
| **Surplus for the year** | | **7,875** | **7,344** | **7,875** | **7,120** |
| Initial recognition of multi-employer defined benefit scheme | 23 | (1,115) | - | (1,115) | - |
| Actuarial losses in respect of pension scheme | 23 | (542) | - | (542) | - |
| **Total comprehensive income for the year** | | **6,218** | **7,344** | **6,218** | **7,120** |

* Surplus on sale of properties and land included within operating surplus following amendments to FRS102, see note 28 for further details.

All amounts relate to continuing operations. The accompanying notes on page 24 to 61 form part of these financial statements.

The financial statements were authorised and approved by the Board on 25 July 2019.

| | | |
|---|---|---|
| Stephen Stringer | Benjamin Tansey | Ruth Davison |
| (Chairman) | (Chair of Finance and Resources Sub-Committee) | (Secretary) |

## STATEMENT OF CHANGES IN RESERVES

| | Income and Expenditure Reserves | |
|---|---|---|
| | GROUP | ASSOCIATION |
| | £'000 | £'000 |
| Balance as at 31 March 2017 | **70,050** | **62,807** |
| Total comprehensive income for the year | 7,344 | 7,120 |
| Balance as at 31 March 2018 | **77,394** | **69,927** |
| Pension adjustment to opening reserves* | **(1,115)** | **(1,115)** |
| Reserves at 1 April 2018 adjusted | **76,279** | **68,812** |
| Comprehensive income for the year | 7,875 | 7,875 |
| Other comprehensive income for the year | (542) | (542) |
| De-recognition of Lien Viet reserves | (2,857) | 4,610 |
| **Balance as at 31 March 2019** | **80,755** | **80,755** |

The accompanying notes on page 24 to 61 form part of the financial statements.

*The opening reserves as at 1 April 2018 were adjusted to apply defined benefit accounting for the first time to the Social Housing Pension Scheme. See key accounting judgement and estimation uncertainty disclosures in note 1 for further details.

**ISLINGTON & SHOREDITCH HOUSING ASSOCIATION LIMITED**

**STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH**

| | | GROUP | | ASSOCIATION | |
|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** |
| **FIXED ASSETS** | | **£'000** | **£'000** | **£'000** | **£'000** |
| Tangible fixed assets | 8 | 276,512 | 269,223 | 276,512 | 256,241 |
| Investment Properties | 9 | 20,009 | 20,231 | 20,009 | 19,876 |
| Intangible Assets | 10 | 166 | 203 | 166 | 203 |
| | | **296,687** | **289,657** | **296,687** | **276,320** |
| **CURRENT ASSETS** | | | | | |
| Properties held for sale | 11 | 2,533 | 2,679 | 2,533 | 2,679 |
| Trade and other debtors | 12 | 5,706 | 2,787 | 5,706 | 2,844 |
| Cash and cash equivalents | | 20,089 | 11,211 | 20,089 | 10,547 |
| | | 28,328 | 16,677 | 28,328 | 16,070 |
| **CREDITORS:** amounts falling due within one year | 13 | (13,357) | (14,535) | (13,357) | (15,177) |
| **NET CURRENT ASSETS** | | **14,971** | **2,142** | **14,971** | **893** |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **311,658** | **291,799** | **311,658** | **277,213** |
| **CREDITORS:** amounts falling due after more than one year | 14 | 225,449 | 211,890 | 225,449 | 204,771 |
| **PROVISIONS FOR LIABILITIES** | | | | | |
| Defined benefit pension liability | 23 | 3,072 | 1,415 | 3,072 | 1,415 |
| Other provisions | 24 | 2,382 | 1,100 | 2,382 | 1,100 |
| **TOTAL NET ASSETS** | | **80,755** | **77,394** | **80,755** | **69,927** |

ISLINGTON & SHOREDITCH HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH

| | | GROUP | | ASSOCIATION | |
|---|---|---|---|---|---|
| | | **2019 £'000** | **2018 £'000** | **2019 £'000** | **2018 £'000** |
| **RESERVES** | | | | | |
| Share capital – Non Equity | 18 | - | - | - | - |
| Income and expenditure reserve | | 80,755 | 77,394 | 80,755 | **69,927** |
| **Total Reserves** | | **80,755** | **77,394** | **80,755** | **69,927** |

The accompanying notes on page 24 to 61 form part of these financial statements.

These financial statements were authorised and approved by the Board on 25 July 2019 and were signed on their behalf by:

| | | |
|---|---|---|
| Stephen Stringer<br>(Chairman) | Benjamin Tansey<br>(Chair of Finance and Resources Sub-Committee) | Ruth Davison<br>(Secretary) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Net cash generated from operating activities** | (a) | 6,114 | 9,903 |
| **Cash flow from investing activities** | | | |
| Purchase of tangible fixed assets | | (13,878) | (15,067) |
| Purchase of intangible fixed assets | | - | (3) |
| Proceeds from sale of tangible fixed assets | | 4,730 | 5,249 |
| Grants received | | 2,822 | 1,548 |
| Interest received | | 48 | 30 |
| | | (164) | 1,660 |
| **Cash flow from financing activities** | | | |
| Interest paid | | (3,409) | (3,741) |
| Loan drawdown | | 15,000 | 5,000 |
| Capital element of finance lease rental payments | | - | (1) |
| Repayment of borrowings | | (3,091) | (3,176) |
| Net change in cash and cash equivalents | | 8,336 | (258) |
| Lien Viet net change in cash on Transfer of Engagement | 29 | 542 | - |
| Cash and cash equivalent at the beginning of the year | | 11,211 | 11,469 |
| **Cash and cash equivalent at the end of the year** | | **20,089** | **11,211** |

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH

### a. Cash flows from operating activities

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Surplus for the year | 7,875 | 7,344 |
| Adjustments for non-cash items: | | |
| Depreciation and amortisation of fixed assets | 3,776 | 3,692 |
| Amortisation of grant income | (1,322) | (1,374) |
| (Increase) in trade and other debtors | (2,919) | (989) |
| (Decrease)/Increase in trade and other creditors | (458) | 3,333 |
| Increase in properties held for sale | 146 | (1,502) |
| Net gain on sale of fixed assets | (1,878) | (2,715) |
| Movement in value of investment property | 222 | (1,607) |
| Donation | (2,689) | - |
| Adjustments for investing and financing activities: | | |
| Interest payable | 3,409 | 3,751 |
| Interest receivable | (48) | (30) |
| Net cash from operating activities | **6,114** | **9,903** |

## 1a Legal status

The Association is incorporated in England with limited liability as a charitable Housing Association under the Co-operative and Community Benefit Societies Act 2014.

Lien Viet Housing Association Limited is a subsidiary of Islington & Shoreditch Housing Association Limited (ISHA). Lien Viet Housing Association Limited is registered under the Cooperative and Community Benefit Society Act 2014 and is a registered provider of social housing.

As at 26 March 2019, a special resolution was passed setting out that the assets and liabilities, including its trade, of Lien Viet Housing Association would be transferred to ISHA as part of the Transfer of Engagements process under Section 110 Co-Operative and Community Benefit Societies Act (CBSA) 2014 with an effective date of 31 March 2019. The transfer of engagements from Lien Viet to Islington & Shoreditch Housing Association was registered with the FCA on 31 May 2019.

## 1b Accounting Policies

### Basis of accounting

The financial statements of the Group and Association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing Providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

ISHA is a public benefit entity whose financial statements have been prepared in accordance to FRS 102.

The financial statements are presented in Sterling (£), which is the functional currency of ISHA.

### Disclosure exemptions

The Association has adopted the following disclosure exemptions as permitted under FRS 102 Section 1.11-12:

- The requirement to present a statement of cash flows and the related notes,
- items of income, expenses, gains or losses relating to financial instruments, and
- exposure and management of financial risks.

## Going concern

The Group has adequate financial facilities in place to resource its day to day operations and committed development programmes. The Group's long-term business plan shows that it is able to meet long term debt requirements whilst complying with all lender covenants.

The Association continues to adopt the going concern basis in the preparation of the financial statements as the Board has reasonable expectation that the Association will continue in operational existence for the foreseeable future. Foreseeable future being at least twelve months after the date that the report and financial statement are signed.

## Significant judgement and estimates

The preparation of the financial statements requires management to make significant judgements and estimates when applying accounting policies. The items in the financial statements where these judgements have been made are as follows:

## Impairment

Management continuously review the performance of its assets to identify any schemes that display indicators of impairment. Management pay attention to schemes that have increasing void losses, have been affected by policy changes or where the decision has been made to dispose of a property.

Where there is evidence of impairment, the fixed asset is written down to the recoverable amount and any impairment losses are charged to operating surpluses.

The recoverable amount is estimated in the following way:

a) Determine the level at which the recoverable amount is to be assessed (i.e. the asset level or the cash generating unit (CGU) level)
b) Estimate the recoverable amount of the cash generating unit and
c) Calculate the carrying amount of the cash generating unit and
d) Compare the carry amount to the recoverable amount to determine if an impairment loss has occurred.

## Estimation uncertainty

### Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to Decent Homes Standards which may require more frequent replacement of key components. Accumulated depreciation at 31 March 2019 was £42.0m (note 8).

### Defined benefit obligation

The Group participates in the Social Housing Pension Scheme (SHPS); administered independently by the Pensions Trust. The Pension Trust provides the estimate of the defined benefit pension obligation based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increase. Variation in these assumptions may significantly impact the liability and the annual defined benefit expense (as analysed in Note 23).

### Capitalisation of property development costs

Distinguishing the point at which a project is more likely than not to continue, allowing capitalisation of associated development costs requires judgement. After capitalisation, management monitors the asset and considers whether changes indicate that impairment is required.

For existing properties, expenditure is capitalised where it will result in enhancement of economic benefit. The amount capitalised in the year was £0.5m (note 8) relating to various schemes.

### Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how the market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices.

Fair value measurements were applied to investment properties. The total value of investment properties was £20.0m at the year end (note 9).

## Basis of consolidation

The Group has a dormant subsidiary, Urban Style Limited which had no transactions or balances in the year to consolidate into the Group. As stated in note 1a, Lien Viet assets and liabilities were transferred to ISHA on 31 March 2019. Further details are in note 29.

Lien Viet will file its final accounts for the 2018/19 financial year and will be de-registered from the Regulator of Social Housing during 2019/20.

As ISHA has a dormant subsidiary, Group accounts will still be produced, although in substance, all the results will be derived from the new combined entity.

The parent has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities and is therefore controlled by the Group.

The transactions incurred directly by agencies managing the Group's properties are not consolidated in the financial statements.

## Turnover and revenue recognition

Turnover comprises rental and service charge income receivable in the year, income from shared ownership first tranche sales, sales of properties built for sale and other services included at the invoiced value, excluding VAT where recoverable, of services supplied in the year and revenue grants receivable in the year.

Rental income is recognised from the point where properties under development reach practical completion or otherwise become available for letting, net of voids. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Revenue grants are recognised when the conditions for receipt of the agreed grant funding have been met. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with Administering Authorities.

## Value Added Tax

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

### Interest Payable

Interest is capitalised on borrowings to finance the development of qualifying assets to the extent that it accrues in respect of the period of development it represents:

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

Other interest payable is charged to income and expenditure.

### Financial instruments

Financial instruments which meet the criteria of basic financial instruments as defined in Section 11 of FRS 102 are accounted for under an amortised historic cost model.

Non-basic financial instruments are recognised at fair value using a valuation technique with any gains or losses being reported in surplus or deficit. At each year end, the instruments are revalued to fair value, with the movements posted to the income and expenditure (unless hedge accounting is applied).

### Debtors

Short term debtors are measured at transaction price, less any impairment.

Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Where deferral of payment terms have been agreed at below market rate, and where material, the balance is shown at the present value, discounted at a market rate.

### Creditors

Short term trade creditors are measured at transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised costs using the effective interest method.

### Employee benefits

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

### Pension

The Group participates in the Social Housing Pension Scheme (SHPS); administered independently by the Pensions Trust. In the previous year, it was not possible to identify the underlying assets and liabilities belonging to individual participating employers therefore the association had applied defined contribution accounting. For the year ended 31 March 2018, the association had recognised a past service deficit liability of £1,415k, within creditors, based on the present value of the association's deficit funding agreement.

For the year ended 31 March 2019, the association is able to identify its share of the scheme assets and scheme liabilities from 1 April 2018 and therefore has applied defined benefit accounting from this date onwards. For accounting purposes, the relevant date for accounting for this change from defined contribution to defined benefit accounting is 1 April 2018. The deficit funding agreement liability that was previously recognised within creditors of £1,415k was derecognised on 1 April 2018 and an initial net defined benefit liability of £2,530k was recognised at this date in the statement of financial position. The resulting net difference of £1,115k on initial recognition of the SHPS obligation was recognised in other comprehensive income.

As at 31 March 2019, the net defined benefit pension liability was £3,072k which has been included within the provisions for pensions liability in the financial statements.

In the year ended 31 March 2019, the current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period within the income and expenditure account. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income. Refer to Note 23 for more details.

Contributions payable from the Association to the Pension Trust under the terms of the funding agreement for past deficits is recognised as a liability within other provisions in the Association's financial statements.

### Housing properties

Housing properties are properties held for the provision of social housing or to otherwise provide social benefit. Housing properties are principally available for rent and are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements.

Expenditure on shared ownership properties is split proportionally between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover, and the remaining element is classed as a fixed asset and included in housing properties at cost, less any provisions needed for depreciation or impairment.

### Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business. Investment properties are measured at cost on initial recognition and subsequently at fair value as at the year end, with changes in fair value recognised in income and expenditure.

### Intangible Assets

Intangible Assets consists of costs relating to the development of an integrated Housing and Finance system which was implemented during 2016/17.

### Government grants

Government grants include grants receivable from the Regulator of Social Housing (the RSH), local authorities, and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and, where applicable, its individual components (excluding land) under the accruals model.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once reasonable assurance has been gained that the entity will comply with the conditions and that the funds will be received.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Government grants received for housing properties are subordinated to the repayment of loans by agreement with the RSH. Government grants released on sale of a property may be repayable but are normally available to be recycled and are credited to a Recycled Capital Grant Fund and included in the statement of financial position in creditors.

Where developments have been financed wholly or partly by Social Housing Grant (SHG), a deduction is made to provide cover for development overhead.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income in income and expenditure.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to income and expenditure.

### Other grants

Grants received from non-government sources are recognised using the performance model. A grant which does not impose specified future performance conditions is recognised as revenue when the grant proceeds are received or receivable. A grant that imposes specified future performance-related conditions on the Association is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

### Depreciation of housing properties

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

The Group depreciates the major components of its housing properties on a straight line basis from the year of purchase or in the first year following that of completion of new properties on the following basis:

| | |
|---|---|
| Roof structure | 70 years |
| Windows, external doors | 30 years |
| Gas boilers, fires | 15 years |
| Kitchens | 20 years |
| Bathrooms | 30 years |
| Central heating | 30 years |
| Communal parts | 30 years |
| Plumbing and infrastructure | 30 years |
| Electrics | 40 years |
| Lifts | 20 years |

Freehold land is not depreciated.

### Impairment

Annually housing properties are assessed for impairment indicators. Where indicators are identified, an assessment for impairment is undertaken comparing the scheme's carrying amount to its recoverable amount. Where the carrying amount of a scheme is deemed to exceed its recoverable amount, the scheme is written down to its recoverable amount. The resulting impairment loss is recognised as operating expenditure. Where a scheme is currently deemed not to be providing service potential to the Group, its recoverable amount is its fair value less cost to sell.

### Depreciation of other tangible fixed assets

Other fixed assets are included at cost to the Group less depreciation, which is provided on a straight-line basis over the periods shown below:

| | |
|---|---|
| Office furniture, equipment and motor vehicles | 4 years |
| Scheme equipment | 10-15 years |
| Freehold office | 50 years |

Gains or losses arising on the disposal of other tangible fixed assets are determined as the difference between the disposal process and the carrying amount of the assets and are recognised as part of the surplus/deficit for the year.

### Depreciation of intangible fixed assets

Intangible fixed assets are capitalised at the cost to the Group. Amortisation is calculated on a straight-line basis over the course of 7 years, which is the expected useful life of the asset. Cost includes all expenditure related to preparing the asset for its intended use.

### Capitalisation of development costs

Development administration costs based on the time spent on a scheme are capitalised up to the date of practical completion of that scheme. Only direct costs are included.

### Major repairs

Where a repair involves replacement of property components, the expenditure is treated as capital expenditure and depreciated as outlined above. Any other replacement, renewal or repair to the fabric of an existing building that enhances the net income generated from the property or substantially increases its useful life is capitalised. All other repairs are treated as revenue items.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring the surplus or deficit. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to income and expenditure on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the Group recognises annual rent expense equal to amounts owed to the lessor.

The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.

### Properties for sale

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

### Provisions for liabilities

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in income and expenditure in the period it arises.

The Group recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

### Taxation

ISHA and Lien Viet Housing Association Limited are both charitable Housing Associations and are not taxable on any surpluses derived from charitable activities.

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the Statement of Financial Position date.

**Donated land and other assets**

Land and other assets donated by local authorities and other government sources is added to cost at the fair value of the land at the time of the donation. Where the land is not related to a specific development and is donated by a public body an amount equivalent to the difference between fair value and consideration paid is treated as a non-monetary government grant and recognised on the statement of financial position as deferred income within liabilities. Where the donation is from a non-public source, the value of the donation is included as income within operating surplus.

**Transfer of Engagement**

The transfer of Lien Viet is accounted for using the principles of merger accounting. The transaction is akin to a group reconstruction by way of a hive-up of the assets from the subsidiary, Lien Viet to the parent, ISHA. Due to the nature of the transaction a hybrid merger accounting approach is applied where the prior year comparatives are not restated.

The net assets of Lien Viet transferred are recognised at their book value as at 31 March 2019, including the fair value adjustments when Lien Viet first became a subsidiary. Further details are available in note 29.

## 2 Particulars of turnover, cost of sales, operating costs and operating surplus
## GROUP – continuing activities

| 2019 | Note | Turnover £'000 | Cost of sales £'000 | Operating expenditure £'000 | Operating surplus £'000 |
|---|---|---|---|---|---|
| **Social housing lettings** | 3 | 16,316 | - | 12,489 | 3,827 |
| **Other social housing activities** | | | | | |
| First tranche shared ownership sales | | 2,850 | 1,714 | - | 1,136 |
| Development activities | | - | - | 415 | (415) |
| Fees for development services | | 81 | - | 81 | - |
| Management fees | | 1,036 | - | 719 | 317 |
| Other | | 1,455 | - | 26 | 1,429 |
| **Activities other than Social Housing** | | | | | |
| Commercial properties | | 1,046 | - | 644 | 402 |
| Private renting | | 346 | - | 151 | 195 |
| **SUBTOTAL** | | 23,130 | 1,714 | 14,525 | 6,891 |
| Sale of properties and land | | 3,031 | - | 1,153 | 1,878 |
| Donation | | 2,689 | - | - | 2,689 |
| **TOTAL** | | **28,850** | **1,714** | **15,678** | **11,458** |

| 2018 | Note | Turnover £'000 | Cost of sales £'000 | Operating expenditure £'000 | Operating surplus £'000 |
|---|---|---|---|---|---|
| **Social housing lettings** | 3 | 17,264 | - | 12,913 | 4,351 |
| **Other social housing activities** | | | | | |
| First tranche shared ownership sales | | 1,869 | 810 | - | 1,059 |
| Development activities | | - | - | 6 | (6) |
| Fees for development services | | 76 | - | 76 | - |
| Management fees | | 1,088 | - | 622 | 466 |
| Other | | 319 | - | 39 | 280 |
| **Activities other than Social Housing** | | | | | |
| Commercial properties | | 999 | - | 613 | 386 |
| Private renting | | 344 | - | 137 | 207 |
| **TOTAL** | | **21,959** | **810** | **14,406** | **6,743** |

## 2 Particulars of turnover, cost of sales, operating costs and operating surplus Association – continuing activities

**2019**

| | Note | Turnover £'000 | Cost of sales £'000 | Operating expenditure £'000 | Operating surplus £'000 |
|---|---|---|---|---|---|
| **Social housing lettings** | 3 | 16,316 | - | 12,489 | 3,827 |
| **Other social housing activities** | | | | | |
| First tranche shared ownership sales | | 2,850 | 1,714 | - | 1,136 |
| Development activities | | - | - | 415 | (415) |
| Fees for development services | | 81 | - | 81 | - |
| Management fees | | 1,036 | - | 719 | 317 |
| Other | | 1,455 | - | 26 | 1,429 |
| **Activities other than Social Housing** | | | | | |
| Commercial properties | | 1,046 | - | 644 | 402 |
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| **SUBTOTAL** | | 23,130 | 1,714 | 14,525 | 6,891 |
| Sale of properties and land | | 3,031 | - | 1,153 | 1,878 |
| Donation | | 2,689 | - | - | 2,689 |
| **TOTAL** | | **28,850** | **1,714** | **15,678** | **11,458** |

**2018**

| | | Turnover £'000 | Cost of sales £'000 | Operating expenditure £'000 | Operating surplus £'000 |
|---|---|---|---|---|---|
| **Social housing lettings** | 3 | 16,112 | - | 12,242 | 3,870 |
| **Other social housing activities** | | | | | |
| First tranche shared ownership sales | | 1,869 | 810 | - | 1,059 |
| Development activities | | - | - | 6 | (6) |
| Fees for development services | | 76 | - | 76 | - |
| Management fees | | 1,088 | - | 618 | 470 |
| Other | | 636 | - | 37 | 599 |
| **Activities other than Social Housing** | | | | | |
| Commercial properties | | 979 | - | 614 | 365 |
| Private renting | | 344 | - | 137 | 207 |
| | | **21,104** | **810** | **13,730** | **6,564** |

**3 Particulars of income and expenditure from social housing lettings**

| | GROUP | | | | |
|---|---|---|---|---|---|
| | Housing £'000 | Supported Housing £'000 | Shared Ownership £'000 | 2019 £'000 | 2018 £'000 |
| **Income** | | | | | |
| Rents receivable net of identifiable service charges | 10,637 | 389 | 1,908 | 12,934 | 13,891 |
| Service charge income | 1,285 | 242 | 533 | 2,060 | 1,999 |
| Amortised government grant | 1,322 | - | - | 1,322 | 1,374 |
| **Turnover from social housing lettings** | **13,244** | **631** | **2,441** | **16,316** | **17,264** |
| **Operating costs** | | | | | |
| Service charge costs | 2,204 | 230 | 518 | 2,952 | 2,467 |
| Management | 1,179 | 221 | 495 | 1,895 | 2,106 |
| Routine maintenance | 2,273 | 85 | - | 2,358 | 2,980 |
| Planned maintenance | 430 | 16 | - | 446 | 646 |
| Major repairs expenditure | 1,344 | - | - | 1,344 | 1,088 |
| Bad debts | 22 | 45 | - | 67 | 140 |
| Depreciation of housing properties | 3,065 | 106 | 256 | 3,427 | 3,486 |
| **Operating expenditure on social housing lettings** | **10,517** | **703** | **1,269** | **12,489** | **12,913** |
| **Operating surplus on social housing letting** | **2,727** | **(72)** | **1,172** | **3,827** | **4,351** |
| **Void losses** | **(112)** | **(86)** | **-** | **(198)** | **(175)** |

## 3 Particulars of income and expenditure from social housing lettings

**ASSOCIATION**

| | Housing £'000 | Supported Housing £'000 | Shared Ownership £'000 | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Rents receivable net of identifiable service charges | 10,637 | 389 | 1,908 | 12,934 | 12,946 |
| Service charge income | 1,285 | 242 | 533 | 2,060 | 1,844 |
| Amortised government grant | 1,322 | - | - | 1,322 | 1,322 |
| **Turnover from social housing lettings** | **13,244** | **631** | **2,441** | **16,316** | **16,112** |
| **Operating costs** | | | | | |
| Service charge costs | 2,204 | 230 | 518 | 2,952 | 2,565 |
| Management | 1,179 | 221 | 495 | 1,895 | 1,664 |
| Routine maintenance | 2,273 | 85 | - | 2,358 | 2,870 |
| Planned maintenance | 430 | 16 | - | 446 | 604 |
| Major repairs expenditure | 1,344 | - | - | 1,344 | 1,088 |
| Bad debts | 22 | 45 | - | 67 | 140 |
| Depreciation of housing properties | 3,065 | 106 | 256 | 3,427 | 3,311 |
| **Operating expenditure on social housing lettings** | **10,517** | **703** | **1,269** | **12,489** | **12,242** |
| **Operating surplus on social housing letting** | **2,727** | **(72)** | **1,172** | **3,827** | **3,870** |
| **Void losses** | **(112)** | **(86)** | **-** | **(198)** | **(172)** |

## 4 Key management personnel

The emoluments in respect of the Senior Executives were as follows:

| | Basic Salary £'000 | Pension Contributions £'000 | 2019 Total £'000 | 2018 Total £'000 |
|---|---|---|---|---|
| **Chief Executive** | | | | |
| Ruth Davison | 24 | 2 | 26 | - |
| Clare Thomson | 78 | 7 | 85 | 104 |
| **Director of Development and New Business** | | | | |
| Colin Archer | 88 | 6 | 94 | 89 |
| **Interim Operation Director** | | | | |
| Eusebio Barata | - | - | - | 41 |
| **Customer Operations Director** | | | | |
| Tim Hall | 80 | 7 | 87 | 46 |
| **Finance Director** | | | | |
| Gary Pliskin | 84 | 7 | 91 | 90 |
| **Deputy Finance Director** | | | | |
| Yung Yung Lee | 69 | 6 | 75 | 69 |
| **Head of People and Organisational Development** | | | | |
| Judith Leigh | 58 | 5 | 63 | 63 |
| | **481** | **40** | **521** | **502** |

The aggregate emoluments (excluding pension contributions) payable to the key management personnel (Senior Executive) is £530,000 (2018: £516,000).

All permanent Senior Executives are members of the Social Housing Pension Scheme. They are ordinary members of the pension scheme with no enhanced or special terms. The Group did not make any further contributions to individual arrangements for its Senior Executives.

The full-time equivalent number of staff (including directors) who received remuneration in excess of £60,000 are as follows:

| | 2019 No. | 2018 No. |
|---|---|---|
| £60,001 to £70,000 | 2 | 2 |
| £70,001 to £80,000 | 1 | - |
| £80,001 to £90,000 | 2 | 2 |
| £90,001 to £100,000 | - | - |
| £100,001 to £110,000 | 2 | 1 |

**Board members**

None of the board members received emoluments (2018: nil).

## 5 Employee information

The average monthly number of persons employed by the Group and Association during the year expressed in full time equivalents was as follows:

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 No | 2018 No | 2019 No | 2018 No |
| Housing, development and administration staff | 59 | 57 | 57 | 55 |
| Estate officers | 5 | 5 | 4 | 4 |
| | **64** | **62** | **61** | **59** |

**Employee costs:**

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Wages | 2,409 | 2,373 | 2,325 | 2,288 |
| Social security costs | 237 | 233 | 229 | 227 |
| Pension costs | 220 | 139 | 213 | 135 |
| | **2,866** | **2,745** | **2,767** | **2,650** |

## 6 Operating surplus

The operating surplus for the year is arrived after charging:

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Depreciation: | | | | |
| Housing properties | 3,379 | 3,486 | 3,379 | 3,311 |
| Other tangible fixed assets | 179 | 170 | 179 | 169 |
| Amortisation of intangible assets | 37 | 36 | 37 | 36 |
| Surplus on sale of properties and land | 1,878 | 2,715 | 1,878 | 2,719 |
| Auditors' remuneration (excluding VAT): | | | | |
| - Audit of the financial statements of the association | 42 | 40 | 42 | 40 |
| - Audit of subsidiary financial statements | 6 | 5 | 6 | 5 |
| Non-audit services – VAT advisory and Corporation tax compliance service | 12 | 26 | 12 | 26 |

## 7 Interest and financing costs

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| Defined benefit pension charge | 62 | 21 | 62 | 21 |
| Housing loans | 4,174 | 4,073 | 4,174 | 4,075 |
| Less: Capitalised interest | (827) | (343) | (827) | (343) |
| | **3,409** | **3,751** | **3,409** | **3,753** |

Capitalised interest is based on a calculation of the average cost of borrowing incurred by the Group and Association during the financial year. This amounts to 3.64% (2018: 3.66%).

## 8 GROUP - Tangible fixed assets

| | Social Housing Properties Held For Letting | Shared Ownership Properties Completed | Properties under construction | Subtotal Housing properties | Freehold Office | Other Fixed Assets | Subtotal Other fixed Assets | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | | | | |
| At 1 April 2018 | 237,338 | 41,511 | 25,580 | **304,429** | 795 | 2,503 | **3,298** | **307,727** |
| Additions | 476 | - | 12,225 | **12,701** | - | 343 | **343** | **13,044** |
| Reclassification | 383 | (325) | (58) | **-** | - | - | **-** | **-** |
| Interest capitalised | - | - | 827 | **827** | - | - | **-** | **827** |
| Disposals | (250) | (1,195) | (1,620) | **(3,065)** | - | - | **-** | **(3,065)** |
| Schemes completed | 4,168 | 2,730 | (6,898) | **-** | - | - | **-** | **-** |
| Lien Viet | 4 | - | - | **4** | - | 5 | **5** | **9** |
| **At 31 March 2019** | 242,119 | 42,721 | 30,056 | **314,896** | 795 | 2,851 | **3,646** | **318,542** |
| **Depreciation** | | | | | | | | |
| At 1 April 2018 | 35,214 | 1,139 | - | **36,353** | 226 | 1,925 | **2,151** | **38,504** |
| Released on disposals | (169) | (44) | - | **(213)** | - | - | **-** | **(213)** |
| Charge for the year | 3,123 | 256 | - | **3,379** | 16 | 179 | **195** | **3,574** |
| Lien Viet | 164 | 1 | - | **165** | - | - | **-** | **165** |
| **At 31 March 2019** | 38,332 | 1,352 | - | **39,684** | 242 | 2,104 | **2,346** | **42,030** |
| **Net book value** | | | | | | | | |
| **At 31 March 2019** | 203,787 | 41,369 | 30,056 | **275,212** | 553 | 747 | **1,300** | **276,512** |
| **At 31 March 2018** | 202,124 | 40,372 | 25,580 | **268,076** | 569 | 578 | **1,147** | **269,223** |

## 8 ASSOCIATION - Tangible fixed assets

| | Social Housing Properties Held For Letting | Shared Ownership Properties Completed | Properties under construction | Subtotal Housing properties | Freehold Office | Other Fixed Assets | Subtotal Other fixed Assets | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | | | | |
| At 1 April 2018 | 222,009 | 41,446 | 25,580 | **289,035** | 795 | 2,446 | **3,241** | **292,276** |
| Additions | 476 | - | 12,225 | **12,701** | - | 343 | **343** | **13,044** |
| Reclassification | 383 | (325) | (58) | **-** | - | - | **-** | **-** |
| Interest capitalised | - | - | 827 | **827** | - | - | **-** | **827** |
| Disposals | (250) | (1,195) | (1,620) | **(3,065)** | - | - | **-** | **(3,065)** |
| Schemes completed | 4,168 | 2,730 | (6,898) | **-** | - | - | **-** | **-** |
| Transfer from Lien Viet | 15,333 | 65 | - | **15,398** | - | 62 | **62** | **15,460** |
| **At 31 March 2019** | 242,119 | 42,721 | 30,056 | **314,896** | 795 | 2,851 | **3,646** | **318,542** |
| **Depreciation** | | | | | | | | |
| At 1 April 2018 | 32,807 | 1,131 | - | **33,938** | 226 | 1,871 | **2,097** | **36,035** |
| Released on disposals | (169) | (44) | - | **(213)** | - | - | **-** | **(213)** |
| Charge for the year | 3,123 | 256 | - | **3,379** | 16 | 179 | **195** | **3,574** |
| Transfer from Lien Viet | 2,571 | 9 | - | **2,580** | | 54 | **54** | **2,634** |
| **At 31 March 2019** | 38,332 | 1,352 | - | **39,684** | 242 | 2,104 | **2,346** | **42,030** |
| **Net book value** | | | | | | | | |
| **At 31 March 2019** | 203,787 | 41,369 | 30,056 | **275,212** | 553 | 747 | **1,300** | **276,512** |
| **At 31 March 2018** | 189,202 | 40,315 | 25,580 | **255,097** | 569 | 575 | **1,144** | **256,241** |

## 8 Tangible fixed assets (continued)

### Expenditure in works to existing properties

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Components capitalised | 493 | 766 | 493 | 742 |
| Amounts charged to income and expenditure | 3,867 | 4,634 | 3,867 | 4,562 |
| | **4,360** | **5,400** | **4,360** | **5,304** |

### Social housing assistance

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Total accumulated social housing grant received or receivable as at 31 March: | | | | |
| Recognised in the Statement of Comprehensive Income | 1,322 | 1,375 | 1,322 | 1,322 |
| Held as deferred income | 128,595 | 126,526 | 121,925 | 119,856 |
| Subsumed within reserves | 17,854 | 17,316 | 17,854 | 16,183 |
| Transfer from Lien Viet | - | - | 6,670 | - |
| | **147,771** | **145,217** | **147,771** | **137,361** |

## 9 Investment properties: non-social housing properties held for letting

| | GROUP £'000 | ASSOCIATION £'000 |
|---|---|---|
| At 1 April 2018 | 20,231 | 19,876 |
| Increase in value | (222) | (222) |
| Transfer from Lien Viet | - | 355 |
| At 31 March 2019 | **20,009** | **20,009** |

The investment properties consist of commercial and market rent properties and were valued as at 31 March 2019. These were valued by Res-Prop Chartered Surveyors, external professional Valuers who are registered with the Royal Institute of Chartered Surveyors (RICS). The valuation of the properties was undertaken in accordance with the RICS Valuation – Professional Standards, January 2014 on the basis of fair value. For the commercial properties a rent capitalisation methodology was adopted (rent and yield approach) coupled with an assessment of what an owner occupier might pay to arrive at the fair value, with reference to respective rental and capital value market data/sentiment. The residential valuations were valued on an individual unit sale of a long leasehold interest with no onerous terms or ground rent. The valuation approach was based on the vacant possession value discounted to reflect the limitations to the market that the unit may be let. The valuation was also tested on the gross yield basis using the passing rents provided.

## 10 Intangible assets

| | GROUP 2019 £'000 | ASSOCIATION 2019 £'000 |
|---|---|---|
| **Cost** | | |
| At 1 April 2018 | 257 | 257 |
| At 31 March 2019 | 257 | 257 |
| **Amortisation** | | |
| At 1 April 2018 | 54 | 54 |
| Charge for the year | 37 | 37 |
| **At 31 March 2019** | 91 | 91 |
| **Net book value** | | |
| **At 31 March 2019** | **166** | **166** |
| **At 31 March 2018** | 203 | 203 |

Intangible Assets consists of costs relating to the development of a Housing and Finance system which was implemented during 2016/17.

## 11 Properties for sale

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| **Shared-ownership properties:** | | | | |
| Under construction | 1,029 | 2,207 | 1,029 | 2,207 |
| Completed properties | 1,095 | 229 | 1,095 | 229 |
| Social Housing Properties | 243 | 243 | 243 | 243 |
| Commercial Properties | 166 | - | 166 | - |
| | **2,533** | **2,679** | **2,533** | **2,679** |

## 12 Debtors

| | GROUP 2019 £'000 | GROUP 2018 £'000 | ASSOCIATION 2019 £'000 | ASSOCIATION 2018 £'000 |
|---|---|---|---|---|
| Rent and service charges receivable | 828 | 908 | 828 | 841 |
| Less: provision for bad and doubtful debts | (518) | (539) | (518) | (516) |
| | 310 | 369 | 310 | 325 |
| Social housing grant receivable | 1,368 | 690 | 1,368 | 690 |
| Other debtors | 382 | 374 | 382 | 369 |
| Owed by the subsidiary | - | - | - | 118 |
| Prepayments and accrued income | 3,633 | 1,354 | 3,633 | 1,342 |
| Other taxation and social security | 13 | - | 13 | - |
| | **5,706** | **2,787** | **5,706** | **2,844** |

Included in the Group's and Association's prepayments and accrued income is an amount of £586,000 (2018: £696,000) due after more than one year.

## 13 Creditors: amounts falling due within one year

| | GROUP 2019 £'000 | GROUP 2018 £'000 | ASSOCIATION 2019 £'000 | ASSOCIATION 2018 £'000 |
|---|---|---|---|---|
| Debt (Note 15) | 3,344 | 3,084 | 3,344 | 3,020 |
| Trade creditors | 1,647 | 1,811 | 1,647 | 1,784 |
| Rent and service charges received in advance | 258 | 259 | 258 | 233 |
| Amount due to subsidiary company | - | - | - | 1,031 |
| Recycled capital grant fund (Note 17) | 497 | 902 | 497 | 902 |
| Deferred grant income (Note 16) | 1,371 | 1,375 | 1,371 | 1,322 |
| Other taxation and social security | - | 77 | - | 77 |
| Other creditors | 2,053 | 1,714 | 2,053 | 1,714 |
| Accruals and Deferred Income | 4,187 | 5,313 | 4,187 | 5,094 |
| | **13,357** | **14,535** | **13,357** | **15,177** |

Amount due to subsidiary company includes an intercompany loan of £1,000,000 in 2018, which has been subsumed within the Group following the transfer of engagement.

## 14 Creditors: amounts falling due after more than one year

| | GROUP 2019 £'000 | GROUP 2018 £'000 | ASSOCIATION 2019 £'000 | ASSOCIATION 2018 £'000 |
|---|---|---|---|---|
| Debt (Note 15) | 96,949 | 85,300 | 96,949 | 84,798 |
| Loan stock | 2 | 2 | 2 | 2 |
| Recycled capital grant fund | 1,274 | 1,383 | 1,274 | 1,383 |
| Deferred grant income | 127,224 | 125,205 | 127,224 | 118,588 |
| | **225,449** | **211,890** | **225,449** | **204,771** |

## 15 Debt analysis

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

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| Within one year or on demand* | 3,314 | 3,085 | 3,314 | 4,020 |
| One year or more but less than two years | 3,471 | 3,345 | 3,471 | 3,277 |
| Two years or more but less than five years | 10,453 | 10,345 | 10,453 | 10,147 |
| Five years or more | 83,055 | 71,609 | 83,055 | 71,374 |
| | **100,293** | **88,384** | **100,293** | **88,818** |

**Security**
Housing loans are from private lenders and in the main secured by specific charges on the Association's housing properties.

**Terms of repayment and interest rate**
The portfolio has a mixture of fixed and variable rate loans at interest rates ranging from 1.06% to 9.94%. Included in housing loans is £nil (2018: £ nil) drawn from a revolving facility at a variable rate of interest. This facility is for £40m and is available until 2022. All other loans are long term borrowings.

## 16 Deferred grant income

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| At 1 April | 126,580 | 126,338 | 119,910 | 119,616 |
| Movement in the year | 3,337 | 1,616 | 3,337 | 1,616 |
| Released to income in the year | (1,322) | (1,374) | (1,322) | (1,322) |
| Transfer from Lien Viet | - | - | 6,670 | - |
| At 31 March | **128,595** | **126,580** | **128,595** | **119,910** |

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| Amounts to be released in one year | 1,371 | 1,375 | 1,371 | 1,322 |
| Amounts to be released in more than one year | 127,224 | 125,205 | 127,224 | 118,588 |
| **At 31 March** | **128,595** | **126,580** | **128,595** | **119,910** |

## 17 Recycled Capital Grant Fund

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| At 1 April | 2,285 | 2,352 | 2,285 | 2,352 |
| Grants recycled | | 877 | | 877 |
| Interest Accrued | 388 | 12 | 388 | 12 |
| Utilised during the year | (876) | (952) | (876) | (952) |
| Repayment of grant | (26) | (4) | (26) | (4) |
| **At 31 March** | **1,771** | **2,285** | **1,771** | **2,285** |
| Amount of grant due for Repayment | **-** | **26** | **-** | **26** |

Withdrawals from the recycled capital grant fund have been used for the purchase and development of new housing schemes.

## 18 Share capital

| | | Restated* |
|---|---|---|
| | **2019** | **2018** |
| | **£** | **£** |
| Shares of £1 fully paid and issued | 22 | 19 |
| Shares issued during year | - | 5 |
| Shares cancelled | (6) | (2) |
| **Balance at 31 March** | **16** | **22** |

Shares have limited rights and carry no entitlement to dividend. They are not repayable and do not carry rights to participate in a winding up. They carry an entitlement to vote at the Association's General meeting.

* The prior year opening share capital included a member who resigned during 2016/17.

## 19 Capital commitments

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Expenditure contracted for but not provided in the accounts | 15,897 | 24,707 | 15,897 | 24,707 |
| Expenditure authorised by directors, but not contracted | 51,470 | 60,644 | 51,470 | 60,644 |

Of the above contracted but not provided for, £4.5 million (2018: £5.3 million) is to be financed by SHG, £10.9 million (2018: £16.5 million) from shared ownership sales and the remaining £0.5 million (2018: £2.9 million) is to be financed from existing cash resources and borrowings.

The expenditure of £51.5 million which has been authorised by the Board will be funded by grant of £8 million (2018: £0.3 million), £12.1 million (2018: £19.0 million) from shared ownership sales, and the remaining £31.4 million (2018: £41.3 million) from other income and loan finance.

The above capital expenditure is expected to be incurred over the next five years.

## 20 Surplus on sale of fixed assets – housing properties

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Sales proceeds | 3,031 | 5,118 | 3,031 | 5,118 |
| Carrying value of fixed assets | (1,153) | (2,403) | (1,153) | (2,399) |
| | **1,878** | **2,715** | **1,878** | **2,719** |

## 21 Accommodation in management and development

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

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **No.** | **No.** | **No.** | **No.** |
| **Social Housing** | | | | |
| General housing: | | | | |
| - social rent | 1,594 | 1,590 | 1,594 | 1,488 |
| - affordable rent | 195 | 184 | 195 | 184 |
| Supported housing | 110 | 114 | 110 | 95 |
| Intermediate rent | 2 | 1 | 2 | 1 |
| Shared ownership | 359 | 342 | 359 | 341 |
| **Total owned** | 2,260 | 2,231 | 2,260 | 2,109 |
| Accommodation managed for others | 19 | 35 | 19 | - |
| **Total managed** | **2,279** | **2,266** | **2,279** | **2,109** |
| **Non-social housing** | | | | |
| Private renting | 18 | 18 | 18 | 18 |
| **Total owned and managed** | **2,297** | **2,284** | **2,297** | **2,127** |
| Accommodation in development at the year end | 142 | 125 | 142 | 125 |

The group owns 41 units (2018: 41 units) which are managed on its behalf, under management agreements by other bodies.

The group manages accommodation for London and Quadrant, a registered social landlord operating across London and the South East.

## 22 Related party disclosure

ISHA has five Resident Board Members. The rent and terms of their tenancies are on normal commercial terms. Details of the charges for their tenancy and the rent arrears at the 31 March 2019 were as follow:

| | Rent and Service Charge | Arrears 31 March 2019 |
|---|---|---|
| | £ | £ |
| Julian Elve | 6,837 | - |
| Alice Powell | 7,453 | - |
| Victor Kaufman | 5,098 | - |
| Michael Wardle | 4,638 | 25 |
| Simon Cox | 5,334 | - |

## 23 Pensions

The Association participates in the Social Housing Pension Scheme (SHPS), a multi-employer defined benefit scheme. The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

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

For the year ended 31 March 2018, the SHPS obligation was being accounted for as a defined contribution as there was not sufficient information available to identify each employer’s share of assets and liabilities of the scheme. Therefore, for 31 March 2018, the contributions payable from the association to the SHPS under the terms of its funding agreement for past deficits was recognised as a liability within other creditors in the association’s financial statements. The net present value of £1,415k was recognised within creditors for this contractual obligation for the year ended 31 March 2018.

For the year ended 31 March 2019, sufficient information is available for the association in respect of SHPS to account for its obligation on a defined benefit basis. The most recent formal actuarial valuation was completed as at 30 September 2017 and rolled forward, allowing for the different financial assumptions under FRS 102, to 31 March 2019 by a qualified independent actuary.

Under the defined benefit pension accounting approach, the SHPS net deficit as at 1 April 2018 is £2,530k and £3,072k as at 31 March 2019.

The proposals set out in FRED 71 requires the difference on transition from defined contribution accounting to defined benefit accounting to be presented in other comprehensive income. The change on transition has resulted in a re-measurement difference of £1,115k, which has been recognised at the relevant date of application, 1 April 2018, in other comprehensive income.

| | **2018** |
|---|---|
| | **£’000** |
| Past service deficit liability as at 1 April de-recognised | 1,415 |
| Net pension scheme deficit under defined benefit accounting as at 1 April | (2,530) |
| **Loss recognised in other comprehensive income on initial recognition as at 1 April 2018** | **(1,115)** |

## 23 Pensions (continued)

Present Value of defined benefit obligation, fair value of assets and defined Benefit asset/(liability)

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Fair value of plan assets | 8,824 | 8,278 |
| Present value of defined benefit obligation | (11,896) | (10,808) |
| (Deficit) in plan | (3,072) | (2,530) |
| **Net defined benefit asset (liability) to be recognised** | **(3,072)** | **(2,530)** |

Reconciliation of opening and closing balances of the defined benefit obligations

| | 2019<br>£'000 |
|---|---|
| Defined benefit obligation at start of period | 10,808 |
| Current service cost | 219 |
| Expenses | 8 |
| Interest expense | 276 |
| Actuarial losses (gains) due to scheme experience | 51 |
| Actuarial losses (gains) due to changes in demographic assumptions | 33 |
| Actuarial losses (gains) due to changes in financial assumptions | 732 |
| Benefits paid and expenses | (231) |
| **Defined benefit obligation at end of period** | **11,896** |

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

| | 2019<br>£'000 |
|---|---|
| Fair value of plan assets at start of period | 8,278 |
| Interest income | 214 |
| Experience on plan assets (excluding amounts included in interest income) - gain (loss) | 182 |
| Contributions by the employer | 381 |
| Benefits paid and expenses | (231) |
| **Defined benefit obligation at end of period** | **8,824** |

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £396,000.

## 23 Pensions (continued)

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

| | 2019 £'000 |
|---|---|
| Current service cost | 219 |
| Expenses | 8 |
| Net interest expense | 62 |
| **Defined benefit costs recognised in statement of comprehensive income** | **289** |

Defined benefit costs recognised in other statement of comprehensive income

| | 2019 £'000 |
|---|---|
| Experience on plan assets (excluding amounts included in net interest cost) - gain | 182 |
| Experience gains and losses arising on the plan liabilities - (loss) | (51) |
| Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - (loss) | (33) |
| Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - (loss) | (732) |
| **Total amount recognised in other comprehensive income - (loss)** | **(634)** |

## 23 Pensions (continued)

Assets

| | 2019 £'000 | 2019 £'000 |
|---|---|---|
| Absolute Return | 763 | 1,011 |
| Alternative Risk Premia | 509 | 314 |
| Corporate Bond Fund | 412 | 340 |
| Credit Relative Value | 162 | - |
| Distressed Opportunities | 160 | 80 |
| Emerging Markets Debt | 304 | 334 |
| Fund of Hedge Funds | 40 | 273 |
| Global Equity | 1,485 | 1,635 |
| Infrastructure | 463 | 212 |
| Insurance-Linked Securities | 253 | 217 |
| Liability Driven Investment | 3,227 | 3,015 |
| Long Lease Property | 130 | - |
| Net Current Assets | 17 | 8 |
| Private Debt | 118 | 74 |
| Property | 199 | 381 |
| Risk Sharing | 266 | 77 |
| Secured Income | 316 | 307 |
| **Total assets** | **8,824** | **8,278** |

None of the fair values of the assets shown above include any direct investments in the association's own financial instruments or any property occupied by, or other assets used by the association.

Key Assumptions

| | 31 March 2019 % per annum | 31 March 2018 % per annum |
|---|---|---|
| Discount Rate | 2.31% | 2.56% |
| Inflation (RPI) | 3.29% | 3.19% |
| Inflation (CPI) | 2.29% | 2.19% |
| Salary Growth | 3.29% | 3.19% |
| Allowance for commutation of pension for cash at retirement | 75%* | 75%* |

* of maximum allowance

## 23 Pensions (continued)

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

| | Life expectancy at age 65 (Years) |
|---|---|
| Male retiring in 2019 | 21.8 |
| Female retiring in 2019 | 23.5 |
| Male retiring in 2039 | 23.2 |
| Female retiring in 2039 | 24.7 |

## 24 Provisions for liabilities – other provisions

**Group and Association**

| | SHPS obligation £'000 | Repairs £'000 | Total £'000 |
|---|---|---|---|
| At 1 April 2018 | 1,415 | 1,100 | 2,515 |
| Additions | - | 1,282 | 1,282 |
| Released | (1,415) | - | (1,415) |
| **At 31 March 2019** | **-** | **2,382** | **2,382** |

SHPS obligations was de-recognised on 1 April 2018 following the application of the defined benefit accounting for the first time. The addition during the year to the repairs provision relates to remedial works for three buildings following fire safety inspections as required by the Government following the Grenfell fire.

## 25 Financial assets and liabilities

### Categories of financial assets and financial liabilities

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| **Financial assets that are debt instruments measured at amortised cost** | | | | |
| Other debtors | 5,693 | 2,787 | 5,693 | 2,845 |
| **Financial liabilities measured at amortised cost** | | | | |
| Loans (Note15) | 100,293 | 88,385 | 100,293 | 88,819 |
| Trade and other creditors | 143,953 | 139,554 | 143,953 | 133,643 |
| **Total** | **244,246** | **227,939** | **244,246** | **222,462** |

Financial liabilities include all creditors and loan amounts payable.

**Financial assets**
Other than short-term debtors, financial assets held are cash deposits placed on term deposits and cash at bank. They are sterling denominated and the interest rate profile at 31 March was:

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Floating rate on money market deposits | 17,518 | 10,304 | 17,518 | 9,640 |
| Financial assets on which no interest is paid | 2,571 | 907 | 2,571 | 907 |
| **Total** | **20,089** | **11,211** | **20,089** | **10,547** |

**Financial liabilities excluding trade creditors – interest rate risk profile**

The group's financial liabilities are sterling denominated. The interest rate profile of the group's financial liabilities at 31 March was:

| | GROUP | | ASSOCIATION | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| **Fixed rate** | 83,782 | 71,414 | 83,782 | 72,110 |
| **Floating rate** | 16,511 | 16,971 | 16,511 | 16,709 |
| | **100,293** | **88,385** | **100,293** | **88,819** |

## 25 Financial assets and liabilities (*continued*)

The floating rate financial liabilities comprise bank loans that bear interested based on LIBOR and RPI. The fixed rate financial liabilities have a weighted average interest rate of 4.3% (2018: 4.6%) and the weighted average period for which it is fixed is 20 years (2018: 19 years).

The debt maturity profile is shown in note 15.

**Borrowing facilities**

The group has undrawn committed borrowing facilities. The facilities available at 31 March in respect if which all conditions precedent has been met were as follows:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| **Expiring in more than two years** | **41,000** | **41,000** |

## 26 Leasing Commitments

The total future minimum lease payments of leases are as set out below. Leases relate to photocopiers. The Group's future minimum operating lease payments are as follows:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Within one year | 5 | 5 |
| Between two and five years | 15 | 16 |
| **Total** | 20 | 21 |

## 27 Group structure

The Association's wholly-owned subsidiary Lien Viet Housing Association Limited was transferred into the Association under a transfer of engagement on 31 March 2019, all assets and liabilities including the trade of Lien Viet were transferred into ISHA on 31 March 2019. The Association also has a dormant subsidiary, Urban Style Limited, which had no transactions or balances in the year to consolidate into the Group and will remain a dormant subsidiary.

## 28 Prior year adjustments

### Operating Surplus

The triennial review of FRS102 clarified that it would be inappropriate to exclude items such as profit or losses on sale of property, plant and equipment when they clearly relate to operations. Therefore, the operating surplus has been adjusted include the surplus on sale of properties and land.

| | As original stated | | Restated | |
|---|---|---|---|---|
| | GROUP 2018 £'000 | ASSOCIATION 2018 £'000 | GROUP 2018 £'000 | ASSOCIATION 2018 £'000 |
| **Turnover** | 21,959 | 21,104 | 21,959 | 21,104 |
| Operating costs | (15,216) | (14,540) | (15,216) | (14,540) |
| Surplus on sale of properties and land | - | - | 2,715 | 2,719 |
| **Operating surplus** | **6,743** | **6,564** | **9,458** | **9,283** |

### Share Capital

The prior year opening share capital included a member who resigned during 2016/17.

| | As original stated 2018 £ | Restated 2018 £ |
|---|---|---|
| Shares of £1 fully paid and issued | 20 | 19 |
| Shares issued during the year | 5 | 5 |
| Shares cancelled | (2) | (2) |
| **Total** | 23 | 22 |

## 29 Transfer of engagement

On 31 March 2019 Lien Viet Housing Association Limited was fully merged into ISHA through a transfer of engagement. As required per FRS102 19.33, full disclosure of the treatment is provided. Lien Viet is an existing subsidiary of ISHA, the transfer is therefore akin to a group reconstruction by way of the hive up of the assets and liabilities from subsidiary to the parent. The usual treatment would be to apply merger accounting, however, as the subsidiary was already acquired in 2018, a “hybrid merger accounting” methodology has been applied based on the substance of the transaction.

When Lien Viet first became a subsidiary, ISHA accounted for its interests in Lien Viet using the acquisition method. This meant that the assets and liabilities recorded in ISHA’s consolidated financial statements were brought in at their fair value at the date of Lien Viet joining the group, and not their book value at that time. These fair values have now been posted into ISHA’s accounts.

Under PBE34.65 of FRS102, there is nil consideration for the transfer and as the transfer is akin to a gift, the transfer is treated as a “donation” in ISHA’s accounts.

The assets and liabilities of Lien Viet is transferred at book value as at 31 March 2019. There is no restatement of prior year comparatives under this hybrid merger approach.

**Net assets of Lien Viet transferred to ISHA at 31 March 2019**

| | **2019**<br>**£’000** |
|---|---|
| Fixed assets | 8,460 |
| Current assets | 1,978 |
| Creditors: amounts falling due within one year | (866) |
| Total assets less current liabilities | 9,572 |
| Creditors: amounts falling due after more than one year | (6,883) |
| **Total net assets** | **2,689** |
| Net assets transferred to ISHA as donation | (2,689) |

**Alignment of accounting policies**

Both ISHA and Lien Viet are registered housing providers preparing financial statements in accordance with FRS102, the Housing SORP 2014 and the Accounting Direction for Private Registered Providers for Social Housing 2015. All accounting policies and procedures were aligned preceding the transfer of engagement, and there were not considered to be any significant adjustments required. All outstanding intercompany balances including the £1m intercompany loan between ISHA and Lien Viet were eliminated at the transfer of engagement date.

## 29 Transfer of engagement (*continued*)

**Lien Viet net change in cash on Transfer of Engagement**

| | **2019** |
|---|---|
| | **£'000** |
| Surplus for the year | - |
| **Adjustment for non-cash items:** | |
| Depreciation and amortisation of assets | 124 |
| Amortisation of grant income | (52) |
| Net gain on sale of fixed assets | 8 |
| Donation | 443 |
| **Adjustment for investment and financing activities:** | |
| Interest payable | 30 |
| Interest receivable | (11) |
| **Net cash transferred** | **542** |

## 30 Post balance sheet events

On 9 June 2019, a fire broke out on a balcony in a block of flats in Barking. The fire spread through to other balconies in the same block, fortunately, no life changing injuries or lives were lost in this event. However, it has raised concerns on the use of wood on balconies and the Ministry of Housing, Communities and Local Government (MHCLG) issued new advice regarding residential buildings' balconies. The impact of the advice is currently being assessed by ISHA and a letter has been sent to ISHA residents living in buildings that has timber cladding, is timber framed or has a timber cladding with advice on fire prevention. This advice is also on ISHA's website.

The transfer of engagements from Lien Viet to ISHA was registered with the FCA on 31 May 2019.