

Co-operative and Community Benefit Societies
Registration No 31419R



Annual Report and Financial Statements

For the year ended 31 March 2019

Contents of the Annual Report

Members of the Board of Management, Executive Officers and Advisers	3
Chair's Statement	4
Strategic Report for the year ended 31 March 2019	5
Independent Auditor's Report to the Members of South Lakes Housing	14
Statement of Comprehensive Income	16
Group Statement of Financial Position	18
Company Statement of Financial Position	18
Statement of Changes in Reserves	19
Statement of Cash Flows	20
Notes to the Financial Statements	22 - 48

Members of the Board of Management, Executive Officers and Advisers

Board Members

Ian Munro (Chair)
Peter Kuit (Vice Chair)
John Holmes
Lorraine Birchall
Brian McDonough
George Taylor
Eve Martin
Keith Bevan
Maggi Morris
Peter Thornton (resigned 15 June 2018)
Rupert Audland (appointed 26 June 2018)
Kerry Byrne (appointed 27 September 2018)
Stephen Bolton (appointed 15 November 2018)
Charles Howarth (resigned 16 August 2018)

Executives

Chief Executive:	Catherine Purdy OBE MBA, BA(Hons) FCIH
Director of Customers & Communities:	Alison Kinnon MBA CIHCM
Director of Corporate Services:	Hilda Kaponda MBA BEng (Hons) FCCA
Director of Assets & Investment:	Richard Hayes BSc (Hons)
Secretary:	John Mansergh BA (Hons) PGCert

Advisers

Auditors:	Beever and Struthers St Georges House 215-219 Chester Road Manchester M15 4JE
Bankers:	Santander UK plc 3 South Admin Bridle Road Bootle L30 4GB

Chair's Statement

I am pleased to introduce the South Lakes Housing (SLH) Annual Report for 2018/19. It has been another successful year for the Association with the following highlights:

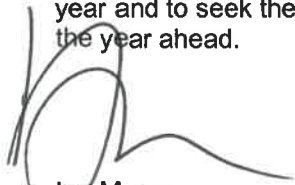
- The financial health of the organisation continues to improve, growing our capacity to deliver against our ambitious plans to continue to invest in existing properties, as well as delivering much-needed new homes.
- Creating the foundation for an exciting and innovative development partnership with South Lakeland District Council, which will help fund affordable homes in rural areas.
- Achieving the highest regulatory judgement for both governance (G1) and viability (V1) from the Regulator of Social Housing (RSH) following an 'In Depth Assessment' (IDA) in Spring 2019.
- Strengthening governance by introducing modest levels of Board payment (in line with the sector) to attract a more diverse group of people with different skills sets.
- Growing the number of homes owned by 66. SLH has increased internal capacity through the formation of a new Development Team.
- Customers also endorsed the improvements SLH has been making. Satisfaction with SLH as a landlord increased to 89% (from 86% in 2016) in an independent survey conducted during the year.
- SLH continues to work in partnership with other providers to harness combined scale and reduce duplication. It provides repairs and maintenance services to Castles & Coast Housing Association through a cost sharing group and during the year expanded the scope of delivering services to others, through the provision of repairs services or wider Managing Agent services to others.

The Board held two Strategy Days during the year and concluded that it wants to maintain a strong focus on delivering new homes, improving energy efficiency and addressing fuel poverty. It is committed to continuing significant investment in homes and communities. SLH will continue to focus in the South Lakeland area, whilst harnessing partnership opportunities in neighbouring areas within the Lancaster and South Cumbria economic area.

SLH is proud to be an 'early adopter' of the National Housing Federation's '*Together with Tenants*' initiative set up in response to the Grenfell tragedy. We have already improved assurance on all aspects of Health and Safety and have brought forward a number of projects to improve this further. The work of the Tenants' Committee has been extremely valuable again this year with in-depth scrutiny of estate management and the tenancy standard, including anti-social behaviour. We aim to strengthen opportunities for tenants to engage with us, to give customers a stronger voice and involving them in matters that affect them.

The Board of SLH has welcomed Kerry Byrne, who was appointed at the 2018 AGM and Stephen Bolton who was appointed by the Board during the year (subject to appointment at the 2019 AGM). We are seeking the re-appointment of Brian McDonough and George Taylor for another term. But sadly, we will bid farewell to Peter Kuit, who has served the Board since its formation and as many years as Vice Chair, as he stands down at this year's AGM. I would like to use this opportunity to thank Peter for his past service and contribution to increasing the capacity and delivery of new development in particular.

My thanks to my fellow Board and Committee Members, the staff and other partners on a successful year and to seek their commitment to raising standards and delivering against ambitious plans for the year ahead.



Ian Munro,
Chair

13 August 2019

Strategic Report for the year ended 31 March 2019

The Board presents its report and audited financial statements for the year ended 31 March 2019.

Principal activity

SLH's principal activity is the management and provision of affordable rented accommodation.

Public Benefit Entity

As a public benefit entity, SLH has applied the public benefit entity "PBE" prefixed paragraphs of FRS102.

Business Strategy

SLH's mission is '*To be a well-respected housing provider, increasing the supply of new homes and contributing to economic and social well-being*'.

Our vision is '*By 2020 SLH will be providing quality homes and services across a range of tenures and will have contributed significantly to providing homes that are needed in the South Lakes area and beyond. It will be efficiently run and have the people, processes and culture that ensures sustainable good customer relationships. SLH will be recognised as a valuable social business, operating for social good. It will be valued as a key partner within South Cumbria and will have effective links with Local Government, Health, and the business community. How we deliver and procure our activities will contribute to local economic sustainability.*'

The Business Strategy includes the following objectives:

- 1: Providing good and cost-effective management of our properties**
- 2: Increasing our portfolio**
- 3: Developing commercial and partnership opportunities**
- 4: Improving the running of our business**

The Board is currently reviewing its Business Strategy.

Financial Overview

SLH is in a strong financial position. The key points of note from the Financial Statements are summarised as follows:

- Turnover has remained static as a direct result of the 4th year of the 1% rent reduction and partly offset by RTB sales offset by rents from newly acquired properties. Additional 'one-off' payments to staff relating to changes in the provision of a pension scheme has led to an increase in operating costs in the year together with a bespoke organisational development programme.
- 81 new properties were acquired / built during the year and a further £6.0m was spent on the improvement of existing dwellings.
- The surplus on disposal of fixed assets of £435k relates to RTB sales of which there were 15 during the year (2017/18 – 20). This represents the amount retained by SLH after amounts due to SLDC under the RTB clawback agreement.
- Interest and financing costs were significantly reduced from £3.7m to £1.0m as a result of the refinancing undertaken in the previous financial year.
- Loan balances with the funders have increased by £5.0m in order to fund property acquisitions.
- Reserves have increased from £36.9m to £42.3m.

Achievements

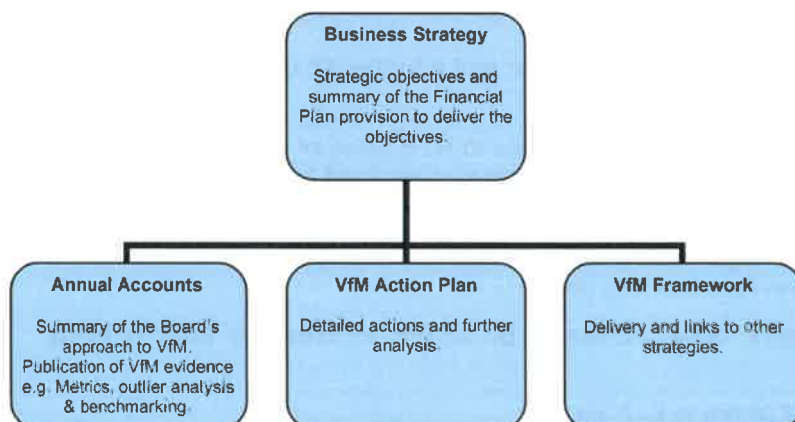
The Association has delivered the following during the year:

1. There has been an increase in online transactions and a decrease in telephone calls (11% reduction) following the introduction of the new digital platform 'My Account' for tenants. In addition, 90% of all new tenants completed their applications online.
2. Customer Relationship Management (CRM) is now embedded within the organisation, with 6,165 cases created compared to 1,484 in the previous year.
3. £6M was spent upgrading kitchens (118), bathrooms (68), roofs (94), heating systems (220) etc and £3.3M was spent on routine repairs and cyclical maintenance. Customer satisfaction for all repair contracts ranges from 80 to 100%, with an improvement in satisfaction with kitchen works through the inhouse team.
4. £260k was spent on air source heat pumps to improve energy efficiency in rural areas where there is no mains gas. The majority of tenants are reporting significant savings on their fuel bills.
5. £140k was spent on adapting homes to help people live independently.
6. There was significant investment in health and safety including; £88k on asbestos removal, £181k on electrical works arising from condition reports and £275k on fire prevention.
7. SLH completed 9,987 repairs throughout the year and customer satisfaction was 96% (an improvement of 3% from last year).
8. The empty homes specification was amended, as a result of customer feedback, to include additional plastering, decoration works, and provision of energy efficient lightbulbs being installed throughout.
9. The tenant-led Grant Applications Panel spent £14.3k on environmental projects, including contributions to Kirkbarrow Resident's Association summer fair, parking bay markings at Yewbarrow in Grange, grasscrete bays in Urswick, garden furniture at Drummermire in Ambleside, contribution to the play area in Staveley and play field in Levens.
10. Staff sickness has reduced following the introduction of a new policy. Average sickness per employee was 7 days (top quartile compared to peers), an improvement from 10 days in the previous year.

Value for Money (VfM)

The Board's strategic approach to Value for Money is intertwined within the Business Strategy. The strategy outlines the approach for overcoming the challenge highlighted on page 7 - that is to strike the right balance between investment in existing properties and neighbourhoods, becoming more efficient and effective, and developing new homes.

This part of the Annual Report demonstrates to stakeholders how SLH is meeting the requirements of the Regulator of Social Housing's VfM Standard. The Board's strategic approach to VfM is illustrated in the diagram below:



The Challenge

An analysis of SLH's performance against the Regulator's VfM metrics, in addition to local measures, explains the nature of the challenge - put simply, the Board's critical challenge is to strike the right balance between continued investment in existing properties, fully utilising our capacity to develop new homes. There is also a challenge to transform the business through digital and flexible ways of working to increase both efficiency and effectiveness.

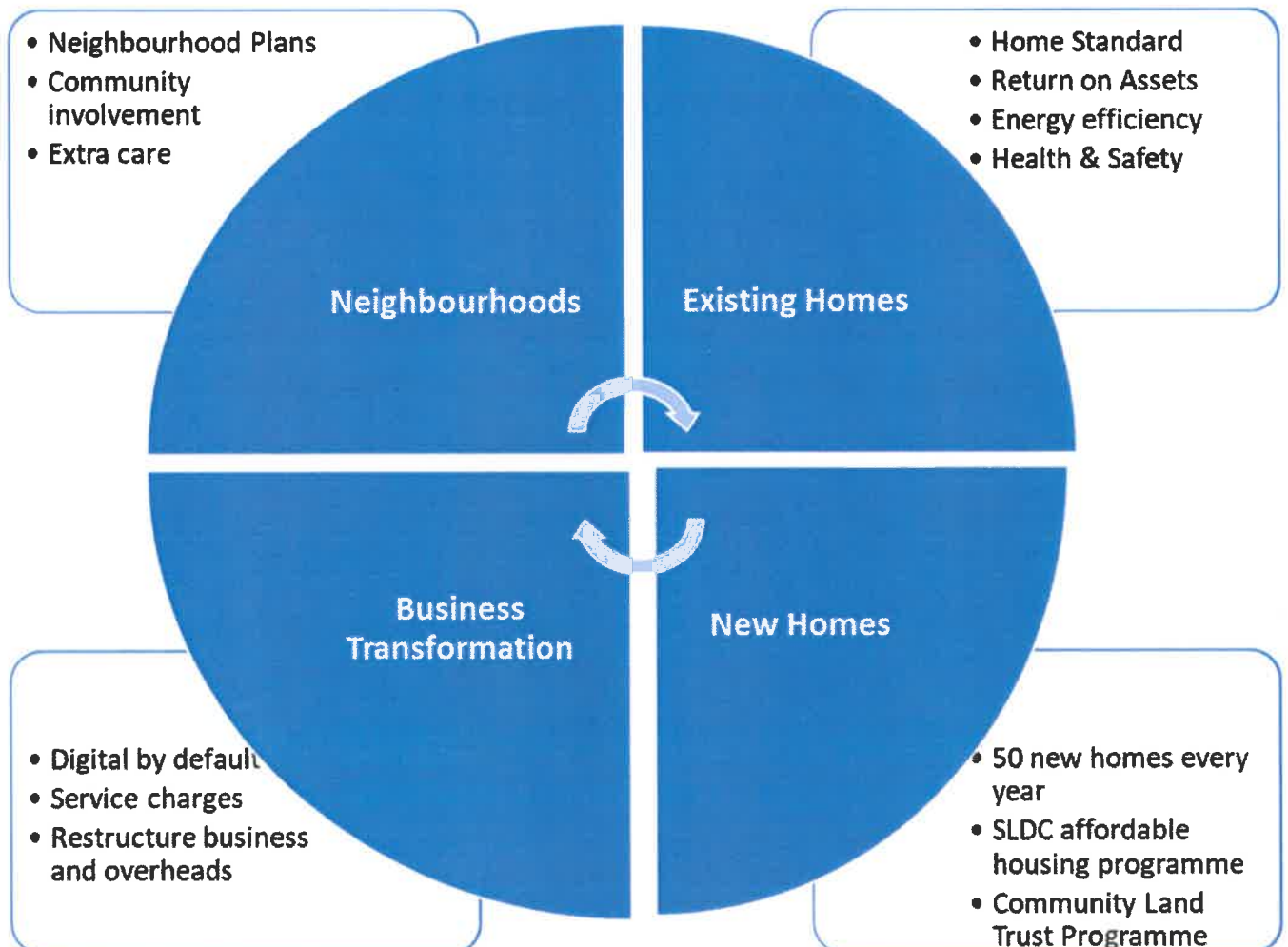
Existing Properties - Cost Per Unit is higher than average, driven in part by local contextual factors but, mostly a result of a significant stock investment programme which is reflected in higher than average Re-investment and Return on Capital Employed metrics. The Board also recognise, through its own local metrics and a detailed estate inspection programme proposed, that investment is required within neighbourhoods in addition to health & safety and energy efficiency measures to lower bills and improve social return on investment.

New Homes - Performance on New Supply is below average but Gearing, a reflection of the Board's past refinancing strategy, is well below average meaning that there is significant capacity to develop much-needed new homes. The low-cost finance negotiated via a partnership with South Lakeland District Council, will help to increase new development opportunities within rural communities, as will a fledgling partnership with a Community Land Trust. Some of these developments will be more expensive than average due to land costs, planning requirements and site characteristics.

Taking Action

There is also a new VfM Detailed Action Plan and VfM Framework which explains the Board's approach in more detail.

Over the next twelve months, SLH will focus on the following VfM actions:



Regulator's VfM Metrics

The table below illustrates SLH's performance against the Regulator's VfM metrics, a comparison against national medians for 2017/18 (taken from the Regulator's Global Accounts) and the 2018/19 HouseMark peer group (2,500 to 7,500 units – 24 in the sample size).

VfM Metric	National Median 2017/18	HouseMark Peer Group 2018/19	SLH 2018/19 Actual	Targets		
				2019/20	2020/21	2021/22
Reinvestment	5.8%	6.6%	11.9%	9.9%	9.6%	9.0%
New Supply	1.0%	1.1%	0.6%	1.0%	1.1%	1.0%
Gearing	43.7%	42.5%	26.5%	30.0%	30.0%	30.0%
EBITDA Interest Cover	203%	168.1%	198.4%	362.3%	353.2%	350.0%
Headline Cost Per Unit (CPU)	£3.4k	£3.7k	£4.39k	£3.85k	£3.99k	£3.92k
Operating Margin	27.7%	25.8%	40.8%	35.8%	33.0%	30.0%
Return on Capital Employed (ROCE)	4.1%	3.6%	4.7%	5.9%	5.8%	5.0%

Notes:

- Green = better than national average, Red = below national average
- Reinvestment will peak in 19/20 (new development and major repairs)
- New Supply will be above around national average for future years – potentially more in the pipeline (not in planning stages)
- Interest cover affected by continued investment in major repairs
- EBITDA is below the national average due to the investment in major repairs
- CPU will increase from 2020/21 due to Board's decision to invest in existing properties, including enhanced health and safety measures, energy efficiency and investment in neighbourhoods.
- Operating margin will reduce slightly due to shared ownership sales income increasing turnover
- ROCE will reduce slightly because of increased investment in assets

Local VfM Metrics

The Board also monitors the following local VfM metrics on a quarterly basis.

Metric	SLH 2017/18	Target 2018/19	SLH 2018/19	Targets		
				2019/20	2020/21	2021/22
% rent collection	100.2%	100.0%	99.7%	99.3%	99.2%	99.1%
% rent arrears	1.32%	1.6%	1.93%	2.2%	2.1%	2.0%
% rent loss through voids	0.46%	0.6%	0.8%	0.6%	0.6%	0.0%
% of customer digital transactions	31%	40%	41%	45%	50%	55%
% of homes failing decency standard	0%	0%	0%	0%	0%	0%
% customer satisfaction overall	86%	88%	89%	N/A	90%	N/A
Ratio of responsive to planned maintenance	0.24	0.17	0.24	0.35	0.35	0.35
Number of homes owned	3089	3149	3155	3182	3295	3321
Average sickness per employee	9.8	7.0	6.7	6.5	6.2	6.0
Overheads as a % of turnover	13.7%	13.8%	12.3%	12.5%	12.7%	11.9%
Community investment (revenue expenditure only)	£90k	£111k	£115k	£115k	£115k	£115k

Notes:

- Green = target met, Red = target not met
- Rent collection and arrears affected by increase of £66k arrears due to Universal Credit. This will be a challenge for the next few years
- Void rent loss due to higher void standard
- Ratio of response to planned maintenance due to an increase in responsive repair costs

- Number of homes increased mainly due to Section 106 acquisitions from private developers and acquiring existing properties from other Housing Associations
- The Board will adopt new metrics to monitor the impact of its strategic investment decisions, including; tenant satisfaction with neighbourhoods and listening to views and Energy Performance Certificate ratings

VfM Achievements in 2018/19

1. *Low cost funding* - SLH and South Lakeland District Council have agreed a £6M 30-year term loan (potentially increasing to £15M).
2. *ICT savings* - £25k saved by utilising digital platform 'My Account' for rent statements, IT consultancy services.
3. *Repairs contracting* - £262k of additional income by undertaking repairs works for others. An independent review of the CH&PS service delivery model concluded that performance was good but further efficiency gains could be achieved.
4. *Return on investment* - Reduced the amount of poor performing stock by 4% since 2016/17 as a result of stock investment. Board has decided to increase the lifecycle of kitchens from 15 to 20 years (sector norm) and will consider investing £13M 'savings' in neighbourhoods and energy efficiency measures.
5. *Procurement* - £11k through Northern Housing Consortium for Tenant Contents Insurance and Electronic Payments Services. Cumbria Housing Partners have undertaken two major procurement projects for SLH (asbestos surveys and Energy Performance Certificates, EPC's). SLH obtained a £25 reduction per survey on the asbestos procurement and a £40 reduction per survey on the EPC's.
6. *Air Source Heat Pumps* - c£190k of renewal heat payments to be gained over the next 7 years. 100% customer satisfaction with savings to fuel bills.

Future plans and challenges

The external operating environment continues to be challenging for Housing Associations (Universal Credit, Brexit and political uncertainty) and the Board has undertaken additional stress testing.

In 2018 a review of the Business Strategy commenced to inform a revised Financial Plan, the long-term development aim and to re-examine the balance of SLH's involvement within neighbourhoods. The main drivers were; the end of rent reduction in 2020 and the opportunity to revert to rent increase (CPI +1% pa) for the next 5 years, financing the Board's increased development ambition, responding to the Social Housing Green paper, (anticipated changes to the Home Standard), reconnecting with neighbourhoods (result of recent estate visits) and Board consideration of Social Value and Return on Investment.

At the Board Strategy discussion in March 2019, the Board indicated the key priorities it wanted to be the core of the Business strategy for the next five years. The high priorities agreed are; new homes, business and digital transformation, furthering compliance with health and safety requirements and cyber security. Other priorities include; energy efficiency and fuel poverty measures, estate improvements including car parking and, fencing and tenant involvement.

Board and Committee structure

The Board consists of twelve board members including two Council nominees and two residents. The shareholding follows the principles adopted in relation to Board composition with votes at a general meeting apportioned 24% to tenant shareholders, 52% to independent shareholders and 24% to the Council shareholder.

SLH has retained an Audit & Risk Committee and a Remuneration & Governance Committee. The Board reviewed its governance arrangements during the year and agreed to create a Development Committee, to recommend schemes for approval to the Board. The terms of reference for all Committees were revised and approved during the year. As part of the Governance review SLH has an unregistered subsidiary 'Cumbrian Housing & Property Services Limited' (CH&PS) following its incorporation to Companies House in December 2016. The subsidiary acts as a 'Cost Sharing Vehicle' for the purpose of sharing services efficiently and operates as a private company limited by shares. There is an associated Member Agreement and Articles of Association. SLH owns 85% of voting shares.

The Board agreed to implement modest Board Director remuneration from April 19.

Members of the Board of Directors and the senior executives who served during the year are set out on page 3. Members automatically retire at the end of a three-year term, but may be re-elected subject to a maximum term in office of nine years. Non-Council shareholders each hold one fully paid share of £1 in the Society, with the Council holding one share in total. None of the senior executives hold any interest in the share capital of the organisation.

The executives are the Chief Executive, the Director of Customers & Communities, the Director of Corporate Services, the Director of Assets & Investment and the Company Secretary, details of whom are set out on page 3. None of the directors or the executives has any financial interest in the Society.

The Society has insurance policies that indemnify its Board Members and executives against liability when acting for SLH.

Statement of Board responsibilities

The Co-operative and Community Benefit Societies Act 2014 requires that the Board prepare accounts for each financial year which give a true and fair view of the state of affairs of the Society and the surplus of the Society for that period.

In preparing these accounts the Board are required to:

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

The Board are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable them to ensure that the accounts comply with the Co-operative and Community Benefit Societies Act 2014, Housing Acts and Accounting Determinations.

In determining how amounts are presented within items in the statement of comprehensive income and statement of financial position, the Board has had regard to the substance of the reported transaction or arrangement, in accordance with general accepted accounting principles or practice. The Board is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing and maintaining a satisfactory system of control over the Society's accounting records, cash holdings and all its receipts and remittances.

The Board is responsible for the Society's strategy and policy framework and delegates the day to day management and implementation to the Chief Executive and other senior executives. The Board is also responsible for ensuring adherence to the Regulator of Social Housing's (RSH) Regulatory Standards.

Governance and Financial Viability

The Board has adopted and is compliant with the National Housing Federation's (NHF) 2015 'Excellence in Governance' Code and confirms that SLH is compliant with the RSH's Governance and Financial Viability Standard (the last review was August 2019). The Board also complies with its Code of Conduct (which is based upon the NHF Code of Conduct 2012). Members' skills are regularly reviewed, any skills gaps or requirements to cover new areas of activity or risk are addressed upon recruitment to fill board member vacancies or with the recruitment of committee co-optees. Members also receive regular sector updates, risk reports and development in specialist areas as required. Board member strategic planning days are normally held twice a year and stringent monitoring arrangements are in place to ensure delivery of business objectives. Governance arrangements are reviewed annually to ensure these remain effective and SLH's affairs continue to be managed with an appropriate degree of independence.

SLH has in place a robust and prudent financial planning and risk control framework which provides for, as a minimum, the annual update and approval by the Board of the financial plan, regular monitoring of cashflow projections and compliance with covenants throughout the year. As part of the financial planning review cycle, the Board considers all key risks including economic and operating assumptions and the sensitivity of the plan to changes in key variables or combinations of variables. This is supported by a more detailed financial plan stress testing exercise to identify corrective actions required to mitigate against potential threats to viability or delivery of corporate objectives. The Treasury Management Strategy is reviewed and updated each year and is adjusted as necessary to

mitigate against significant changes in interest rates. The Board also considers the level of headroom and impact upon financial covenants in any investment decisions to understand the potential impact of decisions and to ensure the resilience of the plan and SLH's financial viability in the longer term.

Risk management is deeply embedded within the governance framework in order to ensure ongoing financial viability and to safeguard SLH's assets from undue risk. The Board monitors the assets and liabilities register and oversees a framework of internal controls within the context of an agreed risk appetite statement. SLH does not currently undertake any non-regulated activity.

Control systems

The Board has overall responsibility for establishing and maintaining the whole system of internal control and reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance against material misstatement, loss or eliminate all risk of failure to achieve business objectives. The system of internal control is designed to manage key risk and to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of SLH's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which is embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Society is exposed. The assurance mapping is presented alongside the quarterly Strategic Risk Summaries to the Board & Audit & Risk Committee.

The process adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

Risk Appetite Statement:

The Board adopted a Risk Appetite Statement. The Risk Appetite Statement sets out the level of risk that the organisation is prepared to accept in order to deliver its strategic objectives, remain consistent with its values and meet its targets in terms of performance and outcomes.

A high-level risk matrix is also reviewed which provides the Board with a useful overview of SLH's key risks. These are reported to the Board as part of the quarterly performance and risk reports. The Audit & Risk Committee reviews the Risk Appetite Statement (as part of the review of the Business Strategy and risk management process) and the Risk framework is reviewed by the Board on at least an annual basis.

Identification and evaluation of key risks:

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. This is documented in SLH's Risk Management Strategy which is reviewed annually. This provides for the regular reporting of risk to the Committee, with a high-level Strategic Risk Summary, summarising the key risks with more detail contained in individual Risk Maps covering each Business Objective.

The architecture of risk mapping within SLH is as follows;



Risk is also embedded within the 'development' process with a separate Development Approval Framework detailing the decision-making thresholds and Board approval mechanisms. Risk is

assessed within the reports recommending new build or acquisitions to Board with Internal Rates of Return thresholds in place.

A Board Assurance Framework (BAF) has been developed and is considered by the Board on a quarterly basis alongside the Strategic Risk Summary. The BAF, based upon a '*three lines of defence*' model, provides assurance over the mitigation of key risks.

A detailed quarterly Compliance Report and Health & Safety Dashboard details the identification and performance on key areas relating to compliance; including Health & Safety, regulation, legal and financial etc. This is reviewed quarterly by the Audit & Risk Committee.

The Internal Audit function, which is provided by an independent firm of accountants, BDO follows a risk-based audit programme, and reports directly to the Audit and Risk Committee.

Overall control procedures:

The Board retains responsibility for a defined range of issues covering strategic, operational, and financial and compliance issues. Policies and procedures cover issues such as delegated authority, accounting, treasury management, asset protection and fraud prevention and detection.

Information and financial reporting systems:

Financial reporting procedures include detailed budgets for the year ahead, detailed management accounts produced monthly and forecasts for the remainder of the year and subsequent years. These are reviewed in detail by the executive directors and are considered and approved by the Board quarterly. The Board also regularly reviews key performance indicators to assess progress towards the achievement of business objectives, targets and outcomes including comparisons with HouseMark benchmarking reports against the '*Sector Scorecard*' KPIs.

This is supplemented by 'golden rules' which were agreed by the Board in December 2017 and are reported in Quarterly Finance Reports, covering; *interest cover* (golden rule 121%), *gearing* (golden rule 54%), *asset cover* (golden rule 121%), *proportion of fixed rate debt* (golden rule between 70% and 100%), *cash balances* (golden rule minimum level of £500k), *free equity* (golden rule at least 10% EUV-SH valuation basis) and 18 months liquidity at any one point.

Monitoring and corrective action:

A process of regular management reporting on control issues provides assurance to the Executive Management Team and Audit and Risk Committee. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those that may have a material impact on the financial statements and delivery of services.

A quarterly Compliance Report is presented to the Audit & Risk Committee together with an assurance statement against each of the main areas of compliance together with any plans to improve. The areas covered are included within the Committee's Terms of Reference; including compliance with the regulatory framework and other relevant legislation such as health and safety; data security, charitable rules, fraud and tax.

The internal control framework and the risk management process are subject to regular review by Internal Audit who report to the Audit and Risk Committee. The Audit and Risk Committee considers internal control and risk at each of its meetings during the year and will review a number of risk maps at each meeting so that each map is reviewed in detail at least once per annum.

The Audit and Risk Committee conducts an annual review of the effectiveness of the system of internal control and has taken account of any changes needed to maintain the effectiveness of risk management and control process. The Audit and Risk Committee meets with internal and external audit without staff present at least once a year and makes an annual report to the Board.

The Board confirms that there is an on-going process for identifying and managing significant risks faced. There has been an effective system in place throughout the financial year and up to the date of the annual report and accounts.

Remuneration and pensions

The Board is responsible for setting the Society's remuneration policy and contract liabilities for its Executive Team. The Board have approved a policy which makes a general commitment that SLH will not make non-contractual payments to any member of staff, unless considered in the best interests of the organisation when all the proposed costs of termination have been considered.

The Society currently participates in the Local Government Pension Scheme (a defined benefit pension scheme) and the Social Housing Pension Scheme (offering a range of defined benefit and defined contribution options). The assets of the scheme are invested and managed independently of the finances of the Society. Contributions are based on pension costs of the Society's members in the fund.

As at 31 March 2019, SLH's share of the LGPS scheme deficit was £2.6m (2017: £1.8m) and SLH's share of the SHPS scheme deficit was £147k as shown on the statement of financial position and in note 17.

Gender Pay Gap Analysis

The government introduced regulations that require all organisations with 250 or more employees to report annually on their gender pay gap. Whilst there is no legal requirement for SLH to do so, we have conducted a gender pay gap analysis, using 31st March 2018 "snap shot" data.

The gender pay gap measures the difference in mean and median average pay between men and women across the whole organisation, regardless of their job role. It does not measure equal pay which relates to what men and women are paid for the same or similar job or work of equal value.

The mean Gender Pay Gap will give a very good overall picture of the gender pay gap but can be distorted by very large or small pay rates. SLH's result on mean pay is a minus which indicates that women are paid 2.35% more than men at SLH. The median, however, indicates the "typical" gap as it is not distorted by very large or small pay rates. SLH's figure is a positive so this indicates that men are paid 0.15% more than women, indicating a negligible gender pay gap.

Going concern and liquidity

At the of March 2019 the Society had a 20-year financing agreement with M&G Investments (£20M) and a 10-year facility with the Royal Bank of Scotland (£20M). Robust financial forecasting and monitoring systems in place give the Board reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future, and for this reason, it continues to adopt the going concern basis in the financial statements.

Stringent cashflow monitoring and reporting arrangements ensure SLH has sufficient liquidity at all times and that funder covenants will continue to be met.

Statement of compliance

This Operating and Financial Review has been prepared in accordance with the principles set out in the 2014 SORP Update for Registered Providers.

The Board has reviewed the financial planning, risk and control framework in place and is satisfied as to its effectiveness in ensuring delivery against the Business Strategy, ensuring financial viability and safeguarding SLH's assets. As such the Board considers SLH to be compliant with the RSH's Governance and Viability Standard.

Disclosure of information to auditors

At the date of making this report each member of the Society's Board as set out on page 3, confirm the following:

- So far as each of them is aware, there is no relevant information needed by the Society's auditors in connection with preparing their report of which the Society's auditors are unaware, and
- Each of them has taken all the steps that (s)he ought to have taken as a director in order to make her/himself aware of any relevant information needed by the Society's auditors in connection with preparing their report and to establish that the Society's auditors are aware of that information.

Annual General Meeting and approval

Annual General Meeting

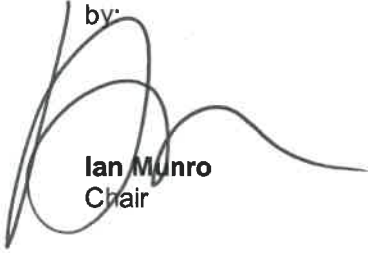
The Annual General Meeting is to be held on 19 September 2019 to receive the accounts to 31 March 2019.

Auditors

Beever and Struthers are the auditors of SLH. The annual appointment is subject to a resolution at the Annual General Meeting.

Approval

The Report of the Board was approved on 13 August 2019 by the Board and was signed on its behalf by:



Ian Munro
Chair

Independent Auditor's Report to the Members of South Lakes Housing

Opinion

We have audited the financial statements of South Lakes Housing ("the Association") and its subsidiary ("the Group") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves, the Statement of Cash Flows and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and the Association's affairs as at 31 March 2019 and of their surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Cooperative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which Cooperative 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 Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Board

As explained more fully in the Statement of Board's Responsibilities set out on page 22, the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Association's members, as a body, in accordance with section 87(2) of the Cooperative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body for our audit work, for this report, or for the opinions we have formed.

Beever and Struthers

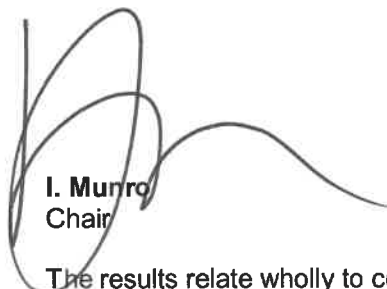
Beever and Struthers, Statutory Auditor
St George's House
215/219 Chester Road
Manchester
M15 4JE

Date: *23 August 2019*

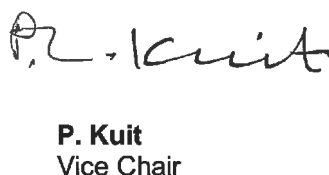
Group & Association Statement of Comprehensive Income

For the year ended 31 March 2019	Note	2019 £'000	2018 £'000
Turnover	2	16,078	16,062
Operating costs	2	(9,514)	(8,748)
Gain on disposal of property, plant and equipment (fixed assets)	6	435	500
Operating surplus		<u>6,999</u>	<u>7,814</u>
Interest receivable	7	4	6
Interest and financing costs	8	(1,012)	(3,747)
Surplus for the year before and after taxation		<u>5,991</u>	<u>4,073</u>
Actuarial gain/(loss) in respect of pension schemes	17a & b	(659)	1,060
Total comprehensive income for the year		<u><u>5,332</u></u>	<u><u>5,133</u></u>

The financial statements on pages 22 to 48 were approved and authorised for issue by the Board on 13th August 2019 and were signed on its behalf by:



I. Munro
Chair



P. Kuit
Vice Chair




J. Mansergh
Company Secretary

The results relate wholly to continuing activities and the notes on pages 22 to 48 form an integral part of these accounts.


Group Statement of Financial Position

At 31 March 2019	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible fixed assets	12a & b	92,820	83,524
Debtors due after more than one year	22	47,905	53,254
Current assets			
Stock	13	377	154
Trade and other debtors	14	6,651	6,426
Cash and cash equivalents		3,670	1,638
		10,698	8,218
Less: Creditors: Amounts falling due within one year	15	(3,393)	(2,065)
Net current assets		7,305	6,153
Total assets less current liabilities		148,030	142,931
Creditors: Amounts falling due after more than one year	16	(102,950)	(104,176)
Provisions for liabilities			
Pension Provision	17	(2,791)	(1,798)
Total net assets		42,289	36,957
Capital and reserves			
Non-equity share capital	18	-	-
Income and expenditure reserve		42,289	36,957
Total reserves		42,289	36,957

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Group & Association Statement of Changes in Reserves

For the year ended 31 March 2019

	Income and expenditure reserve £'000
Balance at 31 March 2018	36,957
Surplus from Statement of Comprehensive Income	5,332
Balance at 31 March 2019	42,289

The notes on pages 22 to 48 form an integral part of these accounts.

Group & Association Statement of Cash Flows

For the year ended 31 March 2019

	2019 £'000	2018 £'000
Net cash generated from operating activities	7,879	7,913
Cash flow from investing activities		
Purchase of tangible fixed assets	(11,157)	(8,284)
Proceeds from sale of tangible fixed assets	1,318	1,467
Grants received	0	197
Interest received	4	6
	<u>1,956</u>	<u>1,299</u>
Cash flow from financing activities		
Interest paid	(1,012)	(3,747)
New secured loans	5,000	-
Repayment of borrowings	(0)	(5,000)
	<u>2,032</u>	<u>(7,448)</u>
Net change in cash and cash equivalents	2,032	(7,448)
Cash and cash equivalents at beginning of the year	1,638	9,086
	<u>3,670</u>	<u>1,638</u>
Cash and cash equivalents at end of the year	3,670	1,638
	<u>3,670</u>	<u>1,638</u>
Cash flow from operating activities		
Surplus for the year	5,991	4,073
Adjustments for non-cash items		
Depreciation of tangible fixed assets	1,660	1,434
Amortisation of intangible assets	4	17
Interest and financing costs	1,012	3,747
Interest receivable	(4)	(6)
Gain on disposal of property, plant and equipment	(435)	(500)
(Increase)/decrease in stock	(223)	305
(Increase)/decrease in trade and other debtors	5,125	4,839
Increase/(decrease) in trade and other creditors	(4,654)	(5,163)
Pension costs less contributions payable	(334)	(604)
Government grants utilised in the year	(237)	(229)
Government grants utilised in prior years	-	-
	<u>7,879</u>	<u>7,913</u>
Net cash generated from operating activities	7,879	7,913

The notes on pages 22 to 48 form an integral part of these accounts.

Notes to the Financial Statements

For the year ended 31 March 2019

Legal Status

The group comprises of the following:

South Lakes Housing Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a Private Registered Provider of Social Housing (Number 4686). The registered office is Bridge Mills Business Centre, Stramongate, Kendal, Cumbria, LA9 4BD.

Cumbrian Housing and Property Services, a non-registered subsidiary, incorporated under the Companies Act 2006.

1. Principal Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2014.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are prepared on the historical cost basis of accounting and are presented in sterling £, rounded to the nearest £1,000.

The financial statements have been prepared in compliance with FRS102.

Going concern

The financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

- a. **Development expenditure.** The society capitalises development expenditure in accordance with the accounting policy described above. Initial capitalisation of costs is based on management's judgement that development scheme is confirmed, usually when Board approval has taken place including access to the appropriate funding. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.
- b. **Categorisation of housing properties.** The society has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the society has considered if the asset is held for social benefit or to earn commercial rentals.

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal Accounting Policies (continued)

Other key sources of estimation and assumptions:

- a **Tangible fixed assets.** Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- b **Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary increases and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 17.
- c **Impairment of non-financial assets.** Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.

Following a trigger for impairment, the Society performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Society as the existing property. The cash flows are derived from the financial plan for the next 30 years and do not include restructuring activities that the Society is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

- d **Financial Instruments.** Financial assets such as cash and current asset investments are held at cost and classified as current assets. Financial liabilities such as bonds and loans are held at cost with the associated costs of raising finance amortised over the life of the financial instrument to which they relate.

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal Accounting Policies (continued)

Following the assessment of impairment, no impairment losses were identified in the reporting period.

Turnover and revenue recognition

Turnover represents rental income receivable, amortised capital grant, revenue grants from local authorities and the Homes England, and other income and are recognised in relation to the period when the goods or services have been supplied.

Rental income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion.

Sales of properties developed for outright sale are included in Turnover and Cost of Sales.

Loan finance issue costs

These are amortised over the life of the related loan. Loans are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts amortised. Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the Statement of Comprehensive Income account in the year in which the redemption took place.

Taxation

The Society had charitable status during the period, and it is not liable to Corporation Tax on its charitable activities.

Value Added Tax

The Society is registered for VAT. A large proportion of its income, including rents, is exempt from VAT. Most of its expenditure is subject to VAT which cannot be reclaimed, and expenditure is therefore shown inclusive of VAT. Any VAT recovered under partial exemption rules is credited to the Statement of Comprehensive Income. The Society has been able to take advantage of VAT shelter relief, with 50% of amounts recoverable under this scheme being repayable to the Council under the terms of the Transfer Agreement.

Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Land and assets acquired at below market value from the local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction.

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal Accounting Policies (continued)

Freehold land is not depreciated.

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

The association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

UELs for identified components are as follows:

	Years
Main fabric	100
Roof structure and covering	70
Windows and external doors	30
Gas boilers and fires	15
Kitchens	20
Bathrooms	25
Mechanical systems	30
Electrics	30
Lifts	20
Disabled adaptations	10

Depreciation is charged on other tangible fixed assets on a straight-line basis over the expected economic useful lives which are as follows:

	Years
IT equipment	3
IT infrastructure	10
Furniture and fittings	10

Capitalisation of interest and administration costs

Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress.

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal Accounting Policies (continued)

Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their economic useful lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit and loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Stock

Stocks of materials are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving items.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. SHG received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

When Social Housing Grant (SHG) in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the Society under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes England. However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as Turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal Accounting Policies (continued)

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

Retirement benefits

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services.

The disclosures in the accounts follow the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes in which the Group has a participating interest.

Notes to the Financial Statements

For the year ended 31 March 2019

2. Turnover, operating expenditure and operating surplus

31 March 2019	Turnover £'000	Operating expenditure £'000	Operating Surplus £'000
Social Housing Lettings (note 3)	15,069	9,136	5,933
Other Social Housing Activities	936	347	589
Activities other than social housing	73	31	42
TOTAL	16,078	9,514	6,564

Turnover, operating expenditure and operating surplus

31 March 2018	Turnover £'000	Operating expenditure £'000	Operating Surplus £'000
Social Housing Lettings (note 3)	15,038	8,266	6,772
Other Social Housing Activities	945	451	494
Activities other than social housing	79	31	48
TOTAL	16,062	8,748	7,314

Notes to the Financial Statements

For the year ended 31 March 2019

3. Turnover and operating expenditure from social housing letting

	General Housing £'000	Supported Housing and Housing for Older People £'000	Total 2019 £'000	Total 2018 £'000
Income				
Rent receivable net of identifiable service charges and net of voids	12,415	1,949	14,364	14,175
Service charge income		466	466	587
Amortised government grants	205	32	237	274
Other income from Social Housing Lettings	2	-	2	2
Turnover from Social Housing Lettings	12,622	2,447	15,069	15,038
Operating expenditure				
Management	(3,522)	(312)	(3,834)	(3,650)
Service charge costs	-	(506)	(506)	(512)
Routine maintenance	(1,622)	(72)	(1,694)	(1,480)
Planned maintenance	(1,516)	-	(1,516)	(1,416)
Bad debts	(145)	(22)	(167)	(28)
Depreciation of housing properties	(1,226)	(193)	(1,419)	(1,180)
Operating expenditure on Social Housing Lettings	(8,031)	(1,105)	(9,136)	(8,266)
Operating Surplus on Social Housing Lettings	4,591	1,342	5,933	6,772
Void Losses (being rental income lost as a result of property not being let, although it is available for letting)	(141)	(22)	(163)	(49)

Notes to the Financial Statements

For the year ended 31 March 2019

4. Accommodation owned, managed and in development

Under management at end of year:	2019 No. of properties	2018 No. of properties
General needs housing	2,726	2,658
Supported housing and housing for older people	429	431
Shared ownership properties	5	5
Discounted sale properties	-	-
	<u>3,160</u>	<u>3,094</u>
	2019 No. of properties	2018 No. of properties
In management, but not ownership, at end of year:		
Housing accommodation	3	3
Leasehold properties	261	261
	<u>264</u>	<u>264</u>

5. Surplus on ordinary activities

	2019 £'000	2018 £'000
The operating surplus is stated after charging:		
Auditor's remuneration (excluding VAT):		
Statutory audit	16	13
Fees payable to the company's auditor and its associates for other services to the association:		
Tax compliance services	-	-
Service charge certification	-	-
Operating lease rentals		
Land and buildings	183	178
Office equipment	6	5
Motor vehicles	150	159
Depreciation of housing properties	1,419	1,180
Depreciation of other fixed assets	241	254
Surplus on sale of other fixed assets	435	500

Notes to the Financial Statements

For the year ended 31 March 2019

6. Gain on disposal of property, plant and equipment (fixed assets)

	Property assets	Total	Total
	2019	2019	2018
	£'000	£'000	£'000
Proceeds of sales	1,318	1,318	1,467
Less: Costs of sales	(883)	(883)	(967)
	<hr/>	<hr/>	<hr/>
Surplus	435	435	500
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7. Interest receivable

	2019	2018
	£'000	£'000
Bank interest receivable	4	6
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

8. Interest and financing costs

	2019 £'000	2018 £'000
Deferred benefit pension charge	(48)	(53)
On loans repayable within five years	(0)	(257)
On loans wholly or partly repayable in more than five years	(909)	(626)
	<hr/>	<hr/>
Total interest	(957)	(936)
Loan fees and charges	(55)	(2,811)
	<hr/>	<hr/>
Total interest payable and similar charges	(1,012)	(3,747)
	<hr/> <hr/>	<hr/> <hr/>

9. Employee information

	2019 Number	2018 Number
The average number of persons employed during the year, expressed in full time equivalents (37 hours per week) was:	110	102
	<hr/> <hr/>	<hr/> <hr/>

Staff costs	2019 £'000	2018 £'000
Wages and salaries	3,275	3,030
Social security costs	320	295
Other pension costs	586	404
	<hr/>	<hr/>
	4,181	3,729
	<hr/> <hr/>	<hr/> <hr/>

	2019 Number	2018 Number
The aggregate number of full-time equivalent staff whose remuneration exceeded £60,000 in the period:		
£60,000 to £69,999	2	1
£70,000 to £79,999	0	1
£80,000 to £89,999	2	2
£90,000 to £99,999	1	-
£100,000 +	1	2

Notes to the Financial Statements

For the year ended 31 March 2019

10. Key management personnel remuneration

	2019 £'000	2018 £'000
The aggregate emoluments paid to or receivable by non-executive directors and former non-executive directors	-	-
The aggregate emoluments paid to or receivable by executive directors and former executive directors	514	519
The emoluments paid to the highest paid director excluding pension contributions	116	114

The Chief Executive was a member of a DB pension scheme during the year. The pension schemes are CARE salary schemes funded by annual contributions by the employer and employee. No enhanced or special terms apply. There are no additional pension arrangements.

Key management personnel are defined as the members of the Board, the Chief Executive and any other person who is a member of the Executive Management Teams or their equivalent.

Notes to the Financial Statements

For the year ended 31 March 2019

11. Tax on Surplus on Ordinary Activities

	2019 £'000	2018 £'000
Current taxation:		
UK Corporation Tax charge for the year	-	-
Deferred taxation:		
Net origination and reversal of timing differences	-	-
	<hr/>	<hr/>
Tax on surplus on ordinary activities	-	-
	<hr/> <hr/>	<hr/> <hr/>
The tax assessed		
The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 0% (2018 0%). The differences are explained as follows :	2019	2018
Total tax reconciliation	£'000	£'000
Surplus on ordinary activities before taxation	5,991	4,073
	<hr/>	<hr/>
Theoretical tax at UK corporation tax rate of 19% (2018: 19.%)	1,198	815
Effects of:		
-Surpluses relating to charitable period	(1,198)	(815)
	<hr/>	<hr/>
Total taxation charge	-	-
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

12a. Tangible fixed assets (Group & Association)

	Social Housing Properties for Letting Completed £'000	Social Housing Properties for letting under Construction £'000	Shared Ownership Housing Properties £'000	Total Housing Properties £'000
Cost				
At start of the year	86,101	588	144	86,833
Additions to properties acquired	4,994	96	0	5,090
Works to existing properties	5,983	-	-	5,983
Schemes completed	588	(588)	-	-
Disposals	(201)	-	-	(201)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	97,465	96	144	97,705
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and impairment				
At start of the year	(3,858)	-	-	(3,858)
Charge for the year	(1,419)	-	-	(1,419)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	(5,277)	-	-	(5,277)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 st March 2019	92,188	96	144	92,428
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 st March 2018	82,243	588	144	82,975
	<hr/>	<hr/>	<hr/>	<hr/>

The financial covenants entered into with the funders require that the asset cover ratio (property value to loan outstanding) needs to be at least 110% of the value of loans at the year end when using the "existing use value for social housing (EUV-SH) basis of valuation.

Notes to the Financial Statements

For the year ended 31 March 2019

12b. Other tangible fixed assets (Group & Association)

	Computer Equipment £'000	IT Infrastructure £'000	Furniture & Fittings £'000	Total £'000
Cost				
At start of the year	610	187	396	1,193
Additions	84	-	0	84
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	694	187	396	1,277
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and impairment				
At start of the year	(393)	(92)	(159)	(644)
Charge for the year	(182)	(19)	(40)	(241)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	(575)	(111)	(199)	(885)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 st March 2019	119	76	197	392
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 st March 2018	217	95	237	549
	<hr/>	<hr/>	<hr/>	<hr/>

13. Stock (Group & Association)

	2019 £'000	2018 £'000
Stocks held within:		
Stores		3
Trade vehicles	29	21
	<hr/>	<hr/>
	29	24
Properties held for sale:		
Discounted sale properties completed	-	
Discounted sale properties under construction	-	
Work in progress on housing, land and buildings – potentially abortive costs	348	130
	<hr/>	<hr/>
	377	154
	<hr/>	<hr/>

The stores balances relate to lumber and emergency out of hours supplies.

Notes to the Financial Statements

For the year ended 31 March 2019

14a. Group Trade and Other Debtors

	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Rent and service charge arrears	1,532		1,129	
Less: provision for bad debts	(386)		(317)	
	<hr/>	1,146	<hr/>	812
Trade debtors	194		138	
Less: provision for bad debts	(68)		(59)	
	<hr/>	126	<hr/>	79
Value Added Tax		275		130
Prepayments and accrued income		504		180
Other debtors		9		1
Stock transfer obligation (note 22)		4,591		5,224
		<hr/>		<hr/>
		6,651		6,426
		<hr/>		<hr/>

14b. Company Trade and Other Debtors

	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Rent and service charge arrears	1,532		1,129	
Less: provision for bad debts	(386)		(317)	
	<hr/>	1,146	<hr/>	812
Trade debtors	188		145	
Less: provision for bad debts	(68)		(59)	
	<hr/>	120	<hr/>	86
Value Added Tax		321		130
Prepayments and accrued income		464		156
Other debtors		9		1
Stock transfer obligation (note 22)		4,591		5,224
		<hr/>		<hr/>
		6,651		6,409
		<hr/>		<hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

15a. Group Creditors: Amounts falling within one year

	2019 £'000	2018 £'000
Rent and service charges received in advance	213	179
Trade creditors	1,225	489
Accruals and deferred income	1,526	979
Other taxation and social security	84	76
Other creditors	108	112
Deferred capital grant	237	230
	<hr/>	<hr/>
	3,393	2,065
	<hr/> <hr/>	<hr/> <hr/>

15b. Company Creditors: Amounts falling within one year

	2019 £'000	2018 £'000
Rent and service charges received in advance	213	179
Trade creditors	1,225	489
Accruals and deferred income	1,526	962
Other taxation and social security	84	76
Other creditors	108	112
Deferred capital grant	237	230
	<hr/>	<hr/>
	3,393	2,048
	<hr/> <hr/>	<hr/> <hr/>

16. Creditors: Amounts falling due after more than one year (Group & Association)

	2019 £'000	2018 £'000
Loans	29,536	24,510
Deferred Capital Grant	20,918	21,188
Stock transfer obligation	52,496	58,478
	<hr/>	<hr/>
	102,950	104,176
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

16(a). Debt Analysis	2019 £'000	2018 £'000
Loans not repayable by instalments		
Loan maturing under floating arrangement within one year, but wholly repayable in five years or more	-	-
Loan wholly repayable in five years or more	30,000	25,000
	<hr/>	<hr/>
	30,000	25,000
Less loan arrangement fees	(464)	(490)
	<hr/>	<hr/>
	29,536	24,510
	<hr/> <hr/>	<hr/> <hr/>

The Royal Bank of Scotland and M&G Investments have provided finance of £40m since May 2017. These loans are secured by a charge over the Society's assets to a value of 110% of the loans. During the year there were fixed and variable rate loans at various rates of between 2.41% and 2.98%.

Loan arrangement fees are capitalised and amortised over the remaining life of the loan.

16(b) Deferred capital grant

	2019 £'000	2018 £'000
At start of year	21,418	21,450
Grant received in the year	72	328
Released to income in the year	(237)	(229)
Relating to disposals in the year	(98)	(131)
	<hr/>	<hr/>
At the end of the year	21,155	21,418
	<hr/> <hr/>	<hr/> <hr/>
Amount due to be released < 1 year	237	230
Amount due to be released > 1 year	20,918	21,188

Notes to the Financial Statements

For the year ended 31 March 2019

17a. Pension obligations (Group & Association)

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Lancashire County Council. The total contributions made for the year ended 31 March 2019 were £176,830, of which employer's contributions totalled £126,053 and employees' contributions totalled £50,777. The agreed contribution rates for future years are 17.1% for employers and range from 5.5% to 12.5% for employees, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31st March 2013 updated to 31st March 2019 by a qualified independent actuary.

	2019 % per annum	2018 % per annum
Rate of increase in salaries	3.7	3.6
Rate of increase in pensions in payment	2.3	2.2
Discount rate	2.5	2.7
Inflation assumptions (CPI)	2.2	2.1

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	2019 Years	2018 Years
Retiring today		
Males	23.3	23.2
Females	25.9	25.8
Retiring in 20 years		
Males	25.6	25.5
Females	28.6	28.5

Analysis of the amounts charged to operating costs in the Statement of Comprehensive Income

	2019 £'000	2018 £'000
Employer service cost (net of employee contributions)	236	944
Past service cost / (gain)	0	0
	<hr/>	<hr/>
Total operating charge	236	944
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

Analysis of pension finance income/(costs)	2019	2018
	£'000	£'000
Expected return on assets	(437)	(404)
Interest on pension liabilities	485	457
	<hr/>	<hr/>
Amounts charged/credited to financing costs	48	53
	<hr/>	<hr/>
Amount of gains and losses recognised in the Statement of Comprehensive Income	2019	2018
	£'000	£'000
Actuarial gains/(losses) on pension scheme assets	539	198
Actuarial gains/(losses) on scheme liabilities	(1,164)	862
	<hr/>	<hr/>
Actuarial gain/(loss) recognised	(625)	1,060
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

17a. Pensions (continued)

	2019 £'000	2018 £'000
Movement in surplus/(deficit) during the year		
(Deficit)/surplus in scheme at 1 April	(1798)	(2,254)
Movement in year:		
Employer service cost (net of employee contributions)	(232)	(928)
Employee contributions	63	393
Past service cost	0	0
Net interest/return on assets	(48)	(53)
Re-measurements	(625)	1,060
Administration expenses	(4)	(16)
	<hr/>	<hr/>
(Deficit) in scheme at 31 March	(2,644)	(1,798)
	<hr/> <hr/>	<hr/> <hr/>
Asset and Liability Reconciliation		
	2019	2018
Reconciliation of liabilities	£'000	£'000
Liabilities at start of period	18,047	17,631
Service cost	232	928
Interest cost	485	457
Employee contributions	51	177
Re-measurements	1,164	(862)
Benefits paid	(222)	(284)
Past service cost	0	0
	<hr/>	<hr/>
Liabilities at end of period	19,757	18,047
	<hr/> <hr/>	<hr/> <hr/>
	2019	2018
Reconciliation of assets	£'000	£'000
Assets at start of period	16,249	15,377
Return on plan assets	437	404
Re-measurements	539	198
Administration expenses	(4)	(16)
Employer contributions	63	393
Employee contributions	51	177
Benefits paid	(222)	(284)
	<hr/>	<hr/>
Assets at end of period	17,113	16,249
	<hr/> <hr/>	<hr/> <hr/>
	976	603
Actual return on plan scheme assets	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

17b. Pension obligations (Group & Association)

Social Housing Pension Scheme

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

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

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

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

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 30th September 2017 updated to 31st March 2019 by a qualified independent actuary.

	2019
	% per annum
Rate of increase in salaries	2.2
Discount rate	2.4
Inflation assumptions (CPI)	2.2

Notes to the Financial Statements

For the year ended 31 March 2019

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	2019
	Years
Retiring today	
Males	21.8
Females	23.5
Retiring in 20 years	
Males	23.2
Females	24.7

Analysis of the amounts charged to operating costs in the Statement of Comprehensive Income

	2019
	£'000
Employer service cost (net of employee contributions)	113
Past service cost / (gain)	0
	<hr/>
Total operating charge	113
	<hr/> <hr/>

Analysis of pension finance income/(costs)

	2019
	£'000
Expected return on assets	0
Interest on pension liabilities	0
	<hr/>

Amounts charged/credited to financing costs

0

Amount of gains and losses recognised in the Statement of Comprehensive Income

	2019
	£'000
Actuarial gains/(losses) on pension scheme assets	10
Actuarial gains/(losses) on scheme liabilities	(44)
	<hr/>
Actuarial gain/(loss) recognised	(34)
	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

17b. Pensions (continued)

	2019 £'000
Movement in surplus/(deficit) during the year	
(Deficit)/surplus in scheme at 1 April	-
Movement in year:	
Employer service cost (net of employee contributions)	(203)
Employee contributions	99
Past service cost	0
Net interest/return on assets	(9)
Re-measurements	(34)
Administration expenses	(0)
	<hr/>
(Deficit) in scheme at 31 March	(147)
	<hr/> <hr/>

Asset and Liability Reconciliation

	2019 £'000
Reconciliation of liabilities	
Liabilities at start of period	-
Service cost	302
Interest cost	4
Employee contributions	99
Re-measurements	44
Benefits paid	(1)
Past service cost	0
	<hr/>
Liabilities at end of period	448
	<hr/> <hr/>

	2019 £'000
Reconciliation of assets	
Assets at start of period	-
Return on plan assets	4
Re-measurements	10
Administration expenses	0
Employer contributions	189
Employee contributions	99
Benefits paid	(1)
	<hr/>
Assets at end of period	301
	<hr/> <hr/>

Actual return on plan scheme assets	14
	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

18. Non-equity share capital (Group & Association)

	2019 No. of shares	2018 No. of shares
Allotted, Issued and Fully Paid	27	33
At the start of the year	33	33
Cancelled during the year	(6)	-
At the end of the year	27	33

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding-up and are not redeemable. Each share had full voting rights. All shares are fully paid.

19. Capital commitments (Group & Association)

	2019 £'000	2018 £'000
Capital expenditure that has been contracted for but has <u>not been provided</u> for in the financial statements	2,888	650
Capital expenditure that has been authorised by the committee of management but has not yet been contracted for.	<u>17,802</u>	<u>4,229</u>
	20,690	4,879
SLH expects these commitments to be financed with:		
Committed loan facilities and internal funding	20,690	4,879

Capital expenditure in 2019 includes proposed development costs to build and acquire new property over three years.

20. Operating leases (Group & Association)

SLH holds properties, vehicles and plant and equipment under non-cancellable operating leases. At the end of the year SLH had commitments of future minimum lease payments as follows:

Operating leases	2019 £'000	2018 £'000
Land and buildings		
In one year or more but less than two years	2	18
In two years or more and less than five years	504	654
In five years or more	215	243
Others		
In one year or more but less than two years	-	-
In two years or more and less than five years	329	484
In five years or more	-	-
	<u>1,050</u>	<u>1,399</u>

Notes to the Financial Statements

For the year ended 31 March 2019

The lease agreements do not include any contingent rent or restrictions. Leases for land and buildings include renewal periods after 5 years throughout the lease.

21. Related party transactions

Tenant Board Members

The Board has tenant members who hold tenancy agreements on normal terms and cannot use their position to their advantage. Rent charged to the two tenant board members was £8,534 (2018: £9,308). There are no arrears on their tenancies at the reporting period end (2018: £none).

22. Stock transfer obligations

Immediately prior to entering into the Stock Transfer Agreement between the Council and the Society, the Council and Society entered into a contract for the Society to perform the refurbishment works required to bring the properties into an agreed state.

The contract was for a fixed sum equal to the expected cost of the works i.e. £96.04 million. At transfer the Society contracted with the Council to acquire the benefit of the agreed refurbishment works (£96.04 million). The nature of the works under the initial agreement was specified and a right of set off exists between the contracts. These contracts have enabled the Society to recover VAT on repair/improvement costs that would otherwise have been expensed.

The impact of these two transactions is that whilst the Council has a legal obligation to the Society to complete the refurbishment works this work has been contracted back to the Society who are also legally obligated. The underlying substance of the transaction is therefore that the Society has acquired the properties in their existing condition at their agreed value and will complete certain repairs/improvements in line with guarantees to tenants of not less than £96.04 million.

The amount outstanding at the 31st March 2019 was £52,496k of which £4,591k is due in less than one year and £47,905k is due in more than one year (2018: £58,478k, £5,224 & £53,254 respectively).

23. Contingent liability

There are no contingent liabilities (2018: none).

24. Financial instruments

The Society had the following financial instruments:

Financial liabilities at amortised cost:

	2019 £'000	2018 £'000
Loans	29,536	24,510
Trade creditors	1,225	489
Deferred capital grant	21,155	21,418
	<hr/>	<hr/>
Loan commitments measured at cost less impairment	29,536	24,510
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 March 2019

Financial assets at amortised cost:

	2019 £'000	2018 £'000
Rent and service charge arrears	1,146	812
Trade debtors	126	79
	<hr/>	<hr/>
Cash at bank and in hand	3,670	1,638
	<hr/>	<hr/>

25. Group Undertakings

The Consolidated financial statements incorporate the results of Cumbrian Housing and Property Services (CH&PS).

South Lakes Housing provides the labour and associated costs to CH&PS which is a cost sharing vehicle. Costs are shared with another Housing Association and are allocated between the two organisations according to volume of work each organisation provides. There is no mark up or profit generated as all transactions are made at cost.