

**Co-operative and Community Benefit Societies
Registration No 31419R**



Annual Report and Financial Statements

For the year ended 31 March 2020

South Lakes Housing Registration No 31419R

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Members of the Board of Management, Executive Officers and Advisers

Board Members

Ian Munro (Chair)
Peter Kuit (Vice Chair) (resigned 19 September 2019)
Rupert Audland (resigned 20 February 2020)
Keith Bevan
Lorraine Birchall
Stephen Bolton
John Burt (appointed 19 September 2019)
Kerry Byrne
Brian McDonough
John Holmes
Eve Martin
Maggi Morris
George Taylor

Executives

Chief Executive: Catherine Purdy OBE MBA BA(Hons) FCIH
Executive Director of Resources: Hilda Kaponda MBA BEng(Hons) FCCA
Director of Customers: Alison Kinnon MBA CIHCM
Director of Assets: Richard Hayes BSc(Hons)
Director of Business Assurance: John Mansergh BA (Hons) PGCert

Secretary: John Mansergh BA (Hons) PGCert

External Auditor: Beaver and Struthers
St Georges House
215-219 Chester Road
Manchester
M15 4JE

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Chair's Statement

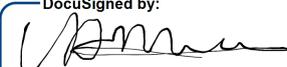
I am pleased to introduce the South Lakes Housing (SLH) Annual Report for 2019/20. Toward the end of the period the full implications of the Coronavirus were being felt. SLH were able to respond to the crisis swiftly and ensured the safety of our homes, customers and colleagues whilst continuing to deliver urgent and important services. The continuing effect of Covid 19 means many challenges remain and the economic impact is likely to affect our customers disproportionately, however, I am confident, and this report demonstrates, that we remain strong and resilient as we continue to fulfil our mission for the communities we serve.

The following highlights are worthy of noting;

- The development of an ambitious new Business Strategy with three key strategic themes, *Growing, Greening & Transforming*, to guide the strategic direction over the next five years.
- The financial health of the organisation continues to be strong, but given the stretching ambition, we are planning to explore treasury options over the next 18 months. The ambition to build much needed new and greener homes remains just as strong, and we will continue to work in partnership with South Lakeland District Council in this endeavour.
- In the past year 16 homes have either been developed or acquired including five affordable rented homes at Kirkby Lonsdale and four shared ownership properties at Bolton-le-Sands. Whilst the numbers are relatively modest, significant work has resulted in a healthy pipeline of new home projects which will be delivered over the next couple of years.
- SLH continues to be graded as G1/V1 by the Regulator of Social Housing (RSH) following an 'In Depth Assessment' (IDA) in early 2019 and reaffirmed following the 'annual stability check' this financial year. Of course, the Regulator's Judgement pre-date the coronavirus crisis but we look forward to maintaining these gradings later on this year.
- Keeping our tenants and their homes safe through additional investment into health & safety compliance works and enhanced risk and assurance reporting across key areas; including gas, electrical, lifts, legionella, fire, asbestos and radon.
- A new accounting estimation technique has been introduced, following a review of the accounting treatment for repairs and maintenance. This was conducted in consultation with External Auditors and benchmarking within the sector (see further details on page 6).
- Responding well to the demands created by the coronavirus pandemic, with a minor impact on the 2019/20 set of accounts. The organisation has improved engagement with customers, focused on the welfare of our most vulnerable tenants and developed safe methods of working for staff and contractors.

We welcomed John Burt as a new Board Member during the year, which enhanced the skills mix within the Board. John had previously served for the past two years as an independent co-optee on the Audit & Risk Committee. He brings development expertise amongst a host of other attributes and has since been appointed Chair of the SLH Development Committee. We will seek the re-appointment of Keith Bevan, Maggi Morris and myself at the 2020 AGM. Peter Kuit retired prior to 2019 AGM and we thank him again for his service. Eve Martin will be standing down at the 2020 AGM and we pay tribute to the significant contribution that she has made.

My thanks to my fellow Board and Committee Members, the staff and other partners on a successful year and to seek their commitment to implementing our new strategic direction whilst navigating the 'choppy waters' that Covid-19 will inevitably bring.

DocuSigned by:


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Ian Munro,

Chair

4th September 2020

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Strategic Report for the year ended 31 March 2020

The Board presents its report and audited financial statements for the year ended 31 March 2020.

Principal activity

SLH's principal activity is the provision, management, maintenance and improvement of affordable social housing.

Public Benefit Entity

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

Business Strategy

SLH's purpose '*Quality Homes, a platform for life*' has been central to our planning for the future.

SLH is ambitious about the lasting impact the organisation will have over the next five years and beyond on improving customer experience, their homes, neighbourhoods, energy efficiency, affordability and a new supply of quality homes. Like many social, community-based housing associations SLH is grappling with the challenges of meeting growing housing need, decarbonising an ageing housing stock, and mitigating against the real risk of future flooding. This, in addition to the core expectations of keeping our homes safe and maintained to a good quality.

The new Business Strategy for 2020-2025 focuses on 3 key strategic themes; *Growing, Greening & Transforming*. This includes some significant deliverables, including; £33M investment in existing homes, 500 additional homes, no home below energy efficiency band C, first passivhaus scheme, reductions in fuel poverty, use of smart technology and improved digital access to services.



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Strategic Report for the year ended 31 March 2020

Financial Overview

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

- Turnover has increased in the year by £658k principally by the inclusion of £273k of income from first tranche shared ownership sales and increased activity in delivering services to other social housing organisations. SLH is keen 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, provides repairs services to Mears Group in the Barrow-in-Furness area and wider Managing Agent services in the Lune Valley.
- Operating costs have increased by £4,335k in the year to £13,849k (2019: £9,514k). The increase partly reflects changes in accounting estimation techniques used to assess whether major repairs are capital or revenue items. The review resulted in revenue major repairs expenditure of £1,660k. An increase in the provision for bad and doubtful debts of £341k was also recognised. In addition, 2019/20 includes £199k costs in respect of first tranche sales (2019: £nil) and exceptional expenditure of impairment charges of £319k (2019: £ nil), principally relating to decommissioning of a sheltered housing scheme, plus associated home loss payments and other decommissioning costs of £140k (2019: £ nil) within Management costs.
- 16 new properties were acquired / built during the year.
- The surplus on disposal of fixed assets of £209k relates to Right to Buy (RTB) sales of which there were 22 during the year (2019: 15). This represents the amount retained by SLH after amounts due to South Lakeland District Council under the RTB clawback agreement.
- The Society invested £5.1m in the development of new social housing during the year (2019: £5.1m) and undertook major repairs reinvestment in its existing properties of £4.3m (2019 £6.0m).
- The LGPS pension scheme deficit has reduced by £97k and the deficit now stands at £2,547k. The SHPS pension scheme deficit has increased by £30k and the deficit now stands at £177k (2019: 147k). The combined deficit of both schemes stands at £2,724k (2019 - £2,791k).
- Loan balances with the funders as at 31 March 2020 are unchanged at £30.0m from the previous year (2019 £30.0m) with £10.0m of secured facilities available to draw (2019: £10.0m).
- Reserves have increased by £2.7m from £42.3m to 45.0m.

Value for Money (VfM)

This part of the Annual Report demonstrates to stakeholders how SLH is meeting the requirements of the Regulator's VfM Standard.

The Board's approach to VfM is articulated within the 2020-25 Business Strategy, with VfM actions flagged within the accompanying Delivery Plan and KPI targets. These actions have been shaped by Board discussion on VfM in September 2019 and in the Board Strategy Day in March 2020. The actions include; undertaking additional stock condition survey (in progress), reviewing the repairs and voids service (in progress), digital transformation (in progress), reviewing service charges (in progress), completing a zero based budget review (complete), implementing new accounting estimation techniques (complete) and component accounting review (complete), reviewing organisational structures (started) and increasing involvement in the cost sharing partnerships (in progress).

Alongside this, we are undertaking a treasury review to provide long term funding for the Business Strategy.

Strategic Report for the year ended 31 March 2020

VfM Achievements

- A full-service review has been carried out on the in-house delivery of the repairs and voids service. The repairs vision includes an aim to have 'a repairs service that delivers value for money', with 'a target to repair and not replace' (unless there is a good VfM argument to do so). Customer satisfaction has improved, with 13% of tenants reporting outstanding works after the first visit in March 2020 compared to 58% in April 2019. Savings include; £40k from reducing the number of jobs attended by more than one operative, reduced inspections from 67% to 10% and improved operative productivity from 3.8 repairs to 4.5 repairs per day.
- Digital transformation is a key theme within the new Business Strategy and ICT investments have helped to deliver this change. The rollout of laptops, a new repairs system, video technology and digital signature systems have enabled the organisation to accelerate progress against this objective during the Covid-19 crisis. Around £50k has been saved by better use of system capacity and communication tools e.g. bulk communications to tenants encouraging registration for 'My Account'.
- Transforming asset management processes is also driving efficiency, e.g. Electrical Inspection Condition Reports can now be updated automatically within the Keystone system eliminating manual input and saving 3 hours per month in time for the Customer Service Team. Compliance reporting is now derived from the system using live data, saving time and focusing on data quality and better assurance reporting to the Audit & Risk Committee.
- A new digital resident engagement platform has been launched towards the end of the year, which was just at the right time for engaging during the Covid-19 pandemic. Over 500 customers are engaging on a regular basis and almost a third of tenants also responded to a Customer Insight Survey. This is helping to improve services to tenants and will help target our digital service delivery.
- SLH continues to work in partnership with other providers to harness combined scale and reduce duplication, including through our Cost Sharing Vehicle. SLH were also successful in becoming Managing Agent for Lune Valley Rural Housing Association, which started in October 2019, bringing in additional income of over £60k pa. Discussions with a potential third member of the cost sharing vehicle are progressing.
- Access to services has been reviewed, and following dialogue with local stakeholders, it was agreed to close the Ulverston Business Centre office, with a saving of around £40k per annum.
- A new gardening scheme contract is in place, providing support to 18 vulnerable customers which is an increase of 10 since last year. This has been achieved with a reduction in SLH subsidy of 30%.

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Strategic Report for the year ended 31 March 2020

Regulator's VfM Metrics

The table below illustrates SLH's performance against the Regulator's VfM metrics, a comparison against national medians for 2018/19 (taken from the Regulator's Global Accounts of Registered Providers with greater than 1000 units) and HouseMark peer group (2,500 to 7,500 units for 2018/19).

VfM Metric	National Median 2018/19	HouseMark Peer Median 2018/19*	SLH 2019/20 Actual	SLH Approved Financial Plan		
				2020/21	2021/22	2022/23
1: Reinvestment	6.2%	6.9%	8.2%	9.3%	10.5%	13.2%
2a: New Supply Social Housing	1.5%	1.6%	0.5%	1.3%	0.7%	5.2%
2b: New Supply Non-Social Housing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3: Gearing	43.4%	42.5%	28.1%	29.0%	32.0%	32.0%
4: EBITDA-MRI Interest Cover	184.0%	186.1%	165.1%	168.5%	169.0%	182.0%
5: Headline Cost Per Unit (CPU)	£3.7k	£3.7k	£4.4k	£4.4k	£4.4k	£4.7k
6a: Operating Margin Social Housing Lettings	29.2%	29.2%	15.8%	19.8%	30.3%	27.0%
6b: Operating Margin Overall	25.8%	26.6%	17.3%	20.1%	32.4%	25.3%
7: Return on Capital Employed (ROCE)	3.8%	3.8%	2.1%	2.2%	3.8%	3.9%

*as per HouseMark peer group stock size 2,500 – 7,500 with over 100 in sample size (traditional housing associations and LSVT), taken 13th July 2020

Green = better than national average, Red = below national average

- Reinvestment is higher than the national average due to SLH's investment in its existing homes, particularly investment to deliver the strategic themes of 'Growing' and 'Greening' with the strategy being to develop, or start, over 500 hundred new homes and to improve the energy efficiency of our homes in ensuring no home will be below band 'C' average EPC rating by 2025.
- New Supply social housing is below the national average in the 2019/20 year, though the Growing Business strategic theme will deliver, or start, over 500 new homes by 2025. The Society has the capacity (see Gearing below) to invest to develop these new homes and is assembling a development programme as shown by the forecast investment of 5.2% by 2022/23.
- The Society's balance sheet is strong, as reflected by Gearing metric of 28.1% being lower than the national average. Gearing is forecast to increase as a result of the investment in new homes in accordance with our Growing strategic theme.
- EBITDA-MRI (Earnings before Interest, Tax, Depreciation and Amortisation, Major Repairs Included) is below the national average due to the investment in major repairs and also the decision to decommission a sheltered housing scheme with poor demand during the 2019/20 financial year. The costs of decommissioning in 2019/20 were £140k that has reduced the EBITDA: MRI ratio.
- CPU will remain broadly static across the Business Strategy period due to the investment in our homes, as forecast Major Repairs cost per unit increases are offset by reductions in Management costs per unit.
- Operating margin is below the National median and this reflects that SLH has targeted to keep its social and affordable rents below the median for social housing in Cumbria, and our benchmarking confirms our rent levels are lower than our Cumbrian peers.
- The RoCE ratio, that compares the operating surplus to total assets less current liabilities, of 2.1% is below the National median although the ratio is projected to rise during future years. As SLH has an existing VAT Shelter arrangement this impacts the calculation of the RoCE ratio. FRS102 requires registered providers to state both a debtor for the full amount and short and long term creditors for the remaining value of the works. The regulator's definition includes the debtor full amount but not the long-term creditor and this reduces the RoCE ratio. Should the VAT Shelter be excluded from the calculation the RoCE for the year 2020/21 would have been 2.8% (an improvement of 0.6%).

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Strategic Report for the year ended 31 March 2020

Headline Housing Cost per Unit

The Regulator of Social Housing's publication 'Value for Money Metrics: June 2020' establishes the component elements of the Headline Social Housing cost per unit. SLH has analysed its costs and benchmarked performance in the table below:

Headline Social Housing Cost Per Unit	2019/20 Actual	2020/21 Budget	HouseMark Peer Benchmark Group *			SLH Performance
			Lower Quartile	Medium Quartile	Upper Quartile	
Management Costs	1,447	1,432	1,227	1,025	856	Lower
Service costs	150	279	547	316	204	Upper
Routine Maintenance costs	705	690	1,228	1,051	863	Lower
Planned Maintenance costs	465	349				
Major Repair costs	526	584	1,082	831	606	Lower
Major Repair : Capitalised costs	833	989				
Development Services	75	51	374	146	87	Lower
Other social housing activities	210	0				
Headline Social Housing Cost Per Unit	4,411	4,374	4,388	3,693	3,116	

* The HouseMark peer group is all English Housing Associations, with 2,500 to 7,500 homes in management, and therefore is a national comparison peer group including traditional and Large Scale Voluntary Transfer (LSVT) organisations.

The Society's Headline Social Housing cost per unit at £4,411 reflects lower quartile cost with the SLH benchmark peer group, with SLH costs being greater than lower quartile for Management Costs and Major Repairs cost per unit.

The Society's Growing and Transformation strategic themes within our Business Strategy 'Our Direction 2025' are aimed at driving costs per unit lower through increasing the number of homes in management over the period and transforming service delivery to improve VfM.

- Management Costs per unit

The Growing Strategic theme aims to deliver, or start on site, 500 new homes by 2025, with the aim to maintain management costs at the 2019/20 levels as the Society grows the number of homes in management, thereby driving down the cost of management cost per unit consistently by 2025.

The performance of £1,447 per unit for the year ended 31 March 2020 includes £146 per unit cost in respect of the accounting actuarial valuations for the Society's defined benefit pension schemes. The Society has acted and closed entry to two Defined Benefit schemes to reduce management costs in the long-term whilst balancing this with continuing to offer competitive pensions to attract and retain talented employees.

Costs in 2019/20 also include £140k in respect of costs of decommissioning a sheltered housing scheme in Grange-over-Sands, due to low demand. The Society's Growing strategic theme is reviewing the homes available to older customers and is seeking opportunities to develop new older persons homes that meet the needs of our customers.

The planned reduction to £1,432 per unit in 2020/21 reflects that the Society is investing in the forthcoming year to deliver long-term efficiency gains through its Transformation strategic theme.

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- Maintenance costs per unit

Planned performance in the 2020/21 year expects lower maintenance costs per unit:

- SLH has undertaken a full review of the delivery of its responsive maintenance services that is driving up customer satisfaction performance indicators, reducing the use of sub-contractors as more work is being brought in-house and improving operative productivity.
- The review will lead to further work in 2020/21 to improve efficiency, including a renewed focus on procurement efficiency savings for materials and sub-contractor services.
- A project on service charges to drive up the clarity of these costs is expected to increase the service cost per unit and reduce reported planned maintenance expenditure.
- Major Repairs costs per unit

Major Repair costs are expected to continue to be lower quartile as the Society increases the investment in its existing homes in accordance with our Greening strategic theme. Greening our properties will require increased investment in property insulation and investing to replace gas and other traditional forms of home heat to ensure after 2025 no home will be below band 'C' EPC rating (improving energy efficiency and reducing carbon emissions) and to reduce fuel poverty for our customers.

In comparing the Society's Major Repair Cost per unit with other registered providers it is critical to recognise that 35% of the Society's homes are either in a National Park, Conservation area or are Listed Buildings that drive increased costs of both building materials and installation costs. Further, 61% of the Society's properties have a natural slate roof where costs of replacement are significantly more expensive than sector norm modern roofing materials (costs are 44% higher averaging £8,333 per property) and 86% of the Society's homes are rendered (replacement render costs average £4,724 per property).

Local VfM Metrics

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

Metric	SLH 2018/19	Target 2019/20	HouseMark Peer Median 2018/19*	SLH 2019/20	Targets		
					2020/21	2021/22	2022/23
% rent collection	99.7%	99.3%	99.74%	100.6%	97.0%**	100.0%	99.5%
% rent arrears	1.93%	2.2%	2.93%	2.52	3.5%**	2.5%	2.8%
% rent loss through voids	0.8%	0.6%	0.84%	0.8%	1.2%**	0.6%	0.6%
% of customer digital transactions	41%	50%	N/A	50%	60%	65%	70%
% of homes failing decency standard	0%	0%	N/A	0%	0%	0%	0%
% customer satisfaction overall (biennial survey)	89%	No survey	87%	No survey	90%	No survey	91%
Energy efficiency ratings - % of stock at band C or above	New KPI	New KPI	N/A	33%	51%	60%	75%
Number of homes owned	3155	3182	N/A	3147	3170	3213	3273
Average sickness per employee	6.7	6.0	8.9	8.0	9.0*	8.0	6.8
Savings made through transformation	New KPI	New KPI	N/A	New KPI	£100k	£100k	£100k

*as per HouseMark peer group stock size 2,500 – 7,500 with over 60 in sample size (traditional housing associations and LSVT), taken 13th July 2020

** target revised by the Board due to Covid-19 impact assessment

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Strategic Report for the year ended 31 March 2020

Green = target met, Red = target not met

- Rent arrears was affected by an increasing impact from Universal Credit and from Covid-19 in the final couple of weeks of the year, where the focus switched from enforcement to support.
- Void rent loss missed the target mainly due to an increase in the number of empty properties – 226 in 2019/20 compared to 187 in 2018/19. This is in line with other local providers and there is no particular product type affected.
- Number of homes owned reduced because the pace of new developments and acquisitions (16 homes) did not keep up with sales (22 RTB and 1 Shared Ownership staircasing), with a net loss of 7 homes.
- Sickness levels deteriorated during the year, mainly due to 10 colleagues who had been on long term sick leave, with two since leaving the organisation.

Future plans and challenges

The need for quality affordable homes has never been greater, with many working families unable to afford market homes. A rapidly ageing population, fuel poverty and flood prone areas provide the backdrop to our priorities for action.

SLH is currently reviewing how it engages with its customers and improve its Tenant Involvement and accountability. It is committed to improve value for money and service delivery by better listening to tenants about the things that matter to them. This includes 'eight steps to better engagement', including better 'line of sight' reporting from people who live and receive services, moving from traditional meeting set-ups to community visibility, faster feedback mechanisms including the use of social media and insight and improving data analytics to help shape services and future strategy.

The organisation is also beginning the process of remobilising services following the outbreak of the coronavirus pandemic. This has tested the organisation's resilience and has led to a process of reflection about the right priorities and whether our Business Strategy (Growing, Greening & Transforming) continues to be 'fit for purpose'. The financial impacts have not yet fully crystallised, but the Board is on top of risks e.g. revised the 2020/21 Budget, increased stress testing, revised its 30 Year Financial Plan, developed more realistic KPI targets and included additional monitoring via a monthly Covid-19 KPI dashboard.

The process of closure of the Yewbarrow Lodge in Grange-over-Sands sheltered housing scheme continues. The decision was taken following a review of current and future demand for sheltered housing, where a third of the flats were vacant with some empty for over two years. The SLH Board have not yet made a decision on the longer-term plans for the site.

Board and committee structure

The Society's rules are the Board to consist of between five and twelve members (including co-opted members) including; up to eight independent members, up to two Council nominees and up to 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 three Committee's; an Audit & Risk Committee, a Remuneration & Governance Committee and a Development Committee. The terms of reference for all Committees have been approved by the Board.

The Board agreed to introduce Board payment following a review in 2018/19 and this was implemented during 2019/20. Whilst this is a modest amount it will nevertheless improve accountability and recruitment of skilled appointments in the future.

SLH has an unregistered subsidiary 'Cumbrian Housing & Property Services Limited' (CH&PS) following its incorporation to Companies Housing 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.

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Strategic Report for the year ended 31 March 2020

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 Executive Director of Resources, the Director of Customers, the Director of Assets and the Director of Business Assurance (who is also 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) Code of Governance 2015 '*promoting board excellence for housing*'. The Society is also compliant with the RSH's Standards. The Board reviewed and confirmed compliance in respect to both of the above documents in August 2020.

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.

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Strategic Report for the year ended 31 March 2020

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 these 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, it has an unregistered subsidiary.

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 the 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 Board Assurance Framework (see also page 15), a key mechanism to reinforce strategic focus and better management of risk, is presented alongside the quarterly Strategic Risk Summaries to the Board and Audit and 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 recommend to the Board on at least an annual basis.

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Strategic Report for the year ended 31 March 2020

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 by the Audit & Risk Committee. This provides for the regular reporting of risk to the Committee, with a high-level Strategic Risk Summary, which summarises the key risks with more detailed contained in detailed Risk Maps covering the Business Strategy Themes (one for each theme).

The architecture of risk mapping within SLH is as follows;



Risk is also embedded within 'development', with a separate Development Approval Framework detailing the decision-making thresholds and Board approval mechanisms. Risk is included within the report's recommending developments to Board with Internal Rates of Return targets in place.

South Lakes Housing Registration No 31419R

Strategic Report for the year ended 31 March 2020

A Board Assurance Framework (BAF) is a key mechanism that the Board uses to reinforce strategic focus and better management of risk. The report is presented to the Board on a quarterly basis alongside the Strategic Risk Summary, and provides a structure and process that enables the Board to consider its most strategically important risks, the key controls in place to manage them and to gain sufficient assurance about their effectiveness. The BAF is based upon a 'three lines of defence' model and provides assurance over the mitigation of key risks.

The following risks were considered by the Board during in 2019/20;

Risk	Score before controls	Score after controls	Mitigations	Risk appetite
1. Not achieving return on assets	12 Probability 4 X 3 Impact	9 Probability 3 X 3 Impact	Asset Management Strategy. Asset performance modelling.	Cautious
2. Managing flood risk (insurance, frequency etc)	12 Probability 3 X 4 Impact	9 Probability 3 X 3 Impact	Insurance. Flood Risk Group – resilience projects.	Cautious
3. Sheltered housing service (demand, digital technology switch)	9 Probability 3 X 3 Impact	6 Probability 2 X 3 Impact	Digital programme. Yewbarrow Lodge closure, demand analysis.	Cautious
4. Maximising rent collection (Universal Credit impact)	16 Probability 4 X 4 Impact	12 Probability 3 X 4 Impact	Rent Collection & Arrears KPIs.	Averse
5. Development – enhanced programme	12 Probability 4 X 3 Impact	9 Probability 3 X 3 Impact	Development update reports.	Entrepreneurial
6. Direct market sales	12 Probability 4 X 3 Impact	9 Probability 3 X 3 Impact	Update reports, sales & marketing plans	Cautious
7. Reputational risks	9 Probability 3 X 3 Impact	9 Probability 3 X 3 Impact	Communications Officer. Comms Strategy under development.	Cautious
8. Growing CH&PS in line with the growth plan	4 Probability 2 X 2 Impact	4 Probability 2 X 2 Impact	Progress updates. Work to attract 3 rd partner.	Entrepreneurial
9. Independent living service expansion- <i>cancelled</i>	6 Probability 2 X 3 Impact	3 Probability 1 X 3 Impact	Service review.	Cautious
10. Partnerships and mergers	8 Probability 2 X 4 Impact	4 Probability 1 X 4 Impact	CEO update reports, Board Strategy days.	Entrepreneurial
11. Governance ratings	9 Probability 3 X 3 Impact	6 Probability 2 X 3 Impact	Governance improvement plan.	Averse
12. Cyber security	12 Probability 4 X 3 Impact	9 Probability 3 X 3 Impact	External and internal penetration testing. Internal Audit.	Averse
13. Organisational capacity	9 Probability 3 X 3 Impact	6 Probability 2 X 3 Impact	LEAP development programme.	Cautious
14. Compliance with legal, funders, regulation etc	12 Probability 4 X 3 Impact	6 Probability 2 X 3 Impact	Compliance Report.	Averse
15. Employer pension costs	12 Probability 3 X 4 Impact	8 Probability 2 X 4 Impact	SHPS & LGPS scheme monitoring.	Averse
16. Covid-19 pandemic	16 Probability 4 X 4 Impact	12 Probability 3 X 4 Impact	Business Continuity Plan. Remobilisation plan. Stress testing, Revised Budget and Financial Plan.	Averse

N.B Risks are assessed using an Impact & Probability risk template. Probability of happening is assessed using a range of 1 to 4 (1 = very unlikely, 2 = possible, 3 = likely & 4 = very likely). Impact on the business objectives, financial plan and on people is also assessed on a 1 to 4 scale (1 = minor, 2 = moderate, 3 = major & 4 = critical).

South Lakes Housing Registration No 31419R

Strategic Report for the year ended 31 March 2020

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 and business advisors, 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, cyber security, business continuity planning, 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' agreed by the Board, which essentially articulates the Board's financial risk appetite including clear cushions over lenders' covenants. The 'golden rules' are reported within the 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 £1m), *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 (a table of specific risks for a particular area of the business with details of mitigations in place) 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 per annum 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.

South Lakes Housing Registration No 31419R

Strategic Report for the year ended 31 March 2020

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 units in the fund.

As at 31 March 2020, SLH's share of the LGPS scheme deficit was £2.5m (2019: £2.6m) and SLH's share of the SHPS scheme deficit was £177k (2019: £147k) as shown on the statement of financial position and in note 19.

Going concern and liquidity

At the of March 2020 the Society had a 20-year financing agreement with M&G Investments and a 10-year facility with the Royal Bank of Scotland. 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's covenants will continue to be met.

Statement of compliance

This Strategic Review has been prepared in accordance with the principles set out in the 2018 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 Association'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.

South Lakes Housing Registration No 31419R

Strategic Report for the year ended 31 March 2020

Annual General Meeting and approval

Annual General Meeting

The Annual General Meeting is to be held on 22 September 2020 to receive the accounts to 31 March 2020.

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 4 September 2020 by the Board and was signed on its behalf by:

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Ian Munro
Chair

South Lakes Housing Registration No 31419R

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

Opinion

We have audited the financial statements of South Lakes Housing (the Society) and its subsidiary (the Group) for the year ended 31 March 2020 which comprise the Consolidated and Society Statement of Comprehensive Income, Consolidated and Society Statement of Financial Position, Consolidated Statement of Changes in Equity (Reserves), Society Statement of Changes in Equity (Reserves), Consolidated Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies in note 1. 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 of the Society's affairs as at 31 March 2020 and of the Group's income and expenditure and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

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 and 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 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 has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the 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 other information comprises the information included in the Strategic 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.

South Lakes Housing Registration No 31419R

We have nothing to report in this regard

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the 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 Society has not kept adequate accounting records; or
- the Society's financial statements are not in agreement with 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 12, 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 and 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 intends to liquidate the 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 web-site at 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 Society's members, as a body, in accordance with section 87 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.

DocuSigned by:

Beever and Struthers

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Statutory Auditor:

Address:

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

Date:

21-Sep-20

South Lakes Housing Registration No 31419R

Group & Society Statement of Comprehensive Income

For the year ended 31 March 2020	Note	2020 £'000	2019 £'000
Turnover	2	16,736	16,078
Operating costs	2	(13,849)	(9,514)
Gain on disposal of property, plant and equipment (fixed assets)	6	209	435
		<hr/>	<hr/>
Operating surplus		3,096	6,999
Interest receivable	7	10	4
Interest and financing costs	8	(1,172)	(1,012)
		<hr/>	<hr/>
Taxation		-	-
Surplus for the year before and after taxation		1,934	5,991
Actuarial gain/(loss) in respect of pension schemes	19a & b	601	(659)
		<hr/>	<hr/>
Total comprehensive income for the year		2,535	5,332
		<hr/> <hr/>	<hr/> <hr/>

The financial statements on pages 21 to 53 were approved and authorised for issue by the Board on 4th September 2020 and were signed on its behalf by:

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I. Munro
Chair

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K. Bevan
Chair of Audit & Risk Committee

DocuSigned by:

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J. Mansergh
Company Secretary

The results relate wholly to continuing activities and the notes on pages 26 to 53 form an integral part of these accounts.

South Lakes Housing Registration No 31419R

Group Statement of Financial Position

At 31 March 2020	Note	2020 £'000	2019 £'000
Fixed assets			
Tangible fixed assets	13a & b	98,221	92,820
Debtors due after more than one year	24	42,437	47,905
Current assets			
Stock	14	403	377
Trade and other debtors	15	7,171	6,651
Cash and cash equivalents		2,076	3,670
		9,650	10,698
Less: Creditors: Amounts falling due within one year	16	(3,582)	(3,393)
Net current assets		6,068	7,305
Total assets less current liabilities		146,726	148,030
Creditors: Amounts falling due after more than one year	17	(99,178)	(102,950)
Provisions for liabilities			
Pension Provision	19	(2,724)	(2,791)
Total net assets		44,824	42,289
Capital and reserves			
Non-equity share capital	20	-	-
Income and expenditure reserve		44,824	42,289
Total reserves		44,824	42,289

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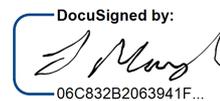
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Company Secretary

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South Lakes Housing Registration No 31419R

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J. Mansergh
Company Secretary

The notes on pages 26 to 53 form an integral part of these accounts.

South Lakes Housing Registration No 31419R

Group & Society Statement of Changes in Reserves**For the year ended 31 March 2020**

	Income and expenditure reserve 2019/20	Income and expenditure reserve 2018/19
	£000	£000
Balance at 1 April	42,289	36,957
Surplus from Statement of Comprehensive Income	2,535	5,332
Balance at 31 March	44,824	42,289

The notes on pages 26 to 53 form an integral part of these accounts.

South Lakes Housing Registration No 31419R

Group & Society Statement of Cash Flows

For the year ended 31 March 2020

	2020	2019
	£'000	£'000
Net cash generated from operating activities	4,321	7,879
Cash flow from investing activities		
Purchase of tangible fixed assets	(8,098)	(11,157)
Proceeds from sale of tangible fixed assets	1,933	1,318
Grants received	1,412	0
Interest received	10	4
	<u>(422)</u>	<u>(1,956)</u>
Cash flow from financing activities		
Interest paid	(1,172)	(1,012)
New secured loans	0	5,000
Repayment of borrowings	(0)	(0)
	<u>(1,594)</u>	<u>2,032</u>
Net change in cash and cash equivalents	<u>(1,594)</u>	<u>2,032</u>
Cash and cash equivalents at beginning of the year	3,670	1,638
	<u>3,670</u>	<u>1,638</u>
Cash and cash equivalents at end of the year	<u>2,076</u>	<u>3,670</u>
Cash flow from operating activities		
Surplus for the year	1,934	5,991
Adjustments for non-cash items		
Depreciation & Amortisation of tangible fixed assets	1,566	1,660
Write out of replaced components	410	0
Amortisation of intangible assets	0	4
Interest and financing costs	1,172	1,012
Interest receivable	(10)	(4)
Gain on disposal of property, plant and equipment	(209)	(435)
Cost of Sales for 1 st Tranche Shared Ownership	199	0
(Increase)/decrease in stock	(26)	(223)
(Increase)/decrease in trade and other debtors	4,948	5,125
Increase/(decrease) in trade and other creditors	(4,512)	(4,661)
Pension costs less contributions payable	(838)	(353)
Government grants utilised in the year	(313)	(237)
Government grants utilised in prior years	-	-
	<u>4,321</u>	<u>7,879</u>
Net cash generated from operating activities	<u>4,321</u>	<u>7,879</u>

The notes on pages 26 to 53 form an integral part of these accounts.

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

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 Limited, a non-registered subsidiary, incorporated under the Companies Act 2006 (registration number 10519045).

1. Principal Accounting Policies

Basis of Accounting

The Group's 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 2018. The Group is required under the Co-operative and Community benefit Societies (Group Accounts) Regulations 1969 to prepare consolidated Group financial statements.

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 2019. The financial statements are prepared on the historical cost basis of accounting and are presented in sterling £'000, for the year ended 31 March 2020.

The Group's financial statements have been prepared in compliance with FRS102. The Group meets the definition of a public benefit entity (PBE).

Parent company disclosure exemptions

In preparing the separate financial statements of the Parent Entity, advantage has been taken of the following disclosure exemption available in FRS 102:

- No cash flow statement has been presented for the Parent Entity.

Basis of Consolidation

The consolidated financial statements incorporate the results of South Lakes Housing and its subsidiary Cumbria Housing and Property Services Limited as at 31 March 2020 using the merger method of accounting as required.

Going concern

The Group's 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 in the Financial Plan updated for 2020/21 and therefore we consider it appropriate to continue to prepare the financial statements on a going concern basis.

During March 2020 the UK Government introduced a range of measures to combat the spread of the COVID-19 virus. This included social distancing and other limitations on non-essential activity outside of the home. In terms of the impact on the financial position as at 31 March 2020, the key areas of risk were judged to be around the value of housing properties and the arrears levels. These reflected the national restrictions around house building and selling and the potential for tenants to experience economic hardship.

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal Accounting Policies (continued)

Most of the Society's housing properties have been in stock for a significant period and are held at cost less depreciation. This significantly mitigates the impairment risk. A full impairment review was conducted, and it concluded that there was no impairment of the stock associated with COVID-19. The estimation technique to calculate the rent arrears which may not be collected was also reviewed. This was to take into account specific activity on tenant accounts from year end up to the end of May 2020. This allowed the short term impact of COVID-19 to be reflected and resulted in an increased provision. The ongoing trend on rent arrears will continue to be monitored.

Critical accounting 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 statement of financial position 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 Group capitalises development expenditure in accordance with the accounting policy for Housing properties set out in note 1 below. 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 Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals.
- c. **Impairment.** The Group considers whether indicators of impairment exist in relation to tangible assets. Indicators considered include external sources of information such as market value, market interest rates and returns on investment, actual or proposed changes to the technological, economic or legal environment, obsolescence or damage to the asset, operational changes or internal reporting which indicates that the asset is performing worse than expected. The Group also considers expected future performance of the asset. See notes 1 and 13 for more information. Any impairment loss is charged 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 less costs to sell 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.

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal Accounting Policies (continued)

Following a trigger for impairment, the Group perform 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 Group as the existing property. The cash flows are derived from the business plan for the next 30 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets' 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.

The Group has identified a cash generating unit for impairment assessment purposes at a property scheme level. The Group has identified fair value less costs to sell as the recoverable amount for one sheltered housing scheme (32 properties) and 3 general needs properties. In addition, fire damage triggered a review on a further 3 general needs units. Further details are provided in note 13a.

A full impairment review was triggered by the COVID-19 crisis and the wide impact this had on the economy in general but specifically house building and sales. As the majority of properties have been held in stock for a significant period, holding these at cost significantly reduces the risk of impairment. The review concluded there was no impairment related to COVID-19.

- d. **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 19.

Other key sources of estimation and assumptions:

- a **Tangible fixed assets.** 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. The carrying value of fixed assets at 31 March 2020 was £98,221k.
- b **Lease accounting.** Whether the risks and rewards of ownership in relation to individual leases indicate that it should be accounted for as a finance lease or an operating lease.

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal Accounting Policies (continued)

Turnover and revenue recognition

Turnover represents rental income receivable, amortised capital grant, revenue grants from Local Authorities and the Homes England, income from the sale of shared ownership and other properties developed for outright sale and other income.

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 Sale and are recognised on legal completion.

Service charges

Service charge income and costs are recognised on an accruals basis. The Group operates variable service charges on a scheme by scheme basis in full consultation with residents. The charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered they are held as creditors or debtors in the Statement of Financial Position.

Where periodic expenditure is required a provision may be built up over the years, in consultation with the residents; until these costs are incurred this liability is held in the Statement of Financial Position within long term creditors.

Loan interest costs

Loan interest costs are calculated using the effective interest method of the difference between the loan amount at initial recognition and amount of maturity of the related loan.

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 tax expense for the period comprises current and deferred tax.

The current income tax charge is calculated on the basis of United Kingdom tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits,
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met, and
- Where timing differences relate to interests in subsidiaries, associates and joint ventures and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal Accounting Policies (continued)

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair value of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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 Group financial statements include VAT to the extent that it is suffered by the Group and is not recoverable from HM Revenue and Customs. Recoverable VAT arises from:

- an agreement with South Lakeland District Council to improve the transferred properties, with 50% of the amounts recoverable under this scheme being repayable to the Council and the remaining proportion credited to cost of the respective improvement works.
- partially exempt activities and is credited to the Statement of Comprehensive Income.

The balance of VAT payable or recoverable at the year-end is included as a current liability or asset.

Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land / assets or assets acquired at below market value from a government source, i.e. 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.

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

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal Accounting Policies (continued)

UELs for identified components are as follows:

	Years
Structure	100
Roof structure and covering	70
Render	35
Insulation	35
Windows	30
External Doors	30
Mechanical systems	30
Electrics	30
Bathrooms	25
Lifts	25
Kitchens	20
Gas boilers and fires	15
Air & Ground Source Heat Pumps	15
Building alarms	15
Ventilation systems	10
Disabled adaptations	10

The Group depreciates housing properties held on long term leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

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 and applications	10
Furniture & fittings	10

Low cost home ownership properties

The costs of low-cost home ownership properties are split between current and tangible fixed assets on the basis of the first tranche portion. The first tranche portion is accounted for as a current asset and the sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a tangible fixed asset and subsequent sales treated as sales of fixed assets/property sales in operating surplus.

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.

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.

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal Accounting Policies (continued)

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 and properties held for sale

Stocks of materials are valued at the lower of cost and net realisable value being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

Properties developed for outright sale are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell.

At each reporting date, stock and properties held for sale are assessed for impairment. If there is evidence of impairment, the carrying value is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

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 Statement of Comprehensive Income in other operating expenses.

Non-government grants

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. Where grant is received with specific performance requirements it is recognised as a liability until the conditions are met and then it is recognised as Turnover.

Provisions for doubtful debts

The provision is calculated for each individual tenancy in line with the most recent payment patterns. The provision rates used at the reporting date have been reviewed in light of Covid-19 and judged to be prudent and appropriate.

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. Social Housing Grant (SHG) received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

When 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.

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal Accounting Policies (continued)

Recycling of Capital Grant

Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund which appears as a creditor until used to fund the acquisition of new properties, where recycled grant is known to be repayable it is shown as a creditor within one year.

Holiday pay accrual

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

Agreements to improve existing properties

Where the Society has entered into agreements to purchase property from a third party and subsequently enters into a sub-contracting agreement to carry out improvement works to the properties, the related assets and liabilities are shown at gross values unless the right of net settlement exists.

Retirement benefits

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

Consistent with the guidance in FRED 71 paragraph 4 (FRS 102 paragraph 28.11B), the difference between the deficit funding liability and the net defined benefit deficit for the Social Housing Pension Scheme was recognised in Other Comprehensive Income for the year ending 31 March 2019.

Loans

All loans held by the Group are classified as basic financial instruments in accordance with FRS 102. They are measured at transaction price plus transaction costs initially, and subsequently at amortised cost using the effective interest rate method. Loans repayable within one year are not discounted.

Financial Instruments

Financial assets and financial liabilities are measured at transaction price initially, plus, in the case of a financial asset or financial liability not at fair value through the Statement of Comprehensive Income, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

At the end of each reporting period, financial instruments are measured as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

- Debt instruments that meet the conditions in paragraph 11.8(b) or 11.8(bA) of FRS 102 are measured at amortised cost using the effective interest method, except where the arrangement constitutes a financing transaction. In this case the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt.
- Commitments to receive or make a loan to another entity which meet the conditions in para 11.8(c) of FRS 102 are measured at cost less impairment.

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal Accounting Policies (continued)

Financial instruments held by the Group are classified as follows:

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method,
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method,
- Loans to or from subsidiaries including those that are due on demand are held at amortised cost using the effective interest method,
- Commitments to receive or make a loan to another entity which meet the conditions above are held at cost less impairment.

Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

The following financial instruments are assessed individually for impairment:

- (a) All equity instruments regardless of significance; and
- (b) other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

An impairment loss is measured as follows on the following instruments measured at cost or amortised cost:

- (a) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.
- (b) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in the Statement of Comprehensive Income immediately.

As part of the response to risks generated by the COVID-19 crisis, the estimation technique for calculating the impairment of arrears balances was reviewed to reflect the actual collection rates since year end. This increased the provision for impairment.

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

2. Turnover, operating expenditure and operating surplus

31 March 2020	Turnover £'000	Operating expenditure £'000	Operating Surplus £'000
Social Housing Lettings (note 3)	15,089	12,700	2,389
Other Social Housing Activities:			
Sale of first tranche shared ownership properties*	273	199	74
Development activities not capitalised*	0	237	(237)
Other Services	1,305	663	642
Activities other than social housing	69	50	19
	<hr/>	<hr/>	<hr/>
TOTAL	16,736	13,849	2,887
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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
	<hr/>	<hr/>	<hr/>
TOTAL	16,078	9,514	6,564
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

3. Turnover and operating expenditure from social housing letting

	General Housing	Supported Housing and Housing for Older People	Total 2020	Total 2019
	£'000	£'000	£'000	£'000
Income				
Rent receivable net of identifiable service charges and net of voids	12,389	1,913	14,302	14,364
Service charge income	22	452	474	466
Amortised government grants	231	82	313	237
Other income from Social Housing Lettings	0	0	0	2
Turnover from Social Housing Lettings	12,642	2,447	15,089	15,069
Operating expenditure				
Management	(3,942)	(619)	(4,561)	(3,834)
Service charge costs	(22)	(451)	(473)	(506)
Routine maintenance	(1,920)	(302)	(2,222)	(1,694)
Planned maintenance	(1,266)	(199)	(1,465)	(1,516)
Major repairs	(1,435)	(225)	(1,660)	-
Bad debts	(439)	(69)	(508)	(167)
Impairment of housing property	(127)	(192)	(319)	-
Depreciation of housing property	(1,022)	(60)	(1,082)	(1,419)
Write out of replaced components	(387)	(23)	(410)	-
Operating expenditure on Social Housing Lettings	(10,560)	(2,140)	(12,700)	(9,136)
Operating Surplus on Social Housing Lettings	2,082	307	2,389	5,933
Void Losses (being rental income lost as a result of property not being let, although it is available for letting)	(106)	(91)	(197)	(163)

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

4. Accommodation owned, managed and in development

In management and ownership at end of year:	2020 No. of properties	2019 No. of properties
General needs housing social rent	2,646	2,659
General needs housing affordable rent	72	67
Supported housing and housing for older people	427	429
Shared ownership properties	8	5
	<hr/>	<hr/>
	3,153	3,160
	<hr/> <hr/>	<hr/> <hr/>
Opening balance 1st April	3,160	3,094
Properties acquired	16*	81
Properties disposed of	(23)*	(15)
Closing balance 31st March	3,153	3,160

*Including buy back of 1 shared ownership property

In management, but not ownership, at end of year:	2020 No. of properties	2019 No. of properties
Housing accommodation	4	3
Leasehold properties	265	261
	<hr/>	<hr/>
	269	264
	<hr/> <hr/>	<hr/> <hr/>

5. Surplus on ordinary activities

	2020 £'000	2019 £'000
The operating surplus is stated after charging:		
Auditor's remuneration (excluding VAT):		
for external audit services	14	16
for non-audit services (accountancy, tax advisory)	13	-
Operating lease rentals		
Land and buildings	189	183
Office equipment	5	6
Motor vehicles	150	150
Depreciation of housing properties	1,082	1,419
Write out of housing components	410	0
Impairment of housing properties	319	0
Depreciation of other fixed assets	165	241
Surplus on sale of other fixed assets	209	435
	<hr/> <hr/>	<hr/> <hr/>

South Lakes Housing Registration No 31419R

Notes to the Financial Statements
For the year ended 31 March 2020

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

	Property assets	Total	Total
	2020	2020	2019
	£'000	£'000	£'000
Proceeds of sales	1,933	1,933	1,318
Less: Costs of sales	(1,724)	(1,724)	(883)
	<hr/>	<hr/>	<hr/>
Surplus	209	209	435
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7. Interest receivable

	2020	2019
	£'000	£'000
Bank interest receivable	10	4
	<hr/> <hr/>	<hr/> <hr/>

South Lakes Housing Registration No 31419R

Notes to the Financial Statements
For the year ended 31 March 2020

8. Interest and financing costs

	2020 £'000	2019 £'000
Deferred benefit pension charge	(73)	(48)
On loans repayable within five years	(-)	(-)
On loans wholly or partly repayable in more than five years	(932)	(909)
	<hr/>	<hr/>
Total interest	(1,005)	(957)
Loan fees and charges	(167)	(55)
	<hr/>	<hr/>
Total interest payable and similar charges	(1,172)	(1,012)
	<hr/> <hr/>	<hr/> <hr/>

9. Employee information

	2020 Number	2019 Number
The average number of persons employed during the year, expressed in full time equivalents (37 hours per week) was:	111	110
	<hr/> <hr/>	<hr/> <hr/>

Staff costs	2020 £'000	2019 £'000
Wages and salaries	3,470	3,275
Social security costs	331	320
Other pension costs	881	586
	<hr/>	<hr/>
	4,682	4,181
	<hr/> <hr/>	<hr/> <hr/>

Other pension costs include a defined benefit pension cost accounting adjustment of £461k for 2019/20 (£286k for 2018/19).

	2020 Number	2019 Number
The aggregate number of full time equivalent staff whose remuneration, including pension contributions, exceeded £60,000 in the period:		
£60,000 to £69,999	-	2
£70,000 to £79,999	1	-
£80,000 to £89,999	2	2
£90,000 to £99,999	-	1
£100,000 to £109,999	-	1
£110,000 to £119,999	1	-
£120,000 to £129,999	1	-

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

10. Key management personnel remuneration

	2020	2019
	£'000	£'000
The aggregate emoluments paid to or receivable by non-executive directors and former non-executive directors	39	-
The aggregate emoluments paid to or receivable by executive directors and former executive directors	482	514
The emoluments paid to the highest paid director excluding pension contributions	110	116

The Chief Executive was a member of a defined benefit pension scheme during the year. The defined benefit pension scheme is a Career Average Revalued Earnings (CARE) 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 Team or their equivalent.

11. Non-executive Board Members remuneration

	2020	2019
	£	£
Ian Munro (Chair)	6,000	-
Peter Kuit	1,643	-
Keith Bevan	4,000	-
Lorraine Birchall	3,000	-
Stephen Bolton	3,000	-
John Burt	2,642	-
Kerry Byrne	3,000	-
John Holmes	3,000	-
Eve Martin	3,000	-
Brian McDonough	3,000	-
Maggi Morris	3,000	-
George Taylor	3,500	-

South Lakes Housing Registration No 31419R

Notes to the Financial Statements
For the year ended 31 March 2020

12. Tax on Surplus on Ordinary Activities

	2020 £'000	2019 £'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% (2019 : 0%). The differences are explained as follows :

	2020 £'000	2019 £'000
Total tax reconciliation		
Surplus on ordinary activities before taxation	1,934	5,991
	<hr/>	<hr/>
Theoretical tax at UK corporation tax rate of 19% (2019: 19%)	367	1,198
Effects of:		
-Surpluses relating to charitable period	(367)	(1,198)
	<hr/>	<hr/>
Total taxation charge	-	-
	<hr/> <hr/>	<hr/> <hr/>

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

13a. Tangible fixed assets (Group & Society)

	Social Housing Properties for Letting Completed £'000	Social Housing Properties for letting under Construction £'000	Shared Ownership Housing Properties £'000	Shared Ownership Housing properties under construction £'000	Total Housing Properties £'000
Cost					
At start of the year	97,465	96	144	-	97,705
Additions	857	4,195	-	-	5,052
Works to existing properties	2,628	-	-	-	2,628
Schemes completed	534	(534)	305	-	305
Disposals	(1,225)	-	-	-	(1,225)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	100,259	3,757	449	-	104,465
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and impairment					
At start of the year	(5,277)	-	-	-	(5,277)
Charge for the year	(1,401)	-	-	-	(1,401)
Disposals	94	-	-	-	94
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	(6,584)	-	-	-	(6,584)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 st March 2020	93,675	3,757	449	-	97,881
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 st March 2019	92,188	96	144	-	92,428
	<hr/>	<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.

Within the charge for the year is £319k of specific impairments on housing properties. These relate to three properties, with further details provided below.

Property	Units	Circumstances	impairment b/f £000	NBV Prior to impairment £000	Impairment amount £000
Yewbarrow Lodge	32	Management decision to close this sheltered scheme due to reduced level of demand.	0	458	220
The Ellers	3	Decision to demolish these properties as not economically viable to refurbish.	0	99	54
1-3 Dearden Close	3	Fire damage to internal structures	0	94	45
				651	319

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

13b. Other tangible fixed assets (Group & Society)

	Computer Equipment £'000	IT Infrastructure & Applications £'000	Furniture & Fittings £'000	Total £'000
Cost				
At start of the year	694	187	396	1,277
Additions	91	21	1	113
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	785	208	397	1,390
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation and impairment				
At start of the year	(575)	(111)	(199)	(885)
Charge for the year	(105)	(20)	(40)	(165)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	(680)	(131)	(239)	(1,050)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value at 31 st March 2020	105	77	158	340
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value at 31 st March 2019	119	76	197	392
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

14. Stock (Group & Society)

	2020 £'000	2019 £'000
Van Stock	37	29
Work in progress on housing, land and buildings – potentially abortive costs	366	348
	<hr/>	<hr/>
	403	377
	<hr/> <hr/>	<hr/> <hr/>

South Lakes Housing Registration No 31419R

Notes to the Financial Statements
For the year ended 31 March 2020

15a. Group Trade and Other Debtors

	2020	2019
	£'000	£'000
Rent and service charge arrears	1,256	1,532
Less: provision for bad debts	(453)	(386)
	<hr/>	<hr/>
Other debtors	803	1,146
Prepayments and accrued income	192	135
Value Added Tax	742	504
Stock transfer obligation (note 24)	111	275
	5,323	4,591
	<hr/>	<hr/>
	7,171	6,651
	<hr/>	<hr/>

15b. Company Trade and Other Debtors

	2020	2019
	£'000	£'000
Rent and service charge arrears	1,256	1,532
Less: provision for bad debts	(453)	(386)
	<hr/>	<hr/>
Other debtors	803	1,146
Prepayments and accrued income	217	129
Value Added Tax	662	464
Stock transfer obligation (note 24)	111	321
	5,323	4,591
	<hr/>	<hr/>
	7,116	6,651
	<hr/>	<hr/>

16a. Group Creditors: Amounts falling due within one year

	2020	2019
	£'000	£'000
Rent and service charges received in advance	248	213
Trade creditors	662	1,225
Accruals and deferred income	2,276	1,526
Other taxation and social security	89	84
Other creditors	65	108
Deferred capital grant	242	237
	<hr/>	<hr/>
	3,582	3,393
	<hr/>	<hr/>

South Lakes Housing Registration No 31419R

Notes to the Financial Statements

For the year ended 31 March 2020

16b. Company Creditors: Amounts falling due within one year

	2020	2019
	£'000	£'000
Rent and service charges received in advance	248	213
Trade creditors	662	1,225
Accruals and deferred income	2,262	1,526
Other taxation and social security	89	84
Other creditors	24	108
Deferred capital grant	242	237
	<u>3,527</u>	<u>3,393</u>

17a. Creditors: Amounts falling due after more than one year (Group & Society)

	2020	2019
	£'000	£'000
Loans	29,576	29,536
Deferred capital grant	21,842	20,918
Stock transfer obligation	47,760	52,496
	<u>99,178</u>	<u>102,950</u>

17b. Debt Analysis

Loans repayable by instalments	2020	2019
	£'000	£'000
Loan wholly repayable in five years or more	30,000	30,000
	<u>(424)</u>	<u>(464)</u>
	<u>29,576</u>	<u>29,536</u>

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 loans were fixed at various rates of between 2.882% and 3.18%. Loan arrangement fees are capitalised and amortised over the remaining life of the loan.

17c. Deferred capital grant

	2020	2019
	£'000	£'000
At the start of the year	21,155	21,418
Grant received in the year	1,412	72
Released to income in the year	(314)	(237)
Relating to disposals in the year	(169)	(98)
	<u>22,084</u>	<u>21,155</u>
Amount to be released < 1year	242	237
Amount to be released > 1year	21,842	20,918

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Notes to the Financial Statements

For the year ended 31 March 2020

18. Analysis of changes in net debt (Group & Society)

	At beginning of the year £'000	Cash Flows £'000	Non-cash Movements £'000	At end of the year £'000
Cash and cash equivalents	3,670	(1,594)	-	2,076
Housing loans due in one year	-	-	-	-
Housing loans due after one year	(29,536)	-	(40)	(29,576)
	<u>(25,866)</u>	<u>(1,594)</u>	<u>(40)</u>	<u>(27,500)</u>

19a. Pension obligations (Group & Society)

Local Government Pension Scheme (LGPS)

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Cumbria County Council. The total contributions made for the year ended 31 March 2020 were £149,998, of which employer's contributions totalled £107,266 and employees' contributions totalled £42,732. The agreed contribution rates for future years are 23.5% 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 2019 updated to 31st March 2020 by a qualified independent actuary.

	2020 % per annum	2019 % per annum
Rate of increase in salaries	3.6	3.7
Rate of increase in pensions in payment	2.2	2.3
Discount rate	2.4	2.5
Inflation assumptions (CPI)	2.1	2.2

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

	2020 Years	2019 Years
Retiring today		
Males	22.6	23.3
Females	25.2	25.9
Retiring in 20 years		
Males	24.2	25.6
Females	27.1	28.6

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Notes to the Financial Statements
For the year ended 31 March 2020

19a. Pension obligations (Group & Society) (continued)

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

	2020 £'000	2019 £'000
Employer service cost (net of employee contributions)	222	236
Past service cost / (gain)	136	0
	<hr/>	<hr/>
Total operating charge	358	236
	<hr/> <hr/>	<hr/> <hr/>

Analysis of pension finance income / (costs)

	2020 £'000	2019 £'000
Expected return on assets	(424)	(437)
Interest on pension liabilities	491	485
	<hr/>	<hr/>
Amounts charged / credited to financing costs	67	48
	<hr/> <hr/>	<hr/> <hr/>

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

	2020 £'000	2019 £'000
Actuarial gains / (losses) on pension scheme assets	(339)	539
Actuarial gains / (losses) on scheme liabilities	813	(1,164)
	<hr/>	<hr/>
Actuarial gain / (loss) recognised	474	(625)
	<hr/> <hr/>	<hr/> <hr/>

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Notes to the Financial Statements

For the year ended 31 March 2020

19a. Pension obligations (Group & Society) (continued)

	2020	2019
	£'000	£'000
Movement in surplus/(deficit) during the year		
(Deficit) / surplus in scheme at 1 April	(2,644)	(1798)
Movement in year:		
Employer service cost (net of employee contributions)	(217)	(232)
Employer contributions	48	63
Past service cost	(136)	0
Net interest/return on assets	(67)	(48)
Re-measurements	474	(625)
Administration expenses	(5)	(4)
	<hr/>	<hr/>
(Deficit) in scheme at 31 March	(2,547)	(2,644)
	<hr/> <hr/>	<hr/> <hr/>
Asset and Liability Reconciliation		
	2020	2019
	£'000	£'000
Reconciliation of liabilities		
Liabilities at start of period	19,757	18,047
Service cost	217	232
Interest cost	491	485
Employee contributions	43	51
Re-measurements	(813)	1,164
Benefits paid	(408)	(222)
Past service cost	136	0
	<hr/>	<hr/>
Liabilities at end of period	19,423	19,757
	<hr/> <hr/>	<hr/> <hr/>
	2020	2019
	£'000	£'000
Reconciliation of assets		
Assets at start of period	17,113	16,249
Return on plan assets	424	437
Re-measurements	(339)	539
Administration expenses	(5)	(4)
Employer contributions	48	63
Employee contributions	43	51
Benefits paid	(408)	(222)
	<hr/>	<hr/>
Assets at end of period	16,876	17,113
	<hr/> <hr/>	<hr/> <hr/>
	<hr/>	<hr/>
Actual return on plan scheme assets	(605)	976
	<hr/> <hr/>	<hr/> <hr/>

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Notes to the Financial Statements For the year ended 31 March 2020

19b. Pension obligations (Group & Society)

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.

For financial years ending on or before 28th February 2019, it was not possible for the company to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the company has accounted for the Scheme as a defined contribution scheme.

For financial years ending on or after 31st March 2019, it is possible to obtain sufficient information to enable the company to account for the Scheme as a defined benefit scheme.

For accounting purposes, a valuation of the scheme was carried out with an effective date of 30th September 2018. The liability figures from this valuation were rolled forward for accounting year-ends from 31st March 2019 to 29th February 2020 inclusive. The liabilities are compared, at the relevant accounting date, with the company’s fair share of the Scheme’s total assets to calculate the company’s net deficit or surplus.

Similarly, an actuarial valuation of the scheme was carried out as at 30th September 2019 to inform the liabilities for accounting year ends from 31 March 2020 to 28 February 2021 inclusive.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 30th September 2017 updated to 31st March 2020 by a qualified independent actuary.

	2020	2019
	% per annum	% per annum
Rate of increase in salaries	2.5	2.2
Discount rate	2.3	2.4
Inflation assumptions (CPI)	1.5	2.2

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Notes to the Financial Statements

For the year ended 31 March 2020

19b. Pension obligations (Group & Society) (continued)

The assumed life expectancy on retirement age 65 are:

	2020 Years	2019 Years
Retiring today		
Males	21.5	21.8
Females	23.3	23.5
Retiring in 20 years		
Males	22.9	23.2
Females	24.5	24.7

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

	2020 £'000	2019 £'000
Employer service cost (net of employee contributions)	421	113
Past service cost / (gain)	-	0
	<hr/>	<hr/>
Total operating charge	421	113
	<hr/> <hr/>	<hr/> <hr/>

Analysis of pension finance income / (costs)

	2020 £'000	2019 £'000
Expected return on assets	(11)	0
Interest on pension liabilities	17	0
	<hr/>	<hr/>
Amounts charged / credited to financing costs	6	0
	<hr/> <hr/>	<hr/> <hr/>

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

	2020 £'000	2019 £'000
Actuarial gains / (losses) on pension scheme assets	99	10
Actuarial gains / (losses) on scheme liabilities	28	(44)
	<hr/>	<hr/>
Actuarial gain / (loss) recognised	127	(34)
	<hr/> <hr/>	<hr/> <hr/>

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Notes to the Financial Statements

For the year ended 31 March 2020

19b. Pension obligations (Group & Society) (continued)

	2020	2019
	£'000	£'000
Movement in surplus / (deficit) during the year		
(Deficit) / surplus in scheme at 1 April	(147)	-
Movement in year:		
Employer service cost (net of employee contributions)	(415)	(203)
Employer contributions	264	99
Past service cost	-	-
Net interest/return on assets	(6)	(9)
Re-measurements	127	(34)
Administration expenses	-	-
	<hr/>	<hr/>
(Deficit) in scheme at 31 March	(177)	(147)
	<hr/> <hr/>	<hr/> <hr/>
Asset and Liability Reconciliation		
	2020	2019
	£'000	£'000
Reconciliation of liabilities		
Liabilities at start of period	448	-
Service cost	415	302
Interest cost	17	4
Employee contributions	101	99
Re-measurements	(28)	44
Benefits paid	(27)	(1)
Past service cost	-	-
	<hr/>	<hr/>
Liabilities at end of period	926	448
	<hr/> <hr/>	<hr/> <hr/>
	2020	2019
	£'000	£'000
Reconciliation of assets		
Assets at start of period	301	-
Return on plan assets	11	4
Re-measurements	99	10
Employer contributions	264	189
Employee contributions	101	99
Benefits paid	(27)	(1)
	<hr/>	<hr/>
Assets at end of period	749	301
	<hr/> <hr/>	<hr/> <hr/>
	<hr/>	<hr/>
Actual return on plan scheme assets	110	14
	<hr/> <hr/>	<hr/> <hr/>

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Notes to the Financial Statements

For the year ended 31 March 2020

20. Non-equity share capital (Group & Society)

	2020 No. of shares	2019 No. of shares
Allotted, Issued and Fully Paid	22	27
At the start of the year	27	33
Cancelled during the year	(5)	(6)
At the end of the year	22	27

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.

21. Capital commitments (Group & Society)

	2020 £'000	2019 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	6,227	2,888
Capital expenditure that has been authorised by the committee of management but has not yet been contracted for.	<u>15,642</u>	<u>17,802</u>
	<u>21,869</u>	<u>20,690</u>

Capital expenditure from 1st April 2020 includes proposed development costs to build and acquire new property over three years. The Society expects to finance the above expenditure with a combination of public authority grants, loans drawn down under existing loan arrangements and cash reserves generated from operations and property sales. In addition, Board approved £471k of non-housing capital budget and £3,116k of capital major repairs for 2020/21, these are included within the authorised not committed total.

22. Operating leases (Group & Society)

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

Operating leases	2020 £'000	2019 £'000
Land and buildings		
In one year or less	162	-
In one year or more but less than two years	162	2
In two years or more and less than five years	128	504
In five years or more	-	215
Others		
In one year or less	110	-
In one year or more but less than two years	60	-
In two years or more and less than five years	4	329
In five years or more	-	-
	<u>626</u>	<u>1,050</u>

Notes to the Financial Statements

For the year ended 31 March 2020

Note 22 continued...

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.

23. 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 tenant board members was £8,617 (2019: £8,534). There are arrears on their tenancies at the reporting period end of £339 (2019: £ nil).

24. 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 2020 was £47,760k of which £5,323k is due in less than one year and £42,437k is due in more than one year (2019: £52,496k, £4,591k & £47,905k respectively).

25. Contingent liability

Senior managers were consulted on their knowledge of any events which could result in contingent liabilities requiring disclosure as at 31/3/2020. There are no contingent liabilities (2019: none).

26. Group Undertakings

The Consolidated financial statements incorporate the results of Cumbrian Housing and Property Services (CH&PS) Limited. South Lakes Housing provides the labour and associated costs to CH&PS which is a cost sharing vehicle. Costs are shared with another Housing Society 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. During the year CH&PS charged £3.10m to SLH from of a gross turnover of £3.34m.