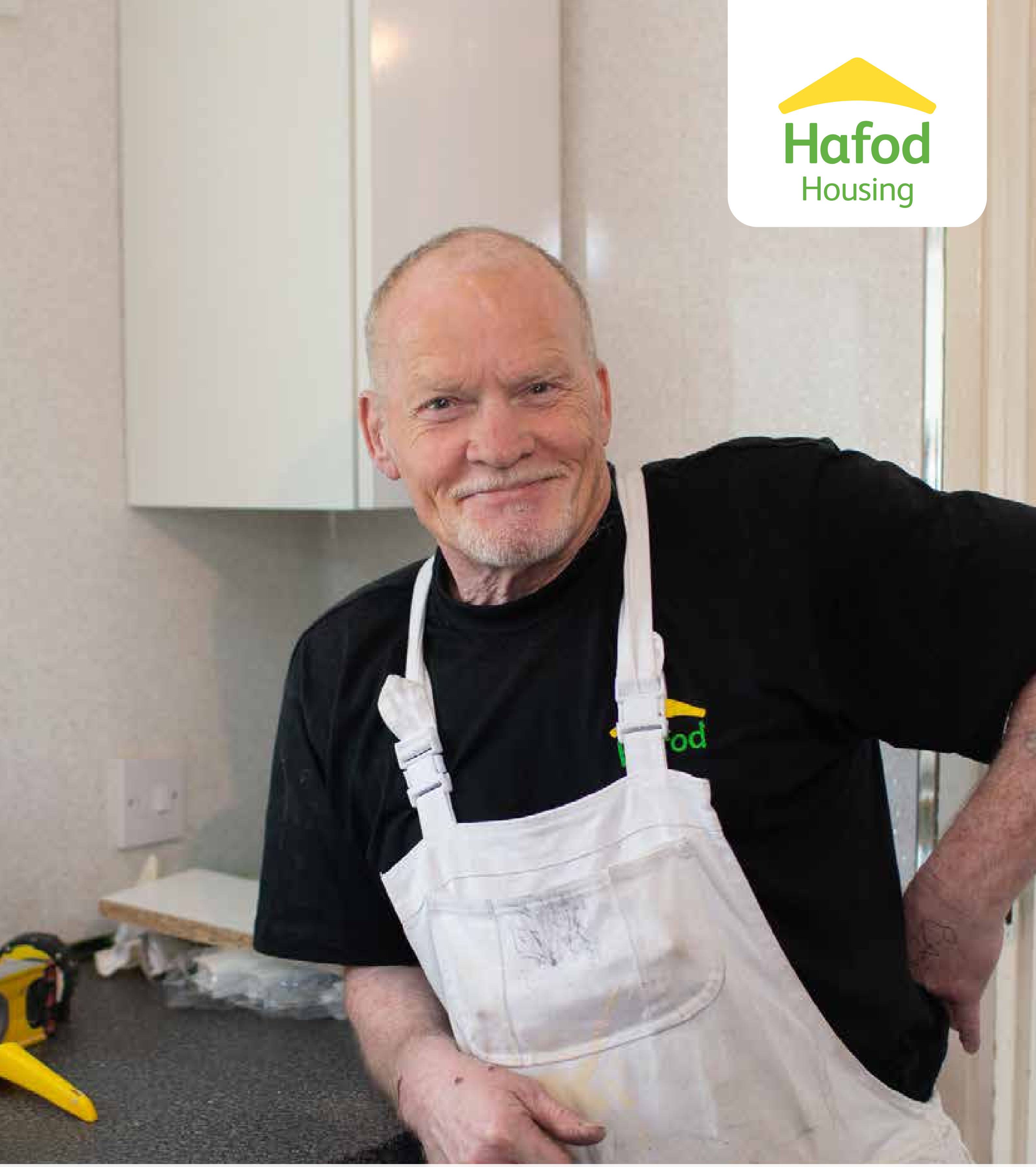
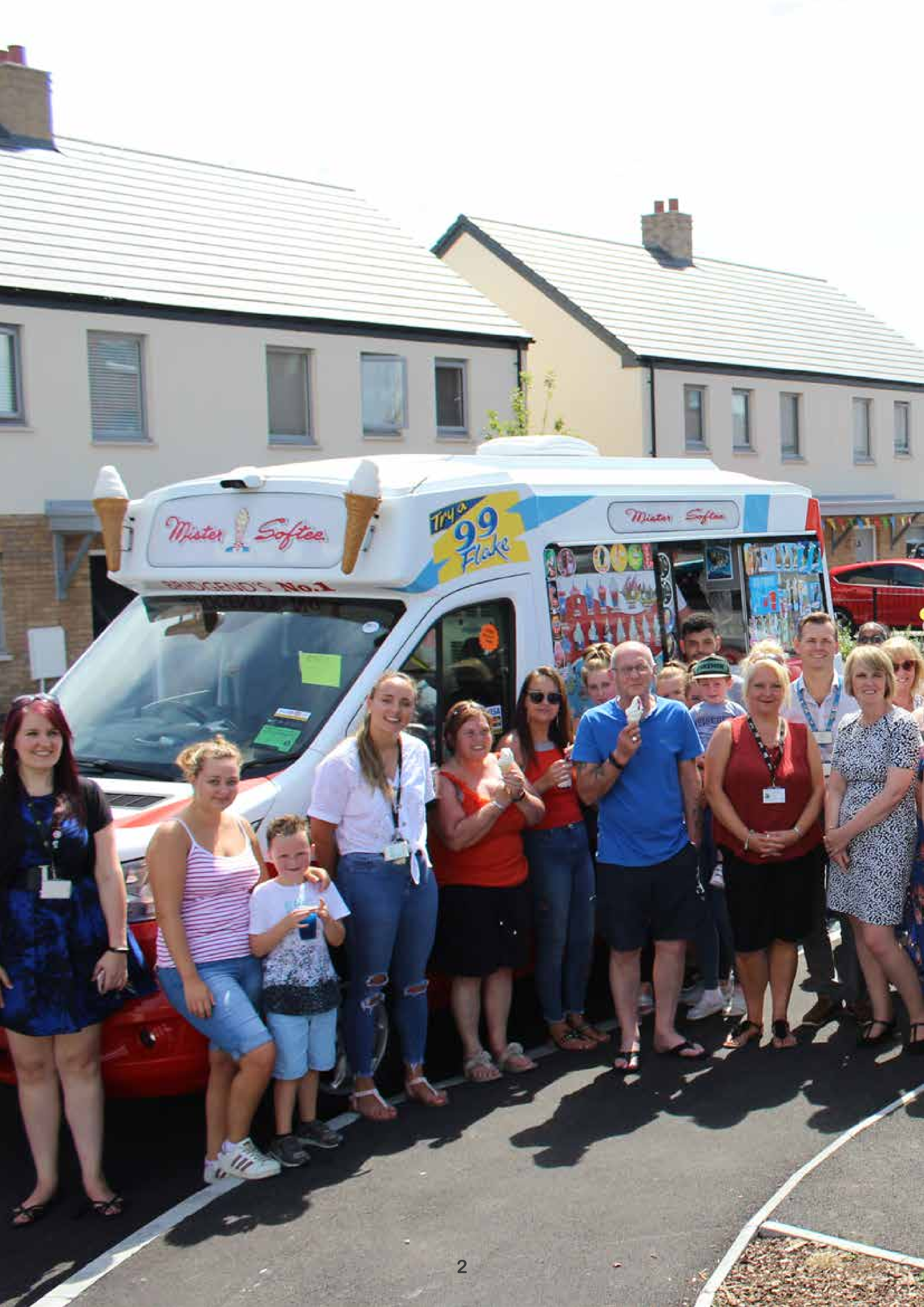
Hafod
Housing



Report and Financial Statements

31 December 2019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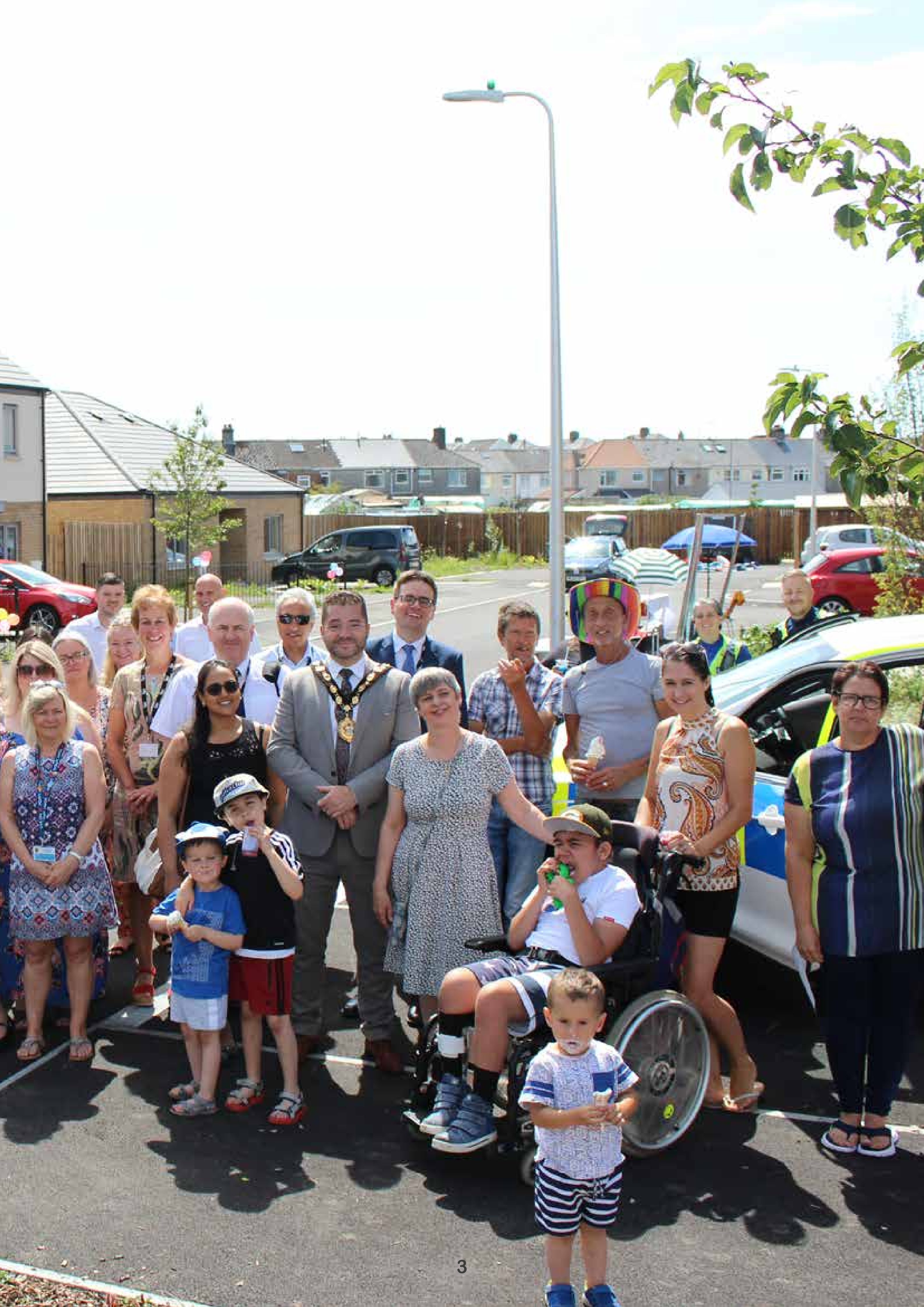

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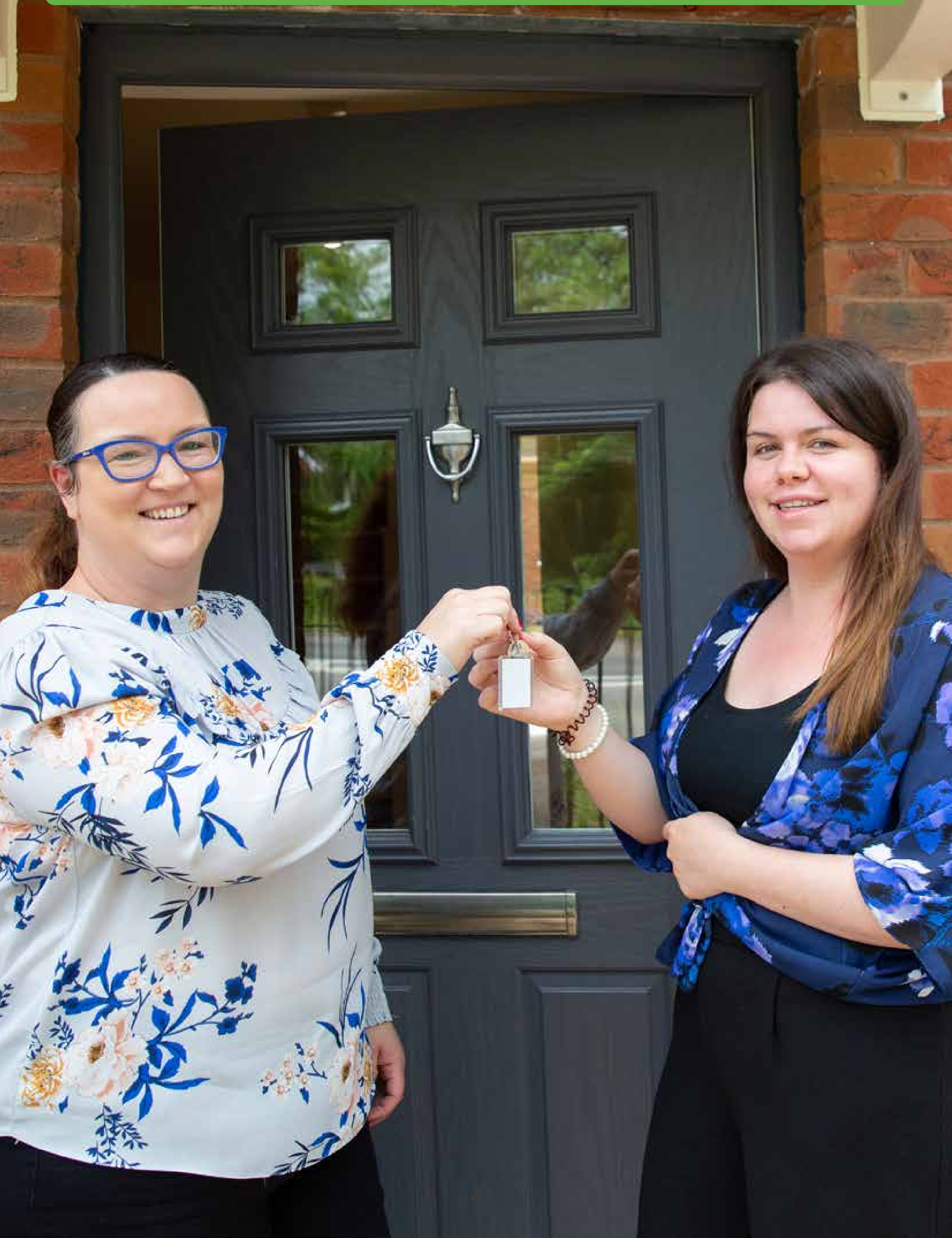


Hafod Housing Association Limited
Strategic Board Report and Annual Financial Statements
Year ended 31 December 2019

The Board of Hafod Housing Association Limited presents its strategic report and annual financial statements for the year ended 31 December 2019.

Introduction by the Chair of Hendre Group

The Hendre Group has made significant progress in addressing the organisational challenges it faced through 2019.

Following the adverse regulatory judgement for Governance and Services in 2018, which saw the Group's rating decrease to the level of 'Intervention', a major programme of governance improvements (Transforming Governance Improvement Plan) was implemented throughout 2019 and will continue. This was developed in response to Central Consultancy's independent review of governance in 2019 and committed to as part of a voluntary undertaking to the Welsh Government. The improvements are far-reaching and comprehensive and the organisation has gone far beyond the basic requirements, leaving no stone unturned in relation to how the Group is governed and managed. .

Alongside the improvement plan, the Board has been further strengthened, with new members bringing skills around social care, as well as a stronger commercial focus. Also, the Group underwent legal transfer of engagements in July 2019, bringing together its core operational companies – Hafod Housing and Hafod Care – as a single legal entity and enhancing its financial strength for the longer-term. This was also reflected in changes to the governance structure, allowing for further streamlining of the Board and Committee structure.

The progress made on all of these fronts was recognised by the Housing Regulator in December 2019. The Regulator's judgement for Governance and Services was uprated to 'Increased', while financial viability remained as 'Standard', as it has throughout the period. While this was good news for the organisation, there is no room for complacency and we are continuing to implement governance improvements and ensure they are firmly embedded in the way we work. A further independent review undertaken in early 2020 will inform the next steps and we will continue to work closely with the Regulator to strengthen the bedrock of the organisation.

While the governance improvements inevitably consumed the resources and attention of the Executive and Board throughout this period, it is important to bear in mind that the Group has maintained its financial strength, continued to develop new homes and continued providing high quality services to its customers across, housing, social care and support. This is testament to the skill and commitment of its 1,300+ employees and the values they share around 'Making Lives Better'.

The mobilisation of Hendre's 2019-2024 Strategic Plan has also progressed well. The Strategy was reviewed by the Board and Executive in late 2019, bringing renewed impetus and clarity on some of the strategic parameters around the Plan. Tangible progress is being made on the integration agenda, in conjunction with health board and local authority partners, and we have made strides in terms of the foundational economy. Terms and conditions of many of our front-line workers have been improved and an ambitious People Strategy has been developed to ensure the organisation is sufficiently skilled to meet present day and future challenges.

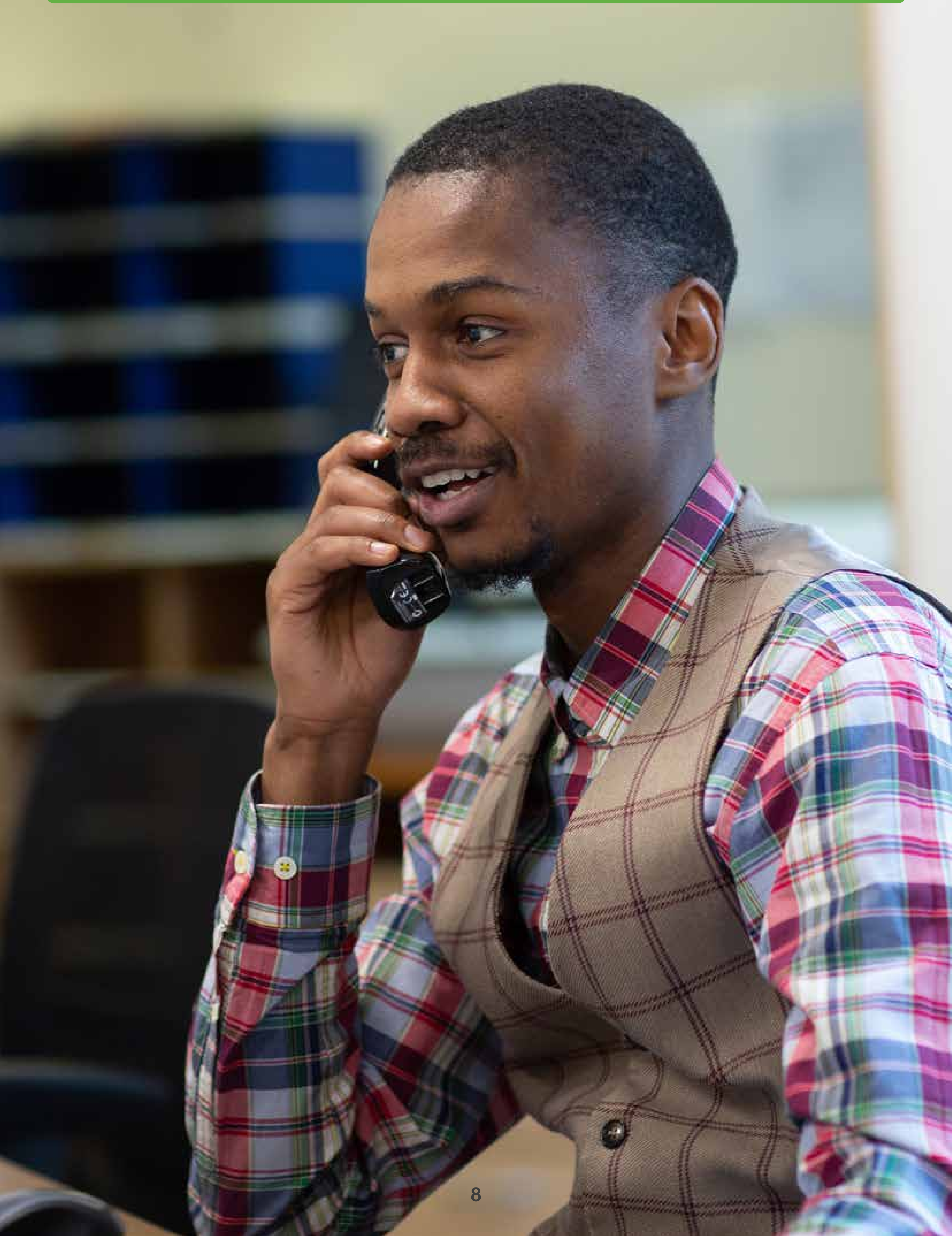
Where changes in the operating environment have challenged us, we have responded and adapted to try to meet them. This includes the UK's exit from the European Union and the emerging risk from the worldwide COVID-19 pandemic.

Our neighbourhood model has been reconfigured to address the compounding challenges of welfare reform and austerity, which are impacting on our communities and customers. A key strategic focus for 2020 and beyond is how we will evolve as a care and support provider and continue to provide high quality and value for money services in a financially challenging market with changing needs and demands.

So looking back on the last twelve months, it is clear that Hendre has managed to reinforce its foundations through a comprehensive series of reforms and reviews and has done so without compromising its core purpose, ambitious vision for the future and financial strength. While I would reiterate there is no room for complacency, I am keen for the progress on so many fronts to continue and reaffirm the Board's commitment to ensuring this happens at pace and with the high standards of governance we have instilled.

Peter Maggs,
Chair of Hendre Group

Governance



Legal status and rules of the Association

Hafod Housing Association (the 'Association') is a subsidiary of Hendre Limited (the 'parent'). The Association is a 'not for profit' organisation administered by the Board.

The Association is registered as a charitable housing association (No. 18766R) under the Co-operative and Community Benefits Act 2014 and is registered with the Welsh Government (No. L034).

The Registered Office of the Association is St Hilary Court, Copthorne Way, Culverhouse Cross, Cardiff, CF5 6ES.

The Association has adopted the charitable version of Community Housing Cymru's Model Rules (2013).

Yellow Wales, a company limited by guarantee, is a subsidiary of the Association. Yellow Wales is also a registered charity.

During 2019, the Hendre Group simplified its structure where all the property, assets and liabilities of Hafod Care Association Limited, including staff, were transferred to Hafod Housing Association Limited pursuant to section 110 of the Co-operative and Community Benefit Societies Act 2014. In connection with that transfer, Hafod Care Association Limited also transferred all its rights, title, interest and benefit of its Contracts to Hafod Housing Association Limited, including all rights to bring claims under the Contract, with effect from 31 July 2019.

The Association, as part of the Hendre Group, is a member of Community Housing Cymru.

Shareholders

Membership will be restricted to people who will have a long-term interest in the well-being of Hafod Housing and the Group and are likely to be able to make some significant contribution to its work. People admitted to membership will be those who are likely to be candidates for election to the Board and who can make a substantial contribution to the long-term well-being of Hafod Housing and the Group. Membership will, therefore, be restricted to a relatively small group, having a 'stewardship' role.

No individuals or organisations will be admitted into membership under circumstances in which an individual might derive personal gain, financially or otherwise.

All applicants to become a shareholder of Hendre's subsidiaries are subject to approval of the Hendre Limited Board.

Board, Committees and executive officers

The Board of the Association comprises up to eleven members, the majority of which shall always be capable of appointment by Hendre Limited.

The current Members of the Board are as follows:

Chair	Mr P Maggs
Vice Chair	Mrs Dawn Jones*
Other Members	
Mr N Davies*	Ms T Donnelly
Mr J Harker	Dr E Haywood
Mrs K Howells*	Mr D Michael
Mr G North	Mr S Vedi
Company Secretary	Mrs T Healey

Under the Regulation and Inspection of Social Care (Wales) Act 2016 (the "Act"), the Association must appoint a Responsible Individual ("RI") in relation to its regulated services. In order to meet the Act, the Director of Operations (Care), Mr J Harker, also assumes the role of RI and is co-opted onto the Association's Board.

There have been the following changes to Board Membership since the financial statements for the year ended 31 December 2018 were approved at the Board meeting held on 28 May 2019:

Dr T Boyce	Resigned December 2019
Mrs A Curtis	Resigned March 2020
Mr S Greenstreet	Resigned October 2019
Ms N Pemberton	Resigned July 2019
Mr M Rees	Resigned July 2019
Mr G Robinson	Resigned March 2020

Board Members who are Chairs of Group Committees are indicated with an asterisk against their name.

Hendre Limited has established the following Group-wide committees:

- Audit and Risk Committee (ARC), this committee has three independent members (Mr R Alexander, Mr S Chapman (resigned April 2020) and Mr M Rees)
- Remuneration and Appointments Committee
- Schedule 1 committee
- Pension committee
- Safeguarding panel, independent Chair (Mrs R Price)

The Executive Board comprises the following senior executives:

Group Chief Executive	Jas Bains
Deputy Chief Executive	David Hayhoe
Executive Director of People and Change	Karen Rosser
Executive Director of Assurance and Company Secretary	Tracey Healey
Director of Finance and IT	Gareth Yeoman-Evans
Director of Operations (Housing)	Elke Winton
Director of Operations (Care)	Jonathan Harker
Director of Asset Management	Luke Mitchell
Director of Research and Innovation	Jamie Smith

The senior executives hold no interest in the shares of the Hendre Limited or its subsidiaries. They act as an executive within the authority delegated by the respective Boards.

Current obligations of Board Members to the Board and the Association

The Board has ultimate responsibility for the governance of the Association and ultimate control
The Board has ultimate responsibility for the governance of the Association and ultimate control
over all aspects of its work to ensure its financial, legal and service obligations are properly fulfilled.

The core responsibilities of the Board, as set out in the Board Members role description, and terms of reference, are as follows:

- to set and oversee the long term strategic direction for the organisation
- to contribute to, and share responsibility for, Board decisions; including the duty to exercise all reasonable care, skill and independent judgement
- to set the risk appetite and monitor risk
- to ensure an effective business plan and budget is in place and that the business remains financially viable
- to ensure that performance is monitored against targets and managed through internal controls and delegation
- to approve key policies and take decisions about matters reserved to the Board
- to ensure that the Board fulfils its duties and responsibilities for the proper governance of the organisation including compliance

All Board and Committee Members must, within one month of appointment, sign and deliver to the Board a statement confirming that they will meet their obligations to the Board and to the Association.

Skills, qualities and experience required by the Board from its Members

The Board must be competent in the wider sense to carry out its defined role. Competence in this wide sense goes beyond particular skills. It includes the ability to understand the impact of the Group's work on local communities and those it seeks to serve. It requires a high level of commitment and cohesion in pursuit of shared goals.

Statement of responsibilities of the Board in respect of the Board's strategic report and the financial statements

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

The law requires the Board to prepare Group and parent Association financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent Association and of the surplus or deficit for that period.

In preparing these financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Association and enable it to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities. The Board is also responsible for ensuring the integrity of the corporate and financial information included on the Association's website.

Housing Association governance – reporting on internal controls

Housing Association governance – reporting on internal controls
The Welsh Government requires Registered Social Landlords (RSLs) to report on internal controls (Welsh Government Circular RSL 02/10). These requirements have been adapted to suit RSLs and follow the report of the Cadbury Committee on 'the financial aspects of corporate governance' and in particular paragraph 4.5 of the 'Code of Best Practice'.

We believe that good governance is essential to the success and sustainability of our business. The Governance Framework has been published to aid board's decision-making process and its responsibility at Hendre group. It gives access to key governance documents with the aim of strengthening our governance and increasing our governance literacy.

The documents have been written using best practice and will provide us with the framework to meet the organisation's regulatory and legal obligations.

The Board is ultimately responsible for the Association's system of internal control which is designed to provide reasonable but not absolute assurance regarding the safeguarding of the assets, the maintenance of proper accounting records and the reliability of financial information.

The following mechanisms have been put in place, which are designed to provide effective internal financial control:

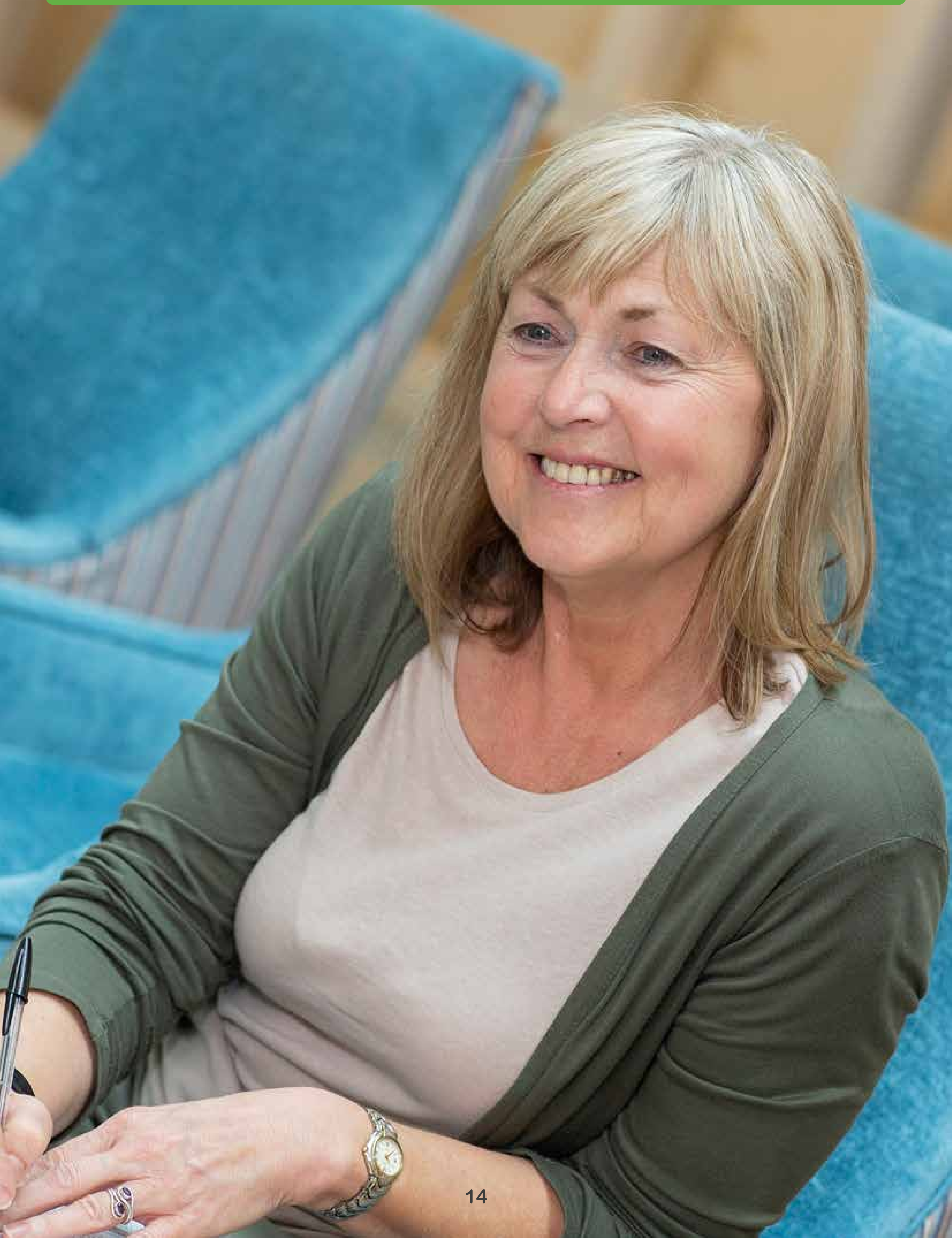
- Clearly defined management and reporting structures;
- Careful recruitment and effective financial training programmes;
- Board Assurance Framework
- Regulations and procedures manuals for staff;
- Management information and accounting systems with quarterly reporting of financial results and other performance indicators;
- Rolling five and thirty year strategic business plan forecasts; and
- Monitoring of the control systems by the Audit and Risk Committee

The Audit and Risk Committee has a wide remit to monitor all aspects of risk and assurance management, audit, internal control, whistleblowing, fraud, money laundering and bribery prevention.

The Association complies with best practice on the prevention of fraud. In particular, it has a clear counter fraud policy and strategy in place. The strategy covers the prevention, detection and reporting of fraud and the recovery of assets. There have been no cases of fraud reported during the year.

RSM was appointed as the Group's internal auditor in 2019. Its reports are presented for consideration at the Audit and Risk Committee and then noted at the Hendre Board.

Risk and risk management



Group risk management framework

A new Group-wide Risk Management Framework was signed off by the Hendre Limited Board in May 2019. This document is designed to deliver a consistent framework for risk management across the Group as an integral part of decision making including forming part of our strategic planning process.

Risk management is applied at four levels:

i. **Strategic**
Risks identified and managed by the Hendre Board and Executive Board. These are risks that could de-stabilise the business or have a significant impact on our long-term strategic objectives;

ii. **Corporate**
Risks from across the business that have collective oversight by the Executive Board and Senior Management Team where the risks could impact operational plans, financial performance, project risks, or anything that could undermine business goals;

iii. **Operational**
Risks identified in the business environment for each individual business unit/ directorate where risks are managed locally; and

iv. **Project**
Risks identified as potential barriers to delivering projects against scope.

The overall risks and challenges facing the Hendre Group are assessed and monitored by the Hendre Limited Board on a regular basis using the risk management framework. A key factor is having a comprehensive understanding of the business environment in which the Group operates and the key factors that will impact upon the Group's aim of sustaining long term financial viability that will enable it to continue to provide high quality services to current and new customers within a well governed organisation.

The Hendre Limited Board has set its appetite for risk and will use this as a benchmark for making strategic decisions about current service provision or future growth.

Risks facing Association and the Hendre Group

AAs outlined in the Chair's opening statement, the Group has strengthened its governance arrangements through its Transforming Governance Improvement Plan. The aim was to be an exemplar organisation demonstrating governance excellence which is the golden thread throughout the organisation. A return, in due course, to a 'Standard' governance rating will be achieved by embedding the recommendations identified in the governance and leadership review and subsequent action plan.

The Association recognises that, in an uncertain economic environment, there are significant operational and financial risks and challenges that face the Group at present and into the foreseeable future, particularly given the diverse nature of the Group's operations.

Some of these risks are known, identifiable and manageable and have been incorporated into the Group's strategic risk register.

The Group's social housing activities faces challenges from the progressive implementation of the wide range of welfare reform measures. The Welsh Government's Independent Review of Affordable Housing Supply will present both opportunities and challenges to the housing sector with the announcement of a five year rent policy and a new approach to social housing grant funding.

The Group has a significant presence in the care and support sector, which brings its own set of challenges, including the on-going impact of the national living wage; pressures on the budgets of Local Authorities and Health Boards who are major commissioners of services and the uncertain future of funding for supported housing.

The Board sets clear financial performance objectives, for both the short and long term, for each operational area of the business. There is a well defined framework for key financial controls with a robust process of reporting and monitoring financial performance to the Board.

The Group's treasury management policy is the mechanism by which the Board outlines the type and amount of risk it is prepared to assume to deliver its strategy and run day-to-day operations. Its treasury management activities are defined as: "The management of the organisation's investments and cash flows, its banking, money market, capital markets and derivative transactions, and its security portfolio; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

Furthermore, in March 2020, the Hendre Board approved a set of 'golden rules' that provides a clear view of the Group's financial risk appetite and how they are utilised as a control in balancing strategic ambitions with continued financial resilience.

The Group continues to invest in new developments through a variety of delivery methods, including traditional grant funded, intermediate grant funded, section 106 and low cost home ownership. This requires careful monitoring and management of our commitments to ensure external lenders' covenants are not breached.

The Hendre Group is continuing to refine its asset and liabilities register as well as considering the condition of its estate and how it can ensure that it remains fit for purpose in the future, given changing demand, client requirements as well as financial considerations.

The majority of colleagues employed by the Group are in defined contribution schemes with the exception of those who were transferred into Hafod Care Association Limited when it took over the management of the residential care homes in Torfaen. As part of the transfer of engagements of Hafod Care Association Limited to Hafod Housing Association Limited in 2019, the pension scheme assets and liabilities were transferred to Hafod Housing where colleagues are entitled to defined benefits offered by the Torfaen Local Government Pension Scheme. Full disclosure of the financial exposure to this scheme is included in notes to the financial statements.

Brexit

Exit from the European Union (Brexit) could lead to uncertainty in financial, labour and construction markets resulting in increased cost or disruption to operational delivery. The Group has considered the potential short-term and long-term impacts along with any contingencies that should be made. As at the balance sheet date, management consider that the preparations put in place will safeguard any risks.

Coronavirus

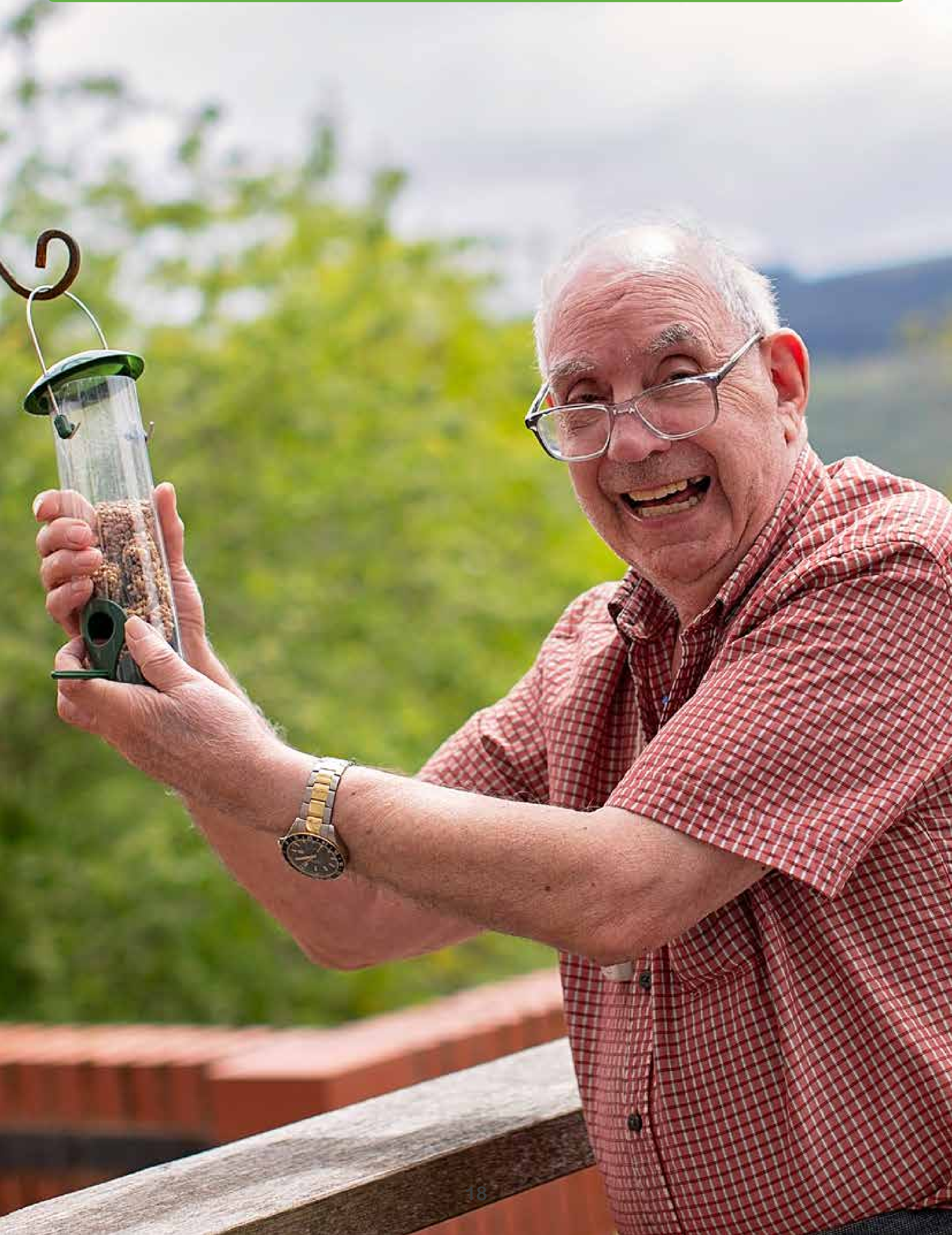
The challenges presented by the coronavirus ("COVID-19") pandemic are constantly changing and our governance structure has changed to reflect this. Our business continuity plans are being implemented keeping services running to safeguard tenants and other service users.

The Board's role continues to be one of oversight and all Board meetings are continuing on the agreed timetable, albeit virtually. The Group has a sound Board Assurance Framework (BAF) that fully reflects the significant risks including a well-designed financial governance framework which provides the Board with clear line of sight of the Group's financial resilience.

The Executive Board bears the day-to-day responsibility for managing the Group's response to the pandemic, meeting regularly by adopting a robust mechanism for risk based decision making and co-ordination to maximise our resources.

A range of mitigations are being implemented to maintain our long-term financial viability whilst also ensuring we continue to provide a high level of service to our customers. Liquidity continues to be strong and there are no expected loan covenant breaches. These are monitored in line with the Group's treasury management policy, incorporating the Board's golden rules.

As at the balance sheet date, management consider that the preparations put in place will safeguard any risks.



Strategic plan

In early 2019 the Hendre Board approved and published the Group's strategic plan for the next five years. The Plan expresses the organisation's vision for meeting its core purpose of 'Making Lives Better', which it aims to achieve by improving the health, well-being and prosperity in communities through helping to integrate the systems of housing, health, social care and support.

With a Group turnover in excess of £60m, with some 6,000 homes across nine local authority areas and services that span social housing, home ownership, extra care, homecare, supported housing, residential and nursing care, the Group is well placed to influence system-wide change through testing new and progressive approaches. Operating as 'One Hafod', both in functional and legal terms, presents the opportunity for us to deliver a more responsive, joined-up and customer focussed approach across all service areas and we are increasingly seeing evidence of this coming to fruition.

As an overlay, the Group has some unique advantages that the Strategic Plan is framed around and seeks to maximise the potential of:

- A very broad range of services that span boundaries between sectors and make integration a real possibility
- A major employer in the foundational economy and an anchor institution in the communities where its presence is strongest
- Outside of private providers, the Group is the largest care provider in Wales, in terms of its number of beds. This has several advantages for the economy, for skills, for the quality and range of care on offer and for helping to re-balance the social care sector towards not-for-profit providers, as set out in the Labour Manifesto for Wales.
- Significant and long-term financial strength, which is an advantage in terms of growth and helping the Welsh Government meet its affordable homes target
- Broad geographical scope which allows different strategic aims to be pursued in different areas and allows strategic collaborations to develop based on local conditions and appetite
- Dedicated capacity for innovation and transformation, which supports the strategic objectives in a number of ways

From these strategic advantages, as well as some of the key organisational challenges, eight priorities were forged, which the Group's activities have been guided by and mapped against.

These are:

- **Placing customers at the heart of everything we do**
  We will create new ways of involving customers in decisions that affect them, building mutual trust and helping people and communities to take positive action to achieve their goals;

- **Strengthening our governance**
  Ensuring the way we make decisions and manage our business is efficient and effective, helping us perform better;

- **Maintaining our financial strength**
  to enable us to invest and grow and ensure our business is ready for future challenges;

- **Integrating our housing, health, social care and support**
  working with partners to enhance people's health, independence and well-being;

- **Investing in housing**
  We will build more homes with more options to suit people's needs and will reduce our carbon footprint. Our Neighbourhood Coaches will work more closely with our customers, promoting independence and well-being and helping communities to thrive;

- **Investing in care**
  we will be recognised as a leading provider of care services, building on our existing success and exploring innovative ways to improve people's experience of care. We will invest in our care estate to ensure its long term viability;

- **Investing in our people**
  We will encourage all colleagues to learn and develop and welcome new ideas to improve how we work. We have strong leaders across the organisation and will ensure our teams have the right skills and talent to deliver this plan;

- **Maximising our resources**
  We will invest in technology and innovation and use our resources more efficiently to improve quality of life in our communities.

Customers

A guiding principle for the Group is placing its customers at the heart of everything it does. For Hafod, the starting point for this was recognising that it had partly lost the trust and confidence of its customers over a number of years, meaning the relationship had to be re-defined in terms, defined by customers themselves. This came in 2019 in the form of the Hafod Customer Charter, which over 600 customers contributed directly to. The Charter creates the conditions for a more equal relationship, where customers are more closely involved in decisions that affect them and work in partnership with the organisation to develop policy, form strategy, deliver services and evaluate new ways of working.

In areas of the business that deliver personal care and support services, this 'co-production' approach is more deeply embedded and the challenge has been replicating this level of involvement in other areas of the business. The Neighbourhood approach was developed with this in mind, allowing for stronger relationships to develop with customers, with a view to working in partnership to achieve their personal goals and outcomes. In 2019 the Neighbourhood approach was formally launched and we are now beginning to see evidence of the coaching approach working to the benefit of customers. In addition our Asset Management service is being reformed with a stronger customer focus and direct involvement from customers in shaping what the service will look like.

The organisation has also broadened the approach it takes to engaging with customers. In October 2019 a trial community newspaper ('Our Community') was produced, in response to customers' feedback on withdrawing the former tenant newsletter. Our Community featured stories about customers and communities, with the aim of connecting people and highlighting what can be achieved when communities work together. Facebook Live has been used to host informal chats with customers about key strategic issues and pass on important information about upcoming decisions

Perhaps most significantly the ‘Dream Big’ campaign was launched in 2020, asking customers to come forward with ideas they would like to take forward, in return for a small investment by the Group to help make the idea a reality

The challenge in 2020 and beyond is how the organisation embeds the principles of the Customer Charter and adopts a truly customer-centred approach across the entire business, including the back-office functions. While this is a sizeable challenge, the progress made in front-line services has signalled that the shift in mind-set around customers is well underway and the Group is able to back up the sentiment of putting customers at the heart with a growing number of tangible examples and a growing evidence base.

Performance for the year

It’s difficult to write a review of the financial year just gone when, at the time of writing, the country and indeed most of the world, has gone into lockdown as a result of the COVID-19 pandemic.

Any review of 2019 detailing our achievements, be it the development of new properties that provide affordable housing solutions for families in need of decent homes, the care we have provided in our ten care homes for the elderly or thorough our home carers, the engagement with our tenants through the re-aligned relational neighbourhood coaching model or the support that we provide to some of the most vulnerable people in our society, all now seem mundane ‘business as usual’ compared to the challenges that the Group face as the pandemic spreads across the country and our services.

The year saw the final agreements required to transfer the operational activities of Hafod Care Association Limited into Hafod Housing Association Limited making a reality of the ‘One Hafod’ vision.

During 2019 the continuing rollout of universal credit was already impacting on the people we serve. The deterioration in the housing arrears position masks the real consequences of the impact of universal credit on individuals and families who struggle to make ends meet on a weekly basis. We strive, through our neighbourhood coaches and support network to aid and assist our customers wherever possible. Numerous stories detailing the positive impact of our actions and initiatives have been captured over the last year showing how the Group ‘makes lives better’.

We continued to experience the trend of recent years of admitting increasingly vulnerable clients into our nursing and residential care homes. This has operational implications on the level of staffing we need to ensure we provide a quality service. Unfortunately the additional resources and, therefore, additional costs are not reflected in fee levels resulting in the care business returning lower operating margins. This in turn limits our financial capacity to invest in upgrading our homes. However, occupancy levels in our care homes over 2019 were an extremely positive outcome for the service.

Irrespective of financial considerations, we are committed to undertake any necessary works to ensure that our homes provide a safe and healthy living and working environment. Early in 2019 we invested in excess of £100,000 in our Arthur Jenkins home in Blaenavon to address asbestos and electrical safety issues. The work entailed disruption to the daily life of both customers and colleagues. The completion of the work has meant that we can retain this home as a place of employment for current colleagues, many of whom are local to the vicinity of the home, as well as customers, many of whom are not only local but also over one hundred years of age.

We recognise the need to invest in our care estate, but also recognise the financial reality that such investment, with current fee levels, is likely to be unviable. The Board commissioned, during the year, an external review of the Group's care estate to get a better understanding of the challenges and opportunities that were facing our homes. This information will be analysed to inform decisions about investing in our care homes – which is a key strategic priority got the Group.

We will not achieve all of our strategic objectives on our own; therefore, we have reached out to local authorities, builders, off-site manufacturing companies and other organisations in our key strategic growth areas to discuss how we can work in partnership to achieve mutual benefit for all parties. These initiatives will supplement our traditional growth through grant and self-funded developments.

All the operational issues and challenges that normally face a diverse and socially conscious business such as the Hafod will all now be multiplied one-hundred-fold as a result of the impact of the COVID-19 outbreak.

The short term impact of the mothballing of development schemes will mean that families who were reliant on being housed by us will now have to wait for possibly an extended period of time. The development landscape beyond the end of the lock down may well look very different from what the Group has been used to over the last fifty years.

The pandemic will not impede Hafod in ensuring, as far as possible, that our current housing stock is in compliance with all legislative requirements. The programme for improvements to properties that were planned for 2020 will be re-assessed when normality returns, when contractors are able to undertake work with no risk to themselves or our tenants and when material supply chains return to normal.

Tenants and their families who, during the outbreak, may have been put out of work, and may well have had the experience for the first time of applying for universal credit. We will manage any impact of their difficulties in meeting their rental obligations in a sensitive and understanding way dependent upon the circumstances of each individual.

We ended 2019 in a healthy financial position, having secured new external funding; nevertheless, maintaining our financial strength in the face of challenges that the pandemic now presents to the Association is now a priority. However, it is at times of crisis that organisations such as ours dig deep to ensure, wherever possible that the service and care it provides to our customers is maintained to the highest possible standards.

Financial performance

The Association's surplus for the year of £1.5m was 3.6% of turnover (2018: £3.8m, 13.4% of turnover); the operating surplus of £6.8m was 15.7% of turnover (2018: £8.3m, 29.6% of turnover).

The Board passed resolutions during the year approving additional costs outside the annual budget in relation to the Transforming Governance Improvement Plan as well as remedial works required at Arthur Jenkins; this has impacted the results by over £200k.

An independent evaluation of the Greater Gwent (Torfaen) final salary pension scheme resulted in an actuarial gain on the scheme being reported in Hafod Housing Association Limited's statement of comprehensive income for the year of £0.5m. This matter is dealt with further in the financial statements.

As at 31 December 2019 the revenue reserves stood at £70.4m (2018: £46.6m). As part of the transfer of engagements from Hafod Care Association Limited to the Association, reserves of £21.6m were transferred to the Association. The Association's reserves also increased by £2.1m, this comprised the surplus for the year and the actuarial gain on the pension scheme.

There was a net cash inflow from operating activities during the year of £12.1m (2018: £12.2m). External borrowing was offset by bank account balances to leave net debt at the end of 2019 of £113m (2018: £87m). After cash outflows in respect of interest payable, loan repayments, investment in component replacements and purchase of replacement fixed assets, the Association generated 'free cash flows' of £2.2m (2018: £4.4m).

Under the Hendre Group's treasury management policy, surplus cash generated by other members of the Group is pooled within the Association and placed on deposit with approved counter-parties as outlined in the Treasury Management Policy.

The financial statements and supporting notes detail the financial performance of the various operating activities of the Association.

Value for money

Value for Money (VFM) is about delivering services in the most effective and efficient way aligned to our vision of "Improving health, well-being and prosperity in communities by helping to integrate the systems of housing, health, social care and support". There are a range of perspectives held by different stakeholders on what the 'value' means in VFM. For Hafod VFM is about ensuring that every pound spent delivers the maximum impact possible in terms the best use of resources in the pursuit of social objectives that benefit a range of stakeholders. Therefore even though this is entitled a VFM Strategy it also encompasses our commitment to generating social value and investing in our communities.

As a Registered Social Landlord we are required to meet the requirements of the Welsh Government Regulatory Framework that housing associations achieve value for money and make the best use of resources. We see this not only as a regulatory obligation but also an opportunity. With effective governance, management and accountability we will address emerging housing needs within a VFM framework at a time when resources are being stretched to meet the challenges for 2020 and beyond.

We have reviewed and updated our approach to VFM and we have identified four key objectives.

Objective 1 – Maximise value from the group structure
Our group structure provides a range of opportunities to deliver more with the resources available. Some of these gains are already being realised, for example, we have optimised our treasury management policy by creating additional capacity through the transfer of engagements of Care to Housing. There will, however, be further opportunities to ensure services are delivered by the right group entity to make best use of resources and to deliver commercial works which generate surpluses for re-investment in core service delivery.

Objective 2 – Obtain VFM via procurement
A significant potential for VFM efficiencies across our operations is through procurement of goods and services. We have a good track record of delivering efficiencies through effective procurement and that approach will continue. Our Procurement Strategy aims to maximise the achievement of VFM by embedding processes in line with commercial procurement best practice. Our approach to procurement recognises Social Value, incorporating Community Benefits, within that definition of value.

Objective 3 – Understand value, optimise efficiencies and use resources effectively
A transformation programme has been developed to promote the benefits of change and create a culture of improvement. Through utilising recognised improvement techniques, ways of working throughout Hafod will be streamlined to maximise efficiency, reducing staff time spent on administration, adding value to the business, its operations and to our customers.

Objective 4 – Delivering Community Benefits
A key priority is to pro-actively seek and mainstream community benefits and enhanced social value into Hendre and its entities' investment. By embedding community benefits into daily policy and practice, we are better equipped to harness opportunities that improve the health, well-being and resilience of local communities and individuals.

Our Board delivers their responsibilities through the following approach:

- Review and approve the Value for Money Strategy
- Review progress through monitoring progress against objectives
- Considering VFM within relevant board reports, including financial, performance monitoring and benchmarking information
- Review and approve the annual VFM Report
- Review and approve the long term financial plan with particular focus on annual efficiency targets included within the plans
- Review the long term efficiency of our assets as part of our asset management strategy to understand the financial, social and environmental returns we can deliver

The Executive Board delivers their responsibilities through:

- Building the VFM Objectives within our Strategic Plan
- Implementation of the VFM Implementation Plan
- Ensuring staff engage in achieving the Group's VFM objectives
- Promoting and reporting on the progress against Objectives
- Facilitating customer involvement in VFM where relevant

Our Colleagues

As a people powered business our frontline teams are central to what we do and empowering and enabling them to achieve the organisation's goals is an essential part of our business plan delivery.

The organisation's ability to deliver its vision and strategic plan depends on the contribution of colleagues throughout the business.

We want to ensure that every colleague feels valued and appreciated for the work they do turning the traditional organisation structure upside down, ensuring our frontline teams are listened to and shape the business.

Our people agenda will be focused on responding to the Welsh Government's focus on the foundational economy and fair work by striving to improve our colleague's lives through the provision of first class development, competitive terms and conditions and ways of working that both inspire our colleagues and provide them with further opportunities and growth.

As an employer committed to equality and diversity, we understand our responsibility to foster a more inclusive organisation and will work with our teams to achieve accreditation for inclusive ways of working. We will also embrace our social credentials providing further opportunities to engage our colleagues in helping our communities and also provide opportunities for our tenants and residents to learn and grow with the Group.

We have developed a people strategy that sets out our people ambitions, objectives and goals and is a live and dynamic plan which will respond to changes in trends, employment legislation and HR best practice. Our strategy focuses on the delivery of the following 4 inter-related people ambitions underpinned by an implementation plan and measures of success.

Our ambitions are focused on enabling Great Days at Work where;

- talented people want to work and stay and everyone's contribution is valued;
- skills are developed and ambitions are achieved, enabling us to be recognised for our excellence in work-based learning;
- culture, leadership and behaviours enable a high performance culture; and
- people practices enable the organisation to achieve its objectives.

We have all the elements in place in Wales to make lives better and we are excited that we are leading the way to help deliver change for our future generations.

Modern Slavery and Human Trafficking Statement

We recognise that we work in an area that could be susceptible to the risks of modern slavery and human trafficking, especially as we work with vulnerable groups within society. We have already taken steps to ensure our company policy is in place to create an awareness and understanding of modern slavery and human trafficking, and our statement is a demonstration of improving our practices further.

The statement is produced on behalf of Hendre Limited and its subsidiaries.

Recruitment and employment

As a large employer we recognise that we need to be alert to the potential risks of modern slavery and human trafficking within our own business. To mitigate against these risks the Group has a broad range of controls and measures to ensure that employees are not subject to undue influence, are treated with dignity and respect and are able to raise any concerns they have around slavery or trafficking matters.

Controls and measures in place include:

- Robust recruitment practices. These include undertaking a number of mandatory checks, in respect of eligibility to work in the UK, as well as Safeguarding practices and disclosure checks. We ensure that these are adhered to regardless of whether employment is permanent, temporary or fixed term, and expect any agencies we work with to align to our practices;
- Robust HR procedures which are regularly reviewed to ensure compliance to the latest legislation and best practice;
- Structured terms and conditions to ensure that all staff are remunerated appropriately for the role they perform;
- Counter fraud and anti-corruption policies which detail the Group's expectation that all individual employed (as well as external organisations associated in whatever way with the Group) will act with integrity and that Board Members and staff at all levels will lead by example in these matters;
- Being subject to scrutiny by our own internal audit, a range of external regulators and Government bodies, such as HMRC, who monitor various aspects of the Group's activities;
- A commitment to promoting equality, diversity and dignity in the workplace and the services we provide.

People

The Group has a Raising Concerns at Work policy and procedure, supported by our 'Speak Up' campaign, which promotes open and transparent communications, and encourages employees to come forward to report concerning behaviours. As part of this policy we have integrated our Whistleblowing and Grievance policy as well as referencing our Safeguarding approach.

Supply chains

We work closely with all our supply chains to ensure our approach and commitment to modern slavery and human trafficking is mirrored within their own business practices. We will demonstrate that we manage our supply chain ethically and with integrity, and support any effective systems and controls put in place to combat modern slavery and human trafficking.

We will undertake due diligence in reviewing existing contractors/suppliers and in engaging new contractors/suppliers, including embedding appropriate steps in our tendering, contracting and procurement procedures across the Group.

These measures will include appropriate checks during our procurement process to ensure supply chain partners have appropriate policies and procedures in place in relation to, not only the workforce directly employed by them, but also the workforce employed by their supply chains.

Training

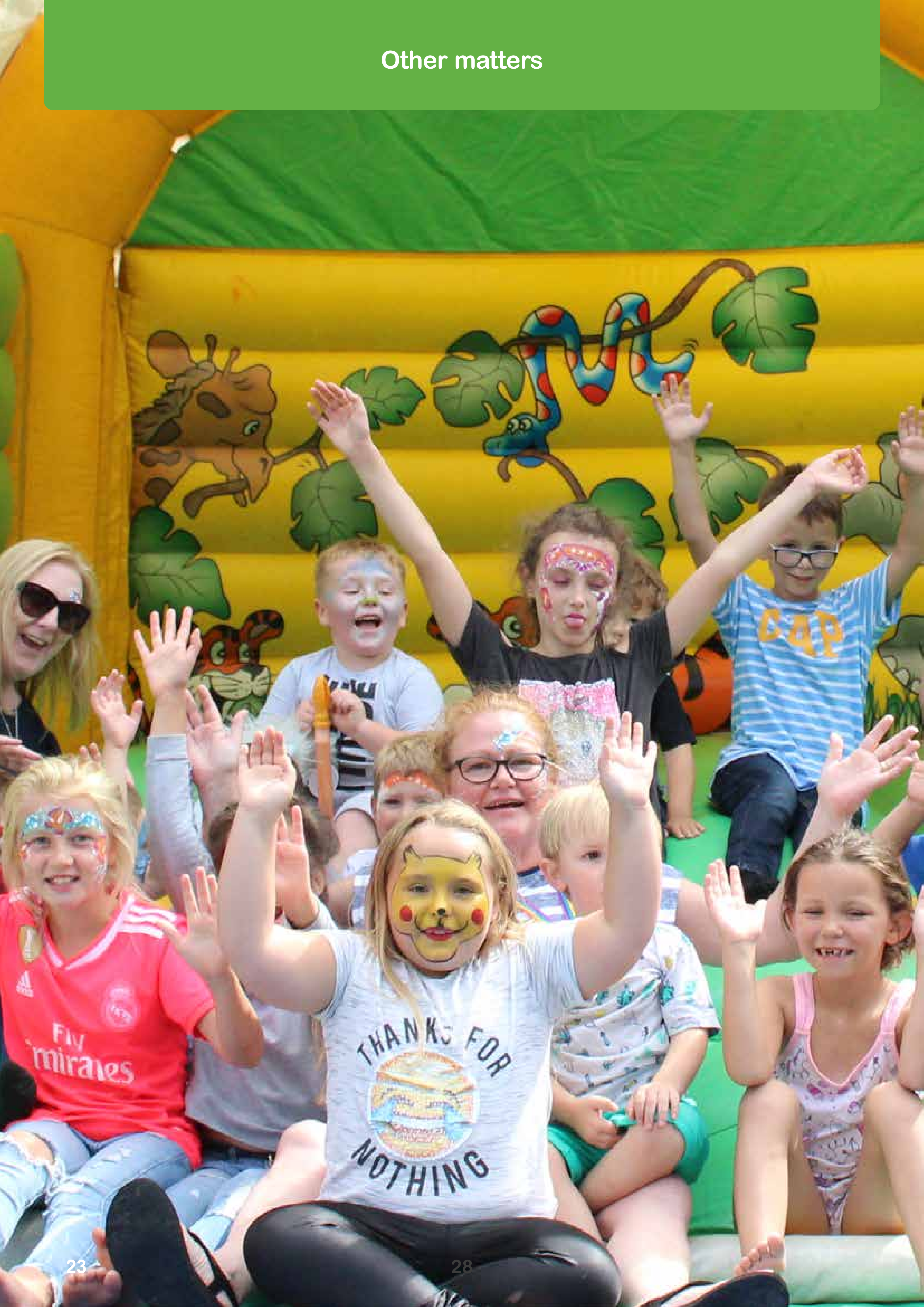
We provide training through our Learning and Development team to ensure our employees have full awareness of modern slavery and human trafficking, as well as other policies within safeguarding, raising concerns at work and equality and diversity.

Our ongoing approach

We will ensure that our policies and practices remain up to date to ensure that we are fully aware and compliant with steps we need to take against modern slavery and human trafficking.

Our statement is made pursuant to section 54(1) of the Modern Slavery Act 2015 and constitutes the Group's commitment.

Other matters



Subsequent events

COVID-19 which was identified in China in late 2019 and became a worldwide pandemic in early 2020 is having a significant impact on the worldwide economy. Whilst the Association has established risk management frameworks and a COVID-19 action plan in place the full extent of the impact of the pandemic on the wider economy is not yet fully known.

Disclosure of information to the Auditor

The Board Members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Association's auditor is unaware; and each Board Member has taken all the steps that they ought to have taken as a Board Member to make themselves aware of any relevant audit information and to establish the Association's auditor is aware of such information.

Annual general meeting

The annual general meeting will be held on 15 June 2020.

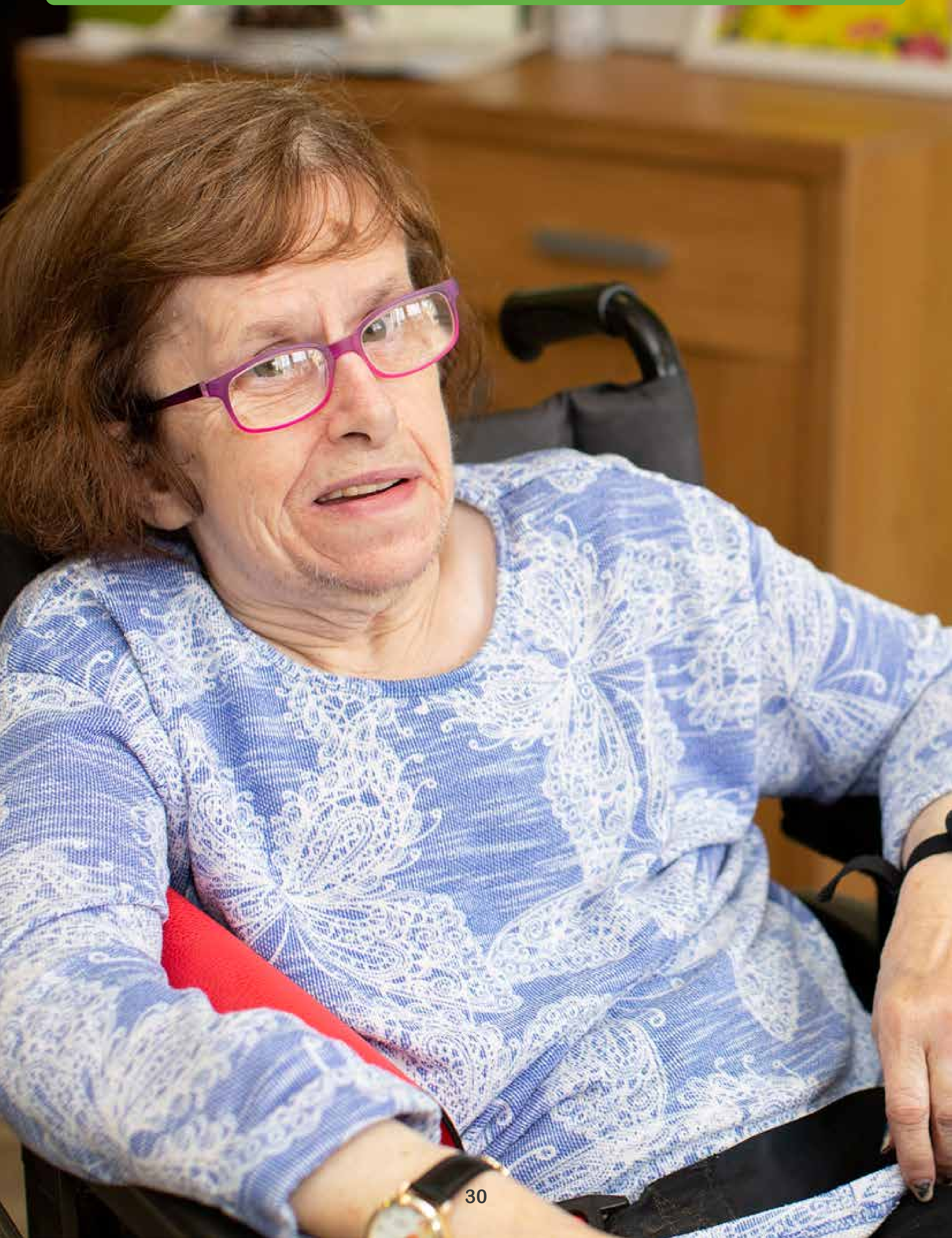
Auditor

The auditor, Mazars LLP, is willing to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

The report of the Board was approved on 18 May 2020 and signed on its behalf by:

Peter Maggs, Chair

Independent Auditor's report to the Members of Hafod Housing Association Limited



Opinion

We have audited the financial statements of Hafod Housing Association Limited (the 'association') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and 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 association's affairs as at 31 December 2019 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015.

Basis for opinion

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

Emphasis of matter – Impact of the outbreak of COVID-19 on the financial statements

In forming our opinion on the association financial statements, which is not modified, we draw your attention to the Boards' view on the impact of COVID-19 as disclosed on page 17, and the consideration in the going concern basis of preparation on page 42 and non- adjusting post balance sheet events on page 29.

Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK

The full impact following the recent emergence of COVID-19 is still unknown. It is therefore not currently possible to evaluate all the potential implications to the association's customers, suppliers and the wider economy.

Conclusions relating to going concern

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

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

Other information

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

We have reviewed the Board's statement on the association's compliance with the Welsh Government circular RSL 02/10 'Internal controls and reporting'. We are not required to express an opinion on the effectiveness of the association's system of internal control.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Welsh Government circular RSL 02/10 'Internal controls and reporting'

In our opinion, based on the work undertaken in the course of the audit with respect to the Board's statement on internal control:

- the Board has provided the disclosures required by the Welsh Government circular RSL 02/10 'Internal controls and reporting'; and
- the statement is not inconsistent with the information of which we are aware from our audit work on the financial statements.

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:

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

Responsibilities of the Board

As explained more fully in the Statement of the Board's responsibilities set out on page 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 association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

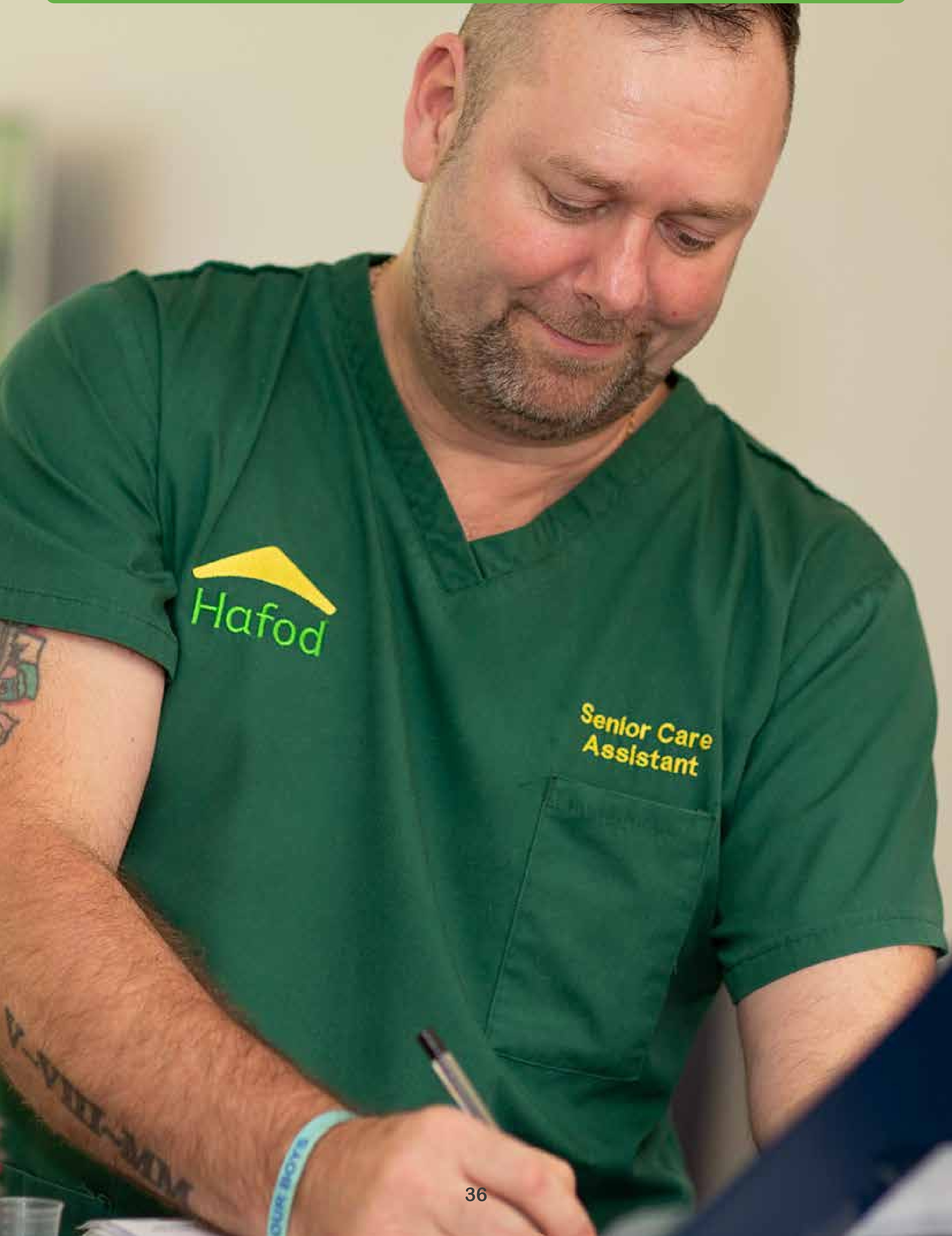
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

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

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

Date: 15 June 2019


Hafod
Senior Care
Assistant

Statement of comprehensive income
Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	3	43,387	28,082
Operating expenditure	3	(36,898)	(20,307)
Surplus on disposal of property, plant and equipment	5	317	538
Operating surplus	3	**6,806**	**8,313**
Interest receivable	6	190	109
Interest and financing costs	7	(5,429)	(4,648)
Other finance cost	34	(22)	-
Surplus before tax	3	**1,545**	**3,774**
Taxation	12	-	-
Surplus for the year		**1,545**	**3,774**
Actuarial gain in respect of pension scheme	35	541	-
Total comprehensive income for the year		**2,086**	**3,774**

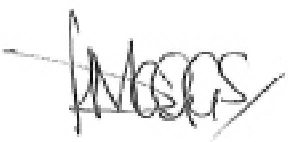
Statement of changes to reserves
As at 31 December 2019

	2019 £'000	2018 £'000
At beginning of year	**46,623**	**42,849**
Transfer of engagements from Hafod Care Association Limited	21,645	-
Surplus for the year	1,545	3,774
Actuarial gain in respect of pension scheme	541	-
At end of year	**70,354**	**46,623**

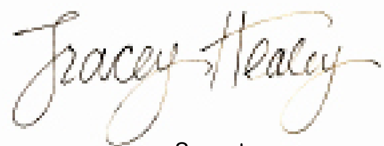
Statement of financial position
As at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Housing properties	**13**	343,870	269,498
Other property, plant and equipment	**15**	989	339
Home Buy loans	**16**	10,633	9,960
		355,492	279,797
Current assets			
Inventories	**17**	1,419	1,247
Debtors due after one year	**18**	13,304	8,260
Debtors due within one year	**19**	5,683	1,804
Treasury deposits	**20**	17,816	25,974
Cash at bank and in hand	**20**	555	350
		38,777	37,635
Creditors: amounts falling due within one year	**21**	(15,172)	(12,015)
Net current assets		23,605	25,620
Total assets less current liabilities		379,097	305,417
Creditors: amounts falling due after more than one year	**22**	(308,411)	(258,794)
Defined benefit pension liability	**35**	(332)	-
Net assets		**70,354**	**46,623**
Capital and reserves			
Called up share capital	**27**	-	-
Revenue reserves		70,354	46,623
Association's funds		**70,354**	**46,623**

The financial statements were approved by the Board on 18 May 2020 and signed on its behalf by:


Chair


Board Member


Secretary

Statement of cash flows
Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Net cash generated from operating activities	a	**12,104**	**12,224**
Cash flows from investing activities			
Purchase of property, plant and equipment		(31,105)	(21,209)
Home Buy loans		(3,142)	(1,529)
Proceeds from sale of property, plant and equipment		1,240	1,483
Grants received		9,362	8,433
Interest received		190	109
Net cash flows from investing activities		**(23,455)**	**(12,713)**
Cash flows from financing activities			
Interest paid		(5,296)	(4,592)
New loans		10,740	10,000
Repayments of borrowings		(1,707)	(1,257)
Inter-company debtors and creditors		(537)	(1,948)
Net cash flows from financing activities		**3,200**	**2,203**
Net decrease in cash and cash equivalents		**(8,151)**	**1,714**
Cash and cash equivalents at beginning of year		**26,324**	**24,610**
Transfer of engagement - non cash adjustment		**198**	**-**
Cash and cash equivalents at end of year	b	**18,371**	**26,324**

Statement of cash flows
Year ended 31 December 2019

a) Net cash generated from operating activities

	2019	2018
	£'000	£'000
Surplus for the year	1,545	3,774
Adjustment for non-cash items:		
Depreciation of property, plant and equipment	5,628	4,970
Decrease in inventories	2,043	1,170
Increase in debtors	(1,238)	(301)
Increase in creditors	961	387
Pension costs less contributions payable	78	-
Carrying amount of property, plant & equipment disposals	923	945
Adjustments for investing or financing activities:		
Proceeds from the sale of property, plant and equipment	(1,240)	(1,483)
Government grants utilised in the year	(1,835)	(1,777)
Interest payable	5,429	4,648
Interest received	(190)	(109)
Net cash generated from operating activities	**12,104**	**12,224**

b) Cash and cash equivalents

	2019	2018
	£'000	£'000
Treasury deposits	17,816	25,974
Cash at bank and in hand	555	350
	18,371	**26,324**

c) Free cash flow

	2019	2018
	£'000	£'000
Net cash generated from operating activities	12,104	12,224
Interest paid	(5,296)	(4,592)
Interest received	190	109
Component replacements	(2,902)	(1,886)
Purchase of other replacement fixed assets	(224)	(158)
Free cash generated before loan repayments	**3,872**	**5,697**
Loans repaid (excluding revolving credit and overdrafts)	(1,707)	(1,257)
Free cash generated after loan repayments	**2,165**	**4,440**

Statement of cash flows
Year ended 31 December 2019

d) Reconciliation of net cash flow to movement in net debt

	2019	2018
	£'000	£'000
(Decrease)/Increase in cash in the year	(8,151)	1,714
Cash inflow from inter-company debtors and creditors	537	1,948
Cash inflow from changes in debt	(9,033)	(8,743)
Other non-cash changes	(9,570)	-
Movement in net debt in the year	(26,217)	(5,081)
Net debt at 1 January	(87,065)	(81,984)
Net debt at 31 December	**(113,282)**	**(87,065)**

e) Analysis of changes in net debt

	At 1 January 2019	**Other non-cash changes**	**Cash flows**	**At 31 December 2019**
	£'000	£'000	£'000	**£'000**
Cash and cash equivalents	26,324	198	(8,151)	18,371
Inter-company debtors and creditors	(2,449)	6,782	537	4,870
Housing loans	(110,940)	(16,550)	(9,033)	(136,523)
Net debt	**(87,065)**	**(9,570)**	**(16,647)**	**(113,282)**

Notes to the financial statements
Year ended 31 December 2019

1 Principal accounting policies

a) Basis of accounting
The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with Financial Reporting Standard 102 (March 2018) (FRS 102) issued by the Financial Reporting Council and comply with the Statement of Recommended Practice for registered social housing providers 2018 (SORP), the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015. The Association is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

b) Going concern
In preparing the financial statements on the going concern basis the directors have had regard to the budgets, business plans, liquidity position and financial forecasts for the Association. The Board has reviewed and approved a number of stress tests to the business plan in light of the COVID-19 pandemic together with assessment of plans to mitigate any impacts arising. Following this review the Directors consider it appropriate to draw up the financial statements on the going concern basis.

c) Other accounting policies
The accounting policies applied in preparing these financial statements are set out in the notes that follow.

2 Significant management judgements and key sources of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The following are management judgements in applying the accounting policies of the Association that have the most significant effect on the amounts recognised in the financial statements:

Classification of financial instruments between basic and other

Financial instruments are classified as either basic or other, with differing accounting treatments depending on the classification. Section 11 of FRS 102, 'Basic Financial Instruments', sets out the requirements for the recognition, measurement and derecognition of basic financial instruments. This section sets out the conditions that must be met in order to classify a financial instrument as basic and therefore account for it in accordance with Section 11. The Association has considered this guidance and concluded that FRS 102's requirements are most appropriately interpreted to classify all financial instruments held by the Association as basic.

Development expenditure

The Association capitalises development expenditure in accordance with the accounting policy described on page 49. Distinguishing the point at which a project is more likely than not to continue, allowing capitalisation of associated development costs, requires judgement. Initial capitalisation of costs is based on management's judgement that the development scheme is confirmed and, in determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.

Notes to the financial statements
Year ended 31 December 2019

3 Turnover, operating surplus and surplus before taxation

	Turnover £'000	Operating costs £'000	Operating surplus / (deficit) £'000	**2019 Surplus / (deficit) before taxation £'000**	2018 Surplus / (deficit) before taxation £'000
Social housing lettings:					
General needs housing	25,281	20,134	5,147	5,147	6,856
Shared ownership	382	25	357	357	363
Supported housing	3,592	3,422	170	170	146
Other social housing activities:					
Private sector leasing	1,103	1,026	77	77	(22)
First tranche sales	3,090	2,215	875	875	379
Residential care homes	3,695	3,804	(109)	(109)	-
Non social housing activities:					
Nursing care homes	4,698	4,730	(32)	(32)	-
Homecare	1,364	1,465	(101)	(101)	-
	43,205	**36,821**	**6,384**	**6,384**	**7,722**
Other income and expenditure	182	77	105	105	53
	43,387	**36,898**	**6,489**	**6,489**	**7,775**
Surplus on disposal of property, plant and equipment				317	538
Opearting surplus				**6,806**	**8,313**
Interest receivable				190	109
Interest and financing costs				(5,429)	(4,648)
Other finance cost				(22)	-
Surplus before tax				**1,545**	**3,774**

Turnover comprises:
- Rent, fees and service charge income receivable in the year from tenants, residents and leaseholders;
- Income from other goods and services supplied in the year (excluding VAT);
- Income from homeless leasing schemes;
- Revenue grants, including amortisation of government grants; and
- Income from sale of housing property stock.

Properties sold through tenants exercising their right to buy or their right to acquire are included within surplus or deficit on the sale of fixed assets. The proceeds from the first tranche sale of shared ownership properties are included within turnover. Subsequent tranche sales are included within the surplus or deficit on the sale of fixed assets.

4 Particulars of income and expenditure

	Social housing lettings			Other social housing activities			Non social housing activities			
	General needs housing £'000	Shared ownership £'000	Supported housing £'000	Private sector leasing £'000	First tranche sales £'000	Residential care homes £'000	Nursing care homes £'000	Homecare £'000	**2019 Total £'000**	2018 Total £'000
Turnover										
Rents, fees and other charges	22,555	268	1,834	1,077	-	3,695	4,698	1,364	**35,491**	23,428
Service charges	1,111	114	595	25	-	-	-	-	**1,845**	1,209
Revenue grants	-	-	944	-	-	-	-	-	**944**	38
Amortised government grant	1,615	-	219	1	-	-	-	-	**1,835**	1,667
Sale proceeds	-	-	-	-	3,090	-	-	-	**3,090**	1,468
	25,281	**382**	**3,592**	**1,103**	**3,090**	**3,695**	**4,698**	**1,364**	**43,205**	**27,810**
Operating costs										
Management and service costs	9,490	25	2,110	657	-	3,386	4,296	1,465	**21,429**	8,112
Maintenance	5,737	-	627	266	-	302	238	-	**7,170**	5,875
Bad debts	470	-	53	65	-	14	(27)	-	**575**	401
Deficit on replacement of property components	164	-	25	-	-	33	48	-	**270**	129
Depreciation of properties	4,273	-	607	38	-	69	175	-	**5,162**	4,482
Cost of sales	-	-	-	-	2,215	-	-	-	**2,215**	1,089
	20,134	**25**	**3,422**	**1,026**	**2,215**	**3,804**	**4,730**	**1,465**	**36,821**	**20,088**
Operating surplus / (deficit)	**5,147**	**357**	**170**	**77**	**875**	**(109)**	**(32)**	**(101)**	**6,384**	**7,722**
Rent loss from voids (memorandum note)	160	-	57	61	-	254	155	-	**687**	215

Surplus on first tranche sales comprises of seventeen sales (2018: 10) with turnover at £3.090m (2018: £1.468m) and cost of sales at £2.215m (2018: £1.089m); resulting in a surplus of £0.875m (2018: £0.379m).

Notes to the financial statements
Year ended 31 December 2019

5 Surplus on disposal of property, plant and equipment

	2019	2018
	£'000	£'000
Sale proceeds	1,240	1,483
Cost of sales	(923)	(945)
	317	538

Surplus on disposal of property, plant and equipment comprises of 24 (2018: 28) traditional staircasing sales resulting in a surplus of £317k (2018:£538k).

6 Interest receivable

	2019	2018
	£'000	£'000
Bank interest receivable	190	109

7 Interest and financing costs

	2019	2018
	£'000	£'000
Bank loans	5,429	4,648

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are calculated using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument and is determined on the basis of the carrying amount of the financial liability at initial recognition. Under the effective interest method, the amortised cost of a financial liability is the present value of future cash payments discounted at the effective interest rate and the interest expense in a period equals the carrying amount of the financial liability at the beginning of a period multiplied by the effective interest rate for the period.

The Association does not capitalise any interest costs associated with its development activity.

8 Surplus on ordinary activities before taxation

	2019	2018
	£'000	£'000
Surplus on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of property, plant and equipment	5,358	4,564
Amortised government grant	(1,835)	(1,667)
Surplus on disposal of property, plant and equipment	(317)	(538)
Audit fees:		
- Statutory audit	35	19
- Audit related assurance services	3	3
Operating lease rentals	52	15

9 Units in management

	2018 Number	Adjustments	Additions	Disposals	Transfers	**2019 Number**
General needs housing	4,135	(32)	210	(5)	-	4,308
Shared ownership	113	(10)	-	(2)	-	101
Supported housing	37	6	11	-	437	491
Private sector leasing and lettings	279	-	4	(152)	-	131
Residential care homes	-	-	-	-	271	271
Nursing care homes	-	-	-	-	239	239
Home Buy	352	15	17	(33)	-	351
Leaseholders	234	(28)	3	(1)	-	208
	5,150	(49)	245	(193)	947	6,100

The transfer relates to accommodation transferred from Hafod Care Association Limited under a transfer of engagements on 31 July 2019

In addition to bed spaces and units in management the Association also provides floating support, tenant support and homecare services to 1,138 (2018: 701) clients.

10 Employee information

Hafod Care Association Limited's staff were transferred to Hafod Housing Association Limited on 31 July 2019 as part of a transfer of engagements. Hafod Resources Limited and Hendre Limited's staff transferred to Hafod Housing Association Limited on 1 October 2019.

The average number of staff employed during the year was as follows:

	2019 Number	2018 Number
The average number of staff employed during the year was as follows:	605	121
The total number of staff employed at the end of the year was:	1,342	134

The total costs for the staff employed was as follows:

	2019 £'000	2018 £'000
Wages and salaries	11,494	3,164
Social security costs	918	291
Pension costs	515	242
	12,927	3,697

Included in the wages and salaries reported above is an accrual for all outstanding benefits to which employees (including senior executives) have become entitled to at the year end as a result of their service, including holiday pay, garden leave and long service benefits. The total accrued as at 31 December 2019 was £157,142 (2018: £88,096). Senior executives do not have any entitlement to enhanced benefits.

The charge for pension represents contributions paid by the Association to the pension schemes. Outstanding amounts payable to the schemes at the year end were £191,672 (2018: £31,219).

The Association operates a salary exchange scheme that is available to all employees.

Additionally, Hendre Limited and Hafod Resources Limited recharged staff costs of £2.0m (2018: £1.7m) to the Association in respect of services provided by those staff employed under joint contracts of employment.

11 Members' and key management personnel emoluments

For the purpose of this note, members and key management personnel refer to the senior executives contracted and employed by the Hendre Group as outlined on page 11.

The Group's Senior Executives are ordinary members of the Group's defined contribution pension scheme. No enhanced or special terms apply to their membership and the Group makes no contribution to any individual pension arrangement in respect of their employment.

Emoluments, including benefits in kind, payable to key management personnel of the Group were as follows:

	2019	2018
	£'000	£'000
Emoluments	934	963
Pension contributions	90	93
Total emoluments	1,024	1,056

Emoluments payable to the Group Chief Executive Officer:

	2019	2018
	£'000	£'000
Emoluments	138	134
Pension contributions	14	13
Total emoluments	152	147

The number of Senior Executives who received emoluments (excluding pension contributions) were in the following ranges:

	Number	Number
£0 - £10,000		-
£10,001 - £20,000	2	-
£20,001 - £30,000	1	-
£30,001 - £40,000	1	1
£40,001 - £50,000	-	-
£50,001 - £60,000	-	1
£60,001 - £70,000	1	1
£70,001 - £80,000	3	4
£80,001 - £90,000	2	3
£90,001 - £100,000	-	-
£100,001 - £110,000	1	-
£110,001 - £120,000	-	-
£120,001 - £130,000	1	1
£130,001 - £140,000	1	1

12 Taxation

The surpluses of the Association are exempt from taxation as it is accepted as a charity for tax purposes.

The Association is registered for VAT but a large proportion of its income is exempt for VAT purposes and this therefore gives rise to a partial exemption calculation.

13 Housing properties

	Completed properties £'000	Under construction £'000	Completed shared ownership £'000	2019 Total £'000	2018 Total £'000
Cost					
At beginning of year	295,132	13,259	2,090	310,481	286,952
Additions to properties in the year	1,106	19,580	-	20,686	15,124
Transfer of assets from Hafod Care Association	55,138	2,126	-	57,264	-
Section 106 agreements and donated land	1,858	-	-	1,858	3,482
Acquired from Hafod Care Association Limited	7,291	-	-	7,291	3,974
Schemes completed in the year	13,452	(13,452)	-	-	-
Components replaced in the year	2,630	-	-	2,630	2,006
Disposal of properties in the year	(368)	-	(61)	(429)	(267)
Disposal of components in the year	(1,097)	-	-	(1,097)	(790)
Reclassification of assets	(292)	-	-	(292)	-
At end of year	374,850	21,513	2,029	398,392	310,481
Depreciation					
At beginning of year	40,983	-	-	40,983	36,927
Charge for year	5,162	-	-	5,162	4,481
Transfer of assets from Hafod Care Association	9,274	-	-	9,274	-
Acquired from Hafod Care Association Limited	-	-	-	-	276
Disposal of properties in the year	(70)	-	-	(70)	(40)
Disposal of components in the year	(827)	-	-	(827)	(661)
At end of year	54,522	-	-	54,522	40,983
Net book value					
At end of year	320,328	21,513	2,029	343,870	269,498
At beginning of year	254,149	13,259	2,090	269,498	250,025

The transfer of assets from Hafod Care Association Limited relates to the transfer of engagements on 31 July 2019.

In addition to the components replaced in the year, a further £1.5m was spent on major repairs (excluding overheads) and has been written off to the statement of comprehensive income (2018: £1.0m). Improvements capitalised in the year amounted to £1.1m (2018: nil), this included physical adaptation works (PAG's) and cladding works.

Properties for letting are stated at historic cost less depreciation. Cost includes the cost of acquiring land and buildings and development costs. Where land or buildings are acquired at below market value e.g. as part of a Section 106 agreement (under the Town and Country Planning Act 1990), the carrying value reflects the fair value of the asset received, with the subsidy implicit in the arrangement deemed as grant. Surpluses or deficits resulting from the sale of properties are shown in the statement of comprehensive income under surpluses/deficits from the sale of property, plant and equipment.

Direct development administration costs capitalised in the year amounted to £0.8m (2018: £0.4m). Costs which are directly attributable to the development activity are capitalised including any third party legal, professional or consultancy costs incurred directly in bringing a project into management. The Group does not capitalise any interest costs associated with its development activity.

Direct maintenance administration costs capitalised in the year amounted to £0.2m (2018: nil) and are included in the components replaced in the year above.

The Association charges depreciation on properties for letting and capitalised components on a straight line basis in order to write off the asset's cost less residual value over its useful economic life.

13 Housing properties (continued)

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

Depreciation on properties for letting is charged from the beginning of the year following the property entering into management. Depreciation on capitalised components is charged from the beginning of the year following the replacement of a capitalised component.

Depreciation on properties for letting is charged from the beginning of the year following the property entering into management. Depreciation on capitalised components is charged from the beginning of the year following the replacement of a capitalised component.

Depreciation is charged on a straight line basis over the assets expected useful economic life as follows:

Component	General needs and supported housing	Residential and nursing homes
Property structure	100 years or the period of lease	50 years or the period of lease
Kitchens	15 years	30 years
Bathrooms	25 years	25 years
Heating systems	15 years	20 years
Electrics	35 years	35 years
Window and doors	30 years	30 years
Roof	65 years	50 years
Lifts	20 years	20 years
Physical adaptions	20 years	n/a
Conversions	20 years	20 years

Shared ownership properties are not depreciated as the residual value, which is the estimated amount that would currently be obtained from sale, is not less than the carrying value. All properties are split between fixed and current assets in line with the expectation relating to the first tranche sale percentage. The expected first tranche proportion is classified as a current asset until the point of the first tranche sale. The current asset is then transferred to cost of sales and matched against the sale proceeds within the operating surplus in the statement of comprehensive income. Any operating surplus is restricted to the overall surplus which takes account of the Existing Use Value - Social Housing (EUV-SH) of the remaining fixed asset element. The remaining element of the asset is classified as a fixed asset and included in the housing properties as cost less social housing grant, less any provision for depreciation or impairment.

14 Impairment review

Properties held for their social benefit are not held solely for the cash inflows they generate and are held for their service potential. An assessment is made at each reporting date as to whether an indicator of impairment exists. If such an indicator exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is made. Where the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in surplus or deficit in the statement of comprehensive income. The recoverable amount of an asset is the higher of its value in use and fair value less costs to sell. Where assets are held for their service potential, value in use is determined by the present value of the asset’s remaining service potential plus the net amount expected to be received from its disposal. Depreciated replacement cost is taken as a suitable measurement model.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply and included in surplus or deficit in the statement of comprehensive income.

The Association is satisfied, by consideration of a number of factors, that there is no indication of impairment to any category of assets, and thus considers that a full, detailed impairment evaluation is not required. In arriving at this conclusion the Association has considered the current level of demand for property across all areas and property types, the low level of void losses, current and projected cash flows, and the ongoing investment in property maintenance and improvement.

Notes to the financial statements
Year ended 31 December 2019

15 Other property, plant and equipment

	Service equipment £'000	Computers, furniture, vehicles and equipment £'000	**2019 Total £'000**	2018 Total £'000
Cost				
At beginning of year	912	158	1,070	912
Additions during year	67	157	224	158
Transfer of assets from Hafod Care Association Limited	-	3,587	3,587	-
At end of year	979	3,902	4,881	1,070
Depreciation				
At beginning of year	602	129	731	648
Charge for year	69	127	196	83
Transfer of depreciation from Hafod Care Association Limited	-	2,965	2,965	-
At end of year	671	3,221	3,892	731
Net book value				
At end of year	308	681	989	339
At beginning of year	310	29	339	264

The transfer of assets from Hafod Care Association Limited relates to the transfer of engagements on 31 July 2019

Other property, plant and equipment is stated at historic cost less accumulated depreciation.

The Association charges depreciation on a straight line basis in order to write off the asset's cost less residual value over its useful economic life. The principal asset lives on which depreciation is based are:

Service equipment	5 - 10 years
Equipment, furniture and fittings	4 - 10 years
Motor vehicles	3 years

16 Home Buy loans

Home Buy loans relate to properties which the Association has funded under the Home Buy Option scheme. The investment is secured by a second charge over each property. The occupier of each property has the right to acquire the Association's investment at market value.

	2019 £'000	2018 £'000
At beginning of year	9,960	10,181
Additions	3,142	1,529
Disposals	(2,761)	(1,750)
Reclassification of assets	292	-
At end of year	10,633	9,960

Surpluses or deficits resulting from the sale of fixed asset investments are shown in the statement of comprehensive income under surpluses/deficits from the sale of property, plant and equipment.

17 Inventories

	2019 £'000	2018 £'000
Housing properties	1,419	1,247

Inventories consists of ten properties awaiting sale under the Home Buy scheme (2018: eight properties).

18 Debtors due after more than one year

	2019 £'000	2018 £'000
Loan to Hendre Limited	5,000	1,600
Housing Finance Grant	8,189	6,660
CoCo Debt	115	-
	13,304	8,260

As at 31 December 2019, Hendre Limited was in receipt of a public benefit entity concessionary loan of £5m from the Association (2018: £1.6m).

Housing Finance Grant (HFG) is paid by the Welsh Government towards the costs of housing assets over a period of 30 years to subsidise the capital and interest costs for the provision of affordable housing. The net present value of the HFG receivable over the agreed payment term is recognised as a capital grant and a deferred debtor.

Upon receipt of the grant payments, the debtor decreases by the capital element and the difference between this and the amount of grant received is credited to surplus or deficit in the statement of comprehensive income as a contribution towards the financing cost of that scheme. The discount rate used for the net present value calculations is the same rate that applies to the associated borrowing to fund the housing assets.

The capital grant element of HFG previously received is deemed to be repayable upon disposal of a related housing asset. This is treated as recycled capital grant in the recycled capital grant fund and included in the statement of financial position as a creditor.

The CoCo Debt takes the form of a convertible loan note instrument which provides for the issue of notes (the CoCo Notes) which represent a debt owed by MORhomes plc. The CoCo Notes will convert from debt to shares in MORhomes upon certain prescribed events occurring.

19 Debtors due within one year

	2019 £'000	2018 £'000
Arrears of rent and service charges	3,220	1,895
Less: provision for bad and doubtful debts	(1,853)	(1,411)
	1,367	484
Housing Finance Grant	545	487
Trade debtors	776	170
Other debtors and prepayments	2,193	663
Inter-company debtors	802	-
	5,683	1,804

The Association adopts a policy for making full provision for all arrears owed by former tenants plus full provision for all current tenant arrears in excess of eight weeks old at the balance sheet date.

20 Cash and cash equivalents

	2019 £'000	2018 £'000
Treasury deposits:		
Overnight deposit	7,816	15,974
One month deposit	4,999	10,000
Three month deposit	5,001	-
	17,816	25,974
Cash at bank and in hand	555	350
	18,371	26,324

20 Cash and cash equivalents (continued)

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

The Association's treasury management risks are managed under the umbrella of the Group's Treasury Management policy. Under the Group's policy, surplus cash generated by other members of the Group is pooled within the Association and placed on deposit with approved counter-parties in line with the credit risk policy. As at 31 December 2019, £0.156m related to other members of the Group (2018: £3.8m).

21 Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Revenue grants	24	-
Housing loans (see note 23)	2,140	1,004
Interest on housing loans	915	666
Government grants (see note 24)	2,065	1,765
Capital expenditure - properties	935	889
Capital expenditure - components	62	322
Capital retentions greater than 90 days	484	224
Trade creditors	1,863	1,063
Other taxation and social security	1,165	135
Other creditors and accruals	4,587	1,898
Intercompany creditors	932	4,049
	15,172	12,015

22 Creditors: amounts falling due after more than one year

	2019	2018
	£'000	£'000
Housing loans (see note 23)	134,383	109,936
Government grants (see note 24)	169,292	143,107
Recycled capital grant fund (see note 25)	1,315	2,249
Home Buy grants (see note 26)	3,421	3,502
	308,411	258,794

23 Housing loans

Housing loans are secured by specific charges on the Group's properties. The interest rates are fixed at between 1.1% and 10.2% or vary with market rates.

	2019	2018
	£'000	£'000
Repayable by instalments due as follows:		
Between one and two years	1,445	1,027
Between two and five years	9,131	3,915
After five years	123,807	104,994
	134,383	109,936
Within one year	2,140	1,004
	136,523	110,940

23 Housing loans (continued)

As part of the Welsh Government's 'Land for Housing' initiative, the Association received a public benefit entity concessionary loan of £0.7m during the year which remained outstanding amount at the year end (2018: nil). The loan was specifically used for the acquisition of land and is repayable when construction of the scheme begins or within five years, whichever is earlier.

During 2017, as part of the Welsh Government's 'Interest free loans for Affordable Housing' initiative, the Association received a public benefit entity concessionary loan of £0.6m. The loan can only be used to fund the development of affordable housing. The loan was fully repaid during 2019.

24 Government grants

	Completed properties £'000	Under construction £'000	Completed shared ownership £'000	**2019 Total £'000**	2018 Total £'000
At beginning of year	153,720	9,957	1,103	164,780	152,003
Receipts	384	5,739	-	6,123	6,699
Transfer of grant from Hafod Care Association Limited	14,041	3,523	-	17,564	-
Section 106 agreements and donated land	1,858	-	-	1,858	3,482
Acquired from Hafod Care Association Limited	4,256	-	-	4,256	2,749
Schemes completed in year	7,251	(7,251)	-	-	-
Disposal of properties	(203)	-	(14)	(217)	-
Reduction on sales	-	-	-	-	(153)
At end of year	181,307	11,968	1,089	194,364	164,780
Amortisation					
At beginning of year	19,656	-	252	19,908	18,161
Amortised to statement of comprehensive income	1,835	-	-	1,835	1,666
Transfer from Hafod Care Association Limited	1,299	-	-	1,299	-
Transfer from Hafod Care Association Limited	-	-	-	-	110
Reduction on sales	(35)	-	-	(35)	(29)
At end of year	22,755	-	252	23,007	19,908
Net book value					
At end of year	158,552	11,968	837	171,357	144,872
At beginning of year	134,064	9,957	851	144,872	133,842
Due within one year (see note 21)				2,065	1,765
Due after more than one year (see note 22)				169,292	143,107
Total government grants				171,357	144,872

The transfer of grant and amortisation from Hafod Care Association Limited relates to the transfer of engagements on 31 July 2019.

Government grants, including social housing grant (SHG) received from the Welsh Government, relating to the acquisition and development of the Association's housing properties are accounted for under the accrual model and recognised in turnover over the expected useful life of the housing property structure (see note13). Where land or buildings are acquired at below market value e.g. as part of a Section 106 agreement (under the Town and Country Planning Act 1990), the carrying value reflects the fair value of the asset received, with the subsidy implicit in the arrangement deemed as grant.

25 Recycled capital grant fund

	2019 £'000	2018 £'000
At beginning of year	2,249	1,825
Inputs to recycled capital grant fund	281	424
Recycling of grant	(1,215)	-
At end of year	1,315	2,249

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

26 Home Buy grants

	2019 £'000	2018 £'000
At beginning of year	3,502	3,745
Disposals	(81)	(243)
At end of year	3,421	3,502

A Home Buy grant was provided by the Welsh Government to fund all or part of a Home Buy loan (see note 16) provided by the Association to the purchaser of the housing property. When the Home Buy loan is redeemed the respective Home Buy grant is recognised in the recycled capital grant fund.

27 Non equity share capital

	2019 £	2018 £
Shares of £1 each fully paid and issued at par		
At beginning of year	32	26
Shares issued during the year	-	6
Shares redeemed/(forfeited) during the year	(5)	-
At end of year	27	32

The shares provide members with the right to vote at general meetings, but do not provide any rights to dividends, redemption or distributions on a winding up.

28 Financial instruments

Financial assets and financial liabilities are recognised when the Association becomes a party to the contractual provisions of the instrument. The carrying value of the Association's financial assets and liabilities are summarised by category below:

Financial assets measured at undiscounted amount receivable

Short term debtors with no stated interest rate receivable within one year are recorded at transaction price; any changes are recognised in the statement of comprehensive income.

Where loans are made or received between a public benefit entity within the Association at below the prevailing market rate of interest that are not repayable on demand and are for the purposes to further the objectives of the public benefit entity, these loans are treated as concessionary loans and are recognised in the statement of financial position at the amount paid or received and the carrying amount adjusted to reflect any accrued interest payable or receivable.

	2019	2018
	£	£
Inter-company loan to Hendre Limited (see note 18)	5,000	1,600
Rent arrears (see note 19)	1,367	484
Trade debtors (see note 19)	776	170
Inter-company debtors (see note 19)	802	-
Cash and cash equivalents (see note 20)	18,371	26,324
	26,316	28,578

Financial assets measured at amortised cost

Financial assets are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. If there is objective evidence that there is an impairment loss, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced accordingly. A financial asset is derecognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and reward are transferred. If an arrangement constitutes a financing transaction, the financial asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

	2019	2018
	£'000	£'000
Housing Finance Grant (see notes 18 and 19)	8,734	7,147
CoCo Debt (see note 18)	115	-
	8,849	7,147

Financial liabilities measured at undiscounted amount payable

Short term creditors with no stated interest rate receivable within one year are recorded at transaction price; any changes from impairment are recognised in the statement of comprehensive income.

	2019	2018
	£'000	£'000
Interest on housing loans (see note 21)	915	666
Capital expenditure - properties for letting (see note 21)	935	889
Capital expenditure - replacement components (see note 21)	62	322
Capital retentions greater than 90 days (see note 21)	484	224
Trade creditors (see note 21)	1,863	1,063
Intercompany creditors (see note 21)	932	4,049
	5,191	7,213

28 Financial instruments (continued)

Financial liabilities measured at amortised cost

Non-current debt instruments which meet the necessary conditions in FRS 102, are initially recognised at fair value adjusted for any directly attributable transaction cost and subsequently measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the statement of comprehensive income. Discounting is omitted where the effect of discounting is immaterial. A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

	2019 **£'000**	2018 £'000
Housing loans (see note 21 and 23)	136,523	110,940

Interest income and expense

The Association's income and expense in respect of financial instruments are summarised below:

	2019 **£'000**	2018 £'000
Interest receivable	190	109
Interest and financing costs	(5,429)	(4,648)
	(5,239)	(4,539)

29 Capital commitments

	2019 **£'000**	2018 £'000
Expenditure contracted less certified	5,794	13,015
Expenditure authorised by the Board but not contracted	40,118	49,945
	45,912	62,960

The Board expects that any expenditure it has authorised will be fully financed by grants, mortgage, loans and reserves.

30 Contingent liabilities

The Association is not aware of any contingent liabilities at the end of the year.

31 Operating leases

At 31 December 2019 the Association had total commitments under operating leases in respect of office premises, equipment and vehicles as follows:

	2019 **£'000**	2018 £'000
Payments due:		
No later than one year	52	15
Later than one year and not later than 5 years	150	5
	202	20

Rental costs incurred under operating leases are charged to the statement of comprehensive income on a straight line basis over the periods of the leases.

32 Related party transactions

Transactions between members of the Hendre Group are set out in the tables below.

Services provided by:	Company	Hendre Limited £'000	Hafod Housing Association Limited £'000	Hafod Care Association Limited £'000	Hafod Resources Limited £'000	Foundation Housing Tai Sylfaen £'000	Yellow Wales £'000
Registered Social Landlord	Hendre Limited	-	735	217	171	-	-
	Hafod Housing Association Limited	-	-	317	-	-	-
	Hafod Care Association Limited	-	-	-	-	-	-
Non-registered	Hafod Resources Limited	-	2,772	709	-	-	-
	Foundation Housing Tai Sylfaen	-	-	-	-	-	-
	Yellow Wales	-	-	-	-	-	-

Hendre Limited and Hafod Resources Limited provide 'back office' support, including Finance, HR, IT, and Governance to members of the Group. These costs are recharged based on turnover. Hafod Resources Limited also provide Development services to members of the Group; this is recharged based on the respective development programme of each subsidiary.

Debtor / (creditor) balances:	Company	Hendre Limited £'000	Hafod Housing Association Limited £'000	Hafod Care Association Limited £'000	Hafod Resources Limited £'000	Foundation Housing Tai Sylfaen £'000	Yellow Wales £'000
Registered Social Landlord	Hendre Limited	-	(932)	-	597	-	-
	Hafod Housing Association Limited	932	-	-	(802)	-	2
	Hafod Care Association Limited	-	-	-	-	-	-
Non-registered	Hafod Resources Limited	(597)	802	-	-	-	-
	Foundation Housing Tai Sylfaen	-	-	-	-	-	-
	Yellow Wales	-	(2)	-	-	-	-

As at 31 December 2019, Hendre Limited has a public entity concessionary loan with Hafod Housing Association Limited (£5.0m).

The Group's treasury management risks are managed under the umbrella of the Group's Treasury Management policy. Under the Group's policy, surplus cash generated by members of the Group is pooled within Hafod Housing Association Limited and placed on deposit with approved counter-parties.

None of the senior executives or Board Members of Hendre Limited or its subsidiaries had any related party transactions with the Group during the year which require disclosure.

32 Related party transactions (continued)

The following individuals who served on the Boards of either the parent or its subsidiaries were also tenants or leaseholders of the subsidiaries:

		Hafod Resources Limited	Hafod Housing Association Limited
Mr G Robinson	Tenant - Hafod Housing		✓
Ms N Pemberton (to Aug 2019)	Tenant - Hafod Housing		✓

The tenancies of these Board/sub-committee Members are on normal commercial terms and their position as Members does not confer any advantage on these individuals as either tenants or leaseholders. During the year the Group received £9,616 in rent and service charges from these individuals (2018: £21,998); there was a net arrear of £11 as at 31 December 2019 (2018: arrear of £138).

33 Subsidiary undertakings

On 8 January 2008 Yellow Wales, a company limited by guarantee (No. 05154189), was acquired for nil consideration and became a subsidiary of the Association. Yellow Wales is also a registered Charity (No. 1105272).

	2019	2018
	£	£
Aggregate reserves	15,324	15,324
(Deficit)/surplus for the year	-	(432)

Yellow Wales' Financial Statements have not been consolidated into the Association's financial statements as they are consolidated into the ultimate parent, Hendre Limited. A copy of Yellow Wales' Financial Statements are available on request from the registered office:

Ty Llynfi
Llynfi Rd
Maesteg
CF34 9DS

34 Other finance cost

The 2018 comparator figure is shown for reference only. The liability was transferred from Hafod Care Association Limited to Hafod Housing Association Limited on 31 July 2019 as part of the transfer of engagements.

	2019	2018
	£'000	£'000
Return on pension scheme assets	223	217
Interest on pension scheme liabilities	(245)	(224)
	(22)	(7)

35 Pension scheme

a) Greater Gwent (Torfaen) Pension Fund

On 1 August 2002 Hafod Care Association Limited acquired, from Torfaen County Borough Council, five residential homes for the elderly. Staff employed at these homes were transferred to the employment of Hafod Care Association Limited under Transfer of Undertakings (Protection of Employment) regulations. Prior to transfer, employees at these homes had been eligible to participate in the Local Government Pension Scheme; a defined benefit scheme. From the date of transfer the Administering Authority (Torfaen CBC) and the Transferee Admission Body (Hafod Care Association Limited) entered into an agreement to enable eligible employees to continue to be members of the Scheme and participate in the Pension Fund. On 31 July, as part of the transfer of engagements from Hafod Care Association Limited to Hafod Housing Association Limited the pension fund including eligible employees transferred to Hafod Housing Association Limited.

35 Pension scheme (continued)

In respect of employees who are members of Torfaen Local Government Pension Scheme, the Association operates a pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Association. Pension scheme assets are measured using market values (in respect of quoted securities this is current bid price). Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and in the statement of comprehensive income.

The latest full actuarial valuation was carried out at 31 March 2019 and was updated, by a qualified independent actuary, to comply with Section 28 (Employee Benefits) of FRS 102 for the year ended 31 December 2019.

The contribution rate payable by the Association for all its employees in the scheme for 2019 was 27% (2018: 27%). Contributions paid during the year were £59,431 (2018: £69,917), no costs were paid in respect of early retirment benefits (2018: nil). The company expects to contribute approximately £59,000 to the scheme in the next financial year.

The main assumptions used in this valuation were:

	2019	2018
	%	%
Rate of increase in salaries	2.7	2.9
Rate of increase of pensions in payment and deferred pensions	2.3	2.5
Discount rate applied to scheme liabilities	2.0	2.8

Mortality assumptions:
The following standard mortality tables were used in the evaluation:

Post retirement mortality assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a. for males and females.

Life expectancy (at the end of the year)

- of a male (female) future pensioner aged 65 in 20 years time	21.9 (24.7) years
- of a male (female) current pensioner aged 65	20.6 (23.0) years

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets/(liabilities)

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

Registered as a charitable Housing Association under
the Co-operative and Community Benefit Societies
Act 2014 No. 18766R

Registered with the Welsh Government No. L034

Hafod
Housing