Hafod

Financial report 2021


Making Lives Better
Putting customers first
Health
Home
People
Not-for profit
Caring
Integration
Memorable
Vision
Well-being
Learning
Care
Housing
Support
Influencing
Have a voice
Communities
Digital transformation
World-class governance
Enabling change

Contents

The information presented in this report highlights our financial performance in 2021.

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Version 1 - May 2022

Welcome

Over the last 12 months, the Hendre group has continued to work and build out of the pandemic, innovating the way we deliver our wide range of services to customers and providing ongoing well-being support to our colleagues.

We continue to be a sector leader and are proud of our unique position in Wales providing housing, care and support services. We have developed excellent relationships with government, both local and national, and are keen to do more through collaboration and partnership.

We are also open to partnerships with other housing associations and continue to lead discussions about utilising the capacity of the sector locally in addressing a range of needs.

As part of our response to the wider role around emerging social, economic and environmental crisis, we have continued to develop solutions to some of society's challenges that our tenants and residents face, such as loneliness and isolation through our collaborative development of our Home Care app.

We are reshaping our social care offer, seeking partnerships with local government and health boards in the delivery of innovative services, with a focus on high quality, modern facilities and highly skilled colleagues.

Strengthening our Board has remained a key focus to ensure a strong skill mix that reflects our services and aspirations. We have attracted four new high-profile Board members, bringing an additional range of expertise and experiences across housing, care and the broader public service agenda to aid our strategic decision-making.

Our ambition is to increase investment in our housing stock, focusing on repairs and maintenance. This includes addressing the backlog of repairs that we were unable to complete during the pandemic due to lockdown restrictions. We will deliver high-quality repairs that are fit for purpose in a timely manner to meet customer expectations and within budget. This will provide a long-lasting solution and also contribute to our aim of becoming a carbon neutral organisation.

Our Board has shown leadership in response to the climate emergency through their endorsement of Hafod's decarbonisation working group. The group have developed a strategy which includes short, mid and long term actions to deliver Welsh Government's decarbonisation ambitions.

We are working towards becoming a net carbon zero organisation by 2036 through new ways of working such as digitalisation, and also reviewing our supply chains and resources across the business. We've rolled out a carbon literacy programme to raise awareness amongst colleagues of the impact of our actions to ensure we all make climate-responsible decisions.

Looking ahead, we are confident that the next 12 months will bring further opportunities and success which will see us continue to strengthen our services for our customers.

Jas Bains
Chief Executive

Jonathan Morgan
Chair of Board

20,000+ customers

5,700+ properties

1,250+ colleagues

Nine local authorities

We are pleased to report that during 2021 we delivered a number of strategic priorities, the key achievements of which are outlined below:

£63.6m
Turnover grew by 2.4%

Worked with our customers to develop and introduced a Customer Charter

£8.4m
Operating surplus

Three year Digital Transformation Strategy developed

Pledged our commitment to the Tai Pawb 'Deeds not words' pledge

£2.7m
Net surplus

Accredited as a Great Place to Work employer

£332k+
Income provided for people living in Wales through our development activities

12,000
Lives directly impacted through our research and innovation work

Continued to embed our person-centred neighbourhood coaching model

£1.8m+
Savings after updating our Procurement Strategy, processes and guidance

Created six partnerships to support our innovation ambitions

102 new homes handed over and stock condition surveys completed to aid our future decarbonisation strategy

£2.8m+
Revenue provided to businesses in Wales through our development activities

Made a commitment to the Pathways to Board Programme to attract and develop people from ethnic minority backgrounds to become Board members

£7.5k+
Cash donations given to local communities

Despite the on-going challenges of the Covid pandemic in 2021 we installed:

18	Bathroom and showers
31	Kitchens
67	Heating systems
300	Doors
233	Windows
90	Roofs
70	Rooflines
4	Solar panel and battery storage

Financial performance

We continued to demonstrate strong financial performance throughout 2021.

In this section, you will find a four year summary of our financial performance and key financial indicators.

In this section

Our financial performance

Our turnover grew by 2.4% in 2021 to £63.6m (2020: £62.1m), despite the on-going challenges of the Covid pandemic. Operating surplus of £8.4m was 13.2% of turnover (2020: £8.9m and 14.4% of turnover) and net surplus of £2.7m represents 4.3% of turnover (2020: £3.4m and 5.4% of turnover). While operating and net margins have fallen, this is a combination of factors associated with pandemic restrictions and the effects of emerging from those restrictions. Material effects were:

- Care home occupancy was impacted by homes entering local lockdown at certain points during the year. Support has been received from the Welsh Government to manage the cost impact of the void position.
- As Wales emerged from lockdown restrictions and concerns over access to properties eased, the levels of reactive and planned maintenance increased above prior year levels where access remained restricted for large parts of the year.

Our St Isan Care Home closed in March 2022. The financial impact of the closure was incorporated in 2021 results including providing for redundancy and asset write-off costs. The impact of closure is not material in relation to the overall results for the year.

Apart from higher maintenance costs, the underlying performance of Hafod's housing provision has remained strong with voids and arrears levels reaching historical lows at certain points during 2021.

“”

The strength of our core business and excellent liquidity means that we have the financial capacity to continue to manage the effects of the pandemic and fulfil our strategic objectives.

Simon Mellor,
Corporate Director - Finance, Investments and Development

Summary statement of comprehensive income – Association

	2021 £m	2020 £m	2019 £m
Turnover	63.6	62.1	43.4
Operating expenditure	(55.6)	(53.3)	(36.9)
Surplus on disposal of assets	0.4	0.1	0.3
Operating surplus	**8.4**	**8.9**	**6.8**
Net interest payable	(5.7)	(5.5)	(5.3)
Surplus for the year	**2.7**	**3.4**	**1.5**
Actuarial gain/(loss) in respect of pension scheme	1.5	(0.4)	0.5
Total comprehensive income for the year	**4.2**	**3.0**	**2.1**

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 £1.5m (2020: £0.4m actuarial loss). This matter is dealt with further in the financial statements.

We maintain adequate headroom over covenant levels to manage the challenges presented by the current economic climate. The Association is not exposed to interest rate risk within the next 12 months from its current drawn debt portfolio with all drawn debt at a fixed rate of interest.

Summary statement of financial position – Association

	2021 £m	2020 £m	2019 £m
Fixed assets	369.3	366.9	355.5
Current assets	46.8	38.1	38.8
Total assets	**416.1**	**405.0**	**394.3**
Current liabilities	(13.5)	(11.1)	(11.0)
Housing loans	(134.7)	(137.6)	(136.5)
Government grants	(191.1)	(182.3)	(176.1)
Defined benefit pension asset/ (liability)	0.7	(0.7)	(0.3)
Total liabilities	**(338.6)**	**(331.7)**	**(323.9)**
Net assets represented by reserves	**77.5**	**73.3**	**70.4**

Revenue reserves at the end of 2020 of £73.3m increased to £77.5m as at 31 December 2021, this net increase comprising the surplus for the year (£2.7m) and the actuarial gain on the pension scheme (£1.5m).

Summary statement of cash flows – Association

	2021 £m	2020 £m	2019 £m
Opening cash and cash equivalents	**20.5**	**18.4**	**26.3**
Net cash from operating activities	14.7	15.9	9.9
Purchase of fixed assets	(13.1)	(15.3)	(28.9)
Home Buy loans	(0.6)	(1.9)	(3.1)
Proceeds from sale of fixed assets	2.8	0.9	1.2
Government grants received	14.3	6.2	9.4
Net interest paid	(5.7)	(5.6)	(5.1)
Other adjustments	(0.5)	0.8	(0.3)
Loan received/(repaid)	(2.9)	1.1	9.0
Net cash inflow/(outflow)	**9.0**	**2.1**	**(7.9)**
Closing cash and cash equivalents	**29.5**	**20.5**	**18.4**

There was a net cash inflow from operating activities during the year of £14.7m (2020: £16.3m). External borrowing was offset by bank account balances to leave net debt at the end of 2021 of £105m (2020: £117m). After cash outflows in respect of interest payable, loan repayments, investment in component replacements and purchase of replacement fixed assets, the Group generated 'free cash flows' of £2.7m (2020: £6.9m). The Group's net debt position improved primarily due to the receipt of £15.7m government grants towards the development programme which continues apace.

The Group's cash and liquidity position remains strong and cash balances increased from £20.6m in 2020 to £29.5m in 2021 with a committed facility of £20m available in both years. Our Group's cash position is managed through daily, weekly and monthly cash management and forecasting.

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

Key financial performance indicators – Association

	2021	2020	2019
Operating surplus as % of turnover	13.2%	14.3%	12.0%
Net surplus as % of turnover	4.2%	5.3%	3.1%
Net surplus as percentage of net assets	3.5%	4.5%	2.7%
Average net interest cost	4.2%	4.1%	4.2%
Change in annual turnover	2.4%	2.8%	9.2%
Change in net assets	5.7%	4.1%	3.5%

£64m turnover

£135m external borrowing

£14m invested in our properties

£369m fixed assets

£78m reserves

29 growth in properties in mgt

Strategic review and performance

As we entered 2022 the Board, Executive team and senior leaders reflected on the challenges we faced in 2021 and how through the commitment of our colleagues we finished the year in a good financial position and have successfully delivered a number of strategic objectives.

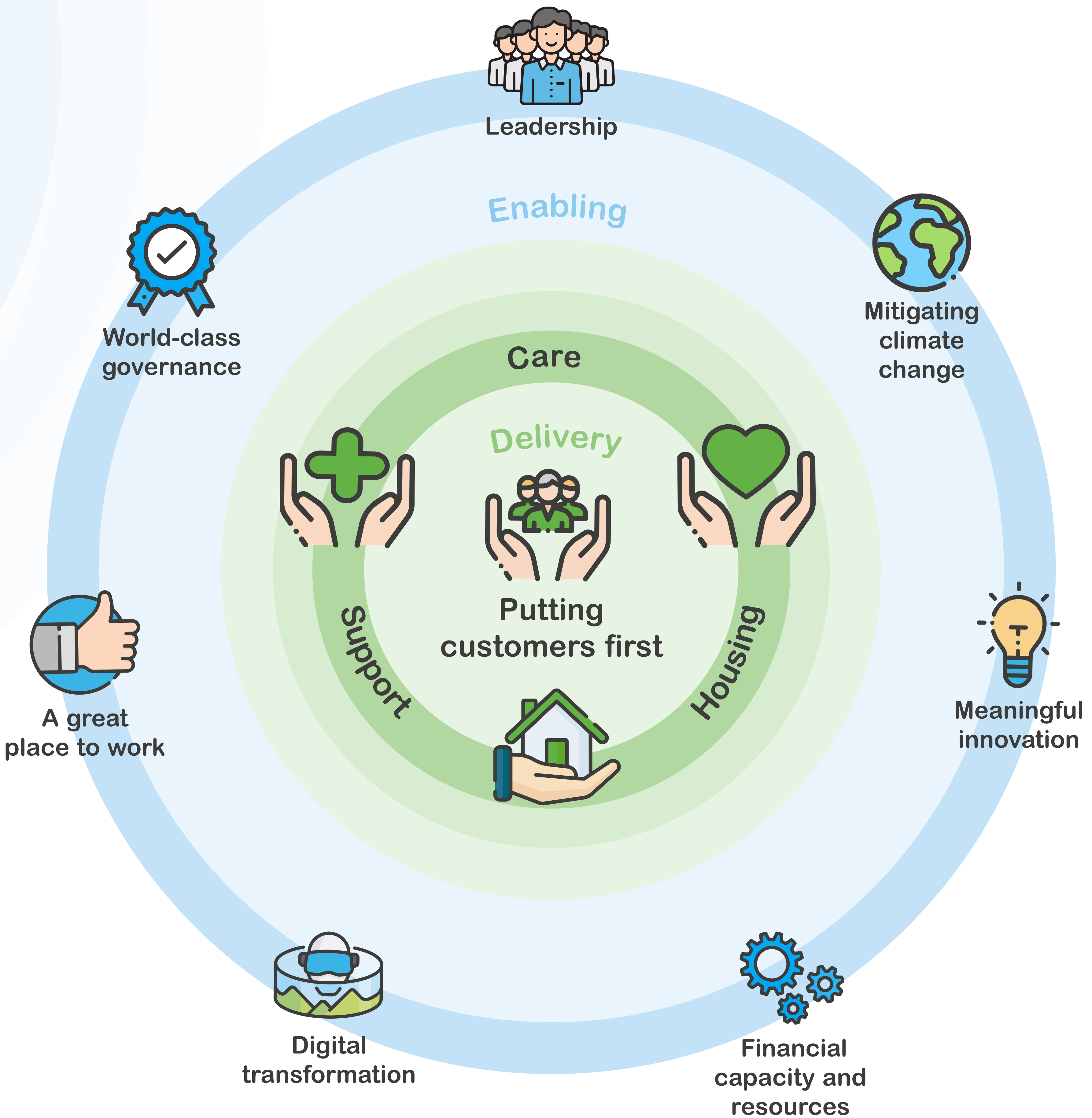
This section includes our Strategic Plan, our strategic priorties and our six priorities for 2022.

In this section

Our Strategic Plan 2021-2025

Our Strategic Plan covers the period 2021-2025, when the world is likely to change significantly – politically, socially, economically and environmentally. It is ambitious and future proof. It will ensure our services remain relevant and in-step with how customers live their lives.

Our plan has identified 11 strategic objectives



Want to know more?

Click here to view performance against our year one targets for each strategic objective.

2022 will be a challenging year for many of us with inflation pressures, rising energy prices, continued uncertainty around Covid and the removal of Covid support funding.

In this section we will be sharing some key information about our customers including how customers engage with us, our neighbourhood coaching approach, housing and support case studies and highlights of our care customers' satisfaction.

Six Strategic Priorities 2022

Infrastructure
Investing in our tools and resources to improve long term viability and sustainability for the benefit of colleagues' working practices and enhancing our customers' quality of life.

Operating model
Using our resources efficiently and effectively to deliver high quality services to our customers.

Customers
Continuing to focus on enhancing our customers' experience in everything we do.

Governance
Working to an effective risk management framework and meeting regulatory legislation.

Assets
Having an effective system for repairs and maintenance to meet required standards, making sure customers live in a safe environment.

Viability
Meeting the requirements of regulation and financial lenders while continuing to provide strong and sustainable services for our customers.

In 2022 a project board approach will be applied throughout the business to ensure alignment, monitoring and delivery of the strategic objectives.

Focus on customers

Customers who feel part of a safe, connected community where they receive high quality services is a key outcome for us. By building strong relationships with our customers, understanding community needs and unlocking people's potential we are paving the way for a future where our customers do for themselves and each other; building sustainable, resilient communities.

In this section we will be sharing some key information about our customers including how customers engage with us, our neighbourhood coaching approach, housing and support case studies and highlights of our care customers' satisfaction.

How we have heard our customers' voice in 2021

1,402
responses to Question of the Month

516
shared their thoughts on Covid-19

135
views for Walk in your Community event

3,678
Facebook group members

482
customers returned the STAR survey

4,272
times our Hafod 24/7 app was used

Winner of the TPAS Cymru 2021 'Communicating with tenants and residents' award for our community newspaper.

What has changed as a result?

- Eight actions have been completed as a result of Walk in your Community, including the removal of overgrown trees.
- Our Facebook groups have enabled customers to take part in community competitions.
- We have reviewed our retirement schemes out of hours service to ensure it still meets our customers' needs, resulting in some customers saving £5 per week.
- 24/7 app trouble shooting guidance produced to help colleagues support customers with common issues.
- Customers are more directly involved in our organisational design, e.g. customers are involved in the recruitment of our support colleagues

Click to find out more about how our customers are involved with us.

How our customers engage with us

- Topic groups
- Customer groups
- Walk in your community
- Facebook groups
- Facebook Live and polls
- Hafod 24/7 app
- Customer surveys
- Mystery shopping
- Task and finish groups

Focus on our coaching approach

We switched to a neighbourhood coaching model in 2019, which has allowed us to get closer to our customers, building relationships and trust. This has allowed customers to approach us before they reach crisis point and enables us to work with them on all areas affecting tenancy sustainability including health, support, finance, education and much more.

Our coaching model has also enabled us to look at barriers to achieving these things such as confidence to give each person the tools they need to prosper. Through working with customers in this way, we are able to encourage them to value and perceive themselves as assets in their community. Where there are any needs for support or help, we encourage them to own their own solutions so that we know their desired outcome and can ensure that we offer a person-centred service.

It is clear that whilst there is still a long way to go in ensuring a more joined up approach with housing, health and support, we are hopeful that if all professionals continue to encompass the passion to eradicate homelessness and ensure tenancy sustainability, we can all achieve great things.

Joyce's story

Joyce has been a resident for over 32 years and recently she was taken into hospital for a routine check and caught Covid. Since then she has not been herself and there are a lot of things that she cannot do for herself which she could before such as cleaning, washing, cooking, walking unaided and so on.

Over the years, herself and her neighbours Amanda (No.21) and Vance (No.20) have formed a really close friendship and they have been looking out for each other, helping with day-to-day life as well as emotional support.

Actions

Joyce's neighbours and Joyce's family decided as a surprise to redecorate the property so she would come home to a nice home (as she hasn't decorated for a while). Hafod also gave her some daffodil bulbs for her front garden as Joyce loves her flowers.

Vance has always been happy to lend a hand as well if Joyce needs some shopping or help with DIY. Another neighbour Sian (No. 40) also helps out, often cutting Joyce's hair. Joyce appreciates all the help she gets especially Amanda who takes care of her day-to-day living. Joyce said: "She brings me different meals every day. She makes sure I take my tablets and kicks everyone out when teatime comes!"

The outcome

Joyce loves her home and her neighbours. She really appreciates everything we do for her and her neighbours. Her housing coach, Fatoma Yarwood is doing all she can to make Joyce's life easier by getting her some minor adaptations such as a ramp for her so she is not housebound and she can go outside and look at her flower garden which gives her lots of joy.

> The story is so inspiring. It goes to show there are really nice people out there who will look out for you whether you are family or not. The community spirit is lovely.
>
> **Lisa Lee,**
> **Neighbourhood Housing Coach**

Want to know more?

You can read more case studies of our customer journeys in housing and support

- Sycamore Floating Support Service
- Amy's story
- Coaching vs enforcement
- Cartrefi integration

Focus on our coaching model

The previous issues were

- We were housing many individuals who were unable to sustain tenancies
- Traditional 'enforcement led' approaches not working
- Services were reactive and delivered in response to a problem
- Evictions taking place due to the reactive service

Our new approach means

- We follow an asset based approach developed through the new neighbourhood coach
- We focus on developing relationships with customers
- We help navigate customers through support, care and health
- We look at the causes of problems, not the symptoms

Our results

- Very few evictions into homelessness
- Improved our tenancy sustainability
- We have better links with health and care to address any issues
- Person-centred approaches
- Trust developed with our customers

> Proactively reaching out to customers to offer help and assistance during this difficult and uncertain period has been the focus for frontline services.
>
> Asking what matters and making every contact count has been crucial to delivering side by side support to customers and communities, all helping to nurture improved health and well-being.
>
> **Elke Winton,**
> **Corporate Director - Homes and Communities**

Our care customers' feedback

Each year we ask our residents, relatives, visiting professionals and colleagues for their views as part of our satisfaction survey which we share with Care Inspectorate Wales. This helps us to understand what we need to keep doing and where we need to improve. You can read a selection of the feedback highlights and comments below from our residents and family members.

96%
Residents feel safe living in their home

96%
Residents agree that they are treated with dignity and respect

92%
Residents agree that they live in a clean and comfortable, homely environment

88%
Residents are satisfied with the way we deal with their enquiries

94%
Residents are satisfied with the care and support they receive

97%
Residents agree that we are readily available and approachable when they need help

97%
Residents agree they have their room the way they like it

82%
Relatives and representatives agree their views are seen as important

"I was faced with the daunting task of which residential/nursing home I should find for my mother. I chose Picton Court and it was one of the best decisions I have ever made. It has now been six months and she feels at home. Everyone is brilliant and the home is lovely."

Family member of resident at Picton Court Care Home

"The whole team in Mountain View have made dad feel very welcome and we thank them from the bottom of our hearts for what they have done and continue to do."

Family member of resident at our Tŷ Penrhos Care Home

"My mum has been a resident since December 2021. She has settled in very well, which is down to the staff and the wonderful care and attention she is receiving. They are all worth their weight in gold and I would highly recommend this care home to anyone."

A loved one of a resident at our our Plas y Garn Care Home

2021 saw a focus on our care services, the delivery of our 5 year Care Strategy will see increased strength, presence and viability in 2022 and beyond.

Focus on colleagues

At the heart of our organisation are our 1,255 colleagues. Each colleague plays a vital role in providing services to our customers and are central to the delivery of our strategic priorities. Working in care, housing, support, or central services our professional colleagues make lives better for customers every day.

This section includes key information about our colleagues, our People Strategy and our Great Place to Work survey and results.

In this section

About our colleagues

2021 has continued to be challenging for our colleagues, in particular those in frontline roles. The beginning of 2021 was particularly difficult as the second wave of the pandemic hit.

The impact of the pandemic continues to be felt across the organisation with continued remote working, recruitment challenges, impacts on colleague well-being and higher than average absence rates.

As the year has progressed we have been successful in moving forward our People Strategy and have seen our response to Covid moving from a reactive to proactive position. We ended 2021 in a strong position relating to our colleagues with improvements in colleague turnover and retention and many colleague successes to celebrate.

1,255
colleagues

85% Female
15% Male

82.2% retention, improvement of 2% on last year

29% labour turnover, improvement of 1% on last year

“”

We are delighted in the improvements we have seen in colleague retention and reduction in labour turnover which demonstrates that more colleagues are staying with us.

Nia Court,
Head of People

Our People Strategy

In 2019 we launched our People Strategy which was aligned to the achievement of our strategic priorities. There are four ambitions outlined below. Over the next few pages you will see how we have progressed against these ambitions in 2021.

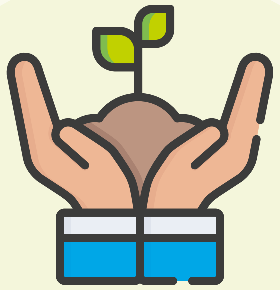
Want to know more?

Click here to read more about our ambitions

Our ambitions

We create great days at work where...

Ambition one
Talented people want to work and stay and everyone's contribution is valued



Ambition four
Skills are developed and ambitions are achieved

Ambition two
People working practices enable us to achieve our objectives

Ambition three
Culture, leadership and behaviours enable a high performance culture

Want to know more?

Click here to read our Gender pay gap report 2021

Gender pay gap report

Great Place to Work (GPTW)

In 2021 we launched our GPTW survey to all colleagues with over 450 of our colleagues responding (36%). We were delighted that for our first survey we achieved 66% for our trust index which certified Hafod as a 'great place to work'. In addition, we made the Best Workplace for Women list due to the high trust index for our female workforce.

GPTW supplied us with considerable data relating to the survey and we have used this information to communicate the results to all colleagues via meetings and communications. Each leader and manager have also delivered the results to their teams and have put in place action plans to improve ways of working for colleagues.

The top scoring areas in the survey related to how colleagues are treated in relation to their sexual orientation, gender and race and we are pleased that over 90% of colleagues have rated Hafod positively in these areas. We are also delighted that colleagues have a sense of pride working for Hafod and do not see their role as 'just a job'.
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Best Workplaces™ For Women Super Large Organisations – Great Place To Work. UK 2021

Great Place To Work® Certified APR 2021–APR 2022 UK™

96%
People here are treated fairly regardless of their sexual orientation

95%
People here are treated fairly regardless of their gender

92%
People here are treated fairly regardless of their race

91%
My work has special meaning: this is not 'just a job'

92%
When I look at what we accomplish, I feel a sense of pride

Want to know more?

Throughout the year we have been working with our colleagues to address their feedback from the survey You can read more here:

"In our first year of carrying out the survey we are delighted to be certified as a Great Place to Work and Great Place to Work for women. We have also learnt lots about what is working for our colleagues and what we need to work on to improve their experiences."

Karen Rosser,
Corporate Director - People, Communications and IT

#GreatDaysatWork

Governance

Our robust governance and risk management framework together with strong leadership helps us establish and maintain defined roles across the organisation.

We deliver and progress our strategic priorities, whilst ensuring we adhere with all relevant laws and regulatory requirements, through clear, effective leadership and informed decision-making.

In this section you can read about the overarching governance framework which includes risk, managment, vfm, etc.

Risk and risk management

As part of our strategic planning process and risk management culture across the organisation a Risk Management Framework was developed in May 2019 and reviewed in September 2020. 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:

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.

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.

Operational

Risks identified in the business environment for each individual business unit/directorate where risks are managed locally.

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 Board and Audit and Risk Committee 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 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.

“”

Managing risk is essential in helping us achieve success in meeting our strategic objectives. We do not approach risk management as a mere compliance issue but more of an enabler for the organisation to grow and innovate with the confidence of expert oversight.

Our Audit and Risk Committee review our risk register at every meeting and work with the internal and external audit teams. They also take the opportunity for deep dives into specific risks, allowing interaction through all levels of our organisation – this enables a great temperature check in terms of risk ratings, controls and actions to provide even greater levels of assurance.

Neil Davies,
Chair of Audit and Risk Committee

Risks facing the Hendre Group

The Board has strengthened its governance arrangements and its regulatory status was returned to 'Standard' in December 2020. The Board has identified one of its strategic objectives to be first-class governance. It is important that we continue to build on the progress we have made. During the Covid-19 pandemic our Governance model adapted to ensure flexibility and agility in our decision making and risk management to enable business continuity.

The Board 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 Hendre Board has overall oversight of the organisation's strategic risks. The detail is delegated to our Audit and Risk Committee (ARC) who scrutinise the risks at every meeting and report back to the Board that risks are being managed and that there are appropriate mitigations and controls in place. The strategic risks are reviewed on a regular basis both individually and collectively by the Executive team prior to being scrutinised by Audit and Risk Committee.

The Covid-19 crisis has impacted our risks and operating environments and risk profile has been updated to reflect these changes. Emphasis in Hendre has moved from managing the pandemic to monitoring the resilience of our business and delivery of our strategic priorities.

In addition to this, an exercise was carried out with the Executive team and Hendre Board to review the English and Welsh sector risks, the risks highlighted by the insurance industry and finally looking at the world risks to inform our thinking. The 'wisdom' emerging is that a prudent but adaptive approach to corporate activity, supported by good governance, will be a major determinant in corporate survival post-Covid-19. On that accepted wisdom, the entire risk profile has been challenged.

The organisation works closely with our Internal Auditors RSM adopting a risk based approach to setting the internal audit programme and programme of deep dives to provide the Board with another level of assurance around our management of risk. This will be an ongoing process to ensure the organisation is on the front foot and we remain vigilant to the changes to our operating environment.

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:

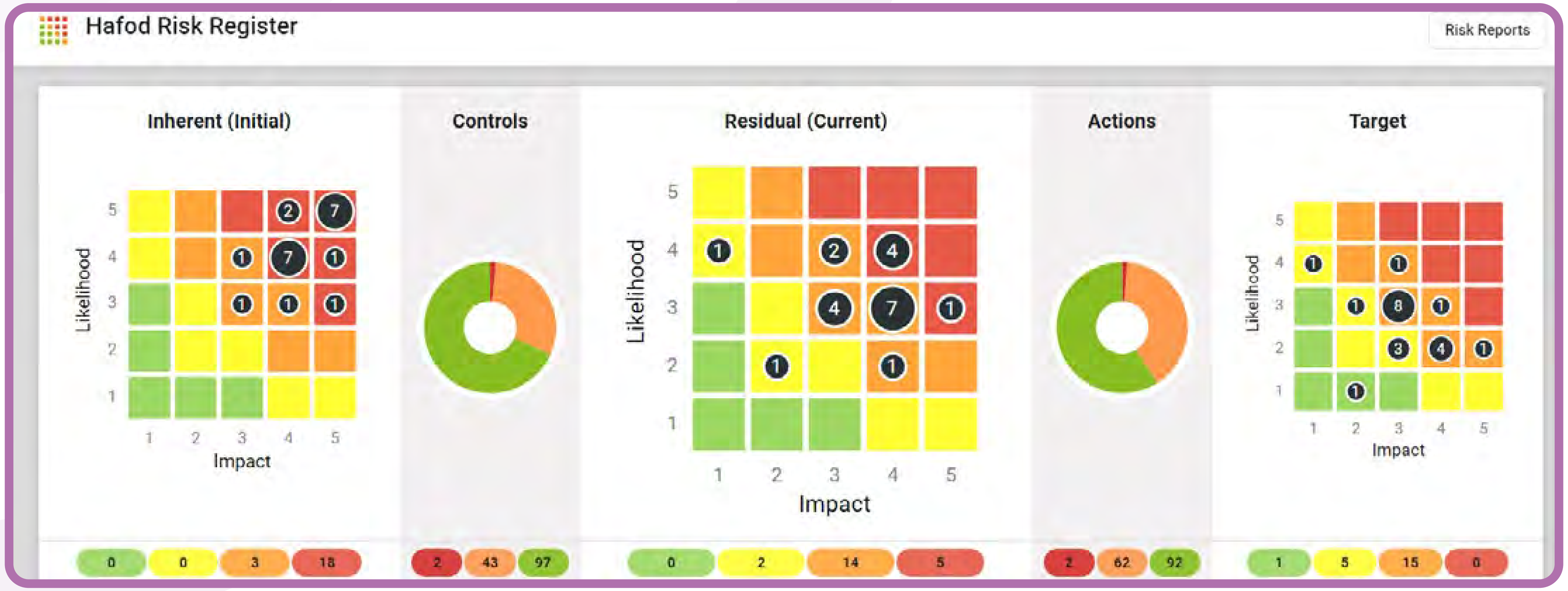
'The management of the organisation's investments and cash flows, its banking, money market, capital markets and derivative transactions, and its security portfolio; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

Furthermore, in December 2021, the Hendre Board approved a set of 'early warning indicators' 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 majority of colleagues employed by the Group are in defined contribution pension 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.

We introduced a new risk management software solution



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'.

For Hendre and its entities, value for money is about ensuring that every pound spent makes the best use of resources to deliver the maximum impact possible and that it does so in the pursuit of social objectives that benefit a range of stakeholders.

We see Welsh Government's Regulatory Framework, which states that housing associations must achieve value for money and make the best use of resources, as an opportunity as well regulatory obligation. With effective governance, management and accountability, we will embed value for money into every aspect of our operations to enable us to address emerging housing, support and social care needs to meet the challenges for 2022 and beyond.

In 2020 our Board agreed our new VfM strategy. Within our strategy we have identified objectives in four key areas:

To maximise value from our Group structure

To obtain VfM through effective procurement

To understand value to enable us to optimise efficiencies and use resources effectively

To deliver community benefits

Want to know more?

To view our latest Value for Money report click here:

Value for Money

Legal status and rules

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.

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, Committee and Executive

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 Jonathan Morgan

Vice Chair Dawn Jones*

Other members

Teresa Beggs	Neil Davies*	Tina Donnelly	Katherine Howells*
Mike Jones	David Michael	David Warrender	

Company Secretary Mrs T Healey

There have been the following changes to Board Membership since the financial statements for the year ended 31 December 2020 were approved at the Board meeting held on 24 May 2021:

Mr S Vedi	Resigned October 2021
Dr E Haywood	Resigned June 2021

*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, this Committee has two independent Members (Mr R Alexander and Mr M Veale
- Remuneration and Appointments Committee
- Schedule 1 Committee
- Pension Committee

The Executive team comprises the following senior executives:

Group Chief Executive	Jas Bains
Corporate Director - Assurance, Governance and Business Change/Company Secretary	Tracey Healey
Corporate Director - Finance, Investments and Development	Simon Mellor (from April 2021)
Corporate Director - People, Communications and IT	Karen Rosser
Operations Director - Care	Sherri Sargent (from Sept 2021)
Director of Research and Innovation	Jamie Smith
Corporate Director Homes and Communities	Elke Winton
Interim Responsible Individual	Jackie Whiller (from Sept 2021)

Our landlord compliance (December 2021)

Gas safety

99.96% compliance

LOLER

86.2% compliance

Electric

99.98% compliance

During the year the following senior executives were also employed by the Group:

Deputy Chief Executive	David Hayhoe (to December 2021)
Operations Director Asset Management and Property	Luke Mitchell (to September 2021)
Interim Responsible Individual	Catrin Fletcher (to November 2021)

The senior executives hold no interest in the shares of Hendre Limited or its subsidiaries. Under the Regulation and Inspection of Social Care (Wales) Act 2016 (the "Act"), Hafod Housing Association Limited must appoint a Responsible Individual ("RI") in relation to its regulated services. In order to meet the Act Jackie Whiller was appointed as the interim Responsible Individual in November 2021 and is co-opted on to the Hafod Housing Board.

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 over all aspects of its work to ensure its financial, legal and service obligations are properly fulfilled.

The Board is responsible for setting strategy and directing the Association affairs, ensuring its long- term success. Day to day leadership and management is delegated to the Chief Executive and through the Executive team.

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.

We have a robust Governance Framework in place that includes:

- Statement of preferred composition
- Membership policy
- Role profiles for Board and Committee Members
- Strengthened the Board and Audit and Risk Committee with new members
- Board charter
- Succession plan
- Annual performance reviews

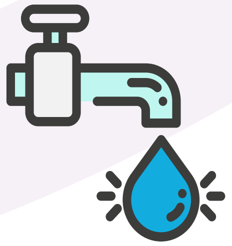
The performance reviews are carried out annually and are designed to assess the skills, experience and competencies of members individually and collectively against business requirements. The emphasis for the individual performance review is the assessment of each member's contribution to Board effectiveness and any personal development needs. This is done via a form completed by each Board member and then a discussion with the Chair, Vice Chair or Chair of the relevant committee.

The outcome of the performance review process is the development of collective and personal development plans and a succession statement and plan for the forthcoming year.

Our landlord compliance (December 2021)

Fire

100% compliance



Legionella

100% compliance

Asbestos

Asbestos management plans in place to ensure risk management and compliance is adhered to throughout our housing and care assets, in line with the Control of Asbestos Regulation 2002.

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:

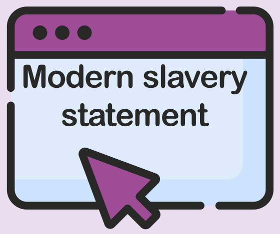
- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained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

Modern slavery statement

Our Board are committed to ensuring that we comply with our legal and regulatory responsibilities, including the Modern Slavery Act 2015. Click to view our modern slavery statement.



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. The Group has adopted the Community Housing Cymru code of governance.

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 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 colleagues;
- 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.

Subsequent events

The Group 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 scrutiny at the Audit and Risk Committee and then ratified at the Hendre Board. The annual internal audit programme is determined in annual workshops held with Hendre Board, Audit and Risk Committee, Executive Team and RSM.

There have been no events subsequent to the date of the Group's financial position that have had a material effect on the results of the Group as reported in these financial statements.

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 Group'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 Group's auditor is aware of such information.

Annual general meeting

The annual general meeting will be held on 20 June 2022.

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 23 May 2022 and signed on its behalf by:

Jonathan Morgan

Jonathan Morgan
Chair of Board

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 2021 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 2021 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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. The directors are responsible for the other information contained within the annual report. 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 reporting'. We are not required to express an opinion on the effectiveness of the Association's system of internal control.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Opinions on other matters prescribed by the Welsh Government circular RSL 02/10 'Internal controls 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 statement.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 directors either intend 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 the financial statements. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation, anti-money laundering regulation, non-compliance with implementation of government support schemes relating to COVID-19.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as 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.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to capitalization of works to existing properties, revenue recognition (which we pinpointed to cut-off) and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

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 company'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 company'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 company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Mazars LLP

Mazars LLP Chartered Accountants and Statutory Auditor
1st Floor
2 Chamberlain Square
Birmingham
B3 2AX
Date:

Financial statements

This section includes our financial statements for the year ended 31 December 2021 and supporting notes, which detail the financial performance of the various operational activities of the Group.

You can view our income and reserves, financial position, cash flows and financial statements.

Statement of comprehensive income
Year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Turnover	3	63,644	62,142
Operating expenditure	3	(55,632)	(53,326)
Surplus on disposal of property, plant and equipment	5	397	123
Operating surplus	3	**8,409**	**8,939**
Interest receivable	6	25	55
Interest and financing costs	7	(5,696)	(5,627)
Other finance cost	35	(10)	(7)
Surplus before tax	3	**2,728**	**3,360**
Taxation	12	-	-
Surplus for the year		**2,728**	**3,360**
Actuarial gain/(loss) in respect of pension scheme	36	1,474	(383)
Total comprehensive income for the year		**4,202**	**2,977**

Statement of changes to reserves
As at 31 December 2021

	2021 £'000	2020 £'000
At beginning of year	**73,331**	**70,354**
Surplus for the year	2,728	3,360
Actuarial gain/(loss) in respect of pension scheme	1,474	(383)
At end of year	**77,533**	**73,331**

Statement of financial position
As at 31 December 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Housing properties	13	357,263	354,736
Intangible assets	15	340	280
Other property, plant and equipment	16	967	990
Homebuy loans	17	10,731	10,915
		369,301	366,921
Current assets			
Inventories	18	211	82
Debtors due after one year	19	12,907	13,109
Debtors due within one year	20	4,209	4,338
Treasury deposits	21	29,042	20,075
Cash at bank and in hand	21	452	502
		46,821	38,106
Creditors: amounts falling due within one year	22	(18,893)	(17,987)
Net current assets		27,928	20,119
Total assets less current liabilities		397,229	387,040
Creditors: amounts falling due after more than one year	23	(320,385)	(312,964)
Defined benefit pension asset/(liability)	36	689	(745)
Net assets		**77,533**	**73,331**
Capital and reserves			
Called up share capital	28	-	-
Revenue reserves		77,533	73,331
Association's funds		**77,533**	**73,331**

The financial statements were approved by the Board on 23 May 2022 and signed on its behalf by:

Chair

Board Member

Secretary

Statement of cash flows
Year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Net cash generated from operating activities	a	**14,688**	**15,890**
Cash flows from investing activities			
Purchase of property, plant and equipment		(13,125)	(15,256)
Homebuy loans		(564)	(1,890)
Proceeds from sale of property, plant and equipment		2,790	916
Grants received		14,260	6,225
Interest received		25	55
Net cash flows from investing activities		**3,386**	**(9,950)**
Cash flows from financing activities			
Interest paid		(5,726)	(5,673)
New loans		-	2,898
Repayments of borrowings		(2,912)	(1,782)
Inter-company debtors and creditors		(519)	823
Net cash flows from financing activities		**(9,157)**	**(3,734)**
Net increase in cash and cash equivalents		**8,917**	**2,206**
Cash and cash equivalents at beginning of year		**20,577**	**18,371**
Cash and cash equivalents at end of year	b	**29,494**	**20,577**

Statement of cash flows
Year ended 31 December 2021

a) Net cash generated from operating activities

	2021 £'000	2020 £'000
Surplus for the year	2,728	3,360
Adjustment for non-cash items:		
Depreciation of property, plant and equipment	7,230	7,007
Impairment of properties	330	43
(Increase)/decrease in inventories	(129)	1,337
(Increase)/decrease in debtors	(31)	703
Increase in creditors	1,411	38
Pension costs less contributions payable	40	30
Carrying amount of property, plant & equipment disposals	2,393	793
Adjustments for investing or financing activities:		
Proceeds from the sale of property, plant and equipment	(2,790)	(916)
Government grants utilised in the year	(2,165)	(2,077)
Interest payable	5,696	5,627
Interest received	(25)	(55)
Net cash generated from operating activities	**14,688**	**15,890**

b) Cash and cash equivalents

	2021 £'000	2020 £'000
Treasury deposits	29,042	20,075
Cash at bank and in hand	452	502
	29,494	**20,577**

c) Free cash flow

	2021 £'000	2020 £'000
Net cash generated from operating activities	14,688	15,890
Interest paid	(5,726)	(5,673)
Interest received	25	55
Component replacements	(2,990)	(1,246)
Purchase of other replacement fixed assets	(458)	(400)
Free cash generated before loan repayments	**5,539**	**8,626**
Loans repaid (excluding revolving credit and overdrafts)	(2,912)	(1,782)
Free cash generated after loan repayments	**2,627**	**6,844**

Statement of cash flows
Year ended 31 December 2021

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

	2021 £'000	2020 £'000
Increase in cash in the year	8,917	2,206
Cash outflow/(inflow) from inter-company debtors and creditors	519	(823)
Cash outflow/(inflow) from changes in debt	2,912	(1,116)
Movement in net debt in the year	12,348	267
Net debt at 1 January	(113,015)	(113,282)
Net debt at 31 December	**(100,667)**	**(113,015)**

e) Analysis of changes in net debt

	At 1 January 2021 £'000	**Cash flows** £'000	**At 31 December 2021 £'000**
Cash and cash equivalents	20,577	8,917	29,494
Inter-company debtors and creditors	4,047	519	4,566
Housing loans	(137,639)	2,912	(134,727)
Net debt	**(113,015)**	**12,348**	**(100,667)**

Notes to the financial statements
Year ended 31 December 2021

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 38. 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 2021

2 Significant management judgements and key sources of estimation uncertainty (continued

Key sources of estimation uncertainty applied in preparing these financial statements include the following:

Where land is acquired at below market value from a government source, this is accounted for as a non-monetary government grant. The land is recognised at fair value, taking account of any restrictions on the use of the land. The difference between the fair value of the land acquired and the consideration paid is recognised as a government grant and included as a liability. A valuation technique is used which incorporates all factors that market participants would consider in setting a price. This is a judgemental exercise involving the selection of a method, formulae and assumptions.

The Association has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. Variations in these assumptions could significantly impact the liability. The assumptions selected and associated sensitivity analysis are disclosed in note 36.

Notes to the financial statements
Year ended 31 December 2021

3 Turnover, operating surplus and surplus before taxation

	Turnover £'000	Operating costs £'000	Operating surplus / (deficit) £'000	**2021 Surplus / (deficit) before taxation £'000**	2020 Surplus / (deficit) before taxation £'000
Social housing lettings:					
General needs housing	28,047	22,863	5,184	5,184	6,323
Shared ownership	251	73	178	178	272
Supported housing	9,002	7,232	1,770	1,770	1,983
Other social housing activities:					
Private sector leasing	1,086	1,298	(212)	(212)	(7)
First tranche sales	1,878	1,343	535	535	481
Residential care homes	8,617	7,889	728	728	281
Non social housing activities:					
Nursing care homes	11,665	11,729	(64)	(64)	(302)
Homecare	2,879	2,846	33	33	(252)
	63,425	**55,273**	**8,152**	**8,152**	**8,779**
Other income and expenditure	219	359	(140)	(140)	37
	63,644	**55,632**	**8,012**	**8,012**	**8,816**
Surplus on disposal of property, plant and equipment				397	123
Operating surplus				**8,409**	**8,939**
Interest receivable				25	55
Interest and financing costs				(5,696)	(5,627)
Other finance cost				(10)	(7)
Surplus before tax				**2,728**	**3,360**

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;
- COVID-19 grant income received from the Welsh Government and Local Health Boards (this does not include any grant received where the Association has acted as an agent) ; and
- Income from sale of housing property stock.

Traditional property sales which include Homebuy, shared ownership and general needs are included within surplus or deficit on the sale of fixed assets. The proceeds from the first tranche sale of low cost home ownership properties are included within turnover. Subsequent tranche sales are included within the surplus or deficit on the sale of fixed assets.

Notes to the financial statements
Year ended 31 December 2021

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	**2021 Total £'000**	2020 Total £'000
Turnover										
Rents, fees and other charges	24,935	221	4,891	1,061	-	7,666	10,408	2,754	**51,936**	51,792
Service charges	1,246	30	1,404	24	-	-	-	-	**2,704**	2,547
Revenue grants	-	-	2,406	-	-	-	-	-	**2,406**	2,236
Amortised government grant	1,866	-	298	1	-	-	-	-	**2,165**	2,077
COVID-19 grants	-	-	3	-	-	951	1,257	125	**2,336**	1,563
Sale proceeds	-	-	-	-	1,878	-	-	-	**1,878**	1,826
	28,047	**251**	**9,002**	**1,086**	**1,878**	**8,617**	**11,665**	**2,879**	**63,425**	**62,041**
Operating costs										
Management and service costs	10,479	67	5,274	924	-	7,149	10,610	2,846	**37,349**	38,353
Maintenance	7,302	7	1,094	258	-	507	699	-	**9,867**	6,859
Bad debts	(130)	(1)	1	63	-	(17)	(11)	-	**(95)**	148
Deficit on replacement of property components	328	-	21	15	-	84	7	-	**455**	407
Depreciation of properties	4,884	-	842	38	-	166	424	-	**6,354**	6,150
Cost of sales	-	-	-	-	1,343	-	-	-	**1,343**	1,345
	22,863	**73**	**7,232**	**1,298**	**1,343**	**7,889**	**11,729**	**2,846**	**55,273**	**53,262**
Operating surplus / (deficit)	**5,184**	**178**	**1,770**	**(212)**	**535**	**728**	**(64)**	**33**	**8,152**	**8,779**
Rent loss from voids (memorandum note)	114	-	236	10	-	1,451	1,811	-	**3,622**	2,414

Surplus on first tranche sales comprises of eleven sales (2020: nine).

Deficit on replacement on components includes an £84k provision for the disposal of St Isan Care Home, a 41 bed residential care home in Cardiff which was closed in March 2022.

Notes to the financial statements
Year ended 31 December 2021

5 Surplus on disposal of property, plant and equipment

	2021 £'000	2020 £'000
Sale proceeds	2,790	916
Cost of sales	(2,393)	(793)
	397	123

Surplus on disposal of property, plant and equipment comprises of 23 (2020: 9) traditional staircasing sales and disposals resulting in a surplus of £397k (2020:£123k). Also, disposed during the year were 37 supported housing units which have been transferred to Hendre Limited.

6 Interest receivable

	2021 £'000	2020 £'000
Bank interest receivable	25	55

7 Interest and financing costs

	2021 £'000	2020 £'000
Bank loans	5,696	5,627

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

	2021 £'000	2020 £'000
Surplus on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of property, plant and equipment	6,775	6,600
Amortised government grant	(2,165)	(2,077)
Surplus on disposal of property, plant and equipment	(397)	(123)
Audit fees:		
- Statutory audit	40	36
- Audit related assurance services	4	2
Operating lease rentals	2,112	1,831

Notes to the financial statements
Year ended 31 December 2021

9 Units in management

	2020 Number	Adjustments	Additions	Disposals	2021 Number
General needs housing	4,431	14	78	(1)	4,522
Shared ownership	100	(1)	-	(2)	97
Supported housing	526	(4)	-	(37)	485
Private sector leasing and lettings	127	-	1	-	128
Residential care homes	235	-	-	-	235
Nursing care homes	239	-	-	-	239
Homebuy	352	-	12	(19)	345
Leaseholders	208	(12)	-	-	196
	6,218	(3)	91	(59)	6,247

In addition to bed spaces and units in management the Association also provides floating support, tenant support and homecare services to 1076 (2020: 787) clients.

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

	2021 Number	2020 Number
The average number of staff employed during the year was as follows:	1,296	1,373
The total number of staff employed at the end of the year was:	1,285	1,372

The total costs for the staff employed was as follows:

	2021 £'000	2020 £'000
Wages and salaries	23,917	24,862
Social security costs	1,949	1,897
Pension costs	1,048	1,048
	26,914	27,807

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 2021 was £505,703 (2020: £572,794). 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 £152,248 (2020: £170,126).

Notes to the financial statements
Year ended 31 December 2021

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 25.

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:

	2021 £'000	2020 £'000
Emoluments	772	953
Pension contributions	76	99
Total emoluments	848	1,052

Emoluments payable to the Group Chief Executive Officer:

	2021 £'000	2020 £'000
Emoluments	142	141
Pension contributions	15	15
Total emoluments	157	156

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

	Number	Number
£10,001 - £20,000	-	-
£20,001 - £30,000	1	-
£30,001 - £40,000	-	-
£40,001 - £50,000	-	-
£50,001 - £60,000	-	-
£60,001 - £70,000	1	-
£70,001 - £80,000	3	2
£80,001 - £90,000	1	2
£90,001 - £100,000	-	-
£100,001 - £110,000	1	1
£110,001 - £120,000	-	-
£120,001 - £130,000	1	2
£130,001 - £140,000	-	1
£140,001 - £150,000	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.

Notes to the financial statements
Year ended 31 December 2021

13 Housing properties

	Completed properties £'000	Under construction £'000	Completed shared ownership £'000	**2021 Total £'000**	2020 Total £'000
Cost					
At beginning of year	397,424	14,792	2,539	414,755	398,392
Additions to properties in the year	1,379	8,492	-	9,871	14,071
Transfer of properties to Hendre Limited	(5,400)	-	-	(5,400)	-
Section 106 agreements and donated land	605	-	-	605	2,108
Schemes completed in the year	5,410	(5,410)	-	-	-
Components replaced in the year	4,412	-	-	4,412	1,753
Disposal of properties in the year	(474)	-	(47)	(521)	(576)
Disposal of components in the year	(940)	-	-	(940)	(950)
Impairment of properties	-	(330)	-	(330)	(43)
Reclassification of assets from Homebuy	9	-	-	9	-
Reclassification of assets	(50)	50	-	-	-
At end of year	402,375	17,594	2,492	422,461	414,755
Depreciation					
At beginning of year	60,019	-	-	60,019	54,522
Charge for year	6,354	-	-	6,354	6,157
Transfer of properties to Hendre Limited	(666)	-	-	(666)	-
Disposal of properties in the year	(25)	-	-	(25)	(110)
Disposal of components in the year	(484)	-	-	(484)	(543)
Reclassification of assets	-	-	-	-	(7)
At end of year	65,198	-	-	65,198	60,019
Net book value					
At end of year	337,177	17,594	2,492	357,263	354,736
At beginning of year	337,405	14,792	2,539	354,736	343,870

In addition to the components replaced in the year, a further £1.9m was spent on major repairs (excluding overheads) and has been written off to the statement of comprehensive income (2020: £0.7m). Physical adaptation works (PAG's) and buy back of properties capitalised in the year amounted to £1.2m (2020 £0.7m).

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 £0.5m (2020: £0.5m). 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 Association does not capitalise any interest costs associated with its development activity.

Direct maintenance administration costs capitalised in the year amounted to £0.2m (2020: 0.1m) 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.

Notes to the financial statements
Year ended 31 December 2021

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 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 because 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.

During 2021 Hafod Housing Association Limited made a provision for two developments which have suffered irrecoverable costs relating to legal fees and a change of developer.
The Association is satisfied, by consideration of a number of factors, that there is no indication of impairment to any category of assets other than stated above, 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 2021

15 Intangible assets

	2021 Total £'000	2020 Total £'000
Cost		
At beginning of year	331	-
Additions during year	139	331
At end of year	470	331
Depreciation		
At beginning of year	51	-
Charge for year	79	51
At end of year	130	51
Net book value		
At end of year	340	280
At beginning of year	280	-

Intangible assets relates to computer software and 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 which ranges from 4 to 10 years depending on the software requirement.

All intangible assets were previously purchased in Hendre Limited. Since the transfer of staff into Hafod Housing Association Limited in 2019, new intangible assets have been purchased in Hafod Housing Association Limited.

16 Other property, plant and equipment

	Service equipment £'000	Computers, furniture, vehicles and equipment £'000	**2021 Total £'000**	2020 Total £'000
Cost				
At beginning of year	1,036	4,245	5,281	4,881
Additions during year	77	242	319	400
At end of year	1,113	4,487	5,600	5,281
Depreciation				
At beginning of year	701	3,590	4,291	3,892
Charge for year	57	285	342	399
At end of year	758	3,875	4,633	4,291
Net book value				
At end of year	355	612	967	990
At beginning of year	335	655	990	989

Notes to the financial statements
Year ended 31 December 2021

16 Other property, plant and equipment (continued)

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

17 Homebuy 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.

	2021 £'000	2020 £'000
At beginning of year	10,915	10,633
Additions	564	1,890
Disposals	(739)	(1,608)
Reclassification of assets to general needs	(9)	-
At end of year	10,731	10,915

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.

18 Inventories

	2021 £'000	2020 £'000
Housing properties	211	82

Inventories consists of two low cost home ownership properties awaiting sale (2020: one property).

19 Debtors due after more than one year

	2021 £'000	2020 £'000
Loan to Hendre Limited	5,000	5,000
Housing Finance Grant	7,792	7,994
CoCo Debt	115	115
	12,907	13,109

As at 31 December 2021, Hendre Limited was in receipt of a public benefit entity concessionary loan of £5m from the Association (2020: £5.0m).

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.

Notes to the financial statements
Year ended 31 December 2021

19 Debtors due after more than one year (continued)

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.

20 Debtors due within one year

	2021 £'000	2020 £'000
Arrears of rent and service charges	2,715	3,009
Less: provision for bad and doubtful debts	(1,409)	(1,862)
	1,306	1,147
Housing Finance Grant	545	545
Trade debtors	414	466
Other debtors and prepayments	1,944	2,020
Inter-company debtors	-	160
	4,209	4,338

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.

21 Cash and cash equivalents

	2021 £'000	2020 £'000
Treasury deposits:		
Overnight deposit	5,042	5,075
32 days deposit	10,000	10,000
35 days deposit	14,000	-
90 days deposit	-	5,000
	29,042	20,075
Cash at bank and in hand	452	502
	29,494	20,577

Cash and cash equivalents comprise cash in 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 2021, £413k related to other members of the Group (2020: £1.1m).

Notes to the financial statements
Year ended 31 December 2021

22 Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Revenue grants	13	5
Housing loans (see note 24)	3,252	4,686
Interest on housing loans	839	869
Government grants (see note 25)	2,229	2,207
Capital expenditure - properties	820	468
Capital expenditure - components	1,991	569
Capital retentions greater than 90 days	240	398
Trade creditors	1,873	2,045
Other taxation and social security	1,834	1,782
Other creditors and accruals	5,368	3,845
Inter-company creditors	434	1,113
	18,893	17,987

23 Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Housing loans (see note 24)	131,475	132,953
Government grants (see note 25)	183,723	174,751
Recycled capital grant fund (see note 26)	2,031	1,931
Homebuy grants (see note 27)	3,156	3,329
	320,385	312,964

24 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.

	2021 £'000	2020 £'000
Repayable by instalments due as follows:		
Between one and two years	3,593	1,493
Between two and five years	12,313	11,740
After five years	115,569	119,720
	131,475	132,953
Within one year	3,252	4,686
	134,727	137,639

As part of the Welsh Government's 'Land for Housing' initiative, the Association received a public benefit entity concessionary loan of £2.9m during 2020. Repayments of £1.572m were made leaving a balance of £1.328m at 31 December 2021 (2020: 2.5m). 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.

Notes to the financial statements
Year ended 31 December 2021

25 Government grants

	Completed properties £'000	Under construction £'000	Completed shared ownership £'000	2021 Total £'000	2020 Total £'000
At beginning of year	193,568	7,195	1,214	201,977	194,364
Receipts	649	13,542	-	14,191	5,809
Transfer of properties to Hendre Limited	(3,891)	-	-	(3,891)	-
Section 106 agreements and donated land	605	-	-	605	2,108
Schemes completed in year	2,636	(2,636)	-	-	-
Disposal of properties	(51)	-	(19)	(70)	(304)
Reclassification	10	-	-	10	-
At end of year	193,526	18,101	1,195	212,822	201,977
Amortisation					
At beginning of year	24,761	-	258	25,019	23,007
Amortised to statement of comprehensive income	2,153	-	12	2,165	2,077
Transfer of properties to Hendre Limited	(304)	-	-	(304)	-
Disposal of properties	(5)	-	(5)	(10)	(65)
Reduction on sales	-	-	-	-	-
Reclassification	(7)	-	7	-	-
At end of year	26,598	-	272	26,870	25,019
Net book value					
At end of year	166,928	18,101	923	185,952	176,958
At beginning of year	168,807	7,195	956	176,958	171,357
Due within one year (see note 22)				2,229	2,207
Due after more than one year (see note 23)				183,723	174,751
Total government grants				185,952	176,958

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.

26 Recycled capital grant fund

	2021 £'000	2020 £'000
At beginning of year	1,931	1,315
Inputs to recycled capital grant fund	233	395
Recycling of grant	(133)	(77)
Re-categorisation	-	298
At end of year	2,031	1,931

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. There is no recycled capital grant fund repayable within 12 months.

Notes to the financial statements
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27 Homebuy grants

	2021 £'000	2020 £'000
At beginning of year	3,329	3,421
Disposals	(163)	(92)
Reclassification	(10)	-
At end of year	3,156	3,329

A Homebuy grant was provided by the Welsh Government to fund all or part of a Homebuy loan (see note 17) provided by the Association to the purchaser of the housing property. When the Homebuy loan is redeemed the respective Homebuy grant is recognised in the recycled capital grant fund.

28 Non equity share capital

	2021 £	2020 £
Shares of £1 each fully paid and issued at par		
At beginning of year	28	27
Shares issued during the year	1	10
Shares redeemed/(forfeited) during the year	(3)	(9)
At end of year	26	28

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.

29 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.

	2021 £	2020 £
Inter-company loan to Hendre Limited (see note 19)	5,000	5,000
Rent arrears (see note 20)	1,306	1,147
Trade debtors (see note 20)	414	466
Inter-company debtors (see note 20)	-	160
Cash and cash equivalents (see note 21)	29,494	20,577
	36,214	27,350

Notes to the financial statements
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29 Financial instruments (continued)
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.

	2021 £'000	2020 £'000
Housing Finance Grant (see notes 19 and 20)	8,337	8,539
CoCo Debt (see note 19)	115	115
	8,452	8,654

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.

	2021 £'000	2020 £'000
Interest on housing loans (see note 22)	839	869
Capital expenditure - properties for letting (see note 22)	820	468
Capital expenditure - replacement components (see note 22)	1,991	569
Capital retentions greater than 90 days (see note 22)	240	398
Trade creditors (see note 22)	1,873	2,045
Inter-company creditors (see note 22)	434	1,113
	6,197	5,462

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.

	2021 £'000	2020 £'000
Housing loans (see note 22 and 24)	134,727	137,639

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

	2021 £'000	2020 £'000
Interest receivable	25	55
Interest and financing costs	(5,696)	(5,627)
	(5,671)	(5,572)

Notes to the financial statements
Year ended 31 December 2021

30 Capital commitments

	2021 £'000	2020 £'000
Expenditure contracted less certified	18,498	6,573
Expenditure authorised by the Board but not contracted	40,303	54,870
	58,801	61,443

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

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

32 Operating leases
At 31 December 2021 the Association had total commitments under operating leases in respect of leased properties, office premises, equipment and vehicles as follows:

	2021 £'000	2020 £'000
Payments due:		
No later than one year	2,112	1,831
Later than one year and not later than 5 years	6,166	7,115
Over 5 years	10,497	9,402
	18,775	18,348

The majority of the above commitments are in respect of properties managed under lease from The Welsh Housing Partnership and WHP2.

Notes to the financial statements
Year ended 31 December 2021

33 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 Resources Limited £'000	Foundation Housing Tai Sylfaen £'000	Yellow Wales £'000
Registered Social Landlord	Hendre Limited	-	447	-	-	-
	Hafod Housing Association Limited	-	-	-	-	-
Non-registered	Hafod Resources Limited	-	-	-	-	-
	Foundation Housing Tai Sylfaen	-	-	-	-	-
	Yellow Wales	-	-	-	-	-

Hendre Limited provides a landlord and facilities function to Hafod Housing Association Limited. These costs are recharged in full as at 31 December 2021

Debtor / (creditor) balances:	Company	Hendre Limited £'000	Hafod Housing Association Limited £'000	Hafod Resources Limited £'000	Foundation Housing Tai Sylfaen £'000	Yellow Wales £'000
Registered Social Landlord	Hendre Limited	-	4,652	1	-	-
	Hafod Housing Association Limited	(4,652)	-	83	-	3
Non-registered	Hafod Resources Limited	(1)	(83)	-	-	-
	Foundation Housing Tai Sylfaen	-	-	-	-	-
	Yellow Wales	-	(3)	-	-	-

As at 31 December 2021, 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 current 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. Details are given in respect of previous senior executives or Board members.

Other related parties include Hafod Homes Limited and Hafod Corporate Services Limited which are not part of the Hendre Group. Jas Bains and Tracey Healey (Executive Directors of the Group) are Directors.

Notes to the financial statements
Year ended 31 December 2021

34 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).

	2021	2020
	£	£
Aggregate reserves	15,324	15,324

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

35 Other finance cost

	2021	2020
	£'000	£'000
Return on pension scheme assets	122	181
Interest on pension scheme liabilities	(132)	(188)
	(10)	(7)

36 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 2019, 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.

Notes to the financial statements
Year ended 31 December 2021

36 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. For the purposes of these Financial Statements the valuation was updated, by a qualified independent actuary, to comply with Section 28 (Employee Benefits) of FRS 102. In order to reflect the volatile economic climate caused by Covid-19, the most up to date available data was used in the valuation.

The contribution rate payable by the Association for all its employees in the scheme for 2021 was 30.5% (2020: 29.6%). Contributions paid during the year were £51,310 (2020: £51,826), no costs were paid in respect of early retirement benefits (2020: nil). The company expects to contribute approximately £53,000 to the scheme in the next financial year.

The main assumptions used in this valuation were:

	2021	2020
	%	%
Pension Increase Rate (CPI)	3.2	2.8
Salary Increase Rate	2.9	2.5
Discount rate	1.9	1.3

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 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% per annum. Based on these assumptions the average future life expectancy at 65 are summarised below

Life expectancy (at the end of the year)

- of a male (female) future pensioner (in 20 years time)	22.1 (25.4) years
- of a male (female) current pensioner	20.7 (23.4) 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:

Notes to the financial statements
Year ended 31 December 2021

36 Pension scheme (continued)

	Value at 31-Dec-21 £'000	Value at 31-Dec-20 £'000
Equities	8,274	7,412
Government bonds	1,885	1,900
Property	314	190
Cash (including others)	-	-
Total market value of assets	10,473	9,502
Present value of scheme liabilities	(9,784)	(10,247)
Net pension liability	689	(745)

Movement in deficit for the year

	2021 £'000	2020 £'000
Deficit at the beginning of year	(745)	(332)
Current service cost	(81)	(75)
Past service cost	-	-
Contributions paid	51	52
Other finance cost	(10)	(7)
Actuarial gain/(loss)	1,474	(383)
Surplus/(deficit) at the end of year	689	(745)

Movement in plan assets for the year

	2021 £'000	2020 £'000
Assets at the beginning of year	9,502	9,127
Return on assets	122	181
Actuarial gain	1,125	386
Employer contributions	51	52
Employee contributions	10	11
Benefits paid	(337)	(255)
Assets at the end of year	10,473	9,502

Movement in plan liabilities for the year

	2021 £'000	2020 £'000
Liabilities at the beginning of year	10,247	9,459
Service cost	81	75
Interest cost	132	188
Employee contributions	10	11
Actuarial (gain)/loss	(349)	769
Benefits paid	(337)	(255)
Liabilities at the end of year	9,784	10,247

Notes to the financial statements
Year ended 31 December 2021

36 Pension scheme (continued)

Analysis of other pension costs charged in arriving at operating surplus

	2021 £'000	2020 £'000
Current service cost	(81)	(75)
Past service cost	-	-
Total service cost	(81)	(75)

Analysis of amounts included in other finance income

	2021 £'000	2020 £'000
Return on pension scheme assets	122	181
Interest on pension scheme liabilities	(132)	(188)
	(10)	(7)

Analysis of amount recognised in statement of total recognised surpluses and deficits

	2021 £'000	2020 £'000
Actuarial gain on scheme assets	1,125	386
Actuarial gain/(loss) on scheme liabilities	349	(769)
Actuarial gain/(loss) recognised in the statement of comprehensive income	1,474	(383)

Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 December 2021	Approximate % increase to employer liability	Approximate monetary amount (£'000)
0.1% decrease in real discount rate	2%	154
1 year increase in member life expectancy	4%	391
0.1% increase in the salary increase rate	0%	4
0.1% increase in the pension increase rate	2%	148

b) Other pension arrangements

As at 31 December 2021 the Association had active members in four other pension schemes (in addition to the Torfaen Local Government Pension Scheme). These schemes were: National Employment Savings Trust (NEST); a group personal pension plan with AEGON; a group defined contribution scheme with Scottish Widows; and a stakeholder pension scheme with Standard Life Assurance. New members of staff employed by the Association were auto-enrolled into either the National Employment Savings Trust (NEST); or a group personal pension plan with AEGON, depending on which pension scheme was offered under their contract of employment. The Scottish Widows and the Standard Life schemes are closed to new members. The costs of these four schemes are written off to the statement of comprehensive income on an accruals basis. The assets of these schemes are held separately from those of the Association in independently administered funds. The Association operates a salary exchange scheme that is available to all employees in the AEGON pension plan.

Notes to the financial statements
Year ended 31 December 2021

37 Ultimate parent undertaking

The ultimate parent undertaking is Hendre Limited, a registered society under the Co-operative and Community Benefit Societies Act 2014 registered with the Welsh Government.

The consolidated financial statements of Hendre Limited are available to the public and may be obtained from:

St Hilary Court
Copthorne Way
Cardiff
CF5 6ES

Hafod