Report and financial statements

31 December 2020


Mister Softee
Try a 99 Flake
Mister Softee

Contents

Hafod Housing Association Limited
Strategic Board report and annual financial statements
Year ended 31 December 2020

The Board of Hafod Housing Association Limited presents its strategic report and annual financial statements for the year ended 31 December 2020.

Introduction by the Chair of Hendre Group

The Hendre Group has continued to make significant progress over the last 12 months, despite the impact of the COVID-19 pandemic.

No-one could have predicted the events that would unfold in 2020. The pandemic has changed the way we live and work in so many ways. The resilience of the organisation in responding to COVID-19 is a testament to all our colleagues and strong leadership. Together, they have ensured that our services were not only maintained for our customers but also adapted them to best suit their changing needs and expectations, while also delivering financial viability and taking steps to build out of the pandemic.

In December 2020 the Housing Regulator issued their Interim Regulatory Judgement, returning the Group to the status of 'standard' in respect of governance (including services to tenants). After a number of challenging years, we have delivered on our commitments in the Transforming Governance Improvement Plan, which have made comprehensive improvements in respect of how the organisation is governed and managed. The Interim Regulatory Judgement also confirmed that we maintained our standard financial viability status.

To ensure we have the specialist skills and knowledge to help us operate in a sustainable and successful way, we have focused on strengthening our Board to make sure we have a good skill mix of membership to allow informed decision-making and robust governance. This included a number of recruitment exercises for Board and Committee roles, including my own appointment as Chair.

We have also carried out significant work in further developing the skill base of Board and Committee members, such as ensuring a robust understanding of the regulatory framework and engagement in developing our care strategy. Members have also input into the organisation's manifesto for the Senedd Cymru - Welsh Parliament election in 2021 and participated in various detailed subject matter reviews. These activities have delivered a greater knowledge of the organisation and have provided Board Members with the tools to both strategically plan and gain assurance about delivery for our customers.

The events of the pandemic have prompted us to review our strategic priorities and refresh our approach, focusing on what matters the most for our customers while ensuring the organisation's financial sustainability. Many of the things we identified as priorities in our 2019-2024 Strategic Plan remain important and our commitment to them still stands but we believe we can do more.

We are committed to our 'Leaving No-one Behind' programme, which captured our colleagues' experiences of COVID-19 and will inform our decisions and actions. This is just one of the ways that improved communications and feedback from colleagues has helped to shape our plans and priorities, supporting a culture of engagement and transparency while encouraging colleagues to contribute to future decision-making.

As difficult and challenging the last 12 months have been, colleagues and Board members remain positive and ambitious, thinking creatively and imaginatively about the future and how we can deliver better services for our customers.

Looking ahead, we will focus on continuing to improve our governance while maximising our investment in our housing stock and setting out a long-term plan for our care estate.

We will deliver innovative solutions to tackle loneliness and isolation. We are doing this through a unique collaboration with Accenture, Amazon, Swansea University's Centre for Innovative Ageing and the Life Science Hub Wales. While we recognise that technology can never replace human interaction, our hope is that the solution can supplement the work of our Neighbourhood team.

We will also be focusing on climate change and are working to reduce the carbon footprint of our homes and business operations while promoting sustainable lifestyles to reduce carbon consumption.

Finally, we will continue to help our communities become more resilient, particularly as they experience the fallout from COVID-19. Driven by the work of our frontline teams and our coaching approach, we recognise and will build on the strengths and assets of our customers and communities.

I am keen for the organisation to build on the momentum of the last 12 months and look forward to embedding our new strategic priorities and working with colleagues to deliver high quality services for the people who need us.

Jonathan Morgan
Chair of Hendre Group

Governance

Legal status and rules of the Association

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

The Association is registered as a charitable housing association (No. 18766R) under the Co-operative and Community Benefits Socialities 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, committees and executive officers

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

The current members of the Board are as follows:

Chair	Mr J Morgan
Vice Chair	Mrs D Jones*

Other members

Mr T Beggs	Mr N Davies*
Ms T Donnelly	Mr C Fletcher
Dr E Haywood	Mrs K Howells*
Mr M Jones	Mr D Michael
Mr S Vedi	

Company Secretary Mrs T Healey

There have been the following changes to Board membership since the financial statements for the year ended 31 December 2019 were approved at the Board meeting held on 18 May 2020:

Mr J Harker	Resigned November 2020
Mr P Maggs	Resigned June 2020
Mr G North	Resigned June 2020

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

Hendre Limited has established the following Group-wide committees:

- Audit and Risk Committee, this Committee has four independent Members (Mr R Alexander, Mr M Rees, Mrs J Meacham (co-optee) and Mr M Veale (co-optee). The co-optees were appointed in November 2020).
- Remuneration and Appointments Committee
- Schedule 1 Committee
- Pension Committee
- Safeguarding panel, independent Chair Mrs R Price (resigned February 2021)

The Executive Board comprises the following senior executives:

Group Chief Executive	Jas Bains
Deputy Chief Executive	David Hayhoe
Corporate Director - Finance and Investments	Simon Mellor (from April 2021)
Corporate Director - People, Communications and IT	Karen Rosser
Corporate Director - Assurance, Governance and	Tracey Healey

Business Change/Company Secretary	
Operations Director - Housing, Support and Development	Elke Winton
Operations Director - Asset Management and Property Services	Luke Mitchell
Interim Responsible Individual	Catrin Fletcher (from October 2020)
Interim Care Operations Lead	Margaret Harris (from October 2020)
Director of Research and Innovation	Jamie Smith

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

Director of Care Operations	Jonathan Harker (to Dec 2020)
Corporate Director - Finance and Investments	Gareth Yeoman-Evans (to Dec 2020)

The senior executives hold no interest in the shares of the 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, Catrin Fletcher is the appointed RI and is co-opted onto Hafod Housing Association Limited's 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's 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 Association's work on local communities and those it seeks to serve. It requires a high level of commitment and cohesion in pursuit of shared goals.

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

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

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

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

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

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

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Association and enable it to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015.

The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities. The Board is also responsible for ensuring the integrity of the corporate and financial information included on the Association's website.

Housing Association governance – reporting on internal controls

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 Association 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 the Hendre group. It gives access to key governance documents with the aim of strengthening our governance and increasing our governance literacy.

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

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

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

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

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

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

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

Risk and risk management

Group risk management framework

A 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:

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

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

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

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

The overall risks and challenges facing the Hendre Group are assessed and monitored by the 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.

Risks facing the Association and 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 Audit and Risk Committee receive a risk report at every meeting. The Hendre Board has delegated oversight and scrutiny of risk management to the Audit Committee. 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. 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'

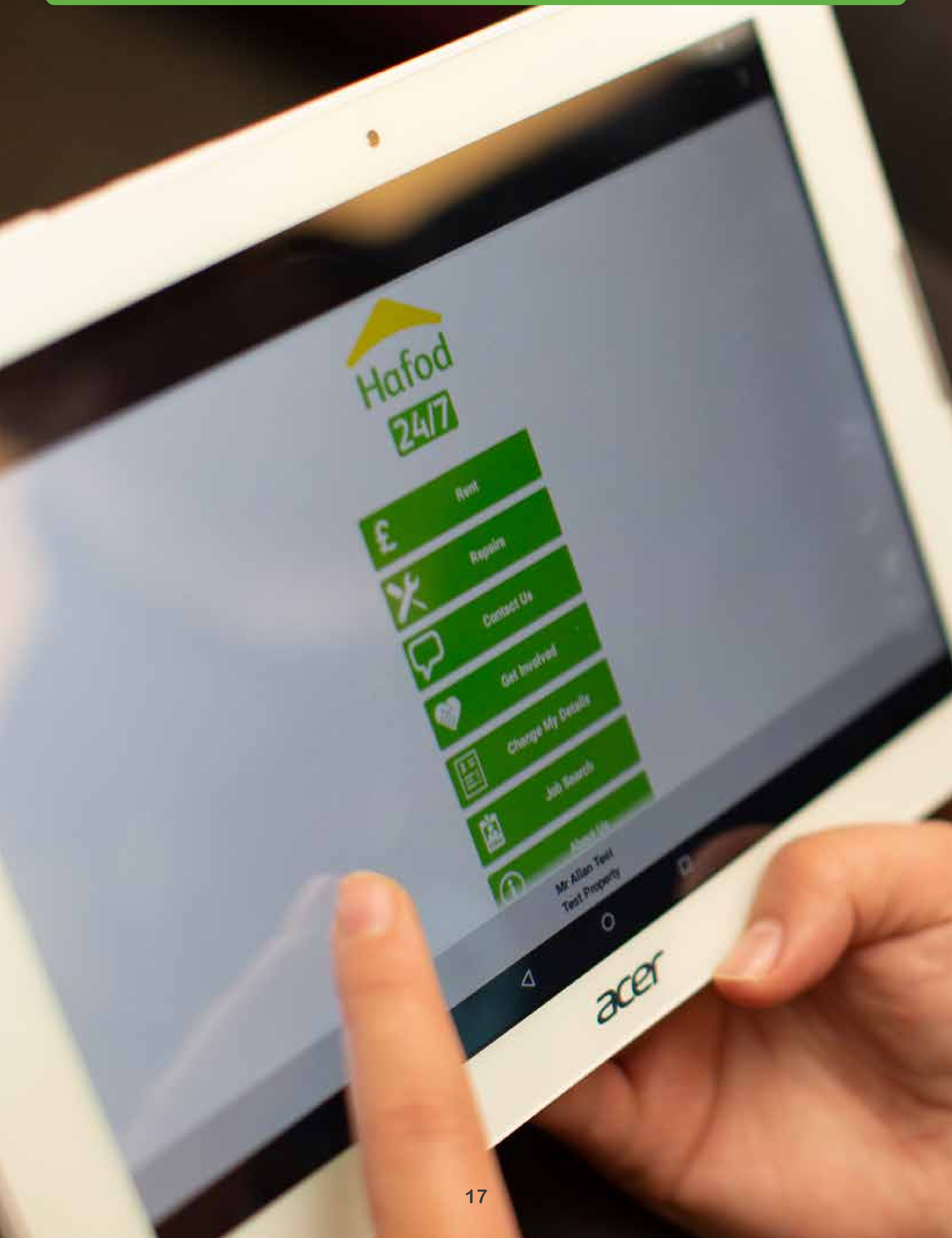
Furthermore, in March 2020, the Hendre Board approved a set of 'golden rules' that provides a clear view of the Group's financial risk appetite and how they are utilised as a control in balancing strategic ambitions with continued financial resilience.

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

The 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.

An incident occurred in December 2019 involving a resident at one of our care homes who incurred injuries as a consequence of a fall from height. The Health and Safety Executive (HSE) were informed and subsequently their officers visited the site in February and March 2020, concluding that a breach of health and safety regulations had occurred. Hafod subsequently carried out all recommended works to eliminate the risk of a reoccurrence of such an incident.

The planned re-visit by the HSE to inspect the remedial works was delayed until March 2021 as a result of the pandemic. We currently await feedback from the HSE on any proposed actions resulting from this incident.


Hafod
24/7
Rent
Repairs
Contact Us
Get Involved
Change My Details
Job Search
acer

Strategic plan

During late 2020/early 2021 the Board and the Executive team took the opportunity of revisiting and refreshing the Group's strategic priorities. In summary, the Board have approved the following twelve strategic priorities:

- Putting our customers and communities first
- Health and social care
- Next generation homes
- Next generation support
- Joining the dots through integration
- Leadership
- First class governance
- Mitigating climate change
- Enabling through resources and finance
- Creating great places to work
- Accelerating our digital transformation
- Delivering meaningful innovation

Customers

One of the Group's key strategic priorities is putting customers and communities first. This year we have further built on the foundations created through the customer charter and created different ways to hear the customer voice across all areas of our business. This has been particularly important during the pandemic period, with a need for services being agile and responsive to the emerging needs of customers as they arise, but also more proactive in reaching out to people and communities during the period of uncertainty and, for many, significant challenges.

An example of this is where, through the neighbourhood coaching model, Coaches have remodelled and increased the focus on creating stronger relationships with customers. Coaches have undertaken welfare calls and contacts with customers across housing services to improve the understanding of what truly matters, and to find ways of working together that supports the achievement of personal goals. There are many examples within our communities that demonstrate how this is starting to grow and become a new model of early interaction that helps prevent further distress, and negative impacts on health and well-being.

Whilst this year has seen many challenges, alongside this, many opportunities have arisen for all customer facing colleagues to develop new ways to engage with our customers. Social media, in particular Facebook, has proved to be an effective way of communicating with communities. Setting up area-based Facebook groups enabled a local context to our dialogue. This has been particularly effective in our care home settings, enabling vital social contact and interaction between our care customers and their families.

The customer voice has been actively sought through various channels and we have been able to demonstrate through a number of projects what difference this has made.

During the pandemic, a specific focus has been on gleaning feedback on the nature of support, advice and assistance available.

This provided 689 responses across care, housing and support customers with an average of 90% of responses feeling that the organisation had responded well to COVID-19. Accompanying intelligence has been essential in ensuring service delivery is modelled in accordance with putting customers first.

Similarly, putting customers at the starting point of service re-design has been paramount, and this is evident in question of the month, mystery shoppers and service based reviews which were used to ensure customer focus in the design of new contracts such as the window cleaning and out of hours services.

One of the strongest signals of intent towards our customer focus has been our approach to innovation. In 2020, we took the decision to spin our research and innovation function out of the main organisation, to allow it to work at arms' length and pursue new opportunities on behalf of our customers. With this has come the formation of new partnerships with global technology providers, prominent sustainability organisations, leading university researchers and a range of public service collaborators. Innovations have come to fruition around isolation and loneliness, where we have supported customers with bespoke technology created to mitigate the negative effects on health and well-being.

Digital inclusion and data poverty are being addressed through a collaboration that distributes repurposed mobile phones and data packages to people in need and we are breaking new ground with our ethnographic research into financial well-being and experiment around the distribution of menstrual products to address period poverty. We have also deployed our research capabilities into developing a rent policy that takes account of affordability factors and is indexed against local incomes and housing costs.

Spinning out the function in this way has already fulfilled our intention of getting closer to the everyday problems and pressure points customers face in their lives and allowed us to create meaningful innovations to address them, with several more in the pipeline.

Building trust and meaningful interaction with our customers remains a priority and continuing engagement to improve the overall customer experience is well embedded into the Group's vision, strategy and direction of travel for 2021 and onwards.

Performance for the year

The impact of the pandemic that led to the first lockdown in March 2020 resulted in a significant degree of uncertainty across all of our areas of operation – the potential impact of the pandemic on residents and colleagues at our care homes, the services we provide to our existing tenants and their families, the practicalities of meeting our repairs and maintenance commitments to our tenants – all had the potential of adversely impacting on the financial viability of the organisation.

However, Hafod entered the pandemic on a strong financial footing and quickly took action to evaluate the potential negative impacts of the pandemic on our ability to weather the storm.

The following brief synopsis details the impact that COVID-19 has had on both our operations and the financial results for the year and how these risks have been mitigated, either by internal action or by external support.

Care homes

Caring for frail and vulnerable clients in our care homes presented the biggest challenge over the year. Higher mortality rates followed by restrictions on the ability to admit new residents, resulted in occupancy levels deteriorating over the first wave of the pandemic and, following a short respite, spiking again to unprecedented levels as winter brought the second wave of the pandemic. Financial support from the Welsh Government, local authorities and health boards in underwriting losses from low occupancy levels has been critical in sustaining our care businesses during 2020 and into the first half of 2021. This will provide the care homes with the opportunity to build up their occupancy levels over 2021 as infection rates fall and there is a return to some degree of normality.

In the early phase of the first lockdown, faced with uncertainty of securing adequate supplies of personal protective equipment from local authorities, we took the decision to secure our own supply lines and, where possible, build up a strategic central stock of equipment. Reliance on this centrally procured stock gradually diminished over the year as supplies from local authorities began to match demand.

The commitment and dedication of front line colleagues providing social care across the country is well documented and this applies equally to those colleagues in Hafod. The challenges of colleagues requiring to shield because of underlying medical conditions or required to self-isolate because of positive COVID-19 tests, has put pressures on the staffing levels at our care homes but the tremendous resourcefulness of all involved in providing care to our residents has ensured that everyone has been cared for in a safe and secure environment.

In August 2020, after considerable deliberation, the Board reluctantly took the decision to close our care home at Tŷ Gwyn. Whilst recognising the exemplary quality of care provided by our colleagues to the residents, the physical condition of the home provided a living environment which did not meet Hafod's aspirations. External advice concluded that no amount of investment in the property would bring it up to modern standards. In consultation with relatives, residents were transferred to their new homes over the second half of 2020, many of them expressing preferences to remain within a Hafod care home in the vicinity. Colleagues who wished to stay with Hafod were also accommodated, where possible, in other Hafod services.

Providing care to our clients, either in our properties or in their own homes presents different challenges compared to a care home setting. In homecare, moving from one location to another during a highly contagious pandemic magnifies the risks to both colleagues and clients. These risks were mitigated to a large extent with the supply of appropriate personal protective equipment. It is, however, to the credit of our homecare colleagues that this service has continued to support vulnerable and elderly people in their own homes over the year.

Supported accommodation
As with homecare, providing support to vulnerable clients, whether in our own properties or in their own homes brings unique challenges.

Much of our supported accommodation is shared, bringing specific challenges around social distancing and increasing the risks of transmission of the virus. Initially during the first lockdown some face-to-face support had to be replaced by telephone support. Our support colleagues have gone above and beyond expectations to ensure the needs of our vulnerable clients have been met as fully and normally as possible during the pandemic.

Repairs and maintenance
For safety reasons, restrictions on the ability of either our in-house maintenance team or external contractors to enter properties to undertake both routine repairs and major planned replacement work has significantly impacted on the work of our Assets team over 2020 and the first half of 2021. With suitable precautions, all emergency repair work and, in particular, all work necessary to discharge our landlord compliance and health and safety obligations has been undertaken. Where possible resources have been diverted to undertake external works where this can be done safely. However, the outcome has been a large backlog in the planned replacement of internal components (kitchens, bathrooms etc.). In order to catch up with this programme, these works will be re-profiled, post COVID-19, when it is safe to do so.

Development of new properties
The first lockdown resulted in a number of our building contractors ceasing work on many of our development sites. This also coincided with the imposition of Welsh Government regulations restricting house moves except in very exceptional circumstances. New homes coming into management and being available for occupation was, therefore, behind schedule. However, by the end of the year we had successfully brought 198 new properties into management.
The Association has made arrangements with our bankers to issue a £2.0m surety bond for our development activities.

Housing and other services provided by centrally based colleagues
The ‘work from home wherever possible’ directive initially posed a major challenge to our colleagues who normally work out of our central offices. Acquiring and then equipping everyone with the right technology was the first priority which was achieved with commendable speed by our IT team. Our primary objective was to ensure that the services provided to our clients by centrally based colleagues not only continued as normally as possible, but were also aligned to the changed circumstances in which our clients found themselves. We also took the opportunity, as we moved to new ways of working remotely, to begin to fundamentally reconsider how we should adapt our services post COVID-19. Non-customer facing services have also continued to be successfully provided remotely over the period of the pandemic.

Financial performance

The Association's surplus for the year of £3.4m was 5.4% of turnover (2019: £1.5m, 3.6% of turnover); the operating surplus of £8.9m was 14.4% of turnover (2019: £6.8m, 15.7% of turnover). The comparison with the previous financial year is distorted as a result of the amalgamation of Hafod Care Association Limited part way through 2019.

Although not material in the context of the overall results for the year we did reflect in the accounts the consequences of certain aspects of the impact of the pandemic on our services.

These include:

- recognising that the pandemic limited the ability of our contractors to perform the full range of site services that are normally included in service charges to our tenants/ leaseholders. In recognition of this we deferred a proportion of service charge income from 2020 to 2021;
- recognising a liability in the 2020 financial statements for the cost of non-urgent repairs that were committed in 2020 but not capable of completion because of limitations to property access as a result of the pandemic;
- the cost of protective personal equipment acquired at Hafod's cost during the year. At the year end the accounts hold an amount in prepayments for the unused cost of this equipment.

As mentioned previously, Tŷ Gwyn Care Home was also closed in the year. The financial impact of the closure, including redundancy costs and write-off of assets have been accounted in the 2020 financial statements. The impact of the closure is not material in relation to the overall results for the year.

An independent evaluation of the Greater Gwent (Torfaen) final salary pension scheme resulted in an actuarial loss on the scheme being reported in Hafod Housing Association Limited's statement of comprehensive income for the year of £0.4m. This matter is dealt with further in the financial statements.

As at 31 December 2020 the revenue reserves stood at £73.3m (2019: £70.4m). This comprised the surplus for the year and the actuarial loss on the pension scheme.

There was a net cash inflow from operating activities during the year of £15.9m (2019: £9.9m). External borrowing was offset by bank account balances to leave net debt at the end of 2020 of £113m (2019: £113m). After cash outflows in respect of interest payable, loan repayments, investment in component replacements and purchase of replacement fixed assets, the Association generated 'free cash flows' of £6.5m (2019: nil).

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

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

Value for money

Our value for money statement can be found in the Hendre Group consolidated financial statements.

Our colleagues

Throughout 2020 our colleagues have gone above and beyond to deliver services for our customers during a very challenging time. The impact of Covid-19 on our teams and their families has been significant. We have adjusted our people plans and focus to respond to our colleagues needs, supporting their well-being whilst improving their work experiences by moving forward with key elements of our people strategy.

Recruitment and retention

A key objective was to ensure we had the colleagues needed to support our services. To achieve this, we introduced the 'Helping Hands' scheme which enabled colleagues to take time from their usual role to support our care services, and helped us attract new care colleagues to join us. We overhauled our recruitment, induction and onboarding processes enabling us to successfully bring new colleagues into the business through online ways of working. New developments have included the introduction of recruitment packs for key vacancies, video adverts and task-based selection processes which have proven to be a better predictor of candidate success. Work on our employment brand is leading to high volumes of applicants who are attracted to the socially conscious elements of our organisation, our opportunities for development and flexible and family friendly environment.

During the year we made a commitment to launching the Great Place to Work survey to measure areas such as colleague trust, engagement and well-being, and to benchmark us against other organisations. Taking action, based on the responses of our colleagues will be central to driving our work on enabling our colleagues to have great days at work in line with our people strategy.

Skills development

Our commitment to developing our colleagues' skills and supporting them to achieve their ambitions continued throughout 2020. All our mandatory and compliance training was moved online. Academi Hafod has continued to go from strength to strength with the introduction of significant development programmes to support colleagues in many areas including; project management, well-being and resilience, decarbonisation, train the trainer and psychologically informed environments.

We also delivered a programme of development for line managers focusing on developing skills including managing grievances, whistleblowing, safeguarding, holding performance appraisals, setting objectives and managing sickness absence.

We have started our career path mapping with the development of new training matrices for all roles and the roll out of our career pathways to all roles in care. These pathways will enable colleagues to understand how they progress from a care assistant role to more senior positions such as a nursing care assistant, registered general nurse or residential or nursing care home management. We plan to introduce career pathways for every role in 2021.

Culture, leadership and behaviours

We have stepped up our focus on equality, diversity and inclusion (EDI) through the creation of EDI champions and an EDI steering group. These groups have set out our EDI vision and ambitions and have been focused on educating and upskilling colleagues in relation to EDI. We have also committed to the Tai Pawb 'Words not Deeds' pledge which is focused on race equality and the 'Time to Change' pledge to change how we all think and act about mental health in the workplace.

Whilst not required by legislation, we published our 2019 Gender Pay Gap report in April 2020 which showed a median pay gap improvement of 3.6%. We are delighted with the continued closing of our pay gap which has improved by over 10 percentage points since the start of the gender pay reporting requirement in 2017 (2018 report). We are also pleased that our gap is smaller than the average reported by the Office of National Statistics by 6.7 percentage points.

During the pandemic we have seen cultural change in all areas of the business. To capture the learning from this, our Research and Innovation team have scrutinised the changes that have taken place and identified the factors that have made the change possible. Extensive research involving interviews with colleagues from across Hafod has highlighted both the successes in our culture change journey and the next steps we need to take to make the most of the transformational benefits that the pandemic has generated.

We were delighted to recognise the work of our frontline teams by providing a thank you gift and card, which was very positively received. We also invested in Christmas gifts to demonstrate our appreciation and documented the fantastic stories of where our colleagues went the extra mile.

People practices

Our HR and payroll teams have worked tirelessly to respond to multiple changes in legislation aligned to COVID-19 including; changes to the DBS process, sick pay, holiday changes, shielding, furlough and the Welsh Government special payment scheme. The teams showed their commitment to the well-being of colleagues by contacting and offering support to every colleague who experienced COVID-19 or had to self-isolate or shield.

Our ambition to move to a flexible way of working has been escalated by the pandemic. A more flexible approach to working in a more agile way has been positively received by colleagues, however there is more work to do on embedding different ways of working rather than just move the office to home. This will be a focus for the team going forward beginning with our 'Ways of Working' project and new home working policy.

In November 2020, we introduced a new HR and Payroll system 'My Hafod' that offers colleagues and managers self-service access to their key personal information and enables them to carry out key tasks such as booking holidays, changing their details, viewing team calendars, viewing pay-slips and much more. This system will continue to be developed to enhance functionality and become a key source of information for our colleagues.

Modern Slavery and Human Trafficking statement

Our Modern Slavery and Human Trafficking statement can be found in the Hendre Group consolidated financial statements.

Other matters

Subsequent events

There have been no events subsequent to the date of the Association's financial position that have had a material effect on the results of the Association 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 Association's auditor is unaware; and each Board member has taken all the steps that they ought to have taken as a Board member to make themselves aware of any relevant audit information and to establish the Association's auditor is aware of such information.

Annual general meeting

The annual general meeting will be held on 21 June 2021.

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 24 May 2021 and signed on its behalf by:

Jonathan Morgan, Chair

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

Opinion

We have audited the financial statements of Hafod Housing Association Limited (the 'Association') for the year ended 31 December 2020 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, 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 2020 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 Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Board's 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 Board members 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 Board members 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 and reporting'. We are not required to express an opinion on the effectiveness of the Association's system of internal control.

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

We have nothing to report in this regard.

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

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Cooperative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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

Responsibilities of the Board

As explained more fully in the Statement of the Board's responsibilities set out on page 11, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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 Association, and its sector, we identified that the principal risks of non-compliance with laws and regulations related to employment and health and safety regulations, Welsh Government legislation of the regulation of Registered Social Landlords and Social Care and implementation of government support schemes relating to COVID-19, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact 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.

We evaluated the Board's and management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were 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 capitalisation of works to existing properties, and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements.

Our audit procedures included but were not limited to:

- Discussing with the Board and management their policies and procedures regarding compliance with laws and regulations
- Communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the Association which were contrary to applicable laws and regulations, including fraud

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

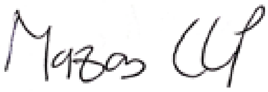
- Making enquiries of the Board and management on whether they had knowledge of any actual, suspected or alleged fraud
- Gaining an understanding of the internal controls established to mitigate risks related to fraud
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks 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 Association's members as a body in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body for our audit work, for this report, or for the opinions we have formed.



Mazars LLP
Chartered Accountants and Statutory Auditor
First Floor
2 Chamberlain Square
Birmingham
B3 3AX

Date: 21 June 2021

Financial statements

Statement of comprehensive income
Year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Turnover	**3**	62,142	43,387
Operating expenditure	**3**	(53,326)	(36,898)
Surplus on disposal of property, plant and equipment	**5**	123	317
Operating surplus	**3**	**8,939**	**6,806**
Interest receivable	**6**	55	190
Interest and financing costs	**7**	(5,627)	(5,429)
Other finance cost	**35**	(7)	(22)
Surplus before tax	**3**	**3,360**	**1,545**
Taxation	**12**	-	-
Surplus for the year		**3,360**	**1,545**
Actuarial (loss)/gain in respect of pension scheme	**36**	(383)	541
Total comprehensive income for the year		**2,977**	**2,086**

Statement of changes to reserves
As at 31 December 2020

	2020 £'000	2019 £'000
At beginning of year	**70,354**	**46,623**
Transfer of engagements from Hafod Care Association Limited	-	21,645
Surplus for the year	3,360	1,545
Actuarial (loss)/gain in respect of pension scheme	(383)	541
At end of year	**73,331**	**70,354**

Statement of financial position
As at 31 December 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Housing properties	13	354,736	343,870
Intangible assets	15	280	-
Other property, plant and equipment	16	990	989
Home Buy loans	17	10,915	10,633
		366,921	355,492
Current assets			
Inventories	18	82	1,419
Debtors due after one year	19	13,109	13,304
Debtors due within one year	20	4,338	5,683
Treasury deposits	21	20,075	17,816
Cash at bank and in hand	21	502	555
		38,106	38,777
Creditors: amounts falling due within one year	22	(17,987)	(15,172)
Net current assets		20,119	23,605
Total assets less current liabilities		387,040	379,097
Creditors: amounts falling due after more than one year	23	(312,964)	(308,411)
Defined benefit pension liability	36	(745)	(332)
Net assets		**73,331**	**70,354**
Capital and reserves			
Called up share capital	28	-	-
Revenue reserves		73,331	70,354
Association's funds		**73,331**	**70,354**

The financial statements were approved by the Board on 24 May 2021 and signed on its behalf by:

Chair

Board Member

Secretary

Statement of cash flows
Year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Net cash generated from operating activities	a	**15,890**	**9,889**
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,256)	(28,890)
Home Buy loans		(1,890)	(3,142)
Proceeds from sale of property, plant and equipment		916	1,240
Grants received		6,225	9,362
Interest received		55	190
Net cash flows from investing activities		**(9,950)**	**(21,240)**
Cash flows from financing activities			
Interest paid		(5,673)	(5,296)
New loans		2,898	10,740
Repayments of borrowings		(1,782)	(1,707)
Inter-company debtors and creditors		823	(537)
Net cash flows from financing activities		**(3,734)**	**3,200**
Net increase/(decrease) in cash and cash equivalents		**2,206**	**(8,151)**
Cash and cash equivalents at beginning of year		**18,371**	**26,324**
Transfer of engagement - non cash adjustment		**-**	**198**
Cash and cash equivalents at end of year	b	**20,577**	**18,371**

Statement of cash flows
Year ended 31 December 2020

a) Net cash generated from operating activities

	2020 £'000	2019 £'000
Surplus for the year	3,360	1,545
Adjustment for non-cash items:		
Depreciation of property, plant and equipment	7,007	5,628
Impairment of properties	43	-
Decrease/(increase) in inventories	1,337	(172)
Decrease/(Increase) in debtors	703	(1,238)
Increase in creditors	38	961
Pension costs less contributions payable	30	78
Carrying amount of property, plant & equipment disposals	793	923
Adjustments for investing or financing activities:		
Proceeds from the sale of property, plant and equipment	(916)	(1,240)
Government grants utilised in the year	(2,077)	(1,835)
Interest payable	5,627	5,429
Interest received	(55)	(190)
Net cash generated from operating activities	**15,890**	**9,889**

b) Cash and cash equivalents

	2020 £'000	2019 £'000
Treasury deposits	20,075	17,816
Cash at bank and in hand	502	555
	20,577	**18,371**

c) Free cash flow

	2020 £'000	2019 £'000
Net cash generated from operating activities	15,890	9,889
Interest paid	(5,673)	(5,296)
Interest received	55	190
Component replacements	(1,246)	(2,902)
Purchase of other replacement fixed assets	(731)	(224)
Free cash generated before loan repayments	**8,295**	**1,657**
Loans repaid (excluding revolving credit and overdrafts)	(1,782)	(1,707)
Free cash generated after loan repayments	**6,513**	**(50)**

Statement of cash flows
Year ended 31 December 2020

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

	2020	2019
	£'000	£'000
Increase/(Decrease) in cash in the year	2,206	(8,151)
Cash inflow from inter-company debtors and creditors	(823)	537
Cash inflow from changes in debt	(1,116)	(9,033)
Other non-cash changes	-	(9,570)
Movement in net debt in the year	267	(26,217)
Net debt at 1 January	(113,282)	(87,065)
Net debt at 31 December	**(113,015)**	**(113,282)**

e) Analysis of changes in net debt

	At 1 January 2020	**Cash flows**	**At 31 December 2020**
	£'000	£'000	**£'000**
Cash and cash equivalents	18,371	2,206	20,577
Inter-company debtors and creditors	4,870	(823)	4,047
Housing loans	(136,523)	(1,116)	(137,639)
Net debt	**(113,282)**	**267**	**(113,015)**

Notes to the financial statements
Year ended 31 December 2020

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 46. 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.

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.

3 Turnover, operating surplus and surplus before taxation

	Turnover £'000	Operating costs £'000	Operating surplus / (deficit) £'000	**2020 Surplus / (deficit) before taxation £'000**	2019 Surplus / (deficit) before taxation £'000
Social housing lettings:					
General needs housing	26,411	20,088	6,323	6,323	5,147
Shared ownership	380	108	272	272	357
Supported housing	8,832	6,849	1,983	1,983	170
Other social housing activities:					
Private sector leasing	1,019	1,026	(7)	(7)	77
First tranche sales	1,826	1,345	481	481	875
Residential care homes	9,470	9,189	281	281	(109)
Non social housing activities:					
Nursing care homes	11,305	11,607	(302)	(302)	(32)
Homecare	2,798	3,050	(252)	(252)	(101)
	62,041	**53,262**	**8,779**	**8,779**	**6,384**
Other income and expenditure	101	64	37	37	105
	62,142	**53,326**	**8,816**	**8,816**	**6,489**
Surplus on disposal of property, plant and equipment				123	317
Operating surplus				**8,939**	**6,806**
Interest receivable				55	190
Interest and financing costs				(5,627)	(5,429)
Other finance cost				(7)	(22)
Surplus before tax				**3,360**	**1,545**

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.

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

4 Particulars of income and expenditure

	Social housing lettings			Other social housing activities			Non social housing activities			
	General needs housing £'000	Shared ownership £'000	Supported housing £'000	Private sector leasing £'000	First tranche sales £'000	Residential care homes £'000	Nursing care homes £'000	Homecare £'000	**2020 Total £'000**	2019 Total £'000
Turnover										
Rents, fees and other charges	23,714	269	4,797	995	-	8,645	10,645	2,727	**51,792**	35,491
Service charges	957	111	1,456	23	-	-	-	-	**2,547**	1,845
Revenue grants	-	-	2,236	-	-	-	-	-	**2,236**	944
Amortised government grant	1,740	-	336	1	-	-	-	-	**2,077**	1,835
COVID-19 grants	-	-	7	-	-	825	660	71	**1,563**	-
Sale proceeds	-	-	-	-	1,826	-	-	-	**1,826**	3,090
	26,411	**380**	**8,832**	**1,019**	**1,826**	**9,470**	**11,305**	**2,798**	**62,041**	**43,205**
Operating costs										
Management and service costs	10,537	96	4,717	868	-	8,334	10,751	3,050	**38,353**	21,429
Maintenance	4,626	-	1,185	146	-	506	396	-	**6,859**	7,170
Bad debts	127	12	(7)	(27)	-	17	26	-	**148**	575
Deficit on replacement of property components	209	-	23	1	-	160	14	-	**407**	270
Depreciation of properties	4,589	-	931	38	-	172	420	-	**6,150**	5,162
Cost of sales	-	-	-	-	1,345	-	-	-	**1,345**	2,215
	20,088	**108**	**6,849**	**1,026**	**1,345**	**9,189**	**11,607**	**3,050**	**53,262**	**36,821**
Operating surplus / (deficit)	**6,323**	**272**	**1,983**	**(7)**	**481**	**281**	**(302)**	**(252)**	**8,779**	**6,384**
Rent loss from voids (memorandum note)	192	-	159	18	-	954	1,091	-	**2,414**	687

Surplus on first tranche sales comprises of 9 sales (2019: 17).

Depreciation of properties includes £0.141m for the disposal of Ty Gwyn Care Home, a 35 bed residential care home in Cwmbran that was closed during the period.

5 Surplus on disposal of property, plant and equipment

	2020 £'000	2019 £'000
Sale proceeds	916	1,240
Cost of sales	(793)	(923)
	123	317

Surplus on disposal of property, plant and equipment comprises of 9 (2019: 24) traditional staircasing sales and 8 disposals resulting in a surplus of £123k (2019:£317k).

6 Interest receivable

	2020 £'000	2019 £'000
Bank interest receivable	55	190

7 Interest and financing costs

	2020 £'000	2019 £'000
Bank loans	5,627	5,429

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

	2020 £'000	2019 £'000 Restated
Surplus on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of property, plant and equipment	6,600	5,358
Amortised government grant	(2,077)	(1,835)
Surplus on disposal of property, plant and equipment	(123)	(317)
Audit fees:		
- Statutory audit	36	35
- Audit related assurance services	2	3
Operating lease rentals	1,831	1,652

9 Units in management

	2019 Number	Adjustments	Additions	Disposals	**2020 Number**
General needs housing	4,308	(49)	181	(9)	4,431
Shared ownership	101	(3)	4	(2)	100
Supported housing	491	36	-	(1)	526
Private sector leasing and lettings	131	-	3	(7)	127
Residential care homes	271	-	-	(36)	235
Nursing care homes	239	-	-	-	239
Home Buy	351	8	9	(16)	352
Leaseholders	208	(1)	1	-	208
	6,100	(9)	198	(71)	6,218

In addition to bed spaces and units in management the Association also provides floating support, tenant support and homecare services to 787 (2019: 1,138) clients.

10 Employee information

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

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

	2020 Number	2019 Number
The average number of staff employed during the year was as follows:	1,373	605
The total number of staff employed at the end of the year was:	1,372	1,342

The total costs for the staff employed was as follows:

	2020 £'000	2019 £'000
Wages and salaries	24,862	11,494
Social security costs	1,897	918
Pension costs	1,048	515
	27,807	12,927

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 2020 was £572,794 (2019: £157,142). 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 £170,126 (2019: £191,672).

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

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 9.

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:

	2020	2019
	£'000	£'000
Emoluments	953	934
Pension contributions	99	90
Total emoluments	1,052	1,024

Emoluments payable to the Group Chief Executive Officer:

	2020	2019
	£'000	£'000
Emoluments	141	138
Pension contributions	15	14
Total emoluments	156	152

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

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

12 Taxation

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

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

13 Housing properties

	Completed properties £'000	Under construction £'000	Completed shared ownership £'000	2020 Total £'000	2019 Total £'000
Cost					
At beginning of year	374,850	21,513	2,029	398,392	310,481
Additions to properties in the year	706	13,365	-	14,071	20,686
Transfer of assets from Hafod Care Association	-	-	-	-	57,264
Section 106 agreements and donated land	2,108	-	-	2,108	1,858
Acquired from Hafod Care Association Limited	-	-	-	-	7,291
Schemes completed in the year	20,086	(20,086)	-	-	-
Components replaced in the year	1,753	-	-	1,753	2,630
Disposal of properties in the year	(538)	-	(38)	(576)	(429)
Disposal of components in the year	(950)	-	-	(950)	(1,097)
Impairment of properties	(43)	-	-	(43)	-
Reclassification of assets	(548)	-	548	-	(292)
At end of year	397,424	14,792	2,539	414,755	398,392
Depreciation					
At beginning of year	54,522	-	-	54,522	40,983
Charge for year	6,157	-	-	6,157	5,162
Transfer of assets from Hafod Care Association	-	-	-	-	9,274
Acquired from Hafod Care Association Limited	-	-	-	-	-
Disposal of properties in the year	(110)	-	-	(110)	(70)
Disposal of components in the year	(543)	-	-	(543)	(827)
Reclassification of assets	(7)	-	-	(7)	-
At end of year	60,019	-	-	60,019	54,522
Net book value					
At end of year	337,405	14,792	2,539	354,736	343,870
At beginning of year	320,328	21,513	2,029	343,870	269,498

In addition to the components replaced in the year, a further £0.7m was spent on major repairs (excluding overheads) and has been written off to the statement of comprehensive income (2019: £1.5m). Improvements capitalised in the year amounted to £0.7m (2019: 1.1m), this included physical adaptation works (PAG's) and buy back of properties.

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 (2019: £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 £0.1m (2019: 0.2m) and are included in the components replaced in the year above.

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

13 Housing properties (continued)

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

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

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

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

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

14 Impairment review

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

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

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

14 Impairment review (continued)

During 2020 Hafod Housing Association Limited received an offer for the disposal of a site outside our strategic operating area which fell below the carrying value of the property. A decision was made to dispose of this property which will be completed in 2021. This has resulted in an impairment to the value of this property which was accounted for in 2020.

15 Intangible assets

	2020 Total £'000	2019 Total £'000
Cost		
At beginning of year	-	-
Additions during year	331	-
At end of year	331	-
Depreciation		
At beginning of year	-	-
Charge for year	51	-
At end of year	51	-
Net book value		
At end of year	280	-
At beginning of year	-	-

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	**2020 Total £'000**	2019 Total £'000
Cost				
At beginning of year	979	3,902	4,881	1,070
Re-categorisation	(16)	16	-	-
Additions during year	73	327	400	224
Transfer of assets from Hafod Care Association Limited	-	-	-	3,587
At end of year	1,036	4,245	5,281	4,881
Depreciation				
At beginning of year	671	3,221	3,892	731
Re-categorisation	(23)	23	-	-
Charge for year	53	346	399	196
Transfer of depreciation from Hafod Care Association Limited	-	-	-	2,965
At end of year	701	3,590	4,291	3,892
Net book value				
At end of year	335	655	990	989
At beginning of year	308	681	989	339

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 Home Buy loans

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

	2020	2019
	£'000	£'000
At beginning of year	10,633	9,960
Additions	1,890	3,142
Disposals	(1,608)	(2,761)
Reclassification of assets	-	292
At end of year	10,915	10,633

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

	2020	2019
	£'000	£'000
Housing properties	82	1,419

Inventories consists of one low cost home ownership property awaiting sale (2019: ten properties).

19 Debtors due after more than one year

	2020	2019
	£'000	£'000
Loan to Hendre Limited	5,000	5,000
Housing Finance Grant	7,994	8,189
CoCo Debt	115	115
	13,109	13,304

As at 31 December 2020, Hendre Limited was in receipt of a public benefit entity concessionary loan of £5m from the Association (2019: £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.

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

	2020	2019
	£'000	£'000
Arrears of rent and service charges	3,009	3,220
Less: provision for bad and doubtful debts	(1,862)	(1,853)
	1,147	1,367
Housing Finance Grant	545	545
Trade debtors	466	776
Other debtors and prepayments	2,020	2,193
Inter-company debtors	160	802
	4,338	5,683

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

	2020	2019
	£'000	£'000
Treasury deposits:		
Overnight deposit	5,075	7,816
One month deposit	10,000	4,999
Three month deposit	5,000	5,001
	20,075	17,816
Cash at bank and in hand	502	555
	20,577	18,371

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 2020, £1.1m related to other members of the Group (2019: £0.156m).

22 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Revenue grants	5	24
Housing loans (see note 24)	4,686	2,140
Interest on housing loans	869	915
Government grants (see note 25)	2,207	2,065
Capital expenditure - properties	468	935
Capital expenditure - components	569	62
Capital retentions greater than 90 days	398	484
Trade creditors	2,045	1,863
Other taxation and social security	1,782	1,165
Other creditors and accruals	3,845	4,587
Intercompany creditors	1,113	932
	17,987	15,172

23 Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Housing loans (see note 24)	132,953	134,383
Government grants (see note 25)	174,751	169,292
Recycled capital grant fund (see note 26)	1,931	1,315
Home Buy grants (see note 27)	3,329	3,421
	312,964	308,411

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.

	2020 £'000	2019 £'000
Repayable by instalments due as follows:		
Between one and two years	1,493	1,445
Between two and five years	11,740	9,131
After five years	119,720	123,807
	132,953	134,383
Within one year	4,686	2,140
	137,639	136,523

As part of the Welsh Government's 'Land for Housing' initiative, the Association received a public benefit entity concessionary loan of £2.9m during the year. Repayments of £0.4m were made leaving a balance of £2.5m at 31 December 2020 (2019: 0.7m). 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.

25 Government grants

	Completed properties £'000	Under construction £'000	Completed shared ownership £'000	**2020 Total £'000**	2019 Total £'000
At beginning of year	181,307	11,968	1,089	194,364	164,780
Receipts	450	5,359	-	5,809	6,123
Transfer of grant from Hafod Care Association Limited	-	-	-	-	17,564
Section 106 agreements and donated land	2,108	-	-	2,108	1,858
Acquired from Hafod Care Association Limited	-	-	-	-	4,256
Schemes completed in year	10,132	(10,132)	-	-	-
Disposal of properties	(282)	-	(22)	(304)	(217)
Reclassification	(147)	-	147	-	-
At end of year	193,568	7,195	1,214	201,977	194,364
Amortisation					
At beginning of year	22,755	-	252	23,007	19,908
Amortised to statement of comprehensive income	2,064	-	13	2,077	1,835
Transfer from Hafod Care Association Limited	-	-	-	-	1,299
Disposal of properties	(60)	-	(5)	(65)	-
Reduction on sales	-	-	-	-	(35)
Reclassification	2	-	(2)	-	-
At end of year	24,761	-	258	25,019	23,007
Net book value					
At end of year	168,807	7,195	956	176,958	171,357
At beginning of year	158,552	11,968	837	171,357	144,872
Due within one year (see note 22)				2,207	2,065
Due after more than one year (see note 23)				174,751	169,292
Total government grants				176,958	171,357

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

	2020 £'000	2019 £'000
At beginning of year	1,315	2,249
Inputs to recycled capital grant fund	395	281
Recycling of grant	(77)	(1,215)
Re-categorisation	298	-
At end of year	1,931	1,315

Re-categorisation of £0.298m relates to grant which was recycled in error. This has been corrected in 2020.

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.

27 Home Buy grants

	2020 £'000	2019 £'000
At beginning of year	3,421	3,502
Disposals	(92)	(81)
At end of year	3,329	3,421

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

28 Non equity share capital

	2020 £	2019 £
Shares of £1 each fully paid and issued at par		
At beginning of year	27	32
Shares issued during the year	10	-
Shares redeemed/(forfeited) during the year	(9)	(5)
At end of year	28	27

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.

	2020 £	2019 £
Inter-company loan to Hendre Limited (see note 19)	5,000	5,000
Rent arrears (see note 20)	1,147	1,367
Trade debtors (see note 20)	466	776
Inter-company debtors (see note 20)	160	802
Cash and cash equivalents (see note 21)	20,577	18,371
	27,350	26,316

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.

	2020	2019
	£'000	£'000
Housing Finance Grant (see notes 19 and 20)	8,539	8,734
CoCo Debt (see note 19)	115	115
	8,654	8,849

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.

	2020	2019
	£'000	£'000
Interest on housing loans (see note 22)	869	915
Capital expenditure - properties for letting (see note 22)	468	935
Capital expenditure - replacement components (see note 22)	569	62
Capital retentions greater than 90 days (see note 22)	398	484
Trade creditors (see note 22)	2,045	1,863
Intercompany creditors (see note 22)	1,113	932
	5,462	5,191

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.

	2020	2019
	£'000	£'000
Housing loans (see note 22 and 24)	137,639	136,523

Interest income and expense

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

	2020	2019
	£'000	£'000
Interest receivable	55	190
Interest and financing costs	(5,627)	(5,429)
	(5,572)	(5,239)

30 Capital commitments

	2020	2019
	£'000	£'000
Expenditure contracted less certified	6,573	5,794
Expenditure authorised by the Board but not contracted	54,870	40,118
	61,443	45,912

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 2020 the Association had total commitments under operating leases in respect of leased properties, office premises, equipment and vehicles as follows:

	2020	2019
	£'000	£'000
		Restated
Payments due:		
No later than one year	1,831	1,652
Later than one year and not later than 5 years	7,115	6,481
Over 5 years	9,402	10,690
	18,348	18,823

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 2020

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	-	435	-	-	-
	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 2020

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	-	(4,144)	-	-	-
	Hafod Housing Association Limited	4,144	-	(94)	-	(3)
Non-registered	Hafod Resources Limited	-	94	-	-	-
	Foundation Housing Tai Sylfaen	-	-	-	-	-
	Yellow Wales	-	3	-	-	-

As at 31 December 2020, 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.

33 Related party transactions (continued)

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

		Hafod Resources Limited	Hafod Housing Association Limited
Mr G Robinson (June 2020)	Tenant - Hafod Housing		✓

The tenancy of this Board/sub-committee Member was on normal commercial terms and their position as a Member did not confer any advantage on this individual as tenant. During the year the Association received £2,990 in rent and service charge. (2019: £9,616).

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).

	2020	2019
	£	£
Aggregate reserves	15,324	15,324
(Deficit)/surplus for the year	-	-

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

	2020	2019
	£'000	£'000
Return on pension scheme assets	181	223
Interest on pension scheme liabilities	(188)	(245)
	(7)	(22)

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.

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 2020 was 29.6% (2019: 27%). Contributions paid during the year were £51,826 (2019: £59,431), no costs were paid in respect of early retirement benefits (2019: 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:

	2020	2019
	%	%
Rate of increase in salaries	2.8	2.7
Rate of increase of pensions in payment and deferred pensions	2.5	2.3
Discount rate applied to scheme liabilities	1.3	2.0

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

Post retirement mortality assumptions

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

Life expectancy (at the end of the year)

- of a male (female) future pensioner aged 65 in 20 years time	21.6 (24.6) years
- of a male (female) current pensioner aged 65	20.6 (22.9) 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:

36 Pension scheme (continued)

	Value at 31-Dec-20 £'000	Value at 31-Dec-19 £'000
Equities	7,412	7,210
Government bonds	1,900	1,734
Property	190	183
Cash (including others)	-	-
Total market value of assets	9,502	9,127
Present value of scheme liabilities	(10,247)	(9,459)
Net pension liability	(745)	(332)

Movement in deficit for the year

	2020 £'000	2019 £'000
Deficit at the beginning of year	(332)	(795)
Current service cost	(75)	(88)
Past service cost	-	(27)
Contributions paid	52	59
Other finance cost	(7)	(22)
Actuarial (loss)/gain	(383)	541
Deficit at the end of year	(745)	(332)

Movement in plan assets for the year

	2020 £'000	2019 £'000
Assets at the beginning of year	9,127	8,024
Return on assets	181	223
Actuarial gain	386	1,025
Employer contributions	52	59
Employee contributions	11	13
Benefits paid	(255)	(217)
Assets at the end of year	9,502	9,127

Movement in plan liabilities for the year

	2020 £'000	2019 £'000
Liabilities at the beginning of year	9,459	8,819
Service cost	75	115
Interest cost	188	245
Employee contributions	11	13
Actuarial loss	769	484
Benefits paid	(255)	(217)
Liabilities at the end of year	10,247	9,459

36 Pension scheme (continued)

Analysis of other pension costs charged in arriving at operating surplus

	2020	2019
	£'000	£'000
Current service cost	(75)	(88)
Past service cost	-	(27)
Total service cost	(75)	(115)

Analysis of amounts included in other finance income

	2020	2019
	£'000	£'000
Return on pension scheme assets	181	223
Interest on pension scheme liabilities	(188)	(245)
	(7)	(22)

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

	2020	2019
	£'000	£'000
Actuarial gain on scheme assets	386	1,025
Actuarial loss on scheme liabilities	(769)	(484)
Actuarial (loss)/gain recognised in the statement of comprehensive income	(383)	541

Sensitivity analysis

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

Change in assumptions at 31 December 2020	**Approximate % increase to employer liability**	**Approximate monetary amount (£'000)**
0.5% decrease in real discount rate	8%	832
0.5% increase in the salary increase rate	0%	21
0.5% increase in the pension increase rate	8%	795

b) Other pension arrangements

Staff employed by the Association (except those staff participating in the Torfaen Local Government Pension Scheme) have the option to participate either in the group defined contribution scheme with Scottish Widows Fund and Life Assurance Society, a group personal pension plan with AEGON or are offered a stakeholder pension scheme with The Standard Life Assurance Company. Staff who do not opt to enrol into the pension scheme offered under their contract of employment are auto-enrolled into the National Employment Savings Trust (NEST). The costs of these 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 an independently administered fund.

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


32

Hafod