Annual Review and Financial Statements 2019/20

karbon homes

Providing a strong foundation for life.

Contents

About us

At Karbon Homes, we build, manage and look after affordable homes for people across the North. And then we go further, we give them the strong foundations they need to crack on with life.

Since our formation in 2017, we've focused on delivering our three strategic aims - to provide as many good quality homes as we can, to deliver excellent service to our customers, and to shape strong, sustainable places for our communities.

Our footprint covers the North East of England and Yorkshire, with almost 30,000 homes across diverse communities, all facing different opportunities and challenges.

We always make the effort to understand our customers. We believe that everyone deserves respect and everyone's voices should be heard.

Some customers just need an affordable home, or a way onto the property ladder. Others might need more – financial advice, community services, sheltered accommodation or even training that can lead to a new job. Whatever people need to feel more secure, confident and happy with where they're at, we work hard to provide it.

As a profit-for-a-purpose organisation, we invest any surplus we generate into improving our properties and communities, building new homes and delivering services which provide sustainable outcomes for our customers and communities.

We believe that by combining a sound business head with a strong social heart and staying true to our values, we can build strong foundations for even more people.

Karbon Homes is a charitable registered society and is regulated by the Regulator of Social Housing.

Key highlights from 2019/20

25.3%
Operating margin

+5
Colleague engagement score (eNPS)*

534
Number of new homes developed

89.8%
Overall satisfaction with service provided

98.7%
Percentage of homes occupied

£3,102
Social housing cost per unit

99.1%
Percentage of rent collected

*eNPS is our Employee Net Promoter Score, which calculates how likely our employees are to recommend us.

Introduction from the Chief Executive

The last year has seen some great achievements at Karbon Homes. Now our organisation is three years old, we're increasing the scale and scope of what we can achieve – and continuing to grow.

While we carry on managing the massive demands of the coronavirus pandemic, which dominated the year end, I don't want to lose sight of the many highlights we enjoyed in 2019/20, and I want to ensure we celebrate Karbon's year in full.

We've seen some new faces arrive, and some valued colleagues depart – including chairman Sebert Cox who has played such a crucial role in our development.

I would like to thank Sebert for everything he has contributed to the formation and early success of Karbon Homes. He has been an invaluable leader for our organisation at a time of enormous change.

As we neared the end of Sebert's period in the chair, we carried out a thorough recruitment process to find a new Chair, and in March we were delighted to announce Sir David Bell KCB would take the reins from Sebert on his departure.

The new Chair has great experience to offer us. He is the current Vice-Chancellor and Chief Executive of Sunderland University, and also spent six years as Permanent Secretary of the Department for Education, as well as a period as the Chief Inspector of Schools.

When we created Karbon Homes, it was always driven by our belief that we could create the capacity to build more homes, and provide a better service – and now we are seeing the results of that.

This last year has seen our development programme expand in size by nearly a quarter, which is an achievement we are very proud of.

In 2019/20, we completed 534 homes, a significant increase on the 430 we finished in 2018/19. Behind that achievement is a huge amount of hard work by teams across the business, and I thank them all for their efforts.

We have continued to invest in our near 30,000 existing homes across the North East and Yorkshire, with £11m committed in 2020/21 as part of our ten-year programme to invest £100m in planned maintenance to ensure our homes are fit for the future.

We are proud to have been chosen by Legal & General Affordable Homes (LGHA), as one of their 14 partners nationwide, to help manage their growing portfolio of properties across our region.

Beyond these impressive headline achievements, the heart of what we do is our aspiration to deliver excellent customer service. We've been working hard, actively engaging and listening to customers to deliver the services they want and need.

We aim to shape strong, sustainable places by investing in community projects, prioritising safety and security, addressing issues like social isolation and employability, and helping customers manage their money, and navigate the complexities of the benefits system.

We are now into the third year of our five-year strategy, which has always been driven by the needs of our customers.

2020/21 got off to a tough start, with the coronavirus pandemic fundamentally altering the way our society functions, at least for the short term.

But we've carried on laying down the foundations for what we want to achieve, and a few weeks into the new financial year, we were very pleased to issue £100m of new bonds at an all in cost of funds of 1.941%, following our £150m bond issue in November 2018. This delivered a great result in challenging times, and has provided us with long-term security for the association, securing very low interest rates for a generation.

So even in these strange times, when lockdown has become the stuff of everyday conversation, we are sticking true to our values as an organisation.

We remain a profit-for-purpose business, where we invest any surplus we generate into building, improving and maintaining our customers' homes, and the local communities where they live.

We continue to combine a sound business head with a strong social heart, and I'm confident we will continue to show the financial strength needed to deliver our strategy, so we can build strong foundations for more people, no matter what life throws at us in the months and years to come.

Paul Fiddaman
Group Chief Executive

Providing as many good quality homes as we can

The past year has been one of huge growth and impressive achievements in our development and asset management work.

We have seen the number of new homes completed increase by nearly a quarter, up to 534 from the 430 achieved in 2018/19. The increased size of our programme has also seen us expand into a larger footprint, with Karbon now developing in 17 local authority areas across the North East and Yorkshire. Growth has been significant across North Yorkshire in particular.

With bigger ambitions have come larger, mixed tenure sites too. We have completed substantial developments at Yarm Road in Middleton St George (44 homes), and The Limes in Coxhoe (55 homes), as well as completing initial phases at the 80-home Springfield Meadows project in Darlington.

We have also committed to developing some of our largest ever projects, adding to our growing pipeline of new homes in the North East and Yorkshire. For example, we will be developing the affordable homes on the ambitious 1,500-home Seaham Garden Village project in County Durham. And we have begun work on the College Grange development in North Hylton, Sunderland which will provide 105 affordable homes, with a mix of different tenures to suit a variety of households.

As housebuilding technology develops, we are taking on more and more development projects using modern methods of construction including our ICF (insulated concrete formwork) project, Station Manor, in Greatham near Hartlepool. Meanwhile some of the new homes on College Grange will be built using light gauge steel.

Our new homes are undoubtedly proving popular. We exceeded our targets for affordable home ownership, with Rent to Buy and Shared Ownership homes doing particularly well.

We are also very proud that while we are expanding our housebuilding footprint with ever larger sites, we are still supporting the need for smaller developments of affordable homes in Northumberland, County Durham and North Yorkshire.

As well as building new developments, we continue to invest in our existing homes. Our planned maintenance programme has seen us replace thousands of components in our homes across the region, including 231 new kitchens and 249 new roofs. Our surveys have found over 92% of customers are satisfied with the quality of their home, but we will keep pushing to improve that figure further.

Key facts

Total new homes completed:

534

Homes for Affordable Rent:

181

Shared Ownership and Rent to Buy homes

284

We have been developing how we use data to make decisions on investing in our properties across the region. This will enable us to improve their quality and energy efficiency as well as the overall living experience of our customers.

A good example of this approach was the decision to regenerate three sites in the Tynedale area of Northumberland.

In response to the growing need for family homes and more modern bungalows, and after consulting with local communities, we made the difficult decision to demolish bungalows in Hexham and in Prudhoe, along with one-bedroom flats in Haltwhistle.

We are rehousing residents in their chosen location, and will then start work on providing more spacious, affordable family homes and bungalows.

We also invested in the extensive refurbishment of a former homeless hostel in the centre of Hexham, so it can once again be used to provide services for homeless people in west Northumberland.

During 2019/20, we invested a total of £7m in ensuring our residents are safe and secure in their homes. This includes spending on gas safety, electrics, smoke alarms, lifts and asbestos works. On fire safety alone, we invested £2.7m over the financial year.

We recognise our responsibility, post Grenfell, to uphold the highest standards on fire safety.

Our grounds maintenance colleagues have signed up to an exciting new tree planting initiative in County Durham. They will be working with Durham County Council and other social landlords on the Forestry Commission's Urban Tree Challenge Fund (UTCF).

Over the next two years, large trees will be planted in areas such as Chester-le-Street, Stanley and Meadowfield, and smaller trees will be planted to create copses to link existing woodland. All planting will be in accessible green spaces, close to our customers' homes, and easy to walk to.

Key facts

Number of new kitchens fitted:

231

Number of new roofs fitted:

249

Number of new bathrooms fitted:

76

Total investment in building new homes:

£67m

Homes England funding:

£14.6m

Total amount invested in maintaining existing properties:

£44m

Investment in fire safety measures:

£2.7m

Our forever home

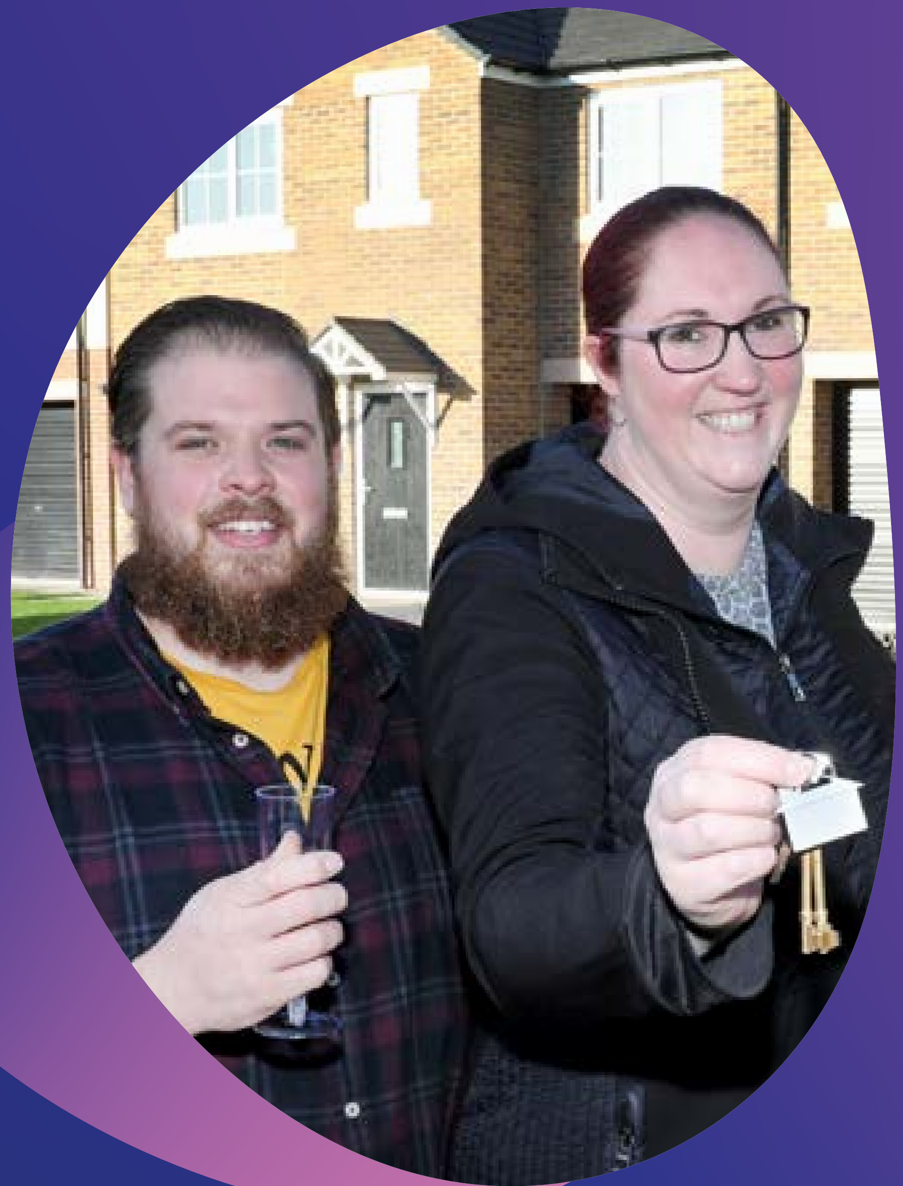
Meet Holly and Ben. They moved into a four-bedroom semi-detached house in our Springfield Meadows development in Darlington earlier this year, along with daughters Pearl and Ruby, aged three and one.

In total, the site will see 80 new homes developed, with a mixture of Rent to Buy, Affordable Rent and market sale homes available to serve the differing needs of the local community.

Holly said: "We originally looked at a three-bedroom townhouse, but we have two young children and we wanted to get settled in our forever home. This one just ticked every box for us."

Rent to Buy is aimed at people who would like to buy a property but need time to save for a deposit. Rent to Buy enables customers to rent at a lower than market rate, and save up over five years to buy the home.

"We have two young children and we wanted to get settled in our forever home. This one just ticked every box for us."



Delivering excellent customer service

At Karbon Homes, we always try to understand what kind of support our customers need and we provide it wherever we can. That's why we launched a programme of customer care visits last year, dedicating time to visit every customer in their own home. The visits have been a real success so far. They have helped us to get to know our customers better, understand their needs, and get feedback about what we've done well and what we could do better.

We also rolled out our new customer satisfaction framework, with a range of different surveys, to find out how customers feel about Karbon and the services we provide. Our overall net promoter score (NPS), which is the likelihood of customers to recommend us, for the year was +45.3 – much higher than the average customer service industry figure which is +19.

We have continued to make it easier for customers to get in touch with us. We launched our new customer portal, MyKarbon, making it simpler for customers to book a repair, make payments and update their details online. We now have almost 5,000 customers using the portal and feedback has been very positive. We have also improved the digital experience for our customers with the launch of repair booking tools on the portal.

Following customer requests, we expanded the hours for our 0808 freephone number, which is now open from 8am till 6pm, Monday to Friday. Since last year, the number of calls we received has increased by 14% to 374,360 and we've seen a 22% increase in social media and email enquiries to 23,207.

At the same time, we expanded the hours our repairs teams are available so customers can make appointments outside of office hours to fit in with their busy lives.

It's also important that our customers have the opportunity to look more closely at the work we do and challenge us. Our Strategic Residents Group expanded last year to include 10 customers, who scrutinise our performance and hold us to account. They meet regularly with the Board and our Executive Management Team, they help develop our Customer Annual Report and this year they reviewed our customer call handling process.

We also offer opportunities for customers to get involved in shaping particular aspects of our work. Last year, that included reviewing the kitchens we fit in our properties and advising on improvements including better lighting and easier access to wall units.

In our retirement living and Extra Care schemes, we continued to offer residents the opportunity to take part in a range of social activities including chair-based exercise, craft sessions and visits from local musicians. We also introduced a new telecare service for older customers, whatever type of property they live in. This replaced a range of different older systems, helping customers feel safe and secure in their homes, and enabling them to remain independent for longer.

Our Supported Housing Team work hard to enable customers with complex support needs to become more independent. One example was when three women with significant mental health needs were able to move out of hospital and 24/7 support, into their own independent flats. This was thanks to training and support from our team in skills such as cooking, shopping and cleaning.

We celebrated the achievements and successes of our supported housing customers at our annual STAR awards in October, including awards for those who had embraced a healthier lifestyle, been a good neighbour and made an outstanding achievement.

Last year, a further 2,000 Karbon customers began claiming Universal Credit (a 72% increase). For most of these customers, their rent arrears have increased as a result, and many have experienced indicators of destitution including having less than two meals a day or going without appropriate clothes. We provided advice and support to them about managing debt and finances. We also raised awareness among stakeholders and policymakers of the difficulties Universal Credit causes for customers.

Key facts

Customer satisfaction with quality of their home:

92.2%

Customer satisfaction with rent providing value for money:

93.9%

Customer satisfaction with their neighbourhood as a place to live:

89.6%

Number of repairs completed in response to customer needs:

79,685

Number of compliments received:

322

Net Promoter Score (NPS)*:

+45.3

* The Net Promoter Score calculates how likely our customers are to recommend us.

A sense of community

Ron and Maureen Kelly have lived at The Elms Extra Care scheme in Chester-le-Street, County Durham for two years. Ron celebrated his 90th birthday last year and Maureen is 88.

The couple love their second floor apartment with extensive views across the Durham countryside, but admit they did not expect to be living there, having previously lived in Newcastle for 55 years. But when Maureen had a fall at their bungalow in Walkerville, their family wanted them to move closer so they could call on help when they needed it.

The Kellys' son and his wife live in Durham, and their two granddaughters live in Chester-le-Street with their young families, so the couple decided to move to The Elms, having liked the scheme as soon as they looked around it.

Maureen said: "We were very happy where we lived. We used to say that if we needed the doctor twice in a year, we were unlucky. But here, the big difference is that we have help if we need it. If I'm poorly, then Ron can get a meal in the café."

In The Elms, they've had the opportunity to socialise, attend sing-a-longs and enjoy school children visiting the building, and their great grandchildren all live nearby.

Maureen said: "I am an early riser, so I was sat here in my chair the other day at 6.30 in the morning, and was counting up in my head how many people I know, or say hello to, and I got to 36. There is a nice sense of community."

"Here we have help if we need it... There is a nice sense of community."

Shaping strong, sustainable places

At Karbon, we do so much more than simply maintaining homes and collecting the rent. We support our customers and the communities they live in.

Our work to shape sustainable places includes investing in community groups and organisations, supporting customers to maximise their income and get into secure, paid employment, and working with partners to make communities safer places to live in.

Our Community Investment Team has supported a wider range of charitable and community groups this year, providing support across many areas including employability, health and wellbeing, the environment, digital inclusion and support for young people.

Throughout the year, we supported 61 projects across the North East with either small grants under £1,000 or large grants of between £1,000 and £20,000.

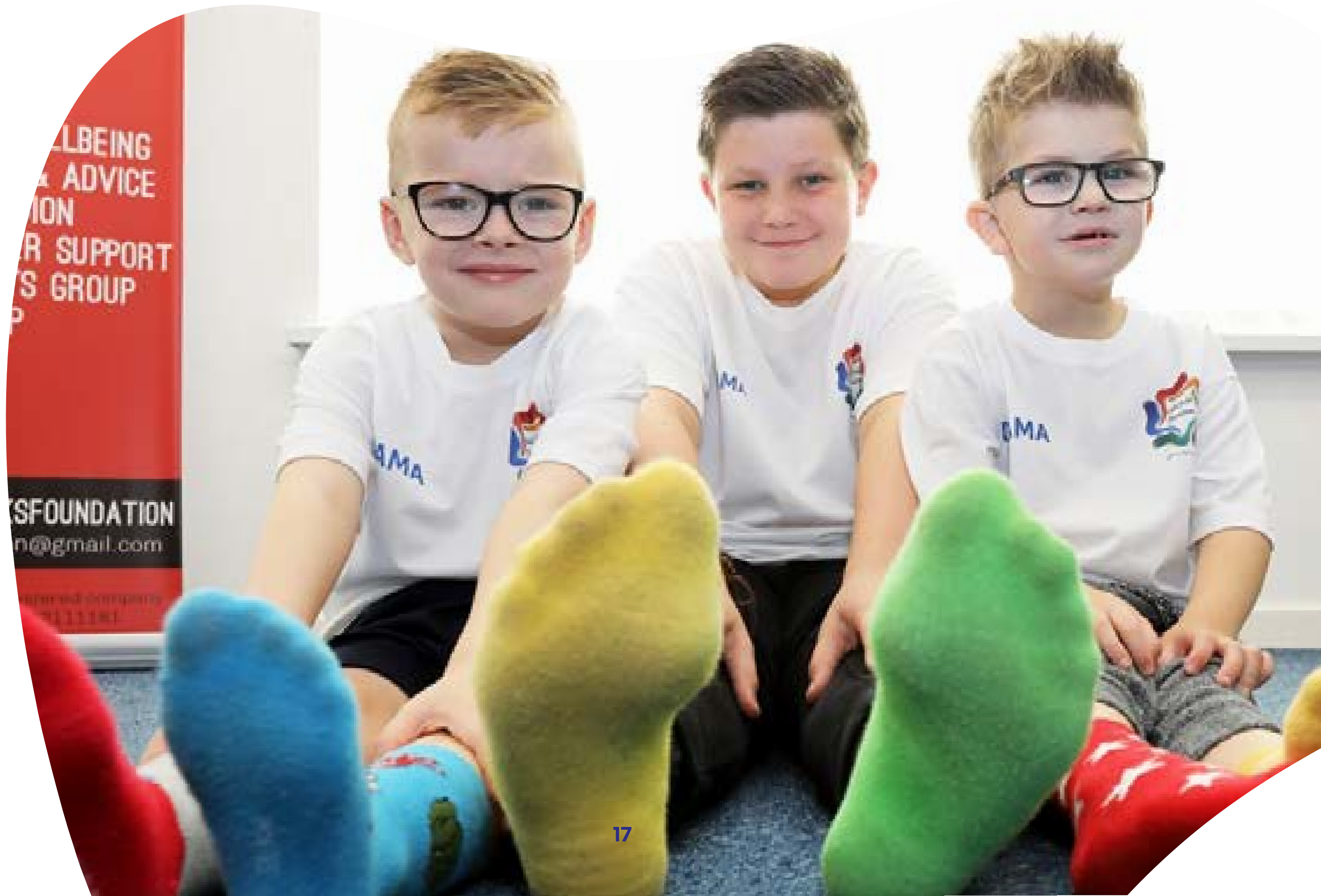
We continue to take a proactive approach to tackling anti-social behaviour (ASB) in the communities where we work. During 2019/20, we dealt with 1,868 ASB cases for our customers, and of those, 633 were judged to be serious. We work closely with police officers to deal robustly with behaviour that prevents our customers, and their neighbours, from enjoying their homes.

We also help customers to maximise their income. Thanks to our Money Matters Team, customers achieved income gains totalling £6,480,714 for the year, a fantastic 23% increase on last year.

This year we also worked with Northumbrian Water (NWL), applying on behalf of our customers for the NWL Support Plus Scheme which has helped families in urgent need of help to pay for food and energy.

And we launched the Karbon Crisis Fund in December, which helped more than 50 families with fuel and food emergencies.

Our Foundations for Life Team, which provides employment and skills support, has grown substantially this year due to the success of three external funding bids. Our service empowers and coaches customers to build the skills, experience, qualifications and mindset they need to maximise their potential, achieve their career aspirations and become digitally literate.



During the year, the team supported more than 100 people into employment or to gain new qualifications.

Our new apprenticeship programme saw the first recruits join the organisation in October last year. This innovative programme is open solely to Karbon customers and received more than 100 applications. The 11 apprentices who joined Karbon Homes come from a variety of backgrounds and include customers who had previously faced barriers to entering the labour market.

We continued to grow our Silver Talk befriending service over the year, increasing both the number of customers receiving calls, up to 95, and the number of volunteers making calls. Since the end of March this year, the coronavirus pandemic has seen Karbon triple the scale of this service, with staff working from home, volunteering to take time out from their day to make calls.

Key facts

Grants for community initiatives:
61

People whose digital skills have increased:
78

Invested in community projects:
£286,457

People supported into training and employment:
106

Income gains for customers totalling:
£6.5m

People we have provided benefit, money and debt advice to:
5,396

A crucial service

Meet Faramarz Tarakoli. He and his wife live in a Karbon home in Gosforth, Newcastle. He has had a number of different jobs, but frequently casual work on zero hours contracts. He approached our Foundations for Life to get some help with employability.

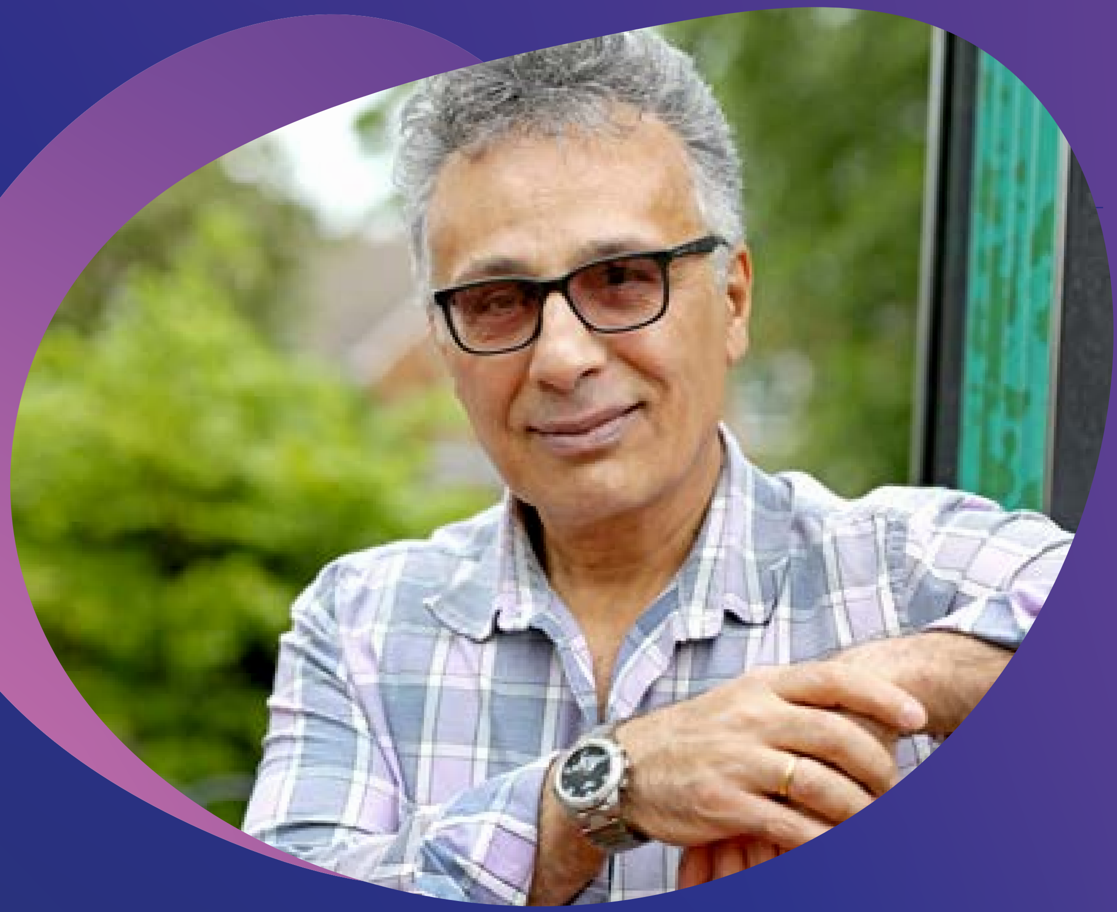
He said: "It's very tough living without the security of a full-time job. I want something reliable so I have more certainty for my family and for my life. My wife is a fully qualified dentist but she needs to pass an English test before she can practise here.

"Words cannot describe how helpful Helen and Graeme at Karbon have been to me. They are very compassionate, caring and understanding.

"They know how to help you make the best of yourself and focus on your strengths. I feel strongly that this kind of service is crucial when it comes to taking care of people who need a little bit of extra help in life. This gives people confidence in their future. Karbon, and other housing associations like them, provide a great stabiliser in society."

Faramarz has now secured a new role working in a care home in Gosforth.

"Words cannot describe how helpful Karbon have been to me. They are very compassionate, caring and understanding."



Create enablers of success

We recognise that we can only achieve our goals as an organisation if we provide our colleagues with a high quality environment and a supportive culture in which to work.

That's why we are constantly working, away from the day-to-day delivery of our customer-facing services, on ensuring we develop a skilled and engaged workforce, that we grow the business and our reputation, invest in excellent insight, data and technology, and ensure sound governance.

Our reputation and strength are determined by our 850 employees and their collective contribution to our business.

We are proud to be a values-led organisation, and embracing diversity and inclusion is important to us. Our commitment to diversity can be found throughout the organisation, in how we recruit and the way we deliver our services.

Our Gender Pay Gap report this year showed barely any difference between the pay of male and female workers at Karbon with the mean hourly rate differing by just 1p (0.06%) in favour of female workers and an identical median hourly rate.

We are also proud of improving our Employee Net Promoter Score (eNPS), which now stands at +5 (up from -9 a year ago). The eNPS score calculates how likely our employees are to recommend us.

This last year we have invested significantly in leadership development, with 102 managers and team leaders benefiting from our Adaptive Leadership Programme. A further 32 managers are booked to start later this year. We also had 16 senior managers attend an Oasis leadership programme, spending more than 11 days each away from their day-to-day roles, to develop their leadership and management skills.

We have promoted a comprehensive programme of wellbeing activities for all colleagues, with a focus on promoting good mental health.

In 2019/20, we published our Equality, Diversity and Inclusion Strategy Statement that commits us to delivering on the following key priorities:

- Leadership
- Domestic abuse
- Mental health
- Disability
- Customer engagement
- Data
- Training
- Decision-making

Karbon's leaders also contribute nationally to this agenda through the National Centre for Diversity and the National Housing Federation, while Karbon Homes continues to be a member and partner in the Housing Diversity Network and Women in Social Housing.

Maintaining a good reputation within our communities and among decision-makers is important to us and helps the organisation grow and thrive. We reached out regularly to stakeholders last year to update them on our plans, show them round our homes and give them the opportunity to ask questions and challenge us. The feedback was very positive and we plan to continue developing our engagement activities for the year ahead.

During 2019/20, Karbon has invested in digitising its services to an ever greater degree, for the benefit of both customers and colleagues. We have enabled all our colleagues to collaborate virtually with the Microsoft collaboration suite on Windows 10 devices.

We have refurbished our Morpeth office ready for when our colleagues return, offering the latest technology to allow colleagues from across the organisation to be able to work there seamlessly, and be in touch with customers and colleagues both in person and remotely.

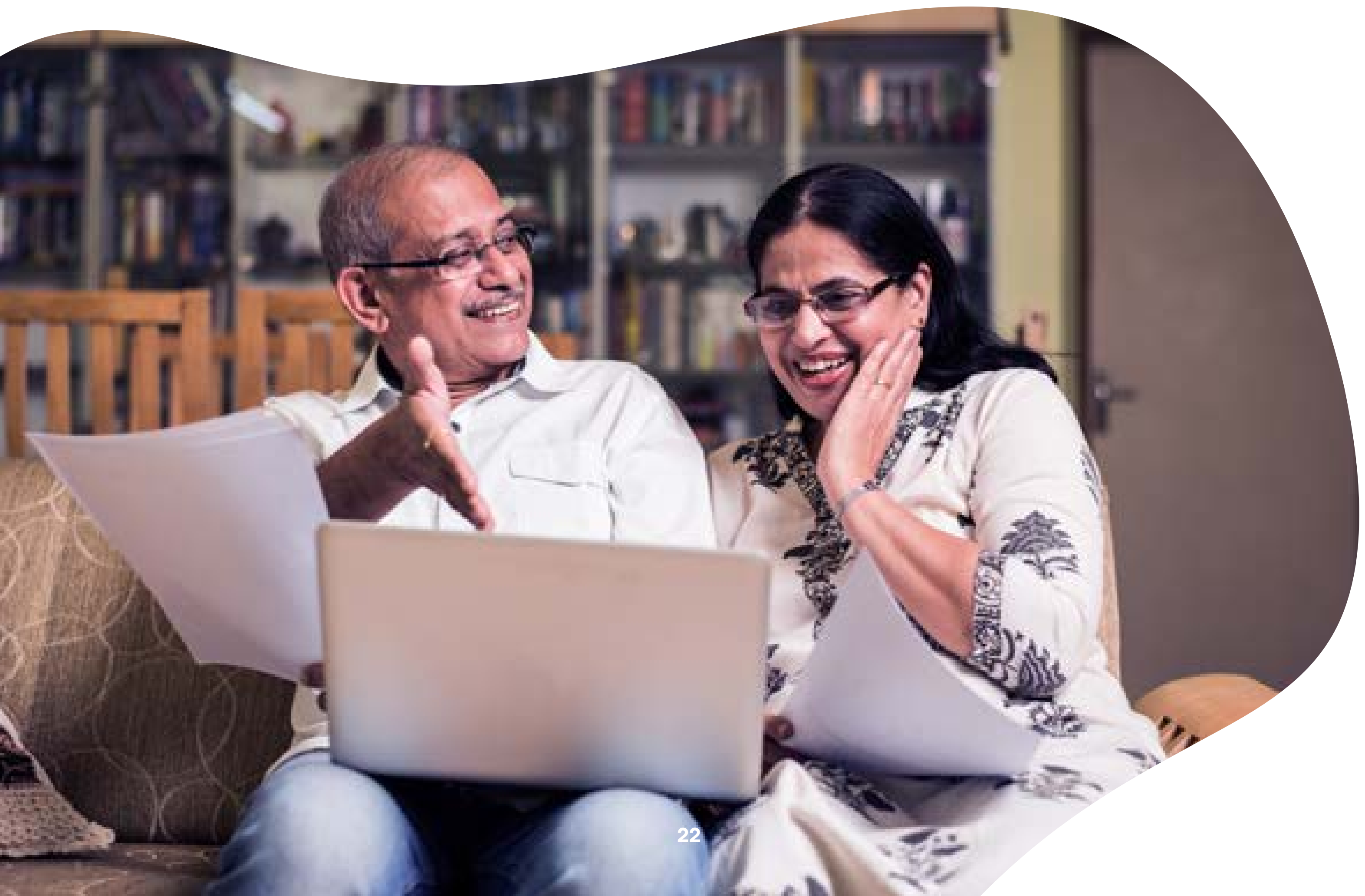
We have digitised our invoice management process and helped our customer service colleagues with a new customer feedback solution.

We have also expanded our use of mobile technology for trade colleagues on their mobile devices.

During the course of the year, we have strengthened our probity and fraud policies and procedures through a full review. We have carried out a training programme with managers, and have further raised awareness across the business.

We increased the size of our corporate health and safety team during the year, with a renewed focus on ensuring safe methods of work across Karbon.

We recognise there are still many areas where we can strive to improve and will continue to do so.



Award winners

Our retirement living colleagues were recognised with a Gold Award for Northfields House at the National Housing for Older People Awards 2019.

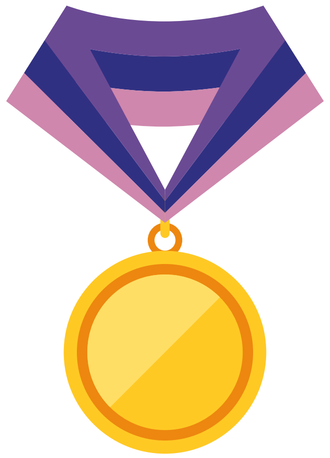
Karbon was ranked 36th in the Inside Housing 'Biggest Builders' league table of the country's largest developing housing associations.

We were ranked 11th in the Evening Chronicle's 50 Best Places to Work in the North East listing for 2019.

Our internal e-newsletter Enkore won a Class Award at the Institute of Internal Communication's 'High Flyer Awards'.

Karbon was also named 'Housing Association of the year' at the North East Energy Efficiency Awards 2019.

Congratulations to all colleagues and customers who contributed to these great achievements.



Addressing the impact of coronavirus

During the coronavirus crisis, everyone at Karbon Homes has worked hard to keep our colleagues, customers and local communities safe and well. Teams across Karbon have shown dedication and gone to extraordinary lengths to keep providing services.

Early on in the crisis, we set up a dedicated response team and reacted quickly, radically adapting how we delivered our services, and in some cases suspending them entirely.

Within Karbon, our IT infrastructure was already geared up for home working, but we had to rapidly expand the number of staff being supported. That work was done in parallel with offering a more flexible approach to work, to fit around caring responsibilities and home schooling. We made sure we supported our colleagues with their wellbeing, with initiatives focused on looking after their mental and physical health.

Every decision was carefully made, with safety and security as the priority. We followed government guidelines to minimise risk to both our customers and colleagues at all times.

We took steps to get to know our customers deeper and understand any vulnerabilities. We prioritised checking in with our most vulnerable customers by phone to understand what type of support they needed.

This began with contacting over 1,000 residents in our Extra Care and retirement living schemes. We then expanded this to every Karbon resident over 70 and vulnerable younger residents.

We recruited extra volunteers to our telephone befriending service Silver Talk, providing a regular, friendly phone call to more Karbon customers than ever before, and reducing their social isolation at a very vulnerable and challenging time.

The service tripled in size in just three months, providing support to 300 customers (up from 95 in February), with 40 colleagues volunteering to help.

Customers have also received support from our Money Matters Team, getting vital advice on finances, benefits and money.

We have offered funding to community groups providing vital support to local communities during the crisis. During March, we launched a new £115,000 fund dedicated to this, including £5,500 distributed among nine local food banks in the early days of the crisis to help with their rapidly diminishing food stocks.

Alongside the incredible work delivered by key workers in the NHS and across so many vital sectors in our region, we are very proud of the contribution our Karbon colleagues have made to helping our customers through this challenging and fast-changing crisis.

High school created vital PPE

Staff at a North Tyneside school created vital PPE equipment for NHS staff and care workers, thanks to funding from a Karbon community grant.

Longbenton High School made thousands of pieces of equipment for key workers and frontline staff.

They supplied the RVI and Freeman Hospital in Newcastle, St Thomas' in Gosforth and care homes in North Tyneside. Mark Charlton, Head of DT, organised production and worked alongside staff volunteers to put the visors together in school before they were packaged up and sent out for delivery.

The school received a £1,000 community grant from us, to help meet the cost of the materials they needed.

Paul Quinn, Headteacher of Longbenton High School, said "Without this grant we would only have been able to make a few dozen visors. With it we were able to produce hundreds."

"Many thanks to Karbon Homes for supporting this work. It has made a real difference and supported many key workers in having access to better PPE at the time of this pandemic."

Priorities for the year ahead

The year ahead opens up some great opportunities for us at Karbon, but also some significant challenges – the biggest of which being the need to navigate a way through the world when coronavirus is still very much present in the communities we serve.

We remain committed to ensuring our customers and colleagues are safe as we tackle the operational challenges involved in delivering our services in ways that prevent the spread of infection.

As we start 2020/21, it is the key challenge ahead of us as an organisation, and it will undoubtedly affect our performance in comparison to previous years, but we will not compromise on safety.

Our top priority as an organisation remains to play our part in tackling the country's housing crisis, so that means committing ourselves once again to develop more than 500 new homes for affordable rent or low-cost home ownership.

To help with this, we have already started a project to develop a standard range of house type designs, so we can develop both economically and on a large scale – but also taking local customer needs and feedback into account.

We continue our work on reducing our total number of empty homes and the time it takes between one customer leaving a home and it being re-let.

We will also be working hard to support our customers, many more of whom are moving on to Universal Credit, as the consequences of welfare reforms continue to bite.

The safety of our customers remains paramount and we will continue to ensure high standards in our homes and respond to the new safety legislation expected later this year. We have written to customers to better understand their safety concerns and reassure them about the work we are undertaking.

One of our great successes this last year, and through the lockdown period, has been the extent to which we have digitised the services we provide – and we will be extending this work further in 2020/21, including new features on our MyKarbon customer portal.

Another key aim is to expand our cost sharing vehicle, Karbon Solutions, adding new partners as members so they can benefit from the property services expertise we have available. Karbon Solutions already provides heating and maintenance services to around 8,000 homes owned by other landlords, who benefit from reduced costs.

Within the organisation, we are committed to delivering new 'Karbon Ways of Working', providing our colleagues with more agile, responsive and diverse ways to go about their working lives. This is about our office environment, the technology we use each day, and being able to work from home or out and about in the communities we serve. But it's also about our culture, and the type of employer we want to be, to get the best out of everyone who works at Karbon.

In the year ahead, we will also develop our approach to customer segmentation to create a more tailored, individual experience for our customers and more effective communications. Related to this, we will look to get accredited as a member of the Institute of Customer Service.

We will continue developing our response to the climate emergency. We have policies in place relating to sustainability and our impact on the environment, but we want to develop a more cohesive company-wide approach to this, with a view to reaching zero carbon by 2050.

Finally, we will be looking at refreshing our strategy this year, to ensure that Karbon Homes remains relevant, effective and fit for the future.

Operating and Financial Review 2019/20

karbon homes

Providing a strong foundation for life.

Overview of business

The principal activity of Karbon Homes is the provision of affordable homes for rent and Shared Ownership, together with housing support for vulnerable and elderly residents. Karbon Homes is registered with the Regulator of Social Housing (RSH) as a registered provider of affordable housing.

Karbon Homes is the parent association of York Housing Association (YHA), also registered with the RSH.

Both associations are charitable and are registered as societies under the Co-operative and Community Benefit Societies Act 2014.

Karbon Homes Limited engages in commercial activities through its subsidiary companies: Prince Bishops Homes (market rent and for-sale development), Karbon Solutions Limited (cost sharing group - a partnership with Castles and Coasts Housing Association and Byker Community Trust), Enterprise Durham Partnerships (social enterprise), Next Level Developments (residential development) and Karbon Developments Limited (development services).

In January 2020, we worked with partner organisations Anchor Hanover, Johnnie Johnson Housing and the National Housing Federation, to set up a company called Invisible Creations. We are a shareholder of the company, which will provide a modern and sensitive approach to adaptations to help residents live longer (and live better) in their homes. Invisible Creations aims to promote and encourage the view that adaptations signify increased movement and freedom. The initial product range, that includes examples such as an external hand rail that has a dual-function as a planter or number display, has been developed to support people at their very early stages of needing support around the home. We look forward to seeing how the company develops its range and how they are able to prolong mobility, and assist in falls prevention for our residents.

Karbon Homes is responsible for establishing the Group's overall policies and strategies, and for monitoring compliance with Group values and performance against Group targets, within a clearly defined framework of delegation and system of control. The Group's head office is based in Newcastle upon Tyne and our homes are primarily in the North East and Yorkshire.

More detail of the Group's structure is provided in note 17.

Financial performance in the period

The detailed results for the year are set out in the Group's Consolidated Statement of Comprehensive Income on page 58 and the notes to the financial statements on pages 66 to 128. The following table provides a summary of the Group's results:

For the year ended 31 March	2020	2019	2018	2017 Restated
	£'000s	£'000s	£'000s	£'000s
Turnover	**135,933**	129,426	126,678	118,582
Operating surplus	**38,622**	33,538	32,980	35,477
Deficit on sale of other fixed assets	-	-	(21)	(35)
Net interest payable, other finance costs	**(17,684)**	(18,559)	(12,939)	(12,658)
Unrealised gain/(loss) on revaluation of housing properties	**1,223**	(8,827)	2,574	(1,049)
Surplus for the year before tax	**22,161**	6,152	22,594	21,735

Turnover has increased year on year mainly as a result of the scale of the development programme. Operating surplus has also increased due to a combination of additional surplus from property sales and a focus on managing our cost base despite an increase in property numbers. There has been a gain on the revaluation of investment properties, predominately held in our Prince Bishops Homes subsidiary which is a movement from the loss in the prior year when there was the one-off impact of a greater discount factor on the assessment of fair value than previously used. As a housing association, our surplus will be re-invested in the development of new homes and improvement to existing homes.

Statement of financial position

The detailed Consolidated Statement of Financial Position is provided on page 60 and supporting details can be found in the notes to the financial statements on pages 66 to 128.

For the year ended 31 March	2020	2019	2018	2017 Restated
	£'000s	£'000s	£'000s	£'000s
Fixed assets	**921,732**	867,549	789,745	721,195
Net current assets	**34,928**	66,524	27,386	42,607
Total assets less current liabilities	**956,660**	934,073	817,131	763,802
Creditors falling due after more than one year	**(381,796)**	(389,804)	(291,341)	(293,127)
Deferred grants	**(267,670)**	(260,841)	(253,935)	(225,569)
Provision for liabilities and charges	**(28,369)**	(37,979)	(24,935)	(18,984)
Reserves	**278,825**	245,449	246,920	226,122

The increase in fixed assets reflects the investment in the development of new properties referred to above, plus our continued investment in our existing homes. These have been financed primarily by the UK Bond financing of £150m which we put in place in the prior year. The reduction in net current assets is mainly due to a reduction in cash and investments as we deploy this as working capital.

Capital structure, treasury policy and activity

The Group had £618m of committed debt funding of which £382m is drawn. £236m remained undrawn and available to fund the Group's asset management and ongoing new build development programmes. Debt is secured by specific charges on housing land and buildings.

The Group borrows, principally from banks, building societies and capital markets, at both fixed and floating rates of interest. The Group Treasury Management Policy includes a target of maintaining a portfolio of fixed rate borrowing of between 70% to 90%. The proportion of fixed rate borrowings at 31 March 2020 was 96% (2019: 95%).

The Group's lending agreements require compliance with a number of financial and non-financial covenants. The Group's position is monitored on an ongoing basis and reported to the Board each quarter. The Group monitors cash flow forecasts closely to ensure that sufficient funds are available to meet liabilities when they fall due, whilst not incurring unnecessary finance costs, by only drawing on loan facilities when required. Recent reports confirmed that the Group was in compliance with its loan covenants at the balance sheet date and the Board expects to remain compliant in the foreseeable future.

Our strong financial performance ensures we have ample headroom on interest cover requirements. The gearing ratio, which is a measure of net debt (short and long term loans less cash) as a % of gross cost of housing properties, is currently 34% and remains well within our most restrictive covenant of 45%. This is based on covenants agreed with our lenders and differs from the calculation in the value for money (VFM) metric as required by the Regulator of Social Housing as shown on page 36. The Group has cash balances of £22.23m at 31 March 2020 (2019: £33.39m) and cash investments of £28.67m (2019: £40.64m). The current assets to current liabilities ratio stands at 1.82 (2019: 2.81).

A key influence on the timing of borrowings is the rate at which development activity takes place. The Karbon Board has approved plans to spend £105m during the next financial year developing and acquiring additional homes and £49.6m will be spent on planned and responsive maintenance.

£74.7m of this investment will be funded through new borrowings, £10.6m through social housing and other grants, and the balance from existing cash and operational cash flows.

The Group's entities have bilateral or ring-fenced loan facilities in place with their respective funders. As at 31 March 2020 the Group had total loan facilities of £618m, of which £236m remained undrawn, and a cash balance including liquid investments of £51m.

The Group has sufficient funds to meet its requirements for, not least, the next 12 months from the date of this report.

Value for money (VFM)

We recognise that if we want to deliver our strategic aims we have to find the additional financial capacity through a combination of managed cost savings and income generation. We need to provide more for less and use any spare capacity that we have available in our business plan.

Our aim in relation to value for money is to create a **balance of cost, quality and benefit** to our customers and the business. We aim to "**make the best use of our money, assets and people to deliver our objectives and maximise quality and value for our customers and the business**".

By ensuring that everything we do is as effective and efficient as possible any capacity within our resources can be reinvested into our communities, either in terms of new homes or improved services. Continued growth, sensible asset management, the use of benchmarking, sustainable procurement, a rounded review of current performance and stretching targets for the future remain key, but we also plan to release the untapped capacity within our business plan to provide added value.

In achieving VFM we understand the balance between **economy, efficiency and effectiveness**. Targets for key performance measures are agreed with the Board each financial year to aid continuous improvement. On a monthly basis we review our key performance measures and how they compare with others, reporting quarterly to our performance committee and Board.

Our value for money achievements

In the last year our key value for money achievements include:

Action	Benefit
Linked to our lean process review of empty homes, we reconfigured the teams who carry out repairs to empty homes to bring them up to our lettable standard.	Improvement in our performance (on this element of the process) by two working days, equivalent to 12% improvement from 2018/19.
Reconfigured the responsive repair teams.	Completed 94.6% of repairs within timescale compared to 92.6% in 2018/19 and improved emergency and out of hour repairs to 99.9% from 99.3% in 2018/19. We have also taken 10.7 days on average to complete a repair compared to 11.4 days in 2018/19.
Introduced material delivery drivers across our footprint.	Improved performance and a reduction of around 150 hours per week of non- productive time, when trades colleagues would have travelled to and collected materials from the suppliers, and reduction on fuel cost.
Increase in the use of mobile technology.	Managers and surveyors work remotely, reducing the average time taken to inspect an empty home from 4.2 days to 2.2 days.
Through a procurement process, we introduced a new paint pack scheme for customers.	Secured a better product and a cashable saving of £28k per annum.
As part of our Procurement Strategic Plan we have continued to implement our new materials contract.	Secured a 1% social benefit impact and a cashable rebate of £20k. Included within the contract is the audit of van stocks which would previously have been carried out by the in-house team.
As part of a review of our operating model in relation to delivery of repairs, we broadened our normal working hours to 8am to 6pm.	Improved service to customers and a reduction of 1,030 in missed appointments as a result of the customer not being at home, saving colleague time to the equivalent of £82k per annum.
Linked to our strategic aim to increase our development programme, we re-configured resources in the Development Team, reducing consultancy and bringing in some additional internal resource.	Increased the units developed from 430 in 2018/19 to 534 in 2019/20 (24% increase) with only additional cost of £28k. There has also been an improvement in customer experience and satisfaction.
To ensure our processes are as efficient as possible we have invested in a new system to allow automatic logging of invoices using Optical Character Recognition.	Non cashable time saving which has been invested into more value adding work such as quicker turnaround on supplier queries, month end procedures such as bank reconciliations and a greater focus on housekeeping.
Brought our ICT out of hours monitoring system in-house.	Cashable saving of £75k per annum.

Action	Benefit
Implemented a new system for printing of rent letters.	Reduction in manual work plus cashable saving of £4k per annum.
Developed our Complaints, Compliments and Suggestions processes and our Customer Satisfaction Framework, including launching a quarterly Net Promoter Score (NPS), Survey of Tenants and Residents (STAR) for benchmarking and expansion of transactional surveys.	Clear understanding of how we are performing to drive efficiencies and reduce the cost of service failure and recovery costs.
To improve the ease of service for our customers, we have developed our customer portal MyKarbon to self-serve a fully integrated selection of responsive repairs, plus improvements in payment experience and updating personal details.	Customers have convenient 24/7 service, reducing demand into traditional channels like telephone.
Within the Customer Relationship Team, developed call recording and quality assurance to develop team performance, launched new software to support multi-channel performance, trialled Call Line Identification and installed Workforce Scheduling.	Bringing efficiencies and effectiveness to the customer relationship team improves the customer experience and reduces potential failure demand and any costs to recover from complaints.
Focused on driving real efficiencies through the budget and business planning process.	Improvement of 0.7% in margin and a reduction of £33 (1%) in social housing cost per unit between 2018/19 and 2019/20.

We have also identified additional social value by:

- supported 73 customers into employment and supported 78 residents with digital training skills
- supported 33 customers into training to gain qualifications
- worked with 5,396 customers to provide benefit, money and debt advice
- provided 61 grants for community initiatives
- employed 16 apprentices.

VFM metrics and benchmarking

Benchmarking is important to any business. It provides key comparisons with similar organisations, enabling understanding of strengths and weaknesses and underpinning an evidence based approach to resource allocation, cost reduction and target setting. The Group's operating costs and key financial indicators are benchmarked annually using a variety of sources, including data from the Regulator for Social Housing (RSH) Global Accounts.

These are supplemented further through our operational Key Performance Indicators, which we monitor against our peer group using the sector benchmarking club HouseMark. One of our aims is to be a high performing organisation and we have set ourselves the very demanding objective of being in the upper quartile, and even upper decile, for a number of indicators which we consider are most important to ourselves as a Group but more importantly, to our key stakeholders.

In April 2018 a new Value for Money Standard was introduced by the Regulator, along with a sector wide set of metrics which aids direct comparison between housing providers. These metrics are included within our key performance indicators below and are denoted with a *.

Aim 1 – provide as many good quality homes as we can

KPI	Peer group median	Target 2021	Target 2020	Actual 2020	Actual 2019
Reinvestment %*	6.6%	13.1%	9.4%	9.0%	7.0%
New social housing supply %*	1.1%	2.2%	1.8%	1.8%	1.6%
New non-social housing supply %*	0.0%	0.0%	0.2%	0.2%	0.0%
Gearing*	44%	47%	42%	42%	44%
ROCE*	4.0%	4.1%	4.1%	4.0%	3.6%

The reinvestment metric demonstrates investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held. The percentage has increased from 7.0% in 2019 to 9.0% in 2020, mainly due to an increase in investment in new properties of around £67m. It is marginally lower than the target we set in 2020.

The new supply metrics set out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of social housing and non-social housing units owned at the year end. In 2020 the total number of units developed was 534 of which 15 were non-social housing and 38 for outright sale. In 2019 a total of 430 units were developed of which 11 were for non-social housing. Our actual performance is 1.8% for social housing supply and 0.2% for non-social housing supply which is in line with the target set.

The gearing ratio assesses the degree of dependence on debt finance. Loans less cash have increased year on year due to the re-financing which took place during the year. In the prior year this involved the issuing of £150m of 29 year fixed rate UK public listed debt which will fund our development programme over the coming years. Our actual performance is 42% which is in line with the target set.

Return on capital employed (ROCE) compares the operating surplus to total assets less current liabilities and is a common measure to assess the efficient investment of capital resources. In 2020 ROCE is 4.0% compared to 3.6% in 2019 and a target of 4.1%. The improvement is mainly due to the increase in operating surplus.

Aim 2 – deliver excellent customer service

KPI	Peer group median	Target 2021	Target 2020	Actual 2020	Actual 2019
Repairs appointments made and kept	95.17%	98.00%	94.00%	98.15%	97.19%
Percentage of emergency works completed on time	-	99.5%	99.0%	99.9%	99.3%
Average days to complete a repair	11.63	-	-	10.71	11.40

Repairs appointments made and kept has improved by 1% and is now at 98.15% which exceeds the performance of our peer group.

Emergency works completed on time has incrementally improved from 99.3% to 99.9% in 2020. This performance exceeds the target for the financial year of 99.0%. The performance of our peer group is not available for this indicator.

The average number of days to complete a repair has decreased in 2020 to 10.71 days and exceeds the performance of our peer group. This improvement is the result of major system and operational reconfiguration that happened on 1 April 2019. It took the first half of the financial year for these changes to take effect, but in the latter half of the financial year we experienced improvements to performance which has resulted in the overall decrease in days. We anticipate performance to further improve throughout 2021 following further process refinements.

Aim 3 – shape strong, sustainable places

KPI	Peer group median	Target 2021	Target 2020	Actual 2020	Actual 2019
Average re-let time	31.43	33.00	32.00	48.61	36.60
Void rent loss as percentage of annual rent debit	1.06%	1.76%	-	1.77%	1.60%

Average re-let time is the average time taken (in days) to re-let standard voids. It excludes voids that underwent major works, and is generally considered to be an indication of voids and lettings performance. In 2020 our performance has declined to an average of 48.61 days from 36.60 days in 2019. Like many landlords we continue to be impacted in some areas and some property types that are low demand. This performance measure has been a key focus throughout 2020 and will continue to be so during 2021.

Void rent lost is due to properties being vacant and this is shown as a percentage of annual rent due. Void rent loss has a direct impact on revenue and can also impact on the sustainability of communities when properties remain empty for considerable periods of time. Our performance has declined between 2020 and 2019 however our continued focus on re-let times will have a direct impact on void loss.

Enabler – growth and financial strength

KPI	Peer group median	Target 2021	Target 2020	Actual 2020	Actual 2019
Operating margin overall*	25.8%	26.8%	25.8%	25.3%	24.6%
Operating margin social housing lettings*	27.9%	29.7%	28.6%	29.0%	25.8%
EBITDA MRI*	168%	215%	245%	229%	206%
Headlines social housing cost per unit*	£3,322	£2,641	£2,980	£3,102	£3,135
Rent collected as a percentage of annual rent debit	99.66%	99.15%	99.30%	99.10%	99.72%
Current rent arrears new of housing benefit as a % of rent debit	3.29%	-	-	3.16%	1.81%

Operating margin demonstrates the profitability of an organisation before costs such as net interest payable and taxation are taken into account. Operating margin has increased in 2020 despite falling marginally short of the ambitious target we set, mainly as a result of a higher surplus on social housing lettings due to an increase in turnover and a reduction in operating costs. Management of operating cost has been an objective through the annual budget and business planning process.

Around 89% of our operating surplus relates to social housing lettings. The surplus/deficit on other social housing activities relates to activities such as development services, support services, community investment and first tranche sales (shared ownership). Non-social housing activity relates to income from properties from market rent, properties for outright sale and services provided to others.

EBITDA MRI is an abbreviation for earnings before interest, tax, depreciation, amortisation, major repairs included. It is a measure of liquidity and investment capacity. It also seeks to measure the level of surplus generated compared to interest payable. The metric also avoids any distortion from depreciation or grant amortisation. Our performance has improved between 2020 and 2019, mainly due to our higher operating surplus. It has not achieved target due to increased expenditure on fire risk work and a change in funding strategy to the assumption in the target.

The headline social housing cost per unit includes management costs, routine maintenance costs, planned maintenance costs, capitalised repairs costs, charges for support services, development services, community/neighbourhood services and any other social housing costs. These costs are divided by the number of units owned and/or managed. Our performance has improved between 2020 and 2019, mainly due to a combination of a reduction in planned maintenance costs compared to the previous year and an increase in the number of social housing units owned and/or managed from the prior year. It is higher than the target set which was at upper quartile for our peer group.

Rent collected as a percentage of the annual rent debit has fallen slightly from 2019 levels to 99.10% in 2020, and is slightly behind the target of 99.3%. The continuing rollout of Universal Credit has been the main driver for the fall in rent collection with the number of customers in receipt of Universal Credit increasing by 81% across the year, reaching 4,794 by March 2020.

Current rent arrears net of housing benefit as a percentage of rent debit increased from 1.81% in 2019 to 3.16% in 2020. This performance compares favourably with our peer group. Customers on Universal Credit represent 20% of all tenancies however the associated debt represents 50% of total current tenant arrears. We are working with our customers to keep them informed of any changes in relation to welfare reform and we also provide access to support and money advice. We will continually monitor our arrears position and have an active management process.

Linked to our Corporate Strategy our future value for money objectives are:

Providing as many good quality homes as we can:

- continue to stretch our target for new homes to reach top quartile in terms of the number of new homes developed as a percentage of our current stock

Delivering excellent service to our customers:

- continue to focus on improving our performance in areas where we are underperforming compared to our peer group, such as our performance in the re-let of empty homes. We will be continuing to complete the actions coming from our review of empty homes in 2021

- introduce appointments for repairs surveyors which is an enhancement to the current service offer

Shape strong, sustainable places for our communities

- we will update our sustainability matrix with the Savills Housing Assessment Performance Evaluation (SHAPE) tool which will enable us to assess the financial and social performance of our assets. This will allow us to identify the best and worst performing schemes and where future intervention may be required to improve the overall performance of our asset portfolio

- we intend to develop a bid and funding management process within Karbon to strengthen our ability to win bids and to ensure any funds we secure are managed effectively and return on investment and outcomes are monitored

Growth and financial strength

- undertake a holistic review of our existing office portfolio and working practices, develop consistent office standards and undertake option appraisals of our existing office estate

- continue to focus on improvements to operating surplus and reductions to total unit costs via our budget and business planning process

- deliver our forward plan for procurement, ensuring that we procure goods and services efficiently

- look to expand our cost sharing arrangements with other organisations who wish to work with us or join our group structure

Insight, data and technology

- use mobile technology to develop mobile working models that allow teams to access, process and update customer data in the field to minimise data handling, reduce travel time, speed up our response to customer needs, enable us to be more effective in keeping homes in good shape and improve the impact on the environment

- use a new insight tool which will provide managers with greater information on colleague performance to allow them to intervene earlier, improving performance for customers

- trial a new application which is augmented reality for repairs, which offers us the chance to resolve customer repair issues and enquiries instantly reducing waiting time and improving the service

- introduce a new more agile and effective approach to colleague performance management

- introduce a new digital platform for online learning and coordination of training records

- develop a more efficient process for recruitment to attract talent and improve the recruitment experience

- continue with a project called 'information matters', aiming to improve the accuracy of our data, elevating the importance of data as an asset, improving efficiency, customer experience and meeting regulatory requirements

- investigate and implement digital sign up for customers improving efficiency and removing a paper-based process.

Managing risk

Risk is inherent in the environment in which we work, particularly given the fast pace of change politically, socially and economically. The operating environment for social housing providers, which is shaped by government policy and budget announcements remains challenging.

Our aim is to identify and then manage risks so that they can be understood and mitigated. This requires a proactive approach and an effective organisation-wide risk management framework.

Risks that may prevent Karbon Homes from achieving its objectives are considered and reviewed within a risk register by the Group Executive Team, Group's Audit and Risk Committee and the Group Board. The risks are recorded and assessed in terms of their impact and probability. Major risks, presenting the greatest threat to the organisation, are reported to the Group Board in all board papers including actions to be taken to manage the risks and outcomes. The major risks to the business and successful achievement of strategic objectives going forward are considered below.

Risk	Response
Failure to adhere to financial golden rules or to comply with loan agreements leads to a breach, resulting in the organisation being vulnerable to the threat of repricing and being put into special measures.	We have put in place a resilience framework and carry out regular stress testing sessions on the business plan with the Board. We have also developed and regularly monitor early warning indicators.
Failure to sufficiently mitigate the impact on the business and customers of welfare reform changes, resulting in a negative impact on our income streams and costs.	We work with our customers to keep them informed of the changes and help them access support and benefits. We continually monitor arrears and have an active management process.
Existing pension schemes may become unaffordable, due to benefits being paid out not being covered by new employees paying into the scheme.	We are continually monitoring our pension position and options, and have carried out a due diligence exercise. We are developing a mitigation strategy and have introduced a new contributions policy following consultation.
Failure to plan sufficiently for the impact on borrowing, interest rates, economic conditions and a potential short-term liquidity risk due to Britain exiting the EU, leading to a negative financial and reputational impact.	We have a resilience plan in place and have refinanced to ensure liquidity can be maintained and have carried out stress testing. We have undertaken contractor checks and labour market mapping and have reviewed our preparation against guidance from the Regulator.
Failure to use resources economically, efficiently and effectively in the best interest of our stakeholders, leading to high costs, low performance, poor customer satisfaction and non-compliance with regulatory requirements.	We have developed and are implementing procurement and value for money strategies, with metrics. We have a contracts register and regularly review our framework of delegations.

Risk	Response
Failure to meet compliance thresholds and to take an approach that maintains the health and safety of residents, staff and partners.	We carry out regular health and safety risk assessments, have health and safety policies and procedures and have convened a corporate Health and Safety Group. Colleagues are regularly trained and we employ health and safety specialists to provide advice and guidance. We have a specialist compliance post in our structure and have convened a working group on fire safety. Health and safety performance measures are monitored at executive and committee level. Updates are received at each Group Board meeting.
Failure to secure and manage data in accordance with relevant regulations, particularly in light of the General Data Protection Regulation.	We handle large volumes of data some of which is confidential and sensitive. Our data protection policies and procedures and IT security, including cyber risk controls, are part of our management measures. All colleagues have received data protection training and we have a specialist data protection post.
Failure to comply with all statutory compliance and the Regulator of Social Housing's Regulatory Framework.	We have a process of governance and compliance supported by external advice where necessary. An internal assurance process supported by internal audit provides the Board with assurance, and the Board also received an annual report on compliance with the Regulatory Standards.
Failure to meet the housing needs of a broad range of customers, across a range of tenures, or to manage assets effectively.	We have controls in place to mitigate programme, funding, market and asset management risks. Controls include a governance framework, access to sufficient funding, commercial skills at Executive and Board level and an effective asset management strategy. We are developing our strategic approach to environmental sustainability.
Failure to manage business growth and development effectively, whilst protecting assets.	We have a clearly defined strategic approach and criteria for appraising new opportunities and innovation, and have skills and processes in place to ensure the effectiveness of business cases. There is strong Board involvement in the process, and a robust legal and financial process of due diligence.

Covid-19 Crisis

We have a dedicated leadership group within Karbon who have closely monitored the Government and regulatory guidance throughout the Covid-19 crisis, developing our response plans in line with our business continuity framework to ensure a co-ordinated, timely and effective organisational wide approach, communicating regularly with all stakeholders.

Our utmost priority is the health and wellbeing of our customers and colleagues. Whilst this will continue to remain our priority, there are also some potential financial implications that we have considered, both in the short term and the longer term, to ensure the sustainability of the business.

Some of the key areas we have considered are as follows:

Risk area	Potential impact	Our response
Income	Rent arrears may increase, particularly for those customers not receiving government benefit.	We have reviewed our methodology for calculating the provision for bad debts to categorise debts based upon future risk. We have assessed the impact of increased arrears on cashflow, budgets and our business plan, including modelling future scenarios and stress testing. We have also assessed the impact on our covenants. Our stress testing has ensured that we remain compliant with funding covenants. We are also closely monitoring the impact on arrears and we are supporting customers who are experiencing financial difficulty through our dedicated Money Matters Advisors by telephone.
Housing property impairment	Covid-19 may have an adverse impact on: • the environment in which we operate • the expected cash flows from housing properties.	We have performed an impairment review as at 31 March. We have concluded that this has not resulted in the impairment of our housing properties.
Profit on sale of properties	The likelihood of a recession including the downturn in the housing market could result in a slowdown of sales and/or a reduction in property values.	We have considered the impact of a reduction in sales values and slippage on our development programme and we have stress tested the impact on the business plan.
Investment property valuation	A weakening property market has resulted in RICS members valuations of investment property being reported on the basis of "material valuation uncertainty" as per VPS3 and VPGA10 of the RICS Red Book Global	We have updated the narrative in relation to estimates and judgements to reflect the uncertainty in our valuation report.

Risk area	Potential impact	Our response
Pension Accounting (LGPS schemes)	Pension valuations will be affected by the impact of events on the stock market, other asset valuations and changes to discount rates.	In previous years the actuaries have derived the accounting liabilities and service costs from the most recent funding valuations results in an approximate manner, allowing for the different bases and average ages from the underlying data. However, in the current and unprecedented market conditions the difference between the funding and accounting liabilities is such that the actuaries have based their advice on a full run of the 2019 valuation on the accounting basis as at 31 March 2019 , rather than an approximate method. The impact of the valuation therefore includes both the changes in the underlying difference between carrying out full calculations as at 31 March 2019, rather than an approximate roll forward for three years from the March 2016 valuation.
Access to funding and availability of cash	Availability of funding and response from funders.	We have maintained communication with clearing banks and investors who continue to be supportive of our response and are comfortable with our liquidity headroom forecasts. The Board approved a temporary increase to the level of cash held in our current accounts to mitigate against any short-term potential impacts of the crisis. Board receive regular updates on the cash position and deposits held with external A rated counterparties. We have access to £130.5m of fully secured revolving credit facilities (RCF) that could be drawn instantly, as well as access to £100m of retained binds that we have just issued. The cash deposits, available RCFs and bond position is such that the Board are comfortable that we have sufficient funding headroom to remain compliant with our Golden Rules for liquidity.
Compliance	Impact of face-to-face customer contact being temporarily suspended.	We have continued with limited gas servicing, essential and emergency repairs and empty homes repairs throughout the lockdown period, maintaining social distancing measures. We will provide additional resource in 2020/21 to ensure that we can re-mobilise and continue to meet our landlord compliance responsibilities relating to electrical testing, gas servicing, fire risk assessments and remedial works. We have completed operational surveys introduced by the Regulator for Social Housing during the Covid-19 situation. We have worked closely with our supply chain to maintain supplies of PPE to support our service delivery.

Risk area	Potential impact	Our response
Customer service	Demand for our services increase as the country comes out of lockdown.	We will provide additional resource in 2020/21 as we anticipate an increase in demand for responsive repairs, customer account queries and support with payment of rent. We have increased the level of cleaning programmes in Extra Care facilities and our offices and provided appropriate levels of protective equipment to those providing customer-facing services. We have contacted 7,000 of our most vulnerable customers to identify the need for any additional support from Karbon or affiliated organisations.
Protection and retention of staff	Loss of key personnel and talent.	We have supported colleagues throughout this difficult period in balancing caring responsibilities with workload. Colleagues who have been able to work from home have done and will continue to do so in line with government guidance. We have provided a flexible approach to enable everyone to deliver their role and manage their caring responsibilities. We are prioritising safety measures over performance measures and risk assessment is at the heart of our approach as we resume services. We have provided extensive support to colleagues in looking after their mental health throughout this period.
Overall control environment	Changes to key controls could be impacted as staff work from home.	All office-based colleagues are working from home using encrypted devices with multi-factor authentication. Finance colleagues have been trained in fraud prevention measures and we have implemented additional cyber security controls. We have cyber fraud insurance cover to further support the business in the event of a cyber attack.

Statement of compliance

In preparing this Operating and Financial Review, the Board has followed the principles set out in Part 3 of the Statement of Recommended Practice 2018.

The Board is pleased to present its report together with the audited financial statements of Karbon Homes Limited (the Association) and Karbon Group for the year ended 31 March 2020.

Report of the Board

Report of the Board

BOARD MEMBERS, EXECUTIVE DIRECTORS, ADVISORS AND BANKERS

Board	
Chairman	Sir David Bell KCB (from 1 May 2020) Sebert Cox OBE (to 30 April 2020)
Vice Chair	David Butler
Other members	Paul Fiddaman Kathryn Larkin-Bramley Maxine Mayhew Stephen Moorhouse Anne Mulroy Adrian Stanley Stephen Spill Michael Mullaney (from 25 November 2019) Sarah Salter (from 25 November 2019) Julie Taylor (from 25 November 2019) John Williams (to 23 September 2019) Hilary Florek (to 23 September 2019)
Executive Directors	
Group Chief Executive	Paul Fiddaman
Executive Director of Resources	Scott Martin (from 3 February 2020) Greg Van Enk-Bones (Interim) Mark Reid (to 31 October 2019)
Executive Director of Growth and Business Development	Charlotte Carpenter
Executive Director of Customer Services	Josephine Ray
Executive Director of Governance and Integration	Richard Fryer
Managing Director York Housing Association	Julia Histon
Registered office	Number Five Gosforth Park Avenue Gosforth Business Park Newcastle upon Tyne NE12 8EG
Registered number	A Registered Society under Co-operative and Community Benefits Societies Act 2014; No: 7529 Registered with the Regulator of Social Housing; No. 4846
Auditors	Beever and Struthers St. George's House, 215-219 Chester Road Manchester M15 4JE
Solicitors	Womble Bond Dickinson (UK) LLP St Ann's Wharf, 112 Quayside Newcastle upon Tyne NE1 3DX
Principal bankers	NatWest (Part of Royal Bank of Scotland Group) 2nd Floor 1 Trinity Gardens Broadchare Newcastle upon Tyne NE1 2HF

Principal activity
Details of the Group's principal activities, its performance during the year and factors likely to affect its future developments are contained within the Operating and Financial Review, which precedes this report.

The Board of Karbon Homes Limited
The present board members and Executive Directors in place during the financial year are set out on page 47. They served throughout the year unless where indicated.

During the year payments made to board members were £113k (2019: £92k), which were 0.08% (2019: 0.07%) of the annual turnover. Payment of Group Chairman and Group board members is calculated by taking into account the size of the Group and independent benchmarking. The Board carries out an annual appraisal of its performance and an annual appraisal of individual board members. In the year up to 31st March 2020, the Chairman was appraised by the Vice Chair following feedback from both non-executive and Executive Directors.

Executive Directors
Whilst the Group Board is responsible for the Group's overall policy and strategy, management is delegated to the Group Chief Executive. The Executive Directors are the senior management team and act as executive within the authority delegated by the Board. They meet formally under the chairmanship of the Group Chief Executive in order to consider all major management issues.

This meeting is a key decision-making forum for the management of the Group, reviewing all proposed policy changes and performance. The Executive Directors hold no interest in the share capital of any member of the Karbon Group. The Executive Directors are employed on service contracts with the same terms as other staff, except for their notice periods which are six months. The Executive Directors are members of the Social Housing Pension Scheme or Durham County Council Local Government Pension Scheme. They participate in the scheme on the same terms as all other eligible staff and the Group contributes to the scheme on behalf of its employees. The Executive Directors are entitled to other benefits such as the provision of a car or cash allowance and health care insurance. Details of their remuneration are included in note 10 to the audited financial statements.

Corporate governance
The Group Board is committed to integrity and accountability in the stewardship of the Group's affairs. The Group complies with the principal recommendations of the NHF 'Excellence in Governance' code for members (January 2015). We chose this code because it is tailored to the housing sector and it is a widely recognised example of best practice. The Group Board received self-assessments against the code in July 2020, demonstrating full compliance.

The Group regularly reviews its governance arrangements including its committee structures. It also undertakes an annual assessment of governance, including roles, responsibilities and accountabilities of the Group Board, Chairman and Group Chief Executive and is satisfied that its arrangements are clear and effective. The Group Audit and Risk Committee has agreed a protocol with the external auditors, which sets out policies for determining what non-audit work can be undertaken by the external auditors and procedures for periodic review and selection of external auditors. The level of fees paid for this work is set out in note 5 to the financial statements.

The revised RSH Governance and Viability standard was published in March 2015. Assurance was provided to the Board in July 2020 that the Group continues to meet the regulatory standards. Following an In- Depth Assessment carried out by the Regulator in May 2018, we maintained the highest ratings of financial viability and governance which is G1/V1.

Corporate role of the Board
For the financial year 2019/20 the Board comprised up to 12 board members. The Board currently has 12 members including the Group Chief Executive. Terms of reference were issued to the Board. Board members acted in the interest of the Karbon Group and not on behalf of any other interest group.

The principal obligations of the Board to the Group were to:
- establish the mission, values and objectives of the Karbon Group, driving the business forward whilst maintaining prudent control
- develop the strategy and structure of the Group
- delegate authority to management, and monitor and evaluate the implementation of policies, strategies and business plans
- uphold the Group's constitution and NHF Code of Governance
- balance the interests of stakeholders and enhance the profile of the Group externally.

The Group Board was drawn from a wide background and its members were selected to ensure that they bring relevant experience, skills and understanding to the discussions and decision making process of the Board.

Each subsidiary had a board of directors chosen for their specific area of expertise together with appointees to provide strong channels of communication with the Group Board.

The Group Board met formally six times during the year. These meetings were complemented by six strategy sessions that considered the Group's Corporate Strategy, Strategic Plans and Regulatory Requirements.

The Executive Directors also attended Group board meetings.

Reporting to the Board were the Group Remuneration and Nominations Committee, the Group Audit and Risk Committee, the Group Development Committee, the Group Performance Committee and the Chairman's Committee. The summary terms of reference the committees follow and the membership drawn from the board membership of the Group's Associations and independent committee members, is shown in the table below:

Group Remuneration and Nominations Committee	Group Audit and Risk Committee	Group Development Committee	Group Performance Committee	Chairman's Committee
David Butler (C)	Stephen Moorhouse (C)	Adrian Stanley (C)	Kathryn Larkin-Bramley (C)	Sir David Bell (C)
Sir David Bell	Kathryn Larkin-Bramley	Anne Mulroy	David Butler	Stephen Moorhouse
Maxine Mayhew	Julie Taylor	Michael Mullaney	Anne Mulroy	Adrian Stanley
Sarah Salter	Stephen Spill	Carol McTaggart (YHA)	Sarah Salter	Kathryn Larkin-Bramley
Stephen Spill	Michael Mullaney	Robert Pattison (ICM)	Julie Taylor	Stephen Secker (YHA)
	Maxine Mayhew	Robert Armstrong (ICM)	Stephen Waddington (YHA)	David Butler
	Mike Newberry (YHA)			

C - Chair, YHA - York Housing Association, ICM - independent committee member

Board Member profiles are available on the Karbon Homes website at **www.karbonhomes.co.uk** within the About Us, Corporate Information Section.

Group Remuneration and Nominations Committee
This is a non-executive committee. It has the responsibility for overseeing the Group's remuneration policies and recommends the annual staff pay award to the Group Board. It also ensures the Group has a transparent approach to the appointment of board members and advises the Board on the remuneration and terms and conditions of the Group Chief Executive and other Executive Directors after taking external advice. The Executive Directors are not present at the meeting when their salaries are determined. The Committee met five times during the year.

Group Audit and Risk Committee
The Group Audit and Risk Committee is a non-executive committee, ensuring appointment of independent internal and external auditors, addressing internal and external audit issues and advising the Board on risk management policies and processes. It also considers the financial statements and recommends their approval by Board. The Committee met five times during the year.

Group Development Committee
The Group Development Committee is a non-executive committee that advises the Group Board on the Group's Development strategy, ensuring that the Group's approach to capital investment is coordinated, challenging and dynamic. It also considers, approves and oversees the Group's development programme in accordance with the framework set out by the Group Board. The Committee met four times during the year.

Group Performance Committee
The Group Performance Committee is a non-executive committee and is responsible for reviewing the financial and service performance of the Group. It is also responsible for making recommendations to the Group Board on material matters relating to how services are delivered to residents. The Committee met four times during the year.

Chairman's Committee
The Chairman's Committee comprises the Group Chairman, the Chair of York Housing Association and the Chairs of the Committees outlined above. The Committee assists with the effective communication and co-ordination of the Group's various committees and provides advice on specific matters as requested by the Group Chairman. The Committee met three times during the year.

Internal controls assurance
The Group Board is the ultimate governing body and is responsible for establishing and maintaining the whole system of internal control and for reviewing its effectiveness across the Group.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, and not absolute, assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and has been in place throughout the period commencing 1 April 2019 up to the date of approval of the report and financial statements.

Key elements of the control framework include:
- Group Board approved terms of reference and delegated authorities for Group Audit and Risk Committee
- clearly defined management responsibilities for the identification, evaluation and control of significant risks
- robust strategic and business planning processes, with detailed financial budgets and forecasts
- formal recruitment, retention, training and development policies for all staff
- established authorisation and appraisal procedures for all significant new initiatives and commitments
- a sophisticated approach to treasury management
- regular reporting to the Board or committees on key business objectives, targets and outcomes
- Board approved whistle blowing and anti-theft, corruption, bribery and fraud policies
- standing reports to the Group Audit and Risk Committee on the progress of action plans developed to remedy any weaknesses and to implement recommendations from both the internal and external auditors
- the fraud register reviewed annually at the Group Audit and Risk Committee meeting and all new entries reported separately.

The Group Board and its committees obtain external specialist advice from time to time as necessary.

The RSH requires incidents of fraud and loss to be reported on an annual basis. Two instances of fraud have been reported during 2019/2020, one of these leading to loss of £5k to the company. The instance of loss due to a cyber-security incident affecting the payroll, has been reported to Group Audit and Risk Committee and to the Regulator of Social Housing during 2019/2020. An Internal Audit investigation has been undertaken and improvements are being implemented.

The Group Board cannot delegate ultimate responsibility for the system of internal control, but it can, and has, delegated authority to the Group Audit and Risk Committee to regularly review the effectiveness of the system of internal control. The Board receives quarterly reports from the Group Audit and Risk Committee together with minutes of Group Audit and Risk Committee meetings.

The Group Audit and Risk Committee has received the Group Chief Executive's annual review of the effectiveness of the system of internal control for the Association and its subsidiaries, and the annual report of the internal auditors, and has reported its findings to the Group Board.

Statement of the responsibilities of the Board for the Report and Financial Statements
The Board is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 requires the Board to prepare financial statements for each financial year. Under the legislation, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under The Co-operative and Community Benefit Societies Act 2014 the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the Group for that period.

In preparing those financial statements the Board is required to:
- select suitable accounting policies and apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable United Kingdom Accounting Standards and the Statement of Recommended Practice 2018, have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on a going concern basis unless it is appropriate to presume that the Group will not continue in business.

The Board is responsible for keeping and maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Association and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. It is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Association's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Post balance sheet events
When approving the financial statements the Board is required to make an assessment of the Group's ability to continue as a going concern. In doing this the Board is required to consider all available information about the future, which is at least but not limited to, 12 months from the date when the financial statements are approved and signed.

The Karbon Homes Board, taking note of the attractive market conditions related to its retained bonds, gave approval in May 2020 for the sale of up to £100m. These were successfully issued on 23 June 2020, with a document settlement date of 30 June 2020.

Going concern

After making enquiries, the Karbon Homes Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

The Board has considered the impact of the Covid-19 crisis upon the business and the assessment of going concern and it has concluded that there is no material uncertainty around going concern.

Future developments

A key influence on the timing of borrowings is the rate at which development activity takes place. The Karbon Board has approved plans to spend £105m during the next financial year developing and acquiring additional homes and £49.6m will be spent on planned and responsive maintenance. £74.7m of this investment will be funded through new borrowings, £10.6m through social housing and other grant, and the balance from existing cash and operational cash flows.

The Group's entities have bilateral or ring-fenced loan facilities in place with their respective funders. As at 31 March 2020 the Group had total loan facilities of £618m, of which £236m remained undrawn, and a cash balance including liquid investments of £51m.

The Group has sufficient funds to meet its requirements for the next 12 months from the date of this report.

External auditors

Beever and Struthers are willing to remain in office and a resolution to re-appoint them as auditors to the Group was approved by the Board on 24 July 2020.

Approval

The Report of the Board was approved by the Board on 24 July 2020 and signed on its behalf by:

R Fryer
Company Secretary

Our opinion is unmodified
We have audited the financial statements of Karbon Homes Limited (the Association) and its subsidiaries (the Group) for the year ended 31 March 2020 which comprise the Consolidated and Association Statement of Comprehensive Income, the Consolidated and Association Statement of Financial Position, the Consolidated and Association Statement of Changes in Reserves, the Consolidated Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2020 and of the Group's income and expenditure and the Association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Cooperative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor of Karbon Homes Limited by the Board for the period ending 31 March 2015. The period of total uninterrupted engagement for the Group is for six financial years ending 31 March 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Association in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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

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

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address these matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Housing Property Additions - parent Association risk
The parent Association's additions to properties under construction total £64.9m as at 31 March 2020 (2019: £46.1m). Refer to pages 66 and 69 (accounting policies) and page 106 (financial disclosures).

The risk – significant risk high value
Development is a key activity for the parent Association. This, alongside judgements as to whether expenditure is capital or revenue in nature, is an area that we feel had a key impact on our overall audit approach. Our overall assessment of misstatement is therefore that housing property additions is a significant risk within our audit approach.

Our response
Our procedures included:
- **Controls testing:** Testing controls over the review of received invoices and certificates and subsequent authorisation for payment.
- **Controls testing:** Evaluating the procedure and review process for development appraisals, including key assumptions used.
- **Test of detail:** We agreed a sample of capital additions in the year to invoice or certificate.
- **Review against accounting standards:** We reviewed amounts capitalised in our sample testing versus guidance in FRS 102 and the SORP 2018.
- **Test of detail:** We considered whether there was any evidence of impairment, in particular; for schemes under development.
- **Test of detail:** We confirmed that accruals have been made for significant development expenditure incurred up to 31 March but not yet invoiced.

Our results
Based on the audit procedures performed, we found the capitalisation of development costs to be acceptable.

The Group's investment properties are stated at £43.8m as at 31 March 2020 (2019: £45.1m).

Refer to page 70 (accounting policies) and page 110 (financial disclosures).

Investment Property Valuation – Group risk
The risk – significant risk high value
The Group's investment properties represent a significant balance and the assessment of their fair value at the year-end is a key judgement area, particularly due to the impact of Covid-19. As a result of the Covid-19 pandemic, the external valuations of the properties received by the Group include a 'material valuation uncertainty' paragraph. It is for these reasons that this area had a key impact on our overall audit approach.

Our overall assessment of misstatement is therefore that investment properties are a significant risk within our audit approach.

Our response
Our procedures included:

- Test of detail: We confirmed that the independent experts used by management for the valuation were suitably experienced and qualified.
- Test of detail: We agreed the year end valuation to reports produced by independent experts for the Group, along with key estimates and judgements used.
- Review against accounting standards: We reviewed disclosures versus guidance in FRS 102 and the SORP 2018.

Our results
Based on the audit procedures performed, we agreed the basis of the valuation of investment properties, and that the disclosures regarding the uncertainties that existed at the year-end to be acceptable.

Covid-19 and going concern
The risk – significant risk high value
During the year ended 31 March 2020, Covid-19 had a significant impact on the UK economy and on the activities of housing associations. As auditors we are required to consider the impact of Covid-19 on the financial outlook for the Group, and on the accounting treatments and disclosures within the financial statements.
Refer to pages 42 – 44 (Operating and Financial Review), page 52 (Report of the Board) and pages 66 - 67 (accounting policies).

Our response

During the audit we have had active and on-going discussions with management around the Group's response to the virus. Our procedures included the following:

- Test of detail: We have reviewed the Group's internal assessment of the implications of Covid-19, and a range of management information relating to actual and forecast performance after the year end.
- Test of detail: We have reviewed the Group's long term financial plans, revised in the light of Covid-19, and the stress testing of those plans., and considered the potential impact on the financial statements, as well as on the Group's financial viability into the foreseeable future and its status as a going concern.

Our results

We identified a number of areas where Covid-19's impact on the economy could significantly impact the Group. Based on the audit testing we performed, our conclusions on these key areas are as follows:

- **Impairment:** We have discussed with management their opinion that there was no impairment of the Group's housing stock or work in progress at the year end. We reviewed the Group's own impairment review at 31 March 2020. We are satisfied with management's view that there is no further impairment required at that date.
- **Sales risk and exposure to the property market:** We obtained sufficient audit evidence to form our opinion that the Group's exposure to the property sales market does not create a significant risk to the going concern status of the Group, and that the year-end balance of stock and work in progress is not materiality overstated.
- **Investment properties:** The properties are required to be held at fair value in the financial statements. The properties were independently valued at 31 March 2020. As noted in the separate key audit matter above, we are satisfied that whilst there is some uncertainty in relation to the value of investment properties due to the current market conditions, this does not impact on the truth and fairness of the financial statements.
- **Pension scheme valuation:** We confirmed that the assumptions used in the calculation of the balances in the financial statements are within reasonable parameters and are in line with the recommendations of the schemes' actuaries. We are satisfied that whilst there is some uncertainty in relation to the pension scheme valuation due to the current economic conditions, this does not impact on the truth and fairness of the financial statements.
- **Debt repayment and covenants:** We reviewed the Group's 2020/21 budget and longer-term financial forecasts and covenant projections, and the underlying assumptions, to assess the Group's ability to service and repay the debt. We concluded that the impact of Covid-19 is not sufficient to impact the Group's assessment that it is a going concern.
- **Rent arrears:** We confirmed that the provisioning basis for rent arrears at the year end is reasonable and that the Group has considered the impact of Covid-19 on recoverability.

We are therefore satisfied with management's assessment that the Group will remain a going concern.

Our Application of Materiality and an Overview of the Scope of the Audit

The materiality for the audit of the Association, regarding the Statement of Financial Position, for the year ended 31 March 2020 was £5.3m (2019: £4.8m) determined with reference to the average of the following benchmarks:

- 1% of turnover
- 5% of result before tax
- 4% of net assets
- 1% of gross assets

Materiality for the audit of the Statement of Comprehensive Income is an average of the first two benchmarks only at £1.15m (2019: £893k).

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £267k (2019: £243k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Other information

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

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 requires us to report to you if, in our opinion:

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

Responsibilities of the Board

As explained more fully in the Statement of the Responsibilities of the Board set out on page 51, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Group's and 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 Group or the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the Board and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Use of our Report

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

Beever and Struthers

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

Date: 30/07/2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Note	2020 £ '000	2019 £ '000
Turnover	3	135,933	129,426
Cost of sales	3	(8,981)	(4,775)
Operating expenditure	3	(92,596)	(92,810)
Surplus on sale of housing properties	6	4,266	1,697
Operating surplus	5	38,622	33,538
Interest receivable and other income	7	458	335
Interest payable and similar charges	8	(17,272)	(18,042)
Other finance costs		(870)	(852)
Unrealised gain/(loss) on revaluation of investment properties	14	1,223	(8,827)
Surplus before taxation		22,161	6,152
Tax on surplus on ordinary activities	11	(56)	(126)
Surplus for the financial year	31	22,105	6,026
LGPS equalisation	29	2,130	(2,130)
Initial recognition of multi-employer defined benefit scheme	9	-	(5,714)
Actuarial gain in respect of pension schemes	9	9,167	347
Total comprehensive income/ (deficit) for the year		33,402	(1,471)

The consolidated results relate to continuing and acquired activities.
The notes on pages 66 to 128 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 24 July 2020 and signed on its behalf by:

David Bell

Sir David Bell KCB
Chairman

David Butler
Vice Chair

Richard Fryer
Company Secretary

ASSOCIATION STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Turnover	3	131,940	123,808
Cost of sales	3	(12,699)	(7,537)
Operating expenditure	3	(88,024)	(87,517)
Surplus on sale of housing properties	6	2,653	1,708
Operating surplus	5	33,870	30,462
Interest receivable and other income	7	2,488	2,316
Interest payable and similar charges	8	(16,213)	(16,993)
Other finance costs		(832)	(818)
Unrealised gain/ (loss) on revaluation of investment properties	14	416	(3,722)
Surplus before taxation		19,729	11,245
Tax on surplus on ordinary activities	11	(45)	(13)
Surplus for the financial year	31	19,684	11,232
LGPS equalisation	29	2,130	(2,130)
Initial recognition of multi-employer defined benefit scheme	9	-	(5,358)
Actuarial gain in respect of pension schemes	9	8,444	684
Total comprehensive income for the year		30,258	4,428

The consolidated results relate to continuing and acquired activities.
The notes on pages 66 to 128 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 24 July 2020 and signed on its behalf by:

Sir David Bell KCB
Chairman

David Butler
Vice Chair

Richard Fryer
Company Secretary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Tangible fixed assets			
Housing properties at cost less depreciation	12	865,293	809,555
Other tangible fixed assets	13	12,280	12,620
Investment properties	14	43,847	45,098
HomeBuy loans receivable	15	245	276
Investment in associate	16	67	-
		921,732	867,549
Current assets			
Properties for sale	18	8,958	10,459
Deferred asset	19	815	815
Consumable stock		669	536
Debtors due within one year	20	12,924	14,215
Debtors due after one year	21	3,116	3,233
Investments	22	28,668	40,636
Cash and cash equivalents		22,228	33,390
		77,378	103,284
Creditors: Amounts falling due within one year	23	(42,450)	(36,760)
Net current assets		34,928	66,524
Total assets less current liabilities		956,660	934,073
Creditors: Amounts falling due after more than one year	24	(381,796)	(389,804)
Deferred grants	27	(267,670)	(260,841)
Provision for liabilities and charges	29	(394)	(2,476)
Pension liability	9	(27,975)	(35,503)
		(677,835)	(688,624)
Total net assets		278,825	245,449
Capital and reserves			
Non-equity share capital	30	-	-
Restricted reserve	31	450	-
Revenue reserve	31	278,375	245,449
Consolidated funds	31	278,825	245,449

The notes on pages 66 to 128 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 24 July 2020 and signed on its behalf by:

Sir David Bell KCB
Chairman

David Butler
Vice Chair

Richard Fryer
Company Secretary

ASSOCIATION STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	Note	2020 £ '000	2019 £ '000
Fixed assets			
Tangible fixed assets			
Housing properties at cost less depreciation	12	804,368	749,260
Other tangible fixed assets	13	10,877	11,080
Investment properties	14	15,297	14,861
HomeBuy loans receivable	15	245	276
Investment in associate	16	67	-
		830,854	775,477
Current assets			
Properties for sale	18	7,312	6,705
Deferred asset	19	815	815
Consumable stock		669	526
Debtors due within one year	20	12,922	13,080
Debtors due after one year	21	25,443	26,592
Investments	22	28,449	38,108
Cash and cash equivalents		16,501	30,876
		92,111	116,702
Creditors: Amounts falling due within one year	23	(41,189)	(34,542)
Net current assets		50,922	82,160
Total assets less current liabilities		881,776	857,637
Creditors: Amounts falling due after more than one year	24	(356,513)	(363,401)
Deferred grants	27	(250,255)	(240,756)
Provision for liabilities and charges	29	(375)	(2,467)
Pension liability	9	(27,381)	(34,075)
		(634,524)	(640,699)
Total net assets		247,252	216,938
Capital and reserves			
Non-equity share capital	30	-	-
Restricted reserve	31	450	-
Revenue reserve	31	246,802	216,938
Consolidated funds	31	247,252	216,938

The notes on pages 66 to 128 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 24 July 2020 and signed on its behalf by:

David Bell   D Butler   Richard Fryer

Sir David Bell KCB
Chairman

David Butler
Vice Chair

Richard Fryer
Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £ '000	Restricted reserve £ '000	Total £ '000
Balance at 1 April 2018 as previously stated	**246,920**	**-**	**246,920**
Surplus for the year	6,026	-	6,026
LGPS equalisation	(2,130)	-	(2,130)
Initial recognition of multi-employer defined benefit pension scheme	(5,714)	-	(5,714)
Actuarial gain on pension scheme	347	-	347
Balance at 31 March 2019	**245,449**	**-**	**245,449**
Surplus for the year	22,105	-	22,105
LGPS equalisation	2,130	-	2,130
Actuarial gain on pension scheme	9,167	-	9,167
Transfer of restricted income from unrestricted reserve	(450)	450	-
Reclassification	(26)	-	(26)
Balance at 31 March 2020	**278,375**	**450**	**278,825**

The notes on pages 66 to 128 form part of these financial statements.

ASSOCIATION STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £ '000	Restricted reserve £ '000	Total £ '000
Balance at 1 April 2018 as previously stated	**212,411**	-	**212,411**
Gift Aid	99	-	99
Surplus for the year	11,232	-	11,232
LGPS equalisation	(2,130)	-	(2,130)
Initial recognition of multi-employer defined benefit pension scheme	(5,358)	-	(5,358)
Actuarial gain on pension scheme	684	-	684
Balance at 31 March 2019	**216,938**	**-**	**216,938**
Gift Aid	82	-	82
Surplus for the year	19,684	-	19,684
LGPS equalisation	2,130	-	2,130
Actuarial gain on pension scheme	8,444	-	8,444
Transfer of restricted income from unrestricted reserve	(450)	450	-
Reclassification	(26)	-	(26)
Balance at 31 March 2020	**246,802**	**450**	**247,252**

The notes on pages 66 to 128 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	2020 £'000	2019 £'000
Net cash generated from operating activities (see note i)	57,137	46,022
Cash flow from investing activities		
Purchase and construction of housing properties	(67,416)	(104,140)
Works to existing properties capitalised	(10,615)	(9,543)
Purchase of other fixed assets	(1,470)	(789)
Sale of housing properties	6,781	3,817
Payment to Northumberland County Council re sale of properties	(259)	(89)
Sale of other fixed assets	33	39
Social housing grant received	15,812	11,098
Investment in associate company	(67)	-
Interest received	275	335
	(56,926)	(99,272)
Cash flow from financing activities		
Interest paid	(17,935)	(16,361)
New secured loans	-	146,650
Repayment of HomeBuy loan	31	-
Repayments of borrowings	(5,437)	(41,948)
Money market and investment movements	11,968	(35,636)
	(11,373)	52,705
Net change in cash and cash equivalents	(11,162)	(545)
Cash and cash equivalents at beginning of the year	33,390	33,935
Cash and cash equivalents at end of the year	22,228	33,390

The notes on pages 66 to 128 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Note i	**2020 £'000**	**2019 £'000**
Cash flow from operating activities		
Surplus for the year	22,105	6,026
Adjustments for non-cash items:		
Revaluation (gain)/loss in year	(1,223)	8,827
Depreciation of tangible fixed assets	23,373	22,607
Release of deferred grant income	(4,960)	(5,075)
Impairment	(261)	21
Increase in provisions	57	(2,108)
Pension operating charge	5,810	5,749
Pension contributions paid	(4,171)	(4,181)
Taxation	56	126
(Increase) in stock	(133)	(46)
(Increase) in properties for sale	(563)	(3,975)
Decrease in trade and other debtors	311	1,484
Increase in trade and other creditors	6,078	893
	24,374	24,322
Adjustments for investing or financing activities:		
Receipt of donated asset	(450)	-
Gain from sale of tangible fixed assets	(4,266)	(1,697)
Grants utilised in the year	(1,408)	(247)
Interest payable	17,272	18,042
Interest received	(458)	(335)
	10,690	15,763
Taxation		
Corporation tax paid	(32)	(89)
Net cash generated from operating activities	57,137	46,022

The notes on pages 66 to 128 form part of these financial statements.

1. Legal status

The Association is a Registered Society in England under the Co-operative and Community Benefit Societies Act 2014 and is registered as a housing provider with the Regulator for Social Housing. The registered office is Number Five, Gosforth Park Avenue, Gosforth Business Park, Newcastle upon Tyne, NE12 8EG.

2. Accounting Policies

Basis of accounting

The financial statements of the Group and Association are prepared in accordance with the Co-operative and Community Benefit Societies (Group Regulations) 1969, the Housing and Regeneration Act 2008, the Statement of Recommended Practice 2018 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

The accounts are prepared on the historical cost basis of accounting and are presented in sterling £000s for the year ended 31 March 2020.

The Group's financial statements have been prepared in compliance with FRS102. The Group meets the definition of a Public Benefit Entity.

Going concern

The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Operating and Financial Review. The Group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the Group's day-to-day operations. The Group also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with its lenders' covenants.

Basis of consolidation

The Group accounts consolidate the accounts of the Association and its subsidiaries at 31 March each year.

Judgements and key sources of estimation uncertainty

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

a. **Development expenditure**:- The Group capitalises development expenditure in accordance with the accounting policy described on page 69. Initial capitalisation of costs is based on management's judgement when a development scheme is confirmed, usually when Board approval has taken place. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.

b. **Categorisation of housing properties**:- The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals.

c. **Impairment**:- Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.

   As a result of changes in the operating environment due to Covid-19, we have identified that there is a trigger for impairment and we have therefore performed an impairment review of our housing properties. As a result of this review, we have concluded that this does not result in the impairment of our housing properties.

d. **Valuation of investment properties**:- Given the impact of the Covid-19 pandemic on housing markets and the availability of market evidence to fully inform an opinion on value, we consider that there is material uncertainty in the valuation of our investment properties included within these accounts. We will keep this situation under review.

e. **Covid-19**:– Given the uncertainty surrounding Covid-19 and the impact on the economy, we have considered the impact of the pandemic on our business. This is detailed on pages 42 to 44.

Other key sources of estimation and assumption:

a. **Tangible fixed assets**. Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
b. **Amortisation of gap funding**:- Gap funding is amortised over the useful economic life of the components.
c. **Amortisation of social housing and other government grants**:- Social housing and other government grants are amortised over the useful economic life of the structure of the housing properties.

Turnover and revenue recognition

Turnover comprises rental income receivable in the year, amortised capital grant, revenue grants receivable in the year, income from shared ownership first tranche sales, other services included at the invoiced value (excluding VAT where recoverable) of goods and services supplied in the year.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Revenue grants are receivable when the conditions for receipt of agreed grant funding have been met.

Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with administering authorities.

Sales of properties developed for outright sale are included in turnover and cost of sales.

Service charges

The Group operates both fixed and variable service charges on a scheme by scheme basis in full consultation with residents. Where variable service charges are used, the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered they are held in the Statement of Financial Position.

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

Taxation

The parent company became an exempt charity on 3 April 2017 and, from this date, any surpluses or deficits arising from its charitable activities will be exempt from corporation tax. Any activity relating to non-charitable activity will be subject to corporation tax.

Deferred taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Except as noted below, full provision for deferred taxation is made under the incremental liability method on all timing differences that have arisen, but not reversed by the balance sheet date.

Deferred tax is not provided for gains on the sale of non-monetary assets, if the taxable gain will probably be rolled over.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Value added tax

The Group charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. The Group has two VAT Shelter Agreements in place; as a result, the VAT incurred on first time works on the social housing properties stock improvement programme is recoverable. The balance of VAT payable or recoverable at the year-end is included as a current liability or asset.

Loan interest costs

Interest payable is charged to the Statement of Comprehensive Income in the year. No interest is capitalised.

Pensions

The Group participates in three funded multi-employer defined benefit schemes, the Social Housing Pension Scheme ('SHPS'), the Northumberland County Council Pension Fund ('NCCPF') and the Durham County Council Pension Scheme ('DCCPF').

In the prior year there was a change in the accounting treatment of the SHPS pension scheme as it was possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The initial recognition of the SHPS multi-employer defined benefit scheme was disclosed in other comprehensive income. The operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities, are recognised in the accounting period in which they arise. The operating costs, finance costs and expected return on assets are recognised in the Statement of Comprehensive Income along with any other changes in fair value of assets and liabilities.

For the NCCPF and DCCPF, the operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities, are recognised in the accounting period in which they arise. The operating costs, finance costs and expected return on assets are recognised in the Statement of Comprehensive Income along with any other changes in fair value of assets and liabilities.

Supporting People

Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with administering authorities.

Business combinations

A combination in which the controlling parties of the combining entities have come together in a partnership for the mutual sharing of risks and benefits and in which no party to the combination in substance obtained control over any other, or has been otherwise seen to be dominant, is accounted for as a merger.

Acquisitions of other entities in the social housing sector that are in substance a gift are treated as non-reciprocal transfers where the substance of the transaction is gifting control of one entity to another. These are also known as non-exchange transactions. In this case the fair value of the gifted assets and liabilities are recognised as a gain or loss in the Statement of Comprehensive Income in the year of the transaction.

Joint ventures and associates

An entity is treated as a joint venture where the Group holds an interest and shares control under a contractual arrangement with one or more parties external to the Group.

An entity is treated as an associated undertaking where the Group has a participating interest and exercises significant influence over its operating and financial policies.

In the Group financial statements, joint ventures are accounted for using the equity method. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the associate. The consolidated Statement of Comprehensive Income indicates the Group's share of the joint venture's turnover and includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated Statement of Financial Position, the Group's share of the identifiable gross assets (including any amortised premium paid on acquisition) and its share of the gross liabilities attributable to its joint venture are shown separately.

Housing properties
Housing properties are principally properties available for rent and are stated at cost less accumulated depreciation. Cost includes the cost of acquiring land and buildings, development costs and expenditure incurred in respect of improvements.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements. Such capital expenditure is subsequently subject to the application of the depreciation policy whereby the accumulated cost (less any residual values) of the capital asset is reduced over the useful life of the asset.
All other expenditure incurred in respect of general repairs to the housing stock is charged to the Statement of Comprehensive Income in the year in which it is incurred.

Shared ownership properties are split proportionally between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover and the remaining element is classed as fixed asset and included in housing properties at cost, less any provisions needed for depreciation or impairment.
Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction.

Social housing grants
Social housing grant (SHG) is receivable from Homes England and is used to reduce the capital costs of housing properties, including land costs. Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. SHG received for items of cost written off in the Statement of Comprehensive Income is included as part of turnover.

SHG must be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, SHG is credited to Recycled Capital Grant Fund in creditors in the Statement of Financial Position and can be used for projects approved by Homes England.

However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

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

Stock transactions
Where an agreement is entered into with another social landlord to purchase housing properties from one another in return for non-monetary assets or a combination of non-monetary assets and monetary assets, the outgoing stock is treated as a disposal with a gain/loss recorded in profit or loss. The incoming stock is measured at fair value.

Where there is a government grant associated with the housing properties that are part of the stock transaction, the fair value of the obligation to repay or recycle the government grant is reflected in the fair value of the housing properties and therefore no additional value should be attributable to the government grant transferred.

Donated land
Land donated by local authorities and others is added to cost at the market value of the land at the time of the donation.

Investment properties
Housing properties held as investments are stated at valuation on the Statement of Financial Position. The aggregate surplus or deficit arising on the valuation is accounted for through the Statement of Comprehensive Income.
Each property is subject to a year-end valuation to establish the fair value. Permanent deficits on individual investment properties are charged to the Statement of Comprehensive Income.

Disposal proceeds fund
From 1 April 2017, the disposal proceeds fund (DPF) no longer exists; from this date any grant on disposal has been credited into the Recycling of Capital Grant Fund, while the remaining creditor on the fund will be carried forward until it has been fully depleted in funding the acquisition of new social housing. In accordance with paragraph 2 of The Accounting Direction for Private Registered Providers of Social Housing 2019, the DPF scheme will operate until 6 April 2020; however permission has been given by Homes England for the remaining grant to be used in 2020/21.

Current asset investments
Investments are held at market value.

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

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

Other grants include Gap Funding received from Homes England, and have been used to reduce the capital costs of works to housing properties.

Depreciation of housing properties
The Group separately identifies the major components which comprise its housing properties, and charges depreciation, so as to write-down the cost of each component to its estimated residual value, on a straight-line basis, over its estimated useful economic life.
Where a housing property comprises two or more major components with substantially different useful lives (UELs), each component is accounted for separately and depreciated over its UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred. Depreciation charges are part of the Group's running costs and are recognised in the Statement of Comprehensive Income over the useful life of the asset. The Group depreciates the major components of its housing properties held for letting at the following lifespan and annual rates:

	Years
Structure	30 -125
Groundworks	0 – 100
Roofs	30 - 65
Flat roofs	20
External works	0 - 50
Kitchens	20 - 25
Bathrooms	25 - 33
Internal other	0 - 40
Windows	30
Doors	0 - 30
Garages/outbuildings	0 - 30
Disabled adaptations	0 - 30

	Years
Mechanical other	0 - 30
Heating systems	15 - 30
Rewires	25 - 40
Boilers systems	15 - 23
Communal lifts	25
Communal boilers	20
Fire risk works	10

Freehold land is not depreciated. Properties held on leases are amortised over the life of the lease or their estimated useful economic lives in the business, if shorter.

Impairment
Assets are reviewed for impairment if there is an indication that impairment may have occurred. Indicators considered include external sources of information such as market value, actual or proposed changes to technological, economic or legal environment, obsolescence or damage to the asset, operational changes or internal reporting indicates that the asset is performing worse than expected. Where there is evidence of impairment, fixed assets are written down to their recoverable amount. Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. Any such write down is charged to operating surplus.

Positive and negative goodwill
On acquisition, the recognised assets and liabilities of the acquired asset or entity will be measured at a fair value that reflects the conditions at the date of the acquisition. Positive or negative goodwill that arises will be treated as a gain or loss to the Statement of Comprehensive Income in the year the transaction occurs.

Current asset investments
Investments are held at market value.

Other tangible fixed assets
Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

	Years
Freehold buildings	10 - 100
Long leasehold property	Over life of lease
Furniture, fixtures and fittings	5 - 10
Computers and office equipment	3 - 4
Motor vehicles	3 - 5
Plant and equipment	5
Fire alarm upgrades	15

Leased assets
Rentals payable under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term.

Properties held for sale
Properties developed for outright sale, shared ownership first tranche sales and properties under construction are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

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

Short-term debtors and creditors
Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

Liquid resources
Liquid resources are readily disposable current asset investments. They include investments held for more than 24 hours, which can only be withdrawn without penalty on maturity or by giving notice of more than one working day. These are shown as cash within the Statement of Financial Position.

Provisions
The Group only provides for contractual liabilities.

Financial instruments
Financial assets measured at amortised cost comprise cash and cash equivalents, investments, trade debtors, other debtors, accrued income and amounts owed by association undertakings. Financial liabilities measured at amortised cost comprise bank loans, trade creditors and other creditors.

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

Loan breakage costs
Any breakage costs which are not cash settled when first incurred are included in lenders' future margins and are therefore paid over the remaining life of the loan. The breakage cost is provided for in the Statement of Comprehensive Income when first incurred and released over the life of the loan with the effect of reducing future year interest payable charges accordingly.

Loan prepayment
The Group's debt has been treated as "basic" in accordance with paragraphs 11.8 and 11.9 of FRS 102. The Group has some fixed rate loans which have a two-way break clause (i.e. in addition to compensation being payable by a borrower to a lender if a loan is prepaid where the prevailing fixed rate is lower than the existing loan's fixed rate, compensation could be payable by the lender to the borrower in the event that a loan is prepaid and the prevailing fixed rate is higher than the existing loan's fixed rate). The Group has treated these loans as basic in accordance with paragraph 11.9 (c).

Restricted reserve
The Group holds a restricted reserve which relates to a gift received to fund the building of six housing units for aged persons. This reserve has been utilised in accordance with the wishes of the funder. Movements in reserves are shown in the Consolidated Statement of Changes in Equity.

Revenue reserves
There are several reasons why the Group needs to generate reserves:

- to provide a cushion against risk and uncertainty of future operations
- to finance future major repairs and improvements; and
- to provide internal subsidy for new homes and property development.

Due to the reduction in social housing grant (SHG) and other capital grants available to the sector over recent years, the Group needs to commit more of their reserves to financing investment in new homes and larger maintenance programmes. This approach not only enables greater investment, but it also reduces interest costs as further loans can be kept to a minimum.

3. Turnover, cost of sales, operating expenditure and operating surplus

GROUP

	2020 Group			
	Turnover	Cost of sales	Operating expenditure	Operating surplus
	£'000	£'000	£'000	£'000
Social housing lettings Note 3(a)	118,118	-	(83,913)	34,205
Other social housing activities				
Development services	1,297	(1,145)	(948)	(796)
Support services	1,812	-	(2,172)	(360)
Community investment	194	-	(2,568)	(2,374)
First tranche shared ownership sales	3,287	(2,644)	(251)	392
Other	2,392	-	(1,551)	841
	8,982	(3,789)	(7,490)	(2,297)
Non-social housing activities				
Other rental income	512	-	(149)	363
Properties developed for outright sale	2,328	(2,013)	(71)	244
Market rentals	2,765	(340)	(328)	2,097
External services	3,215	(2,839)	(494)	(118)
Other	13	-	(151)	(138)
	8,833	(5,192)	(1,193)	2,448
Total before sale of property	135,933	(8,981)	(92,596)	34,356
Sale of housing properties	6,985	(2,719)	-	4,266
	142,918	(11,700)	(92,596)	38,622

	2019 Group			
	Turnover	Cost of sales	Operating expenditure Restated	Operating surplus Restated
	£'000	£'000	£'000	£'000
Social housing lettings Note 3(a)	116,390	-	(85,054)	31,336
Other social housing activities				
Development services	927	(763)	(569)	(405)
Support services	1,491	-	(2,248)	(757)
Community investment	16	-	(2,391)	(2,375)
First tranche shared ownership sales	921	(532)	(23)	366
Other	2,333	-	(1,318)	1,015
	5,688	(1,295)	(6,549)	(2,156)
Non-social housing activities				
Other rental income	474	-	(68)	406
Properties developed for outright sale	699	(701)	-	(2)
Market rentals	2,809	(167)	(320)	2,322
External services	2,879	(2,570)	(307)	2
Other	487	(42)	(512)	(67)
	7,348	(3,480)	(1,207)	2,661
Total before sale of property	129,426	(4,775)	(92,810)	31,841
Sale of housing properties	3,864	(2,167)	-	1,697
	133,290	(6,942)	(92,810)	33,538

The classification of prior year operating costs into activities has been restated for consistency with 2020.

3. Turnover, cost of sales, operating expenditure and operating surplus (continued)

ASSOCIATION

	2020 Association			
	Turnover	Cost of sales	Operating expenditure	Operating surplus
	£'000	£'000	£'000	£'000
Social housing lettings Note 3(a)	113,145	-	(79,821)	33,324
Other social housing activities				
Development services	144	-	(944)	(800)
Support services	1,782	-	(2,142)	(360)
Community investment	194	-	(2,568)	(2,374)
First tranche shared ownership sales	3,081	(2,545)	(251)	285
Other	2,856	-	(1,980)	876
	8,057	(2,545)	(7,885)	(2,373)
Non-social housing activities				
Other rental income	319	-	(81)	238
Properties developed for outright sale	1,954	(1,704)	(71)	179
Market rentals	-	-	-	-
External services	8,454	(8,450)	(121)	(117)
Other	11	-	(45)	(34)
	10,738	(10,154)	(318)	266
Total before sale of property	131,940	(12,699)	(88,024)	31,217
Sale of housing properties	4,860	(2,120)	(87)	2,653
	136,800	(14,819)	(88,111)	33,870

	2019 Association			
	Turnover	Cost of sales	Operating expenditure Restated	Operating surplus Restated
	£'000	£'000	£'000	£'000
Social housing lettings Note 3(a)	110,899	-	(80,336)	30,563
Other social housing activities				
Development services	206	-	(566)	(360)
Support services	1,461	-	(2,218)	(757)
Community investment	16	-	(2,391)	(2,375)
First tranche shared ownership sales	519	(302)	(23)	194
Other	2,881	-	(1,883)	998
	5,083	(302)	(7,081)	(2,300)
Non-social housing activities				
Other rental income	284	-	-	284
Properties developed for outright sale	-	-	-	-
Market rentals	-	-	-	-
External services	7,237	(7,235)	-	2
Other	305	-	(100)	205
	7,826	(7,235)	(100)	491
Total before sale of property	123,808	(7,537)	(87,517)	28,754
Sale of housing properties	3,599	(1,891)	-	1,708
	127,407	(9,428)	(87,517)	30,462

The classification of prior year operating costs into activities has been restated for consistency with 2020.

3. (a) Turnover, cost of sales, operating expenditure and operating surplus (continued)

GROUP - Particulars of income and expenditure from social housing lettings

	2020				2019
	General housing	**Supported and sheltered housing**	**Shared Ownership**	**Total**	**Total Restated**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Turnover from social housing lettings					
Rent receivable net of identifiable service charges and net of voids	92,100	7,826	1,175	101,101	99,622
Service charges income	7,145	2,582	639	10,366	10,190
Net rental income	99,245	10,408	1,814	111,467	109,812
Revenue grants	756	65	-	821	657
Amortised government grants	4,801	154	6	4,961	5,121
Other income	838	28	3	869	800
Turnover from social housing lettings	105,640	10,655	1,823	118,118	116,390
Management	(13,622)	(2,353)	(307)	(16,282)	(13,784)
Services	(9,734)	(2,469)	(269)	(12,472)	(12,715)
Routine maintenance	(22,108)	(1,446)	(33)	(23,587)	(22,747)
Planned maintenance	(6,970)	(1,985)	(200)	(9,155)	(13,799)
Major repairs	-	-	-	-	-
Bad debts	(958)	(168)	2	(1,124)	(1,011)
Depreciation of housing properties	(21,265)	(264)	(25)	(21,554)	(20,977)
Impairment of housing properties	231	-	-	231	(51)
Impairment of freehold property	30	-	-	30	30
Operating expenditure on social housing lettings	(74,396)	(8,685)	(832)	(83,913)	(85,054)
Operating surplus on social housing lettings	31,244	1,970	991	34,205	31,336
Void losses	1,797	444	2	2,243	2,113

3. (a) Turnover, cost of sales, operating expenditure and operating surplus (continued)

ASSOCIATION - Particulars of income and expenditure from social housing lettings

	2020				2019
	General housing	Supported and sheltered housing	Shared Ownership	Total	Total Restated
	£'000	£'000	£'000	£'000	£'000
Turnover from social housing lettings					
Rent receivable net of identifiable service charges and net of voids	89,909	6,246	1,038	97,193	95,602
Service charges income	7,033	2,027	586	9,646	9,454
Net rental income	96,942	8,273	1,624	106,839	105,056
Revenue grants	756	-	-	756	504
Amortised government grants	4,696	-	-	4,696	4,546
Other income	837	14	3	854	793
Turnover from social housing lettings	103,231	8,287	1,627	113,145	110,899
Management	(13,144)	(1,771)	(256)	(15,171)	(12,726)
Services	(9,557)	(2,034)	(255)	(11,846)	(11,935)
Routine maintenance	(21,789)	(1,160)	(15)	(22,964)	(21,493)
Planned maintenance	(6,704)	(1,794)	(187)	(8,685)	(13,799)
Major repairs	-	-	-	-	-
Bad debts	(951)	(141)	2	(1,090)	(966)
Depreciation of housing properties	(20,326)	-	-	(20,326)	(19,396)
Impairment of housing properties	231	-	-	231	(51)
Impairment and other lease costs	30	-	-	30	30
Operating expenditure on social housing lettings	(72,210)	(6,900)	(711)	(79,821)	(80,336)
Operating surplus on social housing lettings	31,021	1,387	916	33,324	30,563
Void losses	1,767	324	1	2,092	1,991

4. Accommodation in management and development

At the end of the year accommodation in management for each class of accommodation was as follows:

	Group 2020 No.	2019 Restated No.	Association 2020 No.	2019 No.
Social housing				
General housing - social rent	20,791	20,861	20,409	20,479
General housing - affordable rent	2,433	2,068	2,318	1,895
Supported and housing for older people - social rent	1,299	1,300	1,104	1,105
Supported and housing for older people - affordable rent	299	301	299	301
Low cost home ownership	618	550	552	489
Non social				
Market rented	491	453	32	14
Student housing	27	27	-	-
Temporary accommodation	24	24	-	-
Owned and managed by others	344	370	410	446
Total owned	26,326	25,954	25,124	24,729
Accommodation managed for others	118	147	23	37
Total owned and managed	26,444	26,101	25,147	24,766
Leasehold units	753	743	743	733
Total	27,197	26,844	25,890	25,499

The Association movement during the year comprised 481 units developed and acquired, 85 units sold to an external party, less 5 reclassifications.

The Group movement during the year comprised 496 units developed and acquired,12 managed units acquired, 90 units sold to an external party, 53 sold to a local authority, less 12 reclassifications. A further 38 units were developed for outright sale.

Prior year group numbers have been restated to include 10 leasehold units not disclosed in the prior year.

5. Operating surplus

This is arrived at after charging:

	Group 2020 £ '000	2019 £ '000	Association 2020 £ '000	2019 £ '000
Depreciation of housing properties	20,573	19,826	19,842	18,714
Depreciation of housing properties - write off fair value	469	469	-	-
Depreciation of housing properties - write off on replacement	524	682	484	682
Amortisation of deferred capital grant	(4,947)	(5,115)	(4,679)	(4,540)
Amortisation of deferred grant - write off on replacement	(17)	(6)	(17)	(6)
Impairment of housing properties	(231)	51	(231)	51
Impairment of freehold property	(30)	(30)	(30)	(30)
Depreciation of other tangible fixed assets	1,807	1,630	1,556	1,386
Operating lease rentals:				
- land and buildings	519	538	395	401
- office equipment, computers and motor vehicles	1,374	1,262	1,374	1,262
Auditors' remuneration (excluding VAT):				
- audit of the Group financial statements	45	45	45	45
- audit of subsidiaries	19	18	-	-
Fees payable to the company's auditor and its associates for other services				
- service charge certification	7	7	7	7
- other	-	23	-	23

6. Surplus on sale of fixed assets – housing properties

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
Proceeds from sale of properties	6,985	3,864	4,860	3,599
Less:				
Net book value of properties	(5,347)	(2,010)	(1,955)	(1,734)
Proceeds to be returned to local authorities	(230)	(102)	(73)	(102)
Grant written off on disposal	3,218	392	172	392
Recyclable grants on disposal	(109)	(144)	(109)	(144)
Administration charges	(251)	(303)	(242)	(303)
Net surplus from sale of properties	4,266	1,697	2,653	1,708

7. Interest receivable and other income

	Group 2020 £ '000	2019 £'000	Association 2020 £ '000	2019 £'000
Interest receivable and other income	458	335	2,488	2,316

8. Interest payable and similar charges

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
On bank loans and other loans	16,643	14,959	15,612	13,917
Loan breakage costs	(63)	2,601	(63)	2,601
Loan non-utilisation fees	672	465	648	465
Interest on RCGF	20	17	16	10
	17,272	18,042	16,213	16,993

9. Employees

Average monthly number of employees expressed in full time equivalents (calculated based on a standard working week of 37 hours):

	Group 2020 No.	2019 No.	Association 2020 No.	2019 No.
Housing management, repairs and asset management	611	588	593	571
Administration, finance and other	129	119	126	114
Development	17	14	17	14
Housing support and care	39	39	32	32
	796	760	768	731

The full-time equivalent number of key management personnel who received remuneration:

	2020 No.	2019 No.
£60,001 to £70,000	-	1
£70,001 to £80,000	5	10
£80,001 to £90,000	6	3
£90,001 to £100,000	2	1
£100,001 to £110,000	2	1
£110,001 to £120,000	-	-
£120,001 to £130,000	-	1
£130,001 to £140,000	1	2
£140,001 to £150,000	1	-
£150,001 to £160,000	-	-
£160,001 to £170,000	1	-
£170,001 to £180,000	1	1

The full-time equivalent number of key management personnel includes the salaries of two York Housing Association employees.

9. Employees (continued)

Employee costs:	Group		Association	
		Restated		Restated
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Wages and salaries	25,803	23,764	24,963	22,924
Social security costs	2,786	2,461	2,698	2,377
Other pension costs	4,339	2,710	4,123	2,532
	32,928	28,935	31,784	27,833
Redundancy costs	146	7	143	-
	33,074	28,942	31,927	27,833

Prior year costs have been restated to disclose apprentice levy costs consistently with the current year. At March 2020 £nil was outstanding in respect of unpaid pension contributions.

Pension schemes

The Group's employees are members of the Social Housing Pension Scheme (SHPS), Northumberland County Council Pension Fund (NCCPF), Durham County Council Pension Fund (DCCPF) or the Social Housing Pension - defined contribution scheme. The nature of each defined benefit scheme is detailed below.

In the previous year there had been a change in the accounting treatment of the SHPS pension scheme when it became possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The initial recognition of the SHPS multi-employer defined benefit scheme was disclosed in other comprehensive income. The operating costs of providing retirement benefits to participating employees were recognised in the accounting periods in which the benefits were earned. The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities, were recognised in the accounting period in which they arose. The operating costs, finance costs and expected return on assets were recognised in the Statement of Comprehensive Income along with any other changes in fair value of assets and liabilities.

The income and expenditure charge represents the employer contributions payable to the scheme for the accounting period.

9. Employees (continued)

Social Housing Pension Scheme (Karbon Homes Limited)

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

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

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

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

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

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

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

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

The employers' contributions to SHPS by the Association for the period ended 31 March 2020 were £830,842 (2019: £664,522). Contribution rates were charged at 8.35% SHPS CARE and 10.3% SHPS Final Salary up until 30 June 2019 where upon the rates increased to 11.05% CARE and 13.6% Final Salary (2019: 8.35% and 10.3% respectively) of pensionable pay. These amounts have been charged to operating costs.

9. Employees (continued)

Financial assumptions used by the actuary

	31 March 2020	31 March 2019
	% pa	% pa
Discount rate	2.35	2.35
RPI inflation	2.56	3.25
CPI inflation	1.56	2.25
Rate of general increase in salaries	2.56	3.25

Mortality assumptions

The post-retirement mortality assumptions used to value the benefit obligation at March 2020 included the following life expectancies at age 65:

	2020 No. of years	2019 No. of years
Retiring today:		
Males	21.5	21.8
Females	23.3	23.5
Retiring in 20 years:		
Males	22.9	23.2
Females	24.5	24.7

Actual return on plan assets

	Year ended 31 March 2020	Year ended 31 March 2019
	£ '000	£ '000
Actual return on plan assets	1,589	2,128

Reconciliation of funded status to balance sheet

	As at 31 March 2020	As at 31 March 2019
	£ '000	£ '000
Notional value of assets	39,801	36,400
Present value of liabilities	(45,802)	(49,265)
Deficit	(6,001)	(12,865)

9. Employees (continued)

Changes in the present value of defined benefit obligation

	Year ended 31 March 2020	Year ended 31 March 2019
	£ '000	£ '000
Opening present value of liabilities	49,265	43,486
Current service cost	1,490	1,240
Interest cost on defined benefit obligation	1,176	1,144
Contributions by participants	813	657
Actuarial losses/(gains) on liabilities	607	(56)
Net benefits paid out	(943)	(834)
Expenses	34	30
Changes in assumptions underlying the present value of the scheme liabilities	(6,640)	3,598
Closing present value of liabilities	45,802	49,265

Changes in the fair value of assets

	Year ended 31 March 2020	Year ended 31 March 2019
	£ '000	£ '000
Opening fair value of assets	36,400	32,884
Interest income on assets	878	872
Re-measurement gains on assets	711	1,256
Contributions by the employer	1,942	1,565
Contributions by participants	813	657
Net benefits paid out	(943)	(834)
Closing fair value of assets	39,801	36,400

Analysis of the amount credited to the Statement of Comprehensive Income

	Year ended 31 March 2020	Year ended 31 March 2019
	£ '000	£ '000
Current service cost	(1,490)	(1,240)
Contributions by employer	1,942	1,565
Expenses	(34)	(30)
Total income	418	295

9. Employees (continued)

Analysis of the amount debited to other finance income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Interest income on assets	878	872
Interest on pension scheme liabilities	(1,176)	(1,144)
	(298)	(272)

Amounts for the current and previous periods are as follows

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Present value of liabilities	(45,802)	(49,265)	(43,486)
Fair value of assets	39,801	36,400	32,884
Deficit on the scheme	(6,001)	(12,865)	(10,602)

Analysis of amount recognised in other comprehensive income (OCI)

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Actuarial gain in other comprehensive income	104	1,312
Actuarial gain/(loss) due to changes in the assumptions underlying the present value of scheme liabilities	6,640	(3,598)
Cumulative actuarial gain/(loss) recognised in OCI	6,744	(2,286)

9. Employees (continued)

Movement in net pension liability

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Group share of scheme assets and liabilities at beginning of period	(12,865)	(10,602)
Contributions paid	1,942	1,565
Current service cost	(1,490)	(1,240)
Interest income on assets	878	872
Interest on pension scheme liabilities	(1,176)	(1,144)
Other expenses	(34)	(30)
Actuarial gain/(loss)	6,744	(2,286)
Net deficit at 31 March	(6,001)	(12,865)

Social Housing Pension Scheme (York Housing Association Limited)

York Housing Association has both a defined benefit and defined contribution scheme, however it is only the defined contribution scheme which is active. The employer rate payable is 4% but matches the employee rate actually paid up to 9.6%.

York Housing Association Limited also participates in the SHPS Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 500 non-associated employers. The Scheme is a defined benefit scheme in the UK. The defined benefit scheme is not open to new members and the benefits accruing to its members were frozen in 2016 and accordingly there are no ongoing salary based contributions.

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

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

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

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

9. Employees (continued)

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

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

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

The employers' contributions to SHPS by the Association for the period ended 31 March 2020 were £43k. These amounts have been charged to operating costs.

Financial assumptions used by the actuary

	31 March 2020 % pa	31 March 2019 % pa
Discount rate	2.39	2.29
RPI inflation	2.65	3.30
CPI inflation	1.65	2.30
Rate of general increase in salaries	2.65	3.30

Mortality assumptions

The post-retirement mortality assumptions used to value the benefit obligation at March 2020 included the following life expectancies at age 65:

	2020 No. of years	2019 No. of years
Retiring today:		
Males	21.5	21.8
Females	23.3	23.5
Retiring in 20 years:		
Males	22.9	23.2
Females	24.5	24.7

Actual return on plan assets

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Actual return on plan assets	172	166

9. Employees (continued)

Reconciliation of funded status to balance sheet

	As at 31 March 2020 £ '000	As at 31 March 2019 £ '000
Notional value of assets	4,400	4,212
Present value of liabilities	(4,994)	(5,640)
Deficit	(594)	(1,428)

Changes in the present value of defined benefit obligation

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Opening present value of liabilities	5,640	5,233
Interest cost on defined benefit obligation	128	131
Actuarial losses on liabilities	18	68
Net benefits paid out	(133)	(130)
Expenses	7	6
Changes in assumptions underlying the present value of the scheme liabilities	(666)	332
Closing present value of liabilities	4,994	5,640

Changes in the fair value of assets

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Opening fair value of assets	4,212	4,041
Interest income on assets	97	103
Re-measurement gains on assets	75	63
Contributions by the employer	149	135
Net benefits paid out	(133)	(130)
Closing fair value of assets	4,400	4,212

9. Employees (continued)

Analysis of the amount credited to the Statement of Comprehensive Income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Contributions by employer	149	135
Expenses	(7)	(6)
Total income	142	129

Analysis of the amount debited to other finance income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Interest income on assets	97	103
Interest on pension scheme liabilities	(128)	(131)
	(31)	(28)

Amounts for the current and previous periods are as follows

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000	Year ended 31 March 2018 £ '000
Present value of liabilities	(4,994)	(5,640)	(5,233)
Fair value of assets	4,400	4,212	4,041
Deficit on the scheme	(594)	(1,428)	(1,192)

Analysis of amount recognised in other comprehensive income (OCI)

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Actuarial gain/(loss) in other comprehensive income	57	(5)
Actuarial gain/(loss) due to changes in the assumptions underlying the present value of scheme liabilities	666	(332)
Actuarial gain/(loss) recognised in OCI	723	(337)

9. Employees (continued)

Movement in net pension liability

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Group share of scheme assets and liabilities at beginning of period	(1,428)	(1,192)
Contributions paid	149	135
Interest income on assets	97	103
Interest on pension scheme liabilities	(128)	(131)
Other expenses	(7)	(6)
Actuarial gain/(loss)	723	(337)
Net deficit at 31 March	(594)	(1,428)

Northumberland County Council Pension Fund (former Isos Housing)

The Association participates in the Northumberland County Council Pension Fund (NCCPF). This is a multi-employer scheme, administered by Northumberland County Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The most recent formal actuarial valuation of the scheme was at 31 March 2019 and rolled forward to 31 March 2020 by a qualified independent actuary.

GMP equalisation and indexation

The actuaries have allowed for full pension increases to be paid on GMPs to individuals reaching state pension age after 6 April 2016. If this was not allowed for in previous years, any increase in liability at this accounting date has been charged through other comprehensive income.

McCloud judgement

These figures include the impact of the McCloud judgement. Last year the Association recognised a potential liability within its general provisions but not in the 2019 pension note. The liability calculated this year is lower than the indicative figure provided last year due to a change in the salary increase assumption and by no longer using the 'worst case' figures set out by the Government Actuary's Department.

The past service cost has been calculated at £50k which has been recognised at 1 April 2019. Interest has been added to this cost over the year within the past service cost. Current service cost includes a prospective allowance for liabilities of 1.99% of pensionable pay over the accounting period.

9. Employees (continued)

The employers' contributions to the NCCPF by the Association for the period ended 31 March 2020 were £103,607 (2019: £115,847) at contribution rates of 29.6% (2019: 29.6%) of pensionable pay. These amounts have been charged to operating costs.

Estimated employers' contributions to the NCCPF during the accounting period commencing 1 April 2020 are £390,000.

Financial assumptions used by the actuary

	31 March 2020 % pa	31 March 2019 % pa
Discount rate	2.3	2.4
CPI inflation	2.0	2.2
Rate of increase in pensions payment	2.0	2.2
Rate of general increase in salaries	3.5	3.7
Pension accounts revaluation rate	2.0	2.2

Mortality assumptions

The mortality assumptions are based on actual mortality experience of members within the fund based on analysis carried out as part of the 2019 actuarial valuation and allow for expected future mortality improvements. Post-retirement mortality assumptions used to value the benefit obligation at March 2020 and March 2019 included the following life expectancies at age 65:

	2020 No. of years	2019 No. of years
Retiring today:		
Males	22.2	22.2
Females	24.6	24.1
Retiring in 20 years:		
Males	23.2	23.9
Females	26.0	25.9

Actual return on plan assets

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Actual return on plan assets	(1,530)	1,250

9. Employees (continued)

Reconciliation of funded status to balance sheet

	As at 31 March 2020 £ '000	As at 31 March 2019 £ '000
Notional value of assets	13,160	15,080
Present value of liabilities	(15,090)	(16,070)
Deficit	(1,930)	(990)

Changes in the present value of defined benefit obligation:

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Opening present value of liabilities	16,070	15,710
Current service cost	150	140
Interest cost on defined benefit obligation	380	400
Contributions by participants	20	30
Actuarial (gains)/losses on liabilities	(890)	170
Net benefits paid out	(700)	(380)
Past service costs	60	-
Closing present value of liabilities	15,090	16,070

Changes in the fair value of assets

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Opening fair value of assets	15,080	13,880
Interest income on assets	360	360
Re-measurement (losses)/gains on assets	(1,890)	890
Contributions by the employer	290	300
Contributions by participants	20	30
Net benefits paid out	(700)	(380)
Closing fair value of assets	13,160	15,080

9. Employees (continued)

Analysis of the amount credited to the Statement of Comprehensive Income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Current service cost	(150)	(140)
Contributions by employer	290	300
Past service costs	(60)	-
Total income	80	160

Analysis of the amount debited to other finance income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Interest income on assets	360	360
Interest on pension scheme liabilities	(380)	(400)
	(20)	(40)

Amounts for the current and previous periods are as follows

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Present value of liabilities	(15,090)	(16,070)	(15,710)	(15,440)	(13,480)
Fair value of assets	13,160	15,080	13,880	13,630	11,080
Deficit on the scheme	(1,930)	(990)	(1,830)	(1,810)	(2,400)
Experience adjustments on plan assets	(1,890)	890	(70)	2,170	(460)

9. Employees (continued)

Analysis of amount recognised in other comprehensive income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Actuarial (loss)/gain in other comprehensive income	(1,000)	720

Movement in net pension liability

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Group share of scheme assets and liabilities at beginning of period	(990)	(1,830)
Contributions paid	290	300
Current service cost	(150)	(140)
Past service cost	(60)	-
Interest income on assets	360	360
Interest on pension scheme liabilities	(380)	(400)
Actuarial (loss)/gain	(1,000)	720
Net deficit at 31 March	(1,930)	(990)

Durham County Council Pension Fund (former Cestria)

The Association participates in the Durham County Council Pension Fund (DCCPF). This is a multi-employer scheme, administered by Durham County Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The most recent formal actuarial valuation of the scheme was at 31 March 2019 and rolled forward to 31 March 2020 by a qualified independent actuary.

GMP equalisation and indexation

The actuaries have allowed for full pension increases to be paid on GMPs to individuals reaching state pension age after 6 April 2016. If this was not allowed for in previous years, any increase in liability at this accounting date has been charged through other comprehensive income.

McCloud judgement

These figures include the impact of the McCloud judgement. Last year the Association recognised a potential liability within its general provisions but not in the 2019 pension note. The liability calculated this year is lower than the indicative figure provided last year due to a change in the salary increase assumption and by no longer using the 'worst case' figures set out by the Government Actuary's Department.

9. Employees (continued)

The past service cost has been calculated at £210k which has been recognised at 1 April 2019. Interest has been added to this cost over the year within the past service cost. Current service cost includes a prospective allowance for liabilities of 0.96% of pensionable pay over the accounting period.

The employers' contributions to the DCCPF by the Association for the period ended 31 March 2020 were £632,724 (2019: £597,146) at contribution rates of 21.6% (2019: 20%) of pensionable pay.

Estimated employers' contributions to the DCCPF during the accounting period commencing 1 April 2020 are £317,000.

Financial assumptions used by the actuary

	31 March 2020	31 March 2019
	% pa	% pa
Discount rate	2.3	2.5
CPI inflation	1.9	2.1
Rate of increase in pensions payment	1.9	2.1
Rate of general increase in salaries	2.9	3.6
Pension accounts revaluation rate	1.9	2.1

Mortality assumptions

The mortality assumptions are based on actual mortality experience of members within the fund based on analysis carried out as part of the 2019 actuarial valuation and allow for expected future mortality improvements. Post-retirement mortality assumptions used to value the benefit obligation at March 2020 and March 2019 included the following life expectancies at age 65:

	2020 No. of years	2019 No. of years
Retiring today:		
Males	22.2	22.6
Females	24.2	24.1
Retiring in 20 years:		
Males	23.2	24.3
Females	25.7	25.9

Actual return on plan assets

	Year ended 31 March 2020	Year ended 31 March 2019
	£ '000	£ '000
Actual return on plan assets	(1,430)	1,720

9. Employees (continued)

Reconciliation of funded status to balance sheet

	As at 31 March 2020	As at 31 March 2019
	£ '000	£ '000
Notional value of assets	22,520	23,350
Present value of liabilities	(29,090)	(31,950)
Deficit	(6,570)	(8,600)

Changes in the present value of defined benefit obligation:

	Year ended 31 March 2020	Year ended 31 March 2019
	£ '000	£ '000
Opening present value of liabilities	31,950	29,960
Current service cost	1,030	1,180
Interest cost	800	780
Contributions by participants	200	210
Actuarial losses on liabilities	(4,760)	180
Net benefits paid out	(340)	(360)
Past service cost	210	-
Closing present value of liabilities	29,090	31,950

Changes in the fair value of assets

	Year ended 31 March 2020	Year ended 31 March 2019
	£ '000	£ '000
Opening fair value of assets	23,350	21,150
Expected return on assets	590	560
Actuarial (losses)/gains on assets	(2,020)	1,160
Contributions by the employer	740	630
Contributions by participants	200	210
Net benefits paid out	(340)	(360)
Closing fair value of assets	22,520	23,350

9. Employees (continued)

Analysis of the amount debited to the Statement of Comprehensive Income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Current service cost	(1,030)	(1,180)
Contributions by employer	740	630
Past service costs	(210)	-
Total income	(500)	(550)

Analysis of the amount debited to other finance income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Interest income on assets	590	560
Interest on pension scheme liabilities	(800)	(780)
	(210)	(220)

Amounts for the current and previous periods are as follows

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Present value of liabilities	(29,090)	(31,950)	(29,960)	(28,230)	(19,670)
Fair value of assets	22,520	23,350	21,150	20,500	17,330
Deficit on the scheme	(6,570)	(8,600)	(8,810)	(7,730)	(2,340)

9. Employees (continued)

Analysis of amount recognised in other comprehensive income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Actuarial gain recognised in other comprehensive income	2,740	980

Movement in net pension liability

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Group share of scheme assets and liabilities at beginning of period	(8,600)	(8,810)
Contributions paid	740	630
Current service cost	(1,030)	(1,180)
Past service cost	(210)	-
Interest income on assets	590	560
Interest on pension scheme liabilities	(800)	(780)
Actuarial gain	2,740	980
Net deficit at 31 March	(6,570)	(8,600)

Durham County Council Pension Fund (former Cestria)

The Association participates in the Durham County Council Pension Fund (DCCPF). This is a multi-employer scheme, administered by Durham County Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The most recent formal actuarial valuation of the scheme was at 31 March 2019 and rolled forward to 31 March 2020 by a qualified independent actuary.

GMP equalisation and indexation

The actuaries have allowed for full pension increases to be paid on GMPs to individuals reaching state pension age after 6 April 2016. If this was not allowed for in previous years, any increase in liability at this accounting date has been charged through other comprehensive income.

McCloud judgement

These figures include the impact of the McCloud judgement. Last year the Association recognised a potential liability within its general provisions but not in the 2019 pension note. The liability calculated this year is lower than the indicative figure provided last year due to a change in the salary increase assumption and by no longer using the 'worst case' figures set out by the Government Actuary's Department.

9. Employees (continued)

The past service cost has been calculated at £320k which has been recognised at 1 April 2019. Interest has been added to this cost over the year within the past service cost. Current service cost includes a prospective allowance for liabilities of 1.05% of pensionable pay over the accounting period.

The employers' contributions to the DCCPF by the Association for the period ended 31 March 2020 were £815,801 (2019: £869,039) at contribution rates of 20.2% (2019: 18.8%) of pensionable pay.

Estimated employers' contributions to the DCCPF during the accounting period commencing 1 April 2020 are £439,000.

Financial assumptions used by the actuary

	31 March 2020	31 March 2019
	% pa	% pa
Discount rate	2.3	2.4
CPI inflation	2.0	2.2
Rate of increase in pensions payment	2.0	2.2
Rate of general increase in salaries	3.0	3.7
Pension accounts revaluation rate	2.0	2.2

Mortality assumptions

The mortality assumptions are based on actual mortality experience of members within the fund based on analysis carried out as part of the 2019 actuarial valuation and allow for expected future mortality improvements. Post-retirement mortality assumptions used to value the benefit obligation at March 2020 and March 2019 included the following life expectancies at age 65:

	2020 No. of years	2019 No. of years
Retiring today:		
Males	22.2	22.6
Females	24.2	24.1
Retiring in 20 years:		
Males	23.2	24.3
Females	25.7	25.9

Actual return on plan assets

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Actual return on plan assets	(2,820)	3,600

9. Employees (continued)

Reconciliation of funded status to balance sheet

	As at 31 March 2020 £ '000	As at 31 March 2019 £ '000
Notional value of assets	44,310	47,900
Present value of liabilities	(57,190)	(59,520)
Deficit	(12,880)	(11,620)

Changes in the present value of defined benefit obligation

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Opening present value of liabilities	59,520	56,320
Current service cost	1,530	1,680
Interest cost	1,410	1,440
Contributions by participants	270	340
Actuarial (gains)/losses on liabilities	(3,920)	1,180
Net benefits paid out	(2,090)	(1,920)
Past service cost	470	480
Closing present value of liabilities	57,190	59,520

Changes in the fair value of assets

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Opening fair value of assets	47,900	44,470
Expected return on assets	1,140	1,150
Actuarial (losses)/gains on assets	(3,960)	2,450
Contributions by the employer	1,050	1,410
Contributions by participants	270	340
Net benefits paid out	(2,090)	(1,920)
Closing fair value of assets	44,310	47,900

9. Employees (continued)

Analysis of the amount debited to the Statement of Comprehensive Income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Current service cost	(1,530)	(1,680)
Contributions by employer	1,050	1,410
Past service costs	(470)	(480)
Total income	(950)	(750)

Analysis of the amount debited to other finance income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Interest income on assets	1,140	1,150
Interest on pension scheme liabilities	(1,410)	(1,440)
	(270)	(290)

Amounts for the current and previous periods are as follows

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Present value of liabilities	(57,190)	(59,520)	(56,320)	(53,200)	(42,610)
Fair value of assets	44,310	47,900	44,470	43,870	37,430
Deficit on the scheme	(12,880)	(11,620)	(11,850)	(9,330)	(5,180)

Analysis of amount recognised in other comprehensive income

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Actuarial (loss)/gain recognised in other comprehensive income	(40)	1,270

9. Employees (continued)

Movement in net pension liability

	Year ended 31 March 2020 £ '000	Year ended 31 March 2019 £ '000
Group share of scheme assets and liabilities at beginning of period	(11,620)	(11,850)
Contributions paid	1,050	1,410
Current service cost	(1,530)	(1,680)
Past service cost	(470)	(480)
Interest income on assets	1,140	1,150
Interest on pension scheme liabilities	(1,410)	(1,440)
Actuarial (loss)/gain	(40)	1,270
Net deficit at 31 March	(12,880)	(11,620)

10. Board members and Executive Directors

The emoluments of the non-executive and Executive Directors (including pension contributions), who served during the year were as follows:

		2020 Fee £'s	2019 Fee £'s
Sebert Cox OBE	Group Chairman (to 30 April 2020)	20,000	18,250
Sir David Bell KCB	Group Chairman (from 1 May 2020)	-	-
David Butler	Vice Chair	12,000	12,000
Stephen Moorhouse	Chair - Audit and Risk	11,250	11,000
Kathryn Larkin-Bramley	Chair - Performance	10,000	9,000
Steve Secker	Chair - York (from 19 May 2019)	5,000	-
Janet Whipps	Chair - York (to 19 May 2019)	634	-
Adrian Stanley	Chair - PBH (to 27 January 2020)	11,250	11,000
Adrian Stanley	Ordinary member (from 27 January 2020)	-	-
Hilary Florek	Ordinary member (to 23 September 2019)	4,202	7,000
Maxine Mayhew	Ordinary member	8,405	7,000
Anne Mulroy	Ordinary member	8,405	7,000
Michael Mullaney	Ordinary member (from 25 November 2019)	2,968	-
Barry Scarr	Ordinary member (to 1 August 2018)	-	2,333
Stephen Spill	Ordinary member	8,405	583
Sarah Salter	Ordinary member (from 25 November 2019)	2,968	-
Julie Taylor	Ordinary member (from 25 November 2019)	2,968	-
John Williams	Ordinary member (to 23 September 2019)	4,202	7,000
		112,657	92,166

The Group Chief Executive, who is also a member of the Board, is remunerated as an executive director of Karbon Homes Limited.

10. Board members and Executive Directors (continued)

Executive directors

The aggregate emoluments of the Executive Directors for the year amounted to £798,431 (2019: £666,445) including pension contributions of £50,466 (2019: £40,413). The emoluments of the highest paid director, excluding pension contributions, were £176,690 (2019: £171,100).

During the year, compensation paid or payable to directors for loss of office was £83,725 (2019: £Nil).

The Group Chief Executive is a member of the Social Housing Pension Scheme. He is an ordinary member of the pension scheme and no enhanced or special terms apply. The Association does not make any further contribution to an individual pension arrangement for the Group Chief Executive.

11. Tax on surplus on ordinary activities

	Group 2020 £ '000	2019 £ '000	Association 2020 £ '000	2019 £ '000
Analysis of tax charge/(credit) for the period				
Current tax:				
UK corporation tax on surplus for the year at 19%	68	65	45	13
Adjustments in respect of prior years	(22)	-	-	-
	46	65	45	13
Deferred tax:				
Origination and reversal of timing differences	(13)	9	-	-
Adjustments in respect of prior periods	20	-	-	-
Effect of rate change on opening balance	3	-	-	-
Current year tax charge	56	74	45	13
Prior year tax charge paid	-	52	-	-
Tax on profits on ordinary activities	56	126	45	13

11. Tax on surplus on ordinary activities (continued)

	Group 2020 £ '000	2019 £ '000	Association 2020 £ '000	2019 £ '000
Provision for deferred tax				
Movement in provision:				
Provision at start of period	9	-	-	-
Deferred tax charged in the Statement of Comprehensive Income for the period	10	9	-	-
Provision at end of period	19	9		

	Group 2020 £ '000	2019 £ '000	Association 2020 £ '000	2019 £ '000
Deferred tax asset not recognised	(30)	(65)	-	-
Reconciliation of tax charge				
Surplus on ordinary activities before tax	22,161	6,152	19,729	11,245
Theoretical tax at UK corporation tax rate 19% (2019: 19%)	4,211	1,169	3,748	2,137
Effects of:				
Surplus relating to charitable income	(6,556)	(2,073)	(6,306)	(2,124)
Income not taxable for tax purposes	(153)	-	-	-
Fixed asset differences	(33)	2	-	-
Expenses not deductible for tax purposes	1	974	-	-
Chargeable gains	5	1	-	-
Losses eliminated	2,608	-	2,608	-
Amounts charged/(credited) directly to equity	(16)	(20)	-	-
Group relief (claimed)	-	-	(5)	-
Adjustment to tax charge in respect of prior periods	(22)	-	-	-
Adjustment to tax charge in respect of prior periods deferred tax	20	-	-	-
Adjust closing deferred tax to average rate of 19%	-	(1)	-	-
Adjust opening deferred tax to average rate of 19%	(1)	3	-	-
Deferred tax not recognised	(8)	19	-	-
Current tax charge	56	74	45	13

12. Tangible fixed assets - properties

GROUP - Housing properties

	Social housing properties held for letting	Social housing properties under construction	Shared ownership properties held for letting	Shared ownership properties under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2019	911,119	33,119	28,521	4,980	977,739
Additions	88	62,629	-	4,037	66,754
Additions - newly built properties acquired	161	-	-	-	161
Re-classification adjustment	(540)	1,088	(548)	-	-
Transferred from current assets	203	-	66	-	269
Transferred from subsidiary	1,624	-	-	-	1,624
Transferred to investment properties	(144)	(117)	-	-	(261)
Capitalised planned maintenance	10,615	-	-	-	10,615
Schemes completed	42,719	(42,719)	6,098	(6,098)	-
Disposals - properties	(1,813)	(157)	(584)	(1)	(2,555)
Disposals - write-off on replacement	(1,680)	-	-	-	(1,680)
At 31 March 2020	962,352	53,843	33,553	2,918	1,052,666
Depreciation and impairment					
At 1 April 2019	165,801	-	2,383	-	168,184
Charged in year	20,302	-	271	-	20,573
Impairment released in year	(231)	-	-	-	(231)
Released on transfer to investment properties	(14)	-	-	-	(14)
Transferred from current assets	137	-	-	-	137
Released on disposal - properties	(528)	-	(61)	-	(589)
Released on disposal - replacements	(1,152)	-	(4)	-	(1,156)
Write down of fair value	469	-	-	-	469
At 31 March 2020	184,784	-	2,589	-	187,373
Net book value					
At 31 March 2020	777,568	53,843	30,964	2,918	865,293
At 31 March 2019	745,318	33,119	26,138	4,980	809,555

12. Tangible fixed assets - properties (continued)

ASSOCIATION - Housing properties

	Social housing properties held for letting	Social housing properties under construction	Shared ownership properties held for letting	Shared ownership properties under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2019	863,433	34,314	25,828	4,942	928,517
Additions	88	61,305	-	3,566	64,959
Additions - newly built properties acquired	161	-	-	-	161
Re-classification adjustment	(14)	-	14	-	-
Transferred from subsidiary	1,731	-	-	-	1,731
Transferred to investment properties	(144)	(117)	-	-	(261)
Capitalised planned maintenance	10,482	-	-	-	10,482
Schemes completed	42,067	(42,067)	5,670	(5,670)	-
Disposals - properties	(1,732)	(157)	(500)	(2)	(2,391)
Disposals - write-off on replacement	(1,589)	-	-	-	(1,589)
At 31 March 2020	914,483	53,278	31,012	2,836	1,001,609
Depreciation and impairment					
At 1 April 2019	176,870	-	2,387	-	179,257
Charged in year	19,596	-	246	-	19,842
Impairment released in year	(231)	-	-	-	(231)
Released on transfer to investment properties	(14)	-	-	-	(14)
Released on disposal - properties	(447)	-	(61)	-	(508)
Released on disposal - replacements	(1,105)	-	-	-	(1,105)
At 31 March 2020	194,669	-	2,572	-	197,241
Net book value					
At 31 March 2020	719,814	53,278	28,440	2,836	804,368
At 31 March 2019	686,563	34,314	23,441	4,942	749,260

Impairment

Properties have been impaired where the properties are of non-traditional construction and therefore have a limited life, have a high void rate or it is probable that a plan to regenerate existing properties by demolishing them will go ahead.

	Group 2020	2019	Association 2020	2019
	£'000	£'000	£'000	£'000
At 1 April	1,101	1,050	1,101	1,050
Provided during the year	-	156	-	156
Released during the year	(231)	(105)	(231)	(105)
At 31 March	870	1,101	870	1,101

The total number of housing units impaired is 149 (2019: 149). The carrying values of the properties pre- impairment was £2,726,000.

12. Tangible fixed assets – properties (continued)

Improvements to existing properties:

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Capitalised planned maintenance	10,615	9,543	10,482	8,855
Major repairs expenditure	9,155	13,799	8,685	13,799
	19,770	23,342	19,167	22,654

Housing properties book value, net of depreciation and offices net book value (note 12) comprises:

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Housing properties				
Freehold land and buildings	830,170	775,458	772,080	716,796
Long leasehold land and buildings	32,671	30,444	29,953	30,444
Short leasehold land and buildings	2,452	3,653	2,335	2,020
	865,293	809,555	804,368	749,260
Offices				
Freehold land and buildings	8,932	8,838	7,967	7,859

13. Tangible fixed assets – other

GROUP

	Freehold offices	Furniture fixtures and fittings	Computers and office equipment	Motor vehicles	Leasehold improve-ments	Commercial premises	Plant and equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost								
At 1 April 2019	11,243	2,519	4,908	8	571	167	195	19,611
Additions	-	134	212	-	375	-	-	721
Work in progress	303	46	278	-	122	-	-	749
Disposals	-	(56)	-	-	-	-	(13)	(69)
At 31 March 2020	11,546	2,643	5,398	8	1,068	167	182	21,012
Depreciation								
At 1 April 2019	2,405	1,754	2,444	6	253	41	88	6,991
Charged in year	239	301	998	1	230	5	33	1,807
Impairment	(30)	-	-	-	-	-	-	(30)
Released on disposal	-	(36)	-	-	-	-	-	(36)
At 31 March 2020	2,614	2,019	3,442	7	483	46	121	8,732
Net book value								
At 31 March 2020	8,932	624	1,956	1	585	121	61	12,280
At 31 March 2019	8,838	765	2,464	2	318	126	107	12,620

13. Tangible fixed assets – other (continued)

ASSOCIATION

	Freehold offices	Furniture fixtures and fittings	Computers and office equipment	Motor vehicles	Leasehold improve-ments	Commercial premises	Plant and equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost								
At 1 April 2019	10,111	1,521	4,905	-	571	167	195	17,470
Additions	-	-	212	-	375	-	-	587
Work in progress	303	46	278	-	122	-	-	749
Disposals	-	-	-	-	-	-	(13)	(13)
At 31 March 2020	10,414	1,567	5,395	-	1,068	167	182	18,793
Depreciation								
At 1 April 2019	2,252	1,314	2,442	-	253	41	88	6,390
Charged in year	225	66	997	-	230	5	33	1,556
Impairment	(30)	-	-	-	-	-	-	(30)
Released on disposal	-	-	-	-	-	-	-	-
At 31 March 2020	2,447	1,380	3,439	-	483	46	121	7,916
Net book value								
At 31 March 2020	7,967	187	1,956	-	585	121	61	10,877
At 31 March 2019	7,859	207	2,463	-	318	126	107	11,080

14. Investment properties non-social housing properties held for letting

Group - investment properties	Investment properties	Investment properties under construction	Total
	£000's	£000's	£000's
Valuation			
At 1 April 2019	41,649	3,449	45,098
Additions	-	505	505
Reclassification from housing properties	250	-	250
Schemes completed	2,578	(2,578)	-
Transfer to current assets	-	(1,376)	(1,376)
Disposals	(229)	-	(229)
Transfer from subsidiary	(1,624)	-	(1,624)
Increase in value	1,223	-	1,223
At 31 March 2020	43,847	-	43,847
At 31 March 2019	41,649	3,449	45,098

Association - investment properties	Investment properties	Investment properties under construction	Total
	£000's	£000's	£000's
Valuation			
At 1 April 2019	14,861	-	14,861
Reclassification from housing properties	250	-	250
Disposals	(230)	-	(230)
Increase in value	416	-	416
At 31 March 2020	15,297	-	15,297
At 31 March 2019	14,861	-	14,861

The valuation of investment properties was carried out at March 2020 and is based on their market value as at that date. The valuations across the Group were carried out by Savills (UK) Limited and RMS Estate Agents Limited, firms of RICS registered valuers in accordance with Royal Institute of Chartered Surveyors ('RICS') Valuation – Global Standards 2020 using qualified chartered surveyors who had sufficient current local and national knowledge of the particular market, and skills and understanding to undertake the valuation competently. The companies have adopted the provisions under sections 16.1 and 16.2 of FRS 102 in relation to the revaluation of their investment properties (fair value movements being taken to the Statement of Comprehensive Income). On consolidation of the Group's housing property values, any unrealised surpluses derived from inter-group property sales are removed.

Given the impact of the Covid-19 pandemic on housing markets and the availability of market evidence to fully inform an opinion on value, we consider that there is material uncertainty in the valuation of our investment properties included within these accounts. We will keep this situation under review.

15. Investments

HomeBuy loans receivable	Group & Association	
	2020	2019
	£'000	£'000
At 1 April	276	276
Loans redeemed during year	(31)	-
At 31 March	245	276

The loans are repayable when the properties, against which the loans are charged, are sold. No interest is charged; however, the Association takes the proportion of the sale proceeds as agreed at the commencement of the loan and any associated grants are recycled.

16. Investment in associate

On 6 January 2020, Karbon Homes acquired a significant influence in Invisible Creations Limited, Karbon Homes Limited holds 52 ordinary £1 shares with the remaining 130 ordinary shares being held by Anchor Hanover Group, Johnnie Johnson Housing Trust Limited, National Housing Federation and two Invisible Creations employees.

At 31 March 2020 the Group and Association have the following interests in Invisible Creations Limited

	2020
	£'000
Cost	
At 1 April	-
Additions	67
At 31 March	67

Share of retained profits	2020
	£'000
At 1 April	
Profit for the year	-
	-
At 31 March	-

17. Investment in subsidiaries and associate

At 31 March 2020 the Karbon Group comprised the parent, Karbon Homes Limited, together with the following organisations, each of which are either subsidiaries or an associate of the Association within the meaning of the Co-operative and Community Benefit Societies Act 2014:

Organisation	Applicable Model Rules	Co-operative and Community Benefit Societies Act Registration Number	Regulator of Social Housing Registration Number	Other Registration and Registered Number
York Housing Association Limited	National Housing Federation Model Rules (2015)	16826R	L1019	-
Prince Bishops Homes Limited	Memorandum and Articles of Association – Companies Act	-	-	Registrar of Companies - 06712466
Enterprise Durham Partnership Limited	Memorandum and Articles of Association – Companies Act	-	-	Registrar of Companies - 09077819
Next Level Developments Limited	Memorandum and Articles of Association – Companies Act	-	-	Registrar of Companies - 1645896
Karbon Developments Limited	Memorandum and Articles of Association – Companies Act	-	-	Registrar of Companies - 04895180
Karbon Solutions Limited	Memorandum and Articles of Association – Companies Act	-	-	Registrar of Companies - 09475120
Invisible Creations Limited	Memorandum and Articles of Association – Companies Act	-	-	Registrar of Companies - 11945108

The Group has taken advantage of the exceptions within FRS102 'related party transactions' not to disclose transactions with other wholly owned group companies.

17. Investment in subsidiaries and associate (continued)

Karbon Homes Limited holds 98 ordinary £1 shares in Karbon Solutions Limited with the remaining two ordinary £1 shares held by Castles and Coasts Housing Association and Byker Community Trust Limited. Karbon Solutions Limited is a non-profit making, cost sharing vehicle which provides gas servicing, repair and installation services, and business services. During the year the Association had the following intra-group transactions:

	2020 £'000	2019 £'000	Allocation Basis
Provision of heating, maintenance and business services	7,601	6,434	Actual costs
Management services	851	702	Percentage of central overheads
	8,452	7,136	

Karbon Solutions Limited owes Karbon Homes Limited £585,927 (2019: £932,381) at the year end.

18. Properties for sale

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
Completed shared ownership properties	1,446	-	1,446	-
Shared ownership properties under construction	1,763	3,590	1,361	3,394
Completed properties for outright sale	2,249	3,558	1,005	-
Properties for outright sale under construction	3,500	3,311	3,500	3,311
	8,958	10,459	7,312	6,705

19. Deferred asset

Group and Association

Under the transfer agreement, the pension deficit relating to those employees transferring across from Derwentside District Council became the responsibility of the former Derwentside Homes Limited. The Association, as part of this agreement, used receipts from Right to Buy/Right to Acquire sales less net income foregone, administration fee (both retained by the Association) and £9,999 (paid to the Council), to offset this payment. This represents a deferred asset in the balance sheet. Derwentside District Council had indemnified the Association to make up any shortfall in the event that these funds do not cover the transferred pension liability. This agreement came to an end on 5 December 2016. The debt was settled in April 2020.

	Group & Association 2020 £'000	2019 £'000
At 1 April and 31 March	815	815

20. Debtors: amounts falling due within one year

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
Due within one year				
Rent and service charges receivable	7,207	7,553	6,875	7,252
Less: Provision for bad and doubtful debts	(3,894)	(3,377)	(3,812)	(3,268)
	3,313	4,176	3,063	3,984
Social housing grant receivable	828	1,991	828	1,991
Other debtors	4,859	4,065	4,206	3,712
Amounts owed from subsidiary undertakings	-	-	1,859	995
Prepayments and accrued income	3,924	3,983	2,966	2,398
	12,924	14,215	12,922	13,080

21. Debtors: amounts falling due after more than one year

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
Due over one year				
Amounts owed from group undertakings	-	-	22,327	23,359
Bond discount	3,116	3,233	3,116	3,233
	3,116	3,233	25,443	26,592

The amount owed by the subsidiary companies of £22.33m (2019: £23.36m), relates to intercompany loans between Karbon Homes Limited and Prince Bishops Homes Limited and Enterprise Durham Partnership Limited (EDP).

The loan amount is secured on the assets of Prince Bishops Homes Limited and interest is charged on the full loan balance at 5.25%. The loan is repayable over a 20-year period or on the sale of the property. Prince Bishops Homes Limited can at any time make voluntary repayment. The loan to EDP is payable on demand and interest is charged on the full loan balance at 5.25%.

The bond discount is amortised over the life of the 29-year £150m UK publicly listed bond. A bond discount debtor balance is created when there is a difference, at the time of pricing the deal on the capital markets, that results in the underlying interest rate (coupon rate) being lower than the market standard coupon price. In this case, Karbon then received actual funds to the value of £146.2m based on a coupon of 3.375%, and was able to pay a reduced level of interest over the life of the bond in comparison to paying a yearly coupon of 3.5% which would have generated physical cash receipts of exactly £150m.

22. Investments

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
Liquidity Investment Reserve	1,009	1,004	1,009	1,004
ISRF	-	217	-	-
Barclays Bank	110	353	-	-
Santander UK	20,282	20,079	20,282	20,079
Bank of Scotland	109	957	-	-
Mitsubishi UFB Bank	-	1,001	-	-
Lloyds Bank	7,158	17,025	7,158	17,025
	28,668	40,636	28,449	38,108

Investment products used and the levels with individual counterparties, were in line with the Group's approved Treasury policies.

23. Creditors: amounts falling due within one year

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
Debt (note 28)	8,852	7,440	8,644	7,062
Trade creditors	4,616	3,106	4,452	3,068
Rent and service charges received in advance	2,644	1,692	2,484	1,542
Amounts due to contractors for certified work	842	838	842	838
Amounts owed to local authorities for RTB sales	72	207	72	207
Amounts owing to subsidiary undertakings	-	-	5,602	4,372
Recycled capital grant fund (note 25)	1,416	758	627	719
Disposal proceeds fund (note 26)	255	852	255	852
Other taxation and social security	689	634	666	613
Other creditors	1,891	1,910	1,763	1,624
Accruals and deferred income	15,012	13,394	9,942	8,145
Service charge creditor	985	914	985	914
Deferred capital grant (note 27)	5,078	4,950	4,810	4,573
Corporation tax liability	98	65	45	13
	42,450	36,760	41,189	34,542

24. Creditors: amounts falling due after more than one year

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
Debt (note 28)	373,530	380,379	348,617	355,261
Loan breakage costs (note 28)	820	883	820	883
Loan premium	5,762	6,051	5,403	5,676
Total debt	380,112	387,313	354,840	361,820
Recycled capital grant fund (note 25)	1,436	2,208	1,425	1,298
HomeBuy grant	245	276	245	276
Other creditors	3	7	3	7
	381,796	389,804	356,513	363,401

25. Recycled capital grant fund

Funds pertaining to activities within areas covered by Homes England:

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
At 1 April	2,966	2,894	2,017	1,952
Grants recycled	676	715	676	715
Interest accrued	21	17	16	10
Major repairs and works to existing stock	-	-	-	-
Withdrawal for development of properties	(811)	(660)	(657)	(660)
Balance at 31 March	2,852	2,966	2,052	2,017
Further analysed as:				
Grant remaining:				
-in the fund for three years at 31 March	55	-	55	-
-in the fund for two years but fewer than three	1,361	758	572	719
-in the fund for one year but fewer than two	733	627	726	572
-in the fund less than one year	703	1,581	699	726
Balance at 31 March	2,852	2,966	2,052	2,017

26. Disposal proceeds fund

Funds pertaining to activities within areas covered by Homes England:

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
At 1 April	852	1,838	852	1,838
Inputs to DPF:				
Transfer from other PRPs	-	-	-	-
Use/allocation of funds:				
New build	(597)	(986)	(597)	(986)
Major repairs and works to existing stock	-	-	-	-
Transfers to other PRPs	-	-	-	-
Other	-	-	-	-
Repayment of funds to Homes England	-	-	-	-
Balance at 31 March	255	852	255	852
Further analysed as:				
Grant remaining:				
-in the fund for three years at 31 March	255	-	255	-
-in the fund for two years but fewer than three	-	852	-	852
Balance at 31 March	255	852	255	852

27. Deferred capital grant

	Group 2020 £'000	Restated 2019 £'000	Association 2020 £'000	2019 £'000
At 1 April	322,243	310,560	294,505	283,129
Grant received in the year	14,649	11,159	14,334	10,852
Transferred from/(to) RCGF	760	932	606	932
Grant write off on disposal	(5,252)	(392)	(621)	(392)
Grant write off on replacement	(28)	(16)	(28)	(16)
At 31 March	332,372	322,243	308,796	294,505
Grant amortisation				
At 1 April	56,452	51,537	49,176	44,836
Amortisation in year	4,947	5,115	4,679	4,540
Released on disposal - properties	(1,760)	(144)	(109)	(144)
Released on disposal - replacements	(11)	(10)	(11)	(10)
Other	(4)	(46)	(4)	(46)
At 31 March	59,624	56,452	53,731	49,176
Deferred capital grant				
At 31 March	272,748	265,791	255,065	245,329
At 1 April	265,791	259,023	245,329	238,293
Further analysed as:				
Amount due to be released:				
-within one year	5,078	4,950	4,810	4,573
-after one year	267,670	260,841	250,255	240,756
	272,748	265,791	255,065	245,329

Prior year Group figures have been restated to adjust the disclosure between grant and grant amortisation. The net deferred capital grant is unchanged.

Social housing grant and other grant	Group 2020 £'000	Restated 2019 £'000	Association 2020 £'000	2019 £'000
Total accumulated grant receivable at 31 March was:				
Capital grants	332,372	322,243	308,796	294,505
Revenue grants	5,697	4,876	5,420	4,664
	338,069	327,119	314,216	299,169

28. Debt analysis

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Due within one year				
Bank loans	8,852	7,440	8,644	7,062
Due after more than one year				
Bank loans	179,630	182,059	158,717	160,941
THFC debt	9,500	9,500	5,500	5,500
AHF debt	34,400	34,400	34,400	34,400
Homes England loans	-	4,420	-	4,420
Bond	150,000	150,000	150,000	150,000
	382,382	387,819	357,261	362,323

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Within one year	8,852	7,440	8,644	7,062
Between one and two years	9,621	6,901	8,657	6,644
Between two and five years	26,437	29,444	21,030	26,388
After five years	337,472	344,034	318,930	322,229
	382,382	387,819	357,261	362,323

Breakage costs

Opening breakage cost	883	1,302	883	1,302
Amortised to interest payable	(63)	(419)	(63)	(419)
	820	883	820	883

At 31 March 2020 the Group had undrawn loan facilities of £135m (2019: £135m) and £100m of retained bonds (2019: £100m). On 23 June 2020 Karbon issued all £100m of its retained bonds, with a documentation settlement date of 30 June 2020.

Bank debt is secured by specific charges on the Group's housing, land and buildings and is repayable at rates of interest varying between 1.16% and 6.62% in instalments due as detailed above.

The THFC loans are at a fixed rate of 8.75% but the net effect of amortising the premium received with these loans reduces the effective rate to 8%. The loans are repayable by bullet instalments in the year 2021.

The AHF loan is at a fixed rate of 2.89% but the net effect of amortising the premium received with these loans reduces the effective rate to 1.99%. The loans are repayable by bullet instalments in the year 2043.

The Bond financing is at a fixed rate of 3.375% repayable by bullet instalments in 2047.

28. Debt analysis (continued)

The Group has a £0.5m unsecured overdraft facility, which is repayable on demand. Interest is charged at 2% over the bank base rate.

Financial instruments

The Group and Association had the following financial instruments:

	Group 2020 £'000	Group Restated 2019 £'000	Association 2020 £'000	Association 2019 £'000
Financial assets that are debt instruments measured at amortised cost:				
Cash at bank and in hand	22,228	33,390	16,501	30,876
Investments	28,668	40,636	28,449	38,108
HomeBuy loans	245	276	245	276
Rental and service charge debtors	7,207	7,553	6,875	7,252
Other debtors	4,859	4,065	4,206	3,712
Social housing grant receivable	828	1,991	828	1,991
Accrued income	1,843	3,100	1,013	1,599
Amounts owed from subsidiary undertakings	-	-	24,186	24,354
Financial liabilities measured at amortised cost:				
Loan debt	(382,382)	(387,819)	(357,261)	(362,323)
Trade creditors	(4,616)	(3,106)	(4,452)	(3,068)
Recycled capital grant fund	(2,852)	(2,966)	(2,052)	(2,017)
Deferred capital grant fund	(332,372)	(322,243)	(308,796)	(294,505)
Disposal proceeds fund	(255)	(852)	(255)	(852)
HomeBuy grants	(245)	(276)	(245)	(276)
Amounts owed to subsidiary undertakings	-	-	(5,602)	(4,372)
Other creditors and accruals	(18,166)	(17,941)	(12,892)	(12,334)

28. Debt analysis (continued)

Financial instruments

The Group uses various financial instruments, including loans and cash, and other items such as rental arrears and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The existence of these financial instruments exposes the Group to a number of financial risks. The main risks arising from the Group's financial instruments are considered by the Board to be the interest rate risk, liquidity risk and credit rate risk.

The Board review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group finances its operations through a mixture of retained surpluses and bank borrowings. The Group's exposure to interest fluctuations on its borrowings is managed by the use of both fixed and variable rate facilities.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and invest cash assets safely and profitably. In addition to drawn borrowings and cash balances of £22m, the Group has £236m of undrawn committed facilities.

Credit risk

The Group's principal credit risk relates to tenant arrears. This risk is managed by providing support to eligible tenants with their application for Housing Benefit and closely monitoring the arrears of self-funding tenants. The proposed welfare reforms and resulting changes to the benefits system have been identified as a key risk to the Group and we are continuously engaging with our tenants to ensure that the impact of the reforms are minimised and rental flows are maintained.

29. Provisions for liabilities and charges

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Dilapidations	375	-	375	-
Re-organisation costs	-	337	-	337
LGPS equalisation	-	2,130	-	2,130
Deferred tax	19	9	-	-
At 31 March	394	2,476	375	2,467

An analysis of the movements in the provisions are set out overleaf:

29. Provisions for liabilities and charges (continued)

Dilapidations

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
At 1 April	-	125	-	-
Amounts utilised in the year	-	(125)	-	-
Amounts provided during the year	375	-	375	-
At 31 March	375	-	375	-

The provision for dilapidations relates to properties rented by the Association which could result in payments for dilapidations to landlords when leases end.

Re-organisation costs

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
At 1 April	337	2,320	337	2,320
Amounts utilised in the year	(337)	(1,983)	(337)	(1,983)
At 31 March	-	337	-	337

The Group re-organisation was finalised in March 2019, the £337k represented the amount payable to staff for loss of office; £146k was utilised during the year and the balance released.

LGPS equalisation

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
At 1 April	2,130	-	2,130	-
Amounts provided during the year in respect of:				
Former Derwentside	-	1,250	-	1,250
Former Cestria	-	690	-	690
Former Isos	-	190	-	190
Released during the year	(2,130)	-	(2,130)	
At 31 March	-	2,130	-	2,130

29. Provisions for liabilities and charges (continued)

On 27 June 2019, the Supreme Court ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. The ruling potentially has implications for all public sector schemes, which were reformed around the same time and could lead to members who were discriminated against being compensated.

The Government Actuary's Department (GAD), under instruction of the LGPS Advisory Board (England & Wales), was asked to calculate the 'worst-case' scenario impact at LGPS scheme level on assumptions that were reflective of those that were used for accounting.

The additional liability was calculated to be 3.2% of the active liabilities using a salary increase assumption of 1.5% above CPI inflation, and less than 0.1% of the active liabilities where salaries were assumed to increase in line with CPI inflation. The extra cost for future service for the two scenarios was 3.0% of pay and less than 0.1% respectively.

In the case of Karbon Homes, the salary increase assumption used was CPI + 1.5%. Therefore, the GAD's estimate of the worst case scenario impact of 3.2% in active liabilities has been used. The additional liability was calculated by multiplying 3.2% by the value of the active liabilities as at 31 March 2019. The Association therefore recognised an additional liability in respect of the McCloud judgement of £1.8m in 2019.

The LGPS is required to pay a Guaranteed Minimum Pension (GMP) to members who accrued benefits in the Scheme between 6 April 1978 and 5 April 1997, when the Scheme was 'contracted-out' of the State Second Pension on a salary-related basis.

The GMP was intended to approximately replace the state pension, which members were giving up, however the payment terms of GMP are different between men and women, which was a consequence of the state pension itself being unequal at that time. The 2016 valuation of the fund recognised the liability for those reaching State Pension Age (SPA) between 2016 and December 2018; however, in January 2018 the liability was extended to those reaching SPA after 5 December 2018.

Aon, as the fund's actuary, estimated that the potential IAS 19 accounting liability of full GMP indexation (and equalisation) for members reaching state pension age from 6 December 2018 to be in the region of 0.3% of the defined benefit obligation. The impact on the Association in 2019 was therefore £0.33m.

In 2020, the actuaries have allowed for full pension increases to be paid on GMPs to individuals reaching state pension age after 6 April 2016, any increase in liability at this accounting date has been charged through other comprehensive income.

The potential liability has been presented as a past service cost and incorporated into the results of the LGPS schemes of the Association; the £2.13m provision has therefore been released.

29. Provisions for liabilities and charges (continued)

Deferred Tax

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
At 1 April	9	-	-	-
Deferred tax charged to Statement of Comprehensive Income	10	9	-	-
At 31 March	19	9	-	-
Summarised:				
Accelerated capital allowances	19	9	-	-

The Group has not recognised £30k of deferred tax. Unused tax losses totalled £285,102 (2019: £285,300).

30. Share capital

The Association is limited by guarantee and therefore has no share capital. Each member (see numbers below) agrees to contribute £1 in the event of the Association winding up.

	2020 £	2019 £
Number of members		
At 1 April	10	10
Joining during the year	3	1
Leaving during the year	(2)	(1)
At 31 March	11	10

31. Reserves

Group	Revenue reserves £'000	Restricted reserves £'000	Total reserves £'000
At 1 April 2019	245,449	-	245,449
Surplus for the year	22,105	-	22,105
LGPS equalisation	2,130	-	2,130
Actuarial gain relating to pension scheme	9,167	-	9,167
Transfer of restricted income from unrestricted reserve	(450)	450	-
Reclassification	(26)	-	(26)
At 31 March 2020	278,375	450	278,825

At 31 March 2020, the revenue reserve included £28m defined benefit pension liability (2019: £35.5m).

Association	Revenue reserves £'000	Restricted reserves £'000	Total reserves £'000
At 1 April 2019	216,938	-	216,938
Gift Aid	82	-	82
Surplus for the year	19,684	-	19,684
LGPS equalisation	2,130	-	2,130
Actuarial gain relating to pension scheme	8,444	-	8,444
Transfer of restricted income from unrestricted reserve	(450)	450	-
Reclassification	(26)	-	(26)
At 31 March 2020	246,802	450	247,252

Mr. John Sidney Charlton died in 2005 leaving a legacy to Home Group Limited for the building of six affordable housing units for aged persons in the Newbrough and Warden parishes.

As Home Group Limited was unable to comply with Mr. Charlton's conditions, the legacy of £449,684 was passed to Karbon Homes Limited on the condition that the gift should be disclosed as a restricted reserve for 25 years up to and including 2045. At the end of the 25 years, the restricted reserve will transfer into general reserves.

32. Financial commitments

Capital expenditure commitments were as follows:	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Capital expenditure				
Expenditure contracted for but not provided in the accounts	95,814	122,805	92,115	122,034
Expenditure authorised by the Board, but not contracted	97,549	73,028	90,403	64,302
	193,363	195,833	182,518	186,336

The above commitments will be financed primarily through existing cash balances or borrowings, which are available for draw-down under existing loan arrangements, with the balance funded through social housing grant.

Operating leases payable

The future minimum lease payments which the Group is committed to make under operating leases are as follows:

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Land and buildings:				
Within one year	460	458	336	334
Two to five years	971	1,186	556	690
Five years or more	-	5	-	5
	1,431	1,649	892	1,029
Vehicles and office equipment:				
Within one year	1,223	1,178	1,223	1,178
Two to five years	675	1,293	675	1,293
Five years or more	-	-	-	-
	1,898	2,471	1,898	2,471

32. Financial commitments (continued)

Operating leases receivable
The future minimum lease receivables which the Group is expecting to receive under operating leases are as follows:

	Group 2020 £'000	2019 £'000	Association 2020 £'000	2019 £'000
Land and buildings:				
Within one year	88	69	94	956
Two to five years	152	137	152	137
Five years or more	178	156	178	156
	418	362	424	1,249

As at 31 March 2020 the Association had an informal lease arrangement in which 160 (2019:163) homes were leased to Prince Bishops Homes Limited. The total value of the assets within this arrangement was £12,531,000 (2019: £12,614,789) with an annual payment of £876,110. On 1 April 2020, this informal arrangement ceased, and the properties were handed back to Karbon Homes Limited.

33. Contingent liabilities

The Group had contingent liabilities at 31 March 2020 of £28,575,134 (2019: £28,575,134) which is the original government funding relating to the acquisition of properties from Guinness Partnership in 2019. Karbon Homes Limited is responsible for the recycling of the grant in the event of the properties being sold.

34. Reconciliation of net cash flow to movement in net debt

Group

	2020 £ '000	2019 £ '000
(Decrease)/increase in cash	(11,162)	(545)
Cash inflow from increase in liquid resources	(11,968)	35,636
Cash outflow from increase in debt and lease finance	5,437	(108,608)
Increase in net debt from cash flows	**(17,693)**	**(73,517)**
Net debt at 1 April	(313,793)	(240,276)
Net debt at 31 March	**(331,486)**	**(313,793)**

35. Analysis of net debt

Group

	1 April 2019 £'000	Cash flow £'000	31 March 2020 £'000
Cash at bank and in hand	33,390	(11,162)	22,228
Changes in cash	**33,390**	**(11,162)**	**22,228**
Current asset investment	**40,636**	**(11,968)**	**28,668**
Housing loans due in one year	(7,440)	(1,412)	(8,852)
Housing loans after one year	(380,379)	6,849	(373,530)
Changes in debt	**(387,819)**	**5,437**	**(382,382)**
Changes in net debt	**(313,793)**	**(17,693)**	**(331,486)**

36. Related parties

The remuneration paid to key management personnel is disclosed in note 10. There were no other transactions with key management personnel.

Notes 16 and 17 - Investment in subsidiaries - provides details of the relationship and transactions between Parent, registered and unregistered subsidiaries and associates.