watford community housing

Report and Financial Statements

For the year ended 31 March 2020

Registered Society No: 30183R
Registered by the Regulator of Social Housing No: L4495

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The Group Board, Executive Management Team, Committees and Professional Advisers

Group Board
John Swinney, Chair

Other Members
Richard Archer – appointed September 2019
Nigel Benjamin
Stephen Cavinder – appointed May 2019
Chris Cheshire – appointed as a full member October 2019, previously a Board Co-Optee
Michael Comras – appointed September 2019
Raz Hussain
Peter Jeffree – resigned May 2019
Raj Kumar
Bernadette Laventure – resigned September 2019
Michael Lavers
Jamie Ratcliff
Marsha Thompson

Executive Management Team
Tina Barnard, Chief Executive
Paul Richmond, Director of Finance and Resources
Gareth Lewis, Director of Partnerships/MD of Clarendon Living Limited
Ben Johnson, Director of Operations

Company secretary
Mary Swaine (October 2019 onwards)
previously **Tina Barnard**

Committees
Audit and Risk Committee
Richard Archer, Chair (September 2019 onwards)
previously **Bernadette Laventure**

Business Development Committee
Jamie Ratcliff, Chair

Remuneration and Appraisal Committee
Nigel Benjamin, Chair

Operations Committee
Raj Kumar, Chair

Customer group
Gateway Membership Team

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Registered number
Registered No: 30183R
Registered by the Regulator of Social Housing No: L4495

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Group strategic report

Watford Community Housing ("the Group") is a Registered Provider regulated by the Regulator of Social Housing (RSH) and as such is required to comply with the RSH's regulatory framework. The Group was created in September 2007 as a Large Scale Voluntary Transfer (LSVT) and owns and manages a total of 6,873 properties and associated assets in South West Hertfordshire.

Organisational Structure and Governance

The Group is charitable, having the status of a Registered Society under the Co-operative and Community Benefit Societies Act 2014. As a Community Gateway, its tenants and leaseholders are its members.

The Group is governed by a Group Board consisting of up to 12 non-executive members. All Group Board and Committee members are remunerated.

The Group is managed by an Executive Management Team which reports to the Group Board and is headed by a Chief Executive. The Chief Executive is supported by three Directors – the Director of Finance & Resources, the Director of Partnerships and the Director of Operations. The Group Board delegates some of its responsibilities to committees composed of Group Board members and independent committee members. The structure consists of an Audit and Risk Committee, a Business Development Committee, an Operations Committee and a Remuneration and Appraisal Committee.

As a Community Gateway, the Group's customers have heavy involvement in its affairs. The Gateway Membership Team engages regularly with the Group Board and scrutinises our services and how they are delivered. Residents also have the opportunity to shape decision-making through a range of different channels including consultations, online discussion forums and feedback via social media, with engagement opportunities being promoted through a comprehensive 'Involvement Menu'.

Watford Community Housing operates with a Group structure and has two fully owned subsidiaries:

- Clarendon Living Limited – this is used to deliver and promote the Group's commercial development activity. Clarendon Living has its own Board, which is chaired by Chris Cheshire. This Board includes three non-executive members and two executive members.
- WCHT Devco Limited (Devco) – this is used to provide design and build services to the Group. The Devco Board is chaired by Michael Lavers and consists of two non-executive members and two executive members.

Joint ventures

The Group has an investment via Clarendon Living Limited in a joint venture with Watford Borough Council (WBC); Hart Homes. Hart Homes consists of an asset-holding entity (Hart Homes (Watford) Limited) and a development, design and build entity (Hart Homes (Watford) Development LLP). The ownership of both entities is split on a 50/50 basis with WBC and both are managed by Boards with representatives from both Clarendon Living Limited and WBC/ Watford Commercial Services Limited.

The Group also has an investment via Clarendon Living Limited in a joint venture with Three Rivers District Council (TRDC); Three Rivers Homes. Three Rivers Homes consists of an asset-holding entity (Three Rivers Homes Limited) and a development, design and build entity (Three Rivers Homes Development LLP). The ownership of both entities is split on a 50/50 basis with TRDC and both are managed by Boards with representatives from both Clarendon Living and TRDC/ Three Rivers Commercial Services Limited.

Nature of Business

The Group operates six key business streams:

i. Housing for rent, primarily for families who are unable to rent or buy at open market rates.

ii. Housing for older people who need additional support or care.

iii. Shared ownership properties (i.e. residents purchase a share in the equity of their homes and pay rent to the Group on the remainder).

iv. Joint venture participation with local authority partners and developers via Clarendon Living Limited.

v. Selective market sales schemes both directly through Clarendon Living Limited and through its joint ventures with local authorities.

vi. Market rent schemes.

The number of homes and associated assets owned and managed by the Group (as per note 26 of the financial statements and the current stock levels of Clarendon Living Limited) were:

Stock Profile

Type of Units	2020 No.	2019 No.
Owned by the Group:		
General needs	3,989	3,982
Affordable rents	279	207
Housing for older people	499	499
Shared ownership	168	127
Leaseholds	366	362
Open Market Sales Stock	7	-
Commercial and market rents	27	27
Commercial shops	23	15
Garages	1,246	1,250
Temporary	38	42
	6,642	6,511
Managed for others	231	109
Total	**6,873**	**6,620**

During the year the Group's owned and managed stock numbers increased by 253. This movement includes 75 completed new affordable rented homes, 6 general needs homes and 44 shared ownership property completions. This was partially offset by 6 Right to Buy purchases and shared ownership staircasings during the year. There is a net increase in managed properties of 122 dwellings, which include 109 dwellings within the Group's Joint Venture companies, as well as the addition of 8 commercial shop units. There are 7 unsold open market dwellings within the Group's subsidiary Clarendon Living Limited, which will be sold during 2020/21. The property stock is in good condition and the Group has made provision in its Business Plan to ensure that adequate investment is available in the future to maintain this position in accordance with its Asset Management Strategy.

Objectives & Strategy

These Financial Statements correspond to the final year of the Group's 2016-2020 Business Plan, which has five priority areas, underpinned by the delivery targets below. A new 2020-25 Business Plan will be launched to staff, customers and stakeholders in 2020/21.

Priority Areas	What Success Looks Like
Super Brand	• We will deliver our Road Map 2016-20 to enable us to provide consistent, reliable quality services to our tenants. • We will develop our digital offer so that our tenants can engage with us via digital channels. • We will utilise customer insight data to enable us to adapt our service offer to meet the changing needs of our current and future tenants. • We will deliver our Asset Management Strategy to ensure that we maximise the use of our assets.
Strong Financial Position	• We will deliver our Value for Money and Procurement Strategies to ensure that we make the best use of our assets. • We will ensure by the end of the Business Plan period that our operating margin is equivalent to 30% of our turnover. • We will have robust procurement and financial systems in place to make best use of our resources. • We will implement our Treasury Management Strategy to make best use of our cash holdings and funding streams.
Partnership Working	• We will lead on developing a shared service model that provides quality services to over 25,000 homes. • We will explore merger opportunities when they produce 'win-win' solutions for our tenants. • We will be an 'organisation of choice' for our tenants, staff and partners. • We will have a clear brand that enables us to manage stakeholders' expectations.
Active Developer	• We will deliver our Development Strategy to develop 1,000 new homes over the next four years. • We will work with partners, via joint ventures, to make best use of our resources. • We will deliver our market rent and shared ownership offer through our Clarendon Living brand. • We will develop in six local authority areas across Hertfordshire and Buckinghamshire.
Building Community Capacity	• We will implement our Communities Strategy to build capacity in the areas where we work. • We will focus our resources on projects that improve our services and produce the maximum social impact for us and our tenants. • We will maximise our funding and external resources to enhance the projects we deliver. • We will deliver our Community Hubs Strategy to enhance our tenants' life choices.

The plan is underpinned by our Vision and Values.

Our Vision and Values

Our vision is to deliver "**Better homes, friendlier communities .... together**". This commitment remains as strong today as it was when we were formed in 2007.

Our twin aims are to provide '**better homes**' – ensuring a high-quality service offer to our customers and delivering more homes – and '**friendlier communities**' with a strong focus on community cohesion.

In 2019/20 we engaged with our staff to relaunch our values. These values were created through staff engagement and will be integral to how we work at the Group:

- **Professional:** We are honest, open and respectful. People trust us to keep our promises.
- **Forward-thinking:** We have a can-do attitude and embrace opportunities to improve and innovate.
- **Collaborative:** We work together as one team and build lasting partnerships to get results.

Key Performance Indicators

The following table summarises Group performance against this year's targets and last year's performance across the Key Performance Indicators drawn from our Business Plan objectives.

These Indicators form the basis of a Corporate Balanced Scorecard which is reviewed quarterly by our Executive Management Team, Operations Committee, Gateway Membership Team and Group Board. The selected Indicators enable our Group Board to monitor performance in the areas key to us as a community-focused housing provider with an ambitious development programme. The Indicators have been aligned with the new 'technical metrics' introduced by our regulator in April 2018 under a revised Value for Money regulatory standard. See the later section on Value for Money (VFM) for more information about how we are meeting this standard.

The Group delivered strong performance against its targets this year, matching or exceeding the designated target in fifteen areas and delivering steady performance in five areas. Our performance in these areas is regularly reviewed by the Executive Management Team and formally reported to the Group Board, the Operations Committee and the Gateway Membership Team under our ongoing performance review framework.

Customer satisfaction with our repairs service, an area of fundamental importance to our customers, continued to be strong last year at 90.9% against an increased target of 90%. Overall satisfaction with our services improved a notable 3.0% points over the year due to a number of internal improvements made across our services to reach our target of 87.5%. This follows the re-procurement of our core estate maintenance contracts in collaboration with our tenant scrutiny panel and continued positive customer feedback in our asset improvement programme. Customers have also been provided enhanced digital service functionality with the ability for our customers to book their repairs and check their status online. Our Digital Tenancy Services sign-up exceeded the target of 20% with 21.3% of our customers registered on the service by the end of the year.

We continued to monitor Net Promoter Score satisfaction score during 2019/20, which captures the customers' likelihood of recommending Watford Community Housing to friends and family. Our score of +37 shows that we have performed consistently well over the year, above both our internal target (+30) and the sector average of -6.

Our complaints to compliments ratio performed positively and exceeded target over the year and our contact centre figures for first call resolution were marginally below target, but this year included a new methodology which introduced customer call rating with a post-call survey to our contact centre, with all dissatisfied callers followed up for feedback and linked staff training. Occupancy was below target performance for 2019/20 but this includes the impact of decanting existing schemes for future development. With development voids excluded the Group occupancy level was in excess of 99%.

Our community hubs have delivered another strong performance this year, generating over £147,000 of income for the Group, a 22% increase on last year, through a wide range of community activities.

The Group has also seen continued improvement in its overall financial performance (as covered elsewhere in these Statements), and strong performance on delivery of VFM savings and staff satisfaction averaging +77 (out of 100) for the year as a whole following further work on staff recognition, new wellbeing offers and promotion of our staff rewards offer.

We set an ambitious aspiration for building new homes under our 2016-20 Business Plan to commit to building 1,000 new homes by 2020 under a range of different developments and branching out into new communities. Over the four-year period, we exceeded this ambition by committing to more than 1,100 homes. We delivered 134 new homes last year and committed a further 111 during the year to support our development programme. This was the highest volume of completion ever achieved by Watford Community Housing. There were 39 unsold dwellings at year end which were impacted by Brexit uncertainty, the Covid-19 pandemic and several schemes completing in Q4 2019/20. Marketing activity continues in this area to convert reservations into completions and Group Board is regularly updated on progress.

Key performance indicators

	2020 Target	2020	2019	Flag vs. Target
1. Super Brand				
% of tenants satisfied with repairs & maintenance	90%	90.9%	87.8%	
% of tenants satisfied with overall service	87.5%	87.5%	84.5%	
Net Promoter Score	30	37	31	
First call resolution	80.0%	79.7%	87.3%	
Ratio of complaints to compliments	50:50	48:52	44:56	
% of Tenants Registered on Digital Tenancy Services	20%	21.3%	14.7%	
Gas compliance	100%	100%	100%	
2. Strong Financial Position				
Operating margin (overall)	27.5%	31.2%	32.5%	
Operating margin (social housing lettings only)	30.0%	31.9%	32.6%	
EBITDA (Earnings Before Interest Tax and Amortisation – Major Repairs Included) Interest Cover %	125%	173.7%	197.4%	
VFM Savings	£1.25m	£1.25m	£1.43m	
Occupancy	99.5%	98.6%	99.0%	
Headline social housing cost per unit ('000)	£4.00	£3.76	£3.86	
3. Partnership Working				
Net staff satisfaction	70	77	71	
4. Active Developer				
Homes committed for building	170	111	57	
Homes completed	107	134	61	
Unsold units at quarter end (shared ownership & sales)	0	39	3	
Units unsold for more than 6 months	0	19	1	
5. Building Community Capacity				
Hubs income (£000)	£100	£147	£114	
New Involvement Menu Participants	100	123	N/A	

Flag key: Positive performance Steady In need of attention

Business and Financial Review

The Group operates in increasingly challenging times while the demand for its services and homes remains as great as ever. It has produced a strong performance in 2019/20 with its operating surplus being £11.2m. The financial highlights over the past five years are set out below.

Group highlights, summary (5 year summary)

For year ended 31 March	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Summary Statement of Comprehensive Income					
Total turnover	34,190	34,928	31,735	31,410	29,729
Income from Social Housing Lettings (note 3a)	28,816	28,568	28,272	27,757	27,626
Operating surplus: continuing activities	11,201	11,586	10,984	11,275	7,361
Surplus for the year transferred to reserves	5,323	5,905	6,708	7,321	4,985
Group Balance Sheet					
Intangible assets (note 11)	(28,317)	(28,734)	(29,151)	(29,568)	(29,985)
Investments in Joint Ventures	2,973	2,869	2,861	2,393	0
Housing Properties (note 12)	306,933	286,933	267,473	241,743	219,634
Investment Properties (note 14)	4,040	4,095	4,095	3,915	3,555
Other Property, Plant and Equipment (note 13)	12,906	13,049	13,211	12,974	13,437
Fixed assets	**298,535**	**278,212**	**258,488**	**231,457**	**206,641**
Net current assets	30,332	29,931	41,368	35,006	25,596
Total assets less current liabilities	**328,867**	**308,143**	**299,856**	**266,463**	**232,237**
Funded by:					
Loans (due over one year) (note 18)	167,636	155,061	155,129	132,158	85,027
Pension liability (note 23)	-	478	138	463	557
Provision for liabilities	1,342	1,898	1,021	-	-
Other long term liabilities (note 18)	47,841	38,149	35,489	34,174	52,432
Reserves:					
Revenue inc. pension	52,599	46,035	40,456	33,398	25,175
Property Revaluation	96,089	96,141	96,145	96,150	96,929
Cashflow hedge reserve	(36,640)	(29,619)	(28,524)	(29,881)	(27,883)
Consolidated funds	**328,868**	**308,143**	**299,855**	**266,463**	**232,237**

The Financial Plan is reviewed annually by the Group Board. The Group has carried out stringent testing of its Financial Plan to assess how strong it is in different scenarios and understands the impact of various events individually or taken together. As a result the Group Board is confident the Financial Plan is robust and will continue to monitor performance and delivery in conjunction with the review of its Corporate Risk Register.

The Group continues to work on maintaining good services to its customers whilst seeking to achieve VFM in its activities. It has achieved its financial target for efficiencies in 2019/20 and is now seeking to increase its operating surplus in future years to release more money for services and building homes.

The Group's subsidiary development company 'WCHT Devco Limited' (Devco) was used to facilitate a number of major development schemes and provided a zero-rated design and build service to the Group. Additionally the Group's commercial subsidiary Clarendon Living Limited completed its first open market sale development scheme during 2019/20.

As part of the transfer agreement from Watford Borough Council a significant portion of the Group's customers have the Preserved Right to Buy (RTB) and during the year 6 customers exercised this right. As per the transfer agreement this was the final year that Watford Borough Council receives the proceeds of RTB sales after the Group has deducted an allowance for administrative costs and rent foregone on the sold property.

Risk Assessment

Risk is proactively managed across the Group with ultimate responsibility resting with the Group Board. Risks are identified at all levels in the organisation and brought together into the Corporate Risk Map which considers how risks are being mitigated in the business. A system of internal control is in place which is monitored by the Audit and Risk Committee supported by Internal Audit. The Group Board considers the following to be the Key Risks to the Group together with mitigating actions being taken. The risks are considered at a Group level to reflect the increasing complexity of the Group and assessed regularly to monitor whether the appropriate risks have been captured and also to monitor the assurance provided by the Executive Management Team. Subsidiary Boards also monitor their key risks throughout the year and report any material changes in risk to Group Board.

Key risk	Mitigating actions being taken
Finance and Balance Sheet Risk: as a result of changes to government legislation, exposure to fraud, increased funding costs, availability of funding, economic conditions and market risks	• Additional £20m of finance secured in 2019/20 creating Group debt capacity of £220m. • Ongoing monitoring and reporting of impact of welfare reform on areas such as bad debt, universal credit performance and income arrears • Fraud policy regularly reviewed and fraud incidences reported quarterly to Audit and Risk Committee • Financial Plan annually subjected to multi-variate stress testing to identify variety of economic assumptions and their impact on the Group's plan – with May 2020 IDA outcome of V1 • Regular monitoring of Golden Rules both at Management and Group Board level to support ongoing viability • VFM activity maintains focus on efficiency gains and productivity to mitigate any exposure of inflation / market risk
Governance and People Risk : arising from poor Board oversight, lack of succession planning, corporate structure not being fit for purpose, lack of development and growth for leaders	• May 2020 IDA outcome gave Watford Community Housing governance rating of G1 • Executive Management Team has been structured to reflect appropriate skillset within the Group's leadership team • Subsidiary boards report up to the Group Board on regular basis including updates on joint venture activities • Terms of Reference and Group Financial Regulations provide assurance on decision-making clarity within the Group. Both are reviewed on an annual basis • Ongoing skills development sessions provided to Group Board and Committee members to support informed understanding and scrutiny of the Group; including sessions on Risk, Treasury / Stress Testing, VFM, Digitalisation and Health & Safety. • Group Board members are regularly invited to stakeholder events to support engagement and awareness of the Group.
Customer Outcomes: due to lack of Brand clarity, lack of service standards with customers, impact of welfare reform on customers, ineffective community engagement or safeguarding	• Service Standards give clear standards/expectations of service from the Group • Active Community Budget invested in a number of activities, including community programmes / Hub activity and supporting customer scrutiny • Pro-active tenant mapping exercise has enabled the Group to reach >80% coverage on diversity and inclusion data • Increased joint-working between Group Board and Gateway Management Team (GMT) • Ongoing monitoring of customer arrears and Tenancy Sustainment team in place to provide support to customers
Health and Safety and Asset Management: Corporate health & safety failures, lack of robust appraisal techniques for existing stock, poor decision making on asset investments, lack of investment in ICT estate	• Health and Safety compliance monitored at Group Board level and external assurance from British Safety Council (BSC) gave 4 star assurance rating to the Group • Older Persons' Housing consultation underway with Group Board and customers to define long-term strategy for this stock type • Asset Investment Model in place, with Group Board training provided, to ensure the Group is making appropriate decisions on stock management and prioritising long-term investment decisions • Following the insourcing of the IT function in April 2018, improved service standards being achieved and > 20% sign-up to Digital Tenancy Service Portal achieved. Portal now includes Self-Appointed Repairs capability for customers to book online • IT service stability enhanced during 2019/20 with upgrades to core assets and Cyber Security Accreditation achieved.
Development and Growth Risk: Overstretching the Group's resources, delay or over-spend, issues over quality, exposure to market movements	• Monthly reporting and forecasting of development cashflows are in place to monitor spend and over-run risk. Any material movements in scheme costs are reported to appropriate Board and Committee for oversight and review • Golden Rules have been developed and approved by Group Board and monitored on a quarterly basis, these include monitoring of development capacity and also development spend versus budget • The Development Team has been strengthened further in 2019/20 to increase capability and capacity for larger programmes • Terms of Reference and Financial Regulations are in place for managing joint ventures. A 12-month timetable of activity reviewed monthly by Executive Management Team to monitor risk and define priorities • Regular monitoring of sales exposure and unsold dwellings conducted by management team and Group Board to provide assurance on delivery. All market exposed scheme appraisals include an exit plan to anticipate options should market conditions change. • Further Golden Rules approved in 2019/20 to monitor Group sales risk exposure across the Group

Value for Money (VFM)

Our Strategy:

The Group is committed to delivering Value for Money through our business activities. Our Business Plan 2016-20 set clear objectives and key priority areas to ensure we deliver improvements to the quality of services, maintain a strong financial position and gain competitive advantage through partnership working. This plan is supported by our VFM strategy. Our strategy for delivery of VFM is reinforced by:

- Ensuring our approach to VFM stems from the corporate plan and flows through the practices adopted within the Group for service standards;
- Being aligned to the Regulator's standards and Code of Practice;
- Ensuring staff are made aware of the expectations of delivering cashable and non-cashable gains and;
- Demonstrating to our stakeholders and customers that we are an efficient Group making maximum use of our resources and achieving our environmental and social objectives.

To be effective, VFM is made integral to our business planning, with close links to our Performance Management Framework. It is a continual review of information, process, tenant scrutiny, customer feedback, benchmarking and performance management. VFM is embedded in our governance structure as illustrated below.

THE GROUP BOARD
Approves the VFM Strategy, agrees targets, monitors performance against target, monitors subsidiary performance and receives an annual Internal Statement of Control

AUDIT & RISK COMMITTEE
Reviews and monitors corporate risks and assurance, and ensures delivery against internal and external audit recommendations

BUSINESS DEVELOPMENT COMMITTEE
Ensures VFM is achieved through our development programmes and regeneration schemes

OPERATIONS COMMITTEE
Provides formal scrutiny of the Group's performance, including VFM delivery of services offered by the Group

REMUNERATION & APPRAISAL COMMITTEE
Reviews the effectiveness of pay strategy

GATEWAY MEMBERSHIP TEAM
Represents the interests of our tenants and ensures compliance with promised service standards

EXECUTIVE MANAGEMENT TEAM (EMT)
Deliver VFM initiatives, increase provision for added value services, deliver cashable and non-cashable gains and ensures VFM is embedded in their services areas.

We welcomed the Regulator's revised Value for Money standard and sector-wide technical metrics introduced in April 2018, embedding VFM at the corporate and strategic level. We have also reviewed our strategies on Value for Money, Development, Procurement and Asset Management and our Group Board has appointed a VFM champion to ensure VFM remains a corporate focus throughout the financial year.

The Executive Team manage VFM across the Group across three main areas:

- VFM through Maximising the Return on Assets
- VFM through Operational Efficiency
- VFM through Effective Procurement

Value for Money (continued)

Achieving VFM by Maximising the Return on Our Assets:

The Group operates a large property estate and associated assets, which are estimated to have an open market value approaching £1bn. In 2019/20 we spent £4.8m on maintenance of our properties and £4.4m on programmed repairs. For 2020/21 the budgeted numbers are £5.0m and £3.9m respectively. The Group is committed to actively managing the portfolio to ensure that it continues to meet the needs of residents and is maintained to an agreed standard whilst maximising the return achieved.

The Group is continuing to explore additional income channels including expanding its managed services and maximising the use of void properties. We manage homes for Watford Borough Council (WBC), Hertfordshire County Council and Three Rivers District Council. Additionally the Group is working with local charities, including St Albans and Hertsmere Women's Refuge to let accommodation.

To assist the evaluation of options for future use of properties we calculate the Return on Capital Employed through our Asset Investment Model to inform future planning decisions on the Group's assets.

Achieving VFM through Operational Efficiency:

As part of our continuous evaluation of operational costs, the Group Board agreed an efficiency target of £1.25m for the 2019/20 financial year. At the end of 2019/20, we were pleased to report VFM savings of £1.25m, meaning we have met our target. We have continued to work hard to ensure we deliver further gains. Tabulated below is the register of our efficiency gains over the last four years, with an achievement of £0.6m greater than original projection. All gains identified contribute to the surpluses realised in the financial year, which are used to further our social objectives through investment in services and new homes.

Efficiency Gains over four years

Efficiency Gains over 4 years	2016-17 Target £'000	2016-17 achieved £'000	2017-18 Target £'000	2017-18 achieved £'000	2018-19 Target £'000	2018-19 achieved £'000	2019-20 Target £'000	2019-20 achieved £'000	Total Target £'000	Total achieved £'000	Variance £'000
Procurement, Contract Savings & use of consultants	555	675	594	761	600	814	525	512	2,274	2,762	488
Self Servicing	0	0	0	0	0	0	0	0	0	0	0
Energy Innovation	103	9	50	50	0	0	50	0	203	59	-144
Streamlined Customer Engagement	364	364	70	176	0	0	0	0	434	540	106
IT Infrastructural Cost, System Upgrades / Other	13	13	0	0	210	210	155	152	378	375	-3
Review of responsive repairs cost	400	439	0	0	0	0	0	0	400	439	39
Lean business processes	193	236	300	300	41	47	465	475	999	1058	59
Income Generation	156	165	215	223	349	357	55	115	775	860	85
	1,784	**1,901**	**1,229**	**1,510**	**1,200**	**1,428**	**1,250**	**1,254**	**5,463**	**6,093**	**630**

Achieving VFM through Efficient Procurement:

To support delivery of VFM across the business the Group has a Procurement Strategy, which is managed and monitored by the Finance and Risk Manager. The strategy is aligned with the Group's 2016-20 Business Plan and is designed to ensure that the Group:

i. Has in place an effective framework which ensures that it meets OJEU and other legal requirements

ii. Shows clarity in the procurement process for both staff and suppliers.

iii. Carries out effective due diligence on suppliers to ensure they meet its criteria in areas including financial viability, insurance cover and health & safety.

iv. Builds strong relationships and partnerships with its suppliers.

v. Sets clear budgets for VFM through procurement and monitoring progress.

vi. Keeps accurate records of contracts and the arrangements entered in to which are reviewed regularly to ensure the expected benefits are achieved.

vii. Seeks to acquire added value from its supplier base in the way they support the business.

viii. Has an effective payment arrangement in place to manage administrative costs, whilst ensuring suppliers are paid on time.

ix. Procures responsibly with attention to the impact on the environment of purchasing decisions and looking to work with responsible suppliers. We will look to achieve added value through training opportunities such as apprenticeships and other areas of support to customers and the business.

VFM Monitoring through Benchmarking:

In order to maintain compliance with the VFM standard, the Group continues to monitor the performance of the Group against appropriate benchmarks and also looks to understand and explain any variances. In December 2019, the RSH published the latest analysis of cost variations across the social housing sector to support Associations in understanding their costs and achieving VFM in their activities. Below are comparison tables with commentary to support the Group's position on VFM delivery.

Cost per Unit (2019/20)

Due to the publication of Global Accounts for the Housing Sector and the included VFM analysis, we are able to benchmark the Group's Cost per Unit (CPU) performance against the sector. The Group has consistently lowered its CPU against the sector median. This improvement is linked to the work maximising VFM through operational efficiency, return on assets, and efficient procurement.

CPU improved in 2019/20 as a result of continued focus on VFM savings. Over the past five year Watford Community Housing has managed to improve its cost per unit performance by 8%, which includes the absorption of inflation over a five year period. Watford Community Housing continues to monitor its cost base through benchmarking and balance cost savings / efficiencies alongside quality of service and customer outcomes.

Cost per Unit (£k)	2015/16	2016/17	2017/18	2018/19	2019/20
Watford Community Housing	4.12	3.93	3.78	3.86	3.76
Median Sector Performance	3.55	3.30	3.40	3.69	

*average Cost per Unit.

(2015-2019 figures taken from Global accounts.)

Value for Money (continued)

Year-on-Year Comparison of Technical Metrics:

The table (right) shows the movement in technical metrics between 2020 and 2019 with a commentary to support key movements. The Operating Margin performed above 30% both on an overall position, and on a social housing lettings only basis. This position was partly impacted at year-end through additional costs and provisions relating to arrears risk which explains the reduction to 2019 performance. Earnings Before Interest Tax Depreciation & Amortisation; Major Repairs Included (EBITDA MRI) Interest Cover % refers to the level of surplus that a registered provider generates compared to interest payable. This has reduced in the last year, but this was in line with expectations due to increased financing costs and still holds significant headroom against our loan covenants. Return on Capital Employed (RoCE) and Reinvestment are both broadly aligned to prior year performance. New social housing supply has improved versus the previous year as we continue to see progress in our development programme and as noted above, we continue to build a strong pipeline of committed schemes.

Watford Community Housing	2019	2020	Flag
Operating Margin % (social housing lettings only)	32.6%	31.9%	
Operating Margin % (overall)	32.5%	31.2%	
EBITDA MRI Interest Cover %	197.4%	173.7%	
Headline SH Cost per Unit ('000)	£3.86	£3.76	
Gearing	43.5%	46.6%	
Return on Capital Employed (RoCE)	3.8%	3.6%	
% Reinvestment	12.3%	11.5%	
% New supply delivered (social housing units)	1.3%	2.5%	
% New supply delivered (non-social housing units)	0.0%	0.2%	

Comparison of Technical Metrics to Peer Group and Sector:

The table (right) shows the Group's performance on the technical metrics against the sector average and also a selected peer group. The peer group includes other Gateway housing associations and those of a similar size and geographic location to Watford Community Housing, with a commentary to support key movements. The comparison to peer group and industry median for Operating Margin is favourable as Watford Community Housing continues to focus on strong financial performance. The headline social housing cost per unit is better than the peer group but slightly higher than the industry median, reflecting the broader correlation between the London region having a regionally higher CPU than the national average. Reinvestment and New Supply Delivered has exceeded both the peer group and sector median due to our investment in both new stock and existing properties. Our EBITDA and Gearing metrics are slightly adverse to both comparators which reflects growth in our debt book to support our development performance, which is above both peer group and industry median.

	Group 2020	Peer group median 2019	Industry median 2019	Flag v Peer Group
Operating Margin % (social housing lettings)	31.9%	31.8%	29.2%	
Operating Margin % (overall)	31.2%	28.5%	25.8%	
EBITDA MRI Interest Cover %	173.7%	213%	184%	
Headline SH Cost per Unit ('000)	£3.76	£4.28	£3.69	
Gearing	46.6%	42.6%	43.4%	
RoCE	3.6%	3.9%	3.8%	
Reinvestment %	11.5%	6.9%	6.2%	
% New supply delivered (social housing units)	2.5%	1.7%	1.5%	
New supply delivered (non-SH units)	0.2%	0%	0%	

VFM into 2020 and beyond:

The efforts to deliver value for money to our tenants and the organisation continue into 2020/21 and will be monitored through Group Board. The VFM activities planned for 2020/21 have been reviewed and discussed with Group Board and management focus will include delivering the following VFM initiatives:

- Maximising income streams
- Optimisation of assets through void performance improvements
- Improving performance of garage stock
- Embedding efficiencies in newly procured Grounds Maintenance and Cleaning contracts
- New procurement on Materials Spend contract
- Contract review of the Improvement Programme
- ICT and Telephony procurement savings
- Managed usage of training / consultant spend

The Group Board annually reviews and confirms performance targets for the Group and this includes projections across a number of years. Opposite is a table confirming future year projections for key VFM Metrics out to 2024/25. Operating Margin both with and without Shared Ownership and Sales is projected to remain stable across the plan period, which is broadly in line with peer group analysis. It balances ongoing efficiency savings (as demonstrated by the VFM savings targets opposite) against investments identified to deliver our Customer Promises. Social Housing Cost per unit is targeted to reduce in line with the performance achieved in 2016-20. This requires the Group to absorb inflation and achieve efficiency cost savings whilst growing the stock numbers. EBITDA targets remain at 1.25% which is the Group's Golden Rule, but active Treasury monitoring throughout the period to ensure coverage exists in excess of this position. Housing supply is shown to grow over the plan period to reflect our ongoing development ambitions. Performance will be carefully monitored against all of these metrics over the course of the plan period, particularly in relation to key risks including Brexit and the Covid-19 pandemic.

KPI	2021/22	2022/23	2023/24	2024/25
Operating Margin (including S/O & Sales)	27.5%	27.5%	27.5%	27.5%
Operating Margin (excluding S/O & Sales)	30%	30%	30%	30%
Social Housing Cost Per Unit (SHCPU)	£3,950	£3,900	£3,850	£3,800
Annual VFM Savings	£1.35m	£1.4m	£1.45m	£1.5m
EBITDA	1.25%	1.25%	1.25%	1.25%
New Supply Delivered (Social Housing)	2.125%	2.25%	2.375%	2.5%
New Supply Delivered (Non-Social Housing)	0.15%	0.2%	0.25%	0.3%

Financial Position

Capital Structure and Cashflow Forecast

At the year end the Group had long term borrowing facilities from three lenders totalling £220m in place. Total drawn down borrowings amounted to £170m.

The Group completed the final steps in refinancing its security arrangements in May 2019, which resulted in facilities increasing from £200m to £220m. The increase of debt facilities offers additional capacity to support the Group in its business plan aspirations and a more appropriate, flexible funding structure with several lenders who are all committed to the social housing sector. Work continues to monitor this structure and liquidity requirements in light of the recent pandemic event.

The Group annually approves a Treasury Policy prepared in conjunction with its funding advisors. The Policy is regularly reviewed and includes risk management of liquidity, interest rate, covenant, counterparty, refinancing and legal and regulatory matters and how its treasury activities will be monitored and reported. The ultimate intention is to ensure ongoing liquidity is available to meet all commitments whilst keeping risk at an acceptable level and minimising borrowing costs.

A drawing of £13m was made in March 2020 from the new variable rate £45m RCF. This was to provide additional liquidity as a response to the pandemic lockdown risk. The Group actively manages its interest costs and has five interest rate swaps totalling £57m. Together with the M&G Private Placement and the AHF Bond this means there is £157m of fixed rate debt and 92% of total drawn debt is therefore fixed. The maturity of the Group's borrowing was as follows on 31 March 2020:

Maturity Profile	2020 £'m	2019 £'m
Within 1 year	-	-
Between 1 and 5 years	45.0	25.0
After 5 years	175.0	175.0
	220.0	**200.0**

As part of arranging its loan facilities, the Group is required to provide security by charging properties it owns. The properties are valued using the respective Existing Use Value-Social Housing (EUV-SH) and Market Value-Subject to Tenancy (MV-ST) methodologies and currently the charged properties are valued at £374m, plus a further circa £21m uncharged. The security is allocated to provide collateral for the loans plus exposure to the mark to market position arising on the five interest swaps in place via the bank. At year end there was circa £170m excess security cover in the Group in order to meet the security requirement for drawn debt and the ISDAs. This gives comfort there is sufficient asset cover for all existing facilities and for raising additional finance.

During the year £10m (2019: £17.6m) of cash was generated from operating activities and £12.6m of loans were drawn down reflecting the need to maintain sufficient levels of cash liquidity during the current pandemic. Total interest of £6.2m (2019: £6.2m) was paid in cash terms during the year.

The Group continues to monitor its loan arrangements to ensure they remain appropriate to its needs in meeting its Business Plan objectives whilst maintaining long-term financial viability. In 2020/21 the Group will continue to explore its overall funding structure and working with advisers to ensure that the appropriate funding is in place to support the Group's aspiration.

The Group's Treasury Working Group comprising of two Board / Committee members, the Director of Finance & Resources and the Head of Treasury & Financial Planning continues to provide initial guidance and review of Treasury policies and funding options, and to make recommendations to the Group Board.

Development

The Group remains committed to the principle of providing urgently needed homes at a rate which can be accommodated within its long-term Business Plan. The Devco subsidiary is fully operational and enables the Group to make tangible savings through reclaimed VAT costs. The Group (via its Clarendon Living subsidiary) has also entered into joint ventures with Watford Borough Council and Three Rivers District Council to develop and provide homes in Watford, Three Rivers and the surrounding area. The Group via Clarendon Living completed an open market sale scheme in September 2019 to complete 9 homes for the Group.

Cash Flows

The Group carries out regular reviews of cash flow risk as part of its treasury management procedures. The key elements of cash flow risks are fluctuations in interest rates and the availability of loan finance. The Statement of Cash Flows shows that the net cash inflow from operating activities increased to £10m (2019: £17.6m). Working capital moved as a result of the net cash flow from operating activities. A net interest payment of £5.9m was made during the year and approximately £26.2m was expended on developing new homes and improving existing properties.

Pension Costs

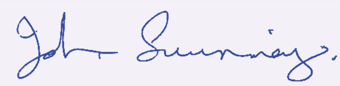
The Group participates in two pension schemes, a corporate Stakeholder Pension Plan through Standard Life for all employees who have joined the Group since 10 September 2007 and the Hertfordshire Local Government Pension Scheme (LGPS) for all participating employees who transferred to the Group on 10 September 2007 from Watford Borough Council and which is closed to new entrants. The assets and liabilities of the LGPS were moved to Watford Borough Council under a subsumption agreement during 2019/20, which did not affect the financial treatment of the fund. The Stakeholder Pension Plan is a defined contribution scheme and the LGPS is a final salary scheme. Both schemes offer good benefits to staff. The Group has made contributions to both schemes of between 6% and 31.9%. The last formal valuation of the LGPS Fund was carried out as at 31 March 2020. Note 23 of the financial statements details the financial performance of this scheme.

Compliance with Governance and Financial Viability

The Group Board confirms that the Group has met the Regulator for Social Housing's regulatory expectations in the Governance and Financial Viability Standard. During the year the Group Board has complied with its adopted code of Governance (the NHF code of Governance – Excellence in Governance – Code for members). In May 2020, the Regulator of Social Housing completed an In Depth Assessment (IDA) on Watford Community Housing and the ratings of G1 V1 were maintained reflecting the highest regulatory ratings for both Governance and Viability.

Statement of Compliance

The Group Board confirm that this Strategic Report Review has been prepared in accordance with the principles set out in the 2018 SORP for registered housing providers.



John Swinney
Group's Board Chair

Group Board report

The Group Board of Watford Community Housing is pleased to present its report together with the audited financial statements of the Group for the year ended 31 March 2020.

Principal Activities, Business Review and Future Developments

Details of the Group's principal activities, its performance during the year and factors likely to affect its future development are contained within the Strategic Report, which precedes this report.

The Group Board and Executive Directors

The Group Board and executive directors who have served during the year are set out on page 2.. The Group Board members are 12 in number and are drawn from a wide background bringing together professional, commercial and local experience.

The executive directors hold no interest in the Group's shares and act as executives within the authority delegated by the Group Board.

The Group has in place insurance which indemnifies the Group Board members and staff against liabilities when acting for the Group.

Service contracts

The Chief Executive's notice period is six months, with the other executive directors having a three-month notice period. Other staff are employed on contracts with notice periods that range between one and three months.

Pensions

The executive directors are all members of the Group's stakeholder pension scheme. With the exception of the Chief Executive and the Director of Partnerships, to whom special terms apply, namely 15% and 10% employer's contribution respectively, all other executive directors participate in the scheme on the same terms as other eligible staff.

Other Benefits

The executive directors are entitled to other benefits such as health screening. Full details of individual remuneration packages are included in note 9 of the audited financial statements.

Employees

We recognise that the success of our business, and our ability to meet our objectives and commitments to tenants, depends on our employees. It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

The Group ensures that all employees understand their contribution towards delivery of the Business Plan 2016-20. This is reinforced by an online appraisal tool and regular individual meetings between managers and their direct reports, and by the Group's annual performance appraisal and goal-setting process.

The Group is firmly committed to equality of opportunity, and has in place modern employment policies that ensure that we are an attractive and engaging employer to individuals regardless of their gender, age, ethnicity, sexual orientation, religion or disability status. We are particularly proud to be Disability Confident accredited, creating opportunities for people with disabilities who might otherwise be disadvantaged in the workplace.

The health, safety and wellbeing of all of our employees is of prime importance. The Group has in place detailed health and safety policies, and provides staff training and education on health and safety matters, as well as more general wellbeing issues. The Group was recently assessed by the British Safety Council on Health and Safety and secured a 4 star rating (out of five).

Donations

The Group made donations totalling £369 during the year (2019: £383).

Financial Risk Management Objectives and Policies

The Group's operations are financed primarily by a mixture of long-term fixed rate bonds, medium term bank debt and by the reinvestment of surpluses. The Group also benefits from government grant, cash balances and trade creditors which arise directly from its operations. The main financial risks which arise in respect of its financing are considered by the Group Board to be interest rate risk, covenant risk, liquidity risk and credit risk. The Group Board reviews and agrees policies for managing each of these risks which are summarised below.

Brexit

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

Interest Rate Risk

The Group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and variable rate facilities, including interest rate swap instruments. At year end, drawn debt was 92% fixed, due to the long term fixed rate bonds, and having SWAPs in place to fully hedge £57m of floating rate debt.

Covenant Risk

Debt covenants are based on interest cover, asset cover and gearing. The Group regularly monitors its performance on both the present and 12 month forward looking basis, and builds in a headroom ("Golden Rules") for monitoring and reporting purposes.

Liquidity Risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and invests cash assets safely and profitably. This is achieved by having liquidity requirements in place, including a minimum cash requirement of sufficient cash to meet 3 months cashflow requirement, and sufficient cash and committed facilities to meet both 12 month's cashflow requirement and 18 month's development spend. The impact of the Group's changing cash requirements on these tests is also monitored on a regular basis.

At year end, in addition to available cash, the Group had £50 million of undrawn facilities and fully charged facilities.

Credit Risk

The Group has proved resilient to welfare reforms during the financial year with arrears and bad debts continuing to track in line with expectations. However, the changes as a result of the introduction of Universal Credit poses the highest credit risk for the Group. The payment of benefit for housing costs to tenants is likely to increase the risk of non-payment or underpayment of rents. This issue is likely to be further exacerbated by the Covid-19 pandemic. This could undermine cash flow and potentially diminish operating margins. To mitigate this risk, the Group's long-term financial plan is being revised accordingly and the incomes team has been strengthened within the Group to work with tenants on financial inclusion.

Going Concern

The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The Group has in place long-term debt facilities (including £50 million of undrawn facilities at 31 March 2020), which provide adequate resources to finance committed reinvestment and development programmes, along with the Group's day-to-day operations. The Group has a long-term business plan that shows it is able to service the debt facilities whilst continuing to comply with lenders' covenants. This business plan is stress-tested by our Treasury advisors to provide assurance that the plan has adequate capacity to absorb a range of multi-variate adverse economic stresses.

On this basis, the Group 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 twelve 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 Covid-19 Pandemic, which led to a lockdown in the UK in March 2020 has led to a number of risk and financial considerations for Watford Community Housing Group in terms of preparing these statements. In order to consider the impact on the Group, work has been undertaken to stress the business plan in line with the adverse conditions created by Covid-19 and consultation has taken place with our Treasury advisors on appropriate liquidity and cash holdings during this period. The Group Board has taken assurance that the liquidity and cash-holdings are strong for the Group even when facing uncertainty in terms of rental income and capital income from property sales.

The Group has also noted that no impairment is required at this stage based on the prudence and margins built into our schemes which have a level of sales risk. The impact continues to be reviewed regularly by the Group Board looking at key financial risk indicators and assessing these against our Golden Rules. The Group remains confident that it has a robust plan to manage the current pandemic but ongoing monitoring through cashflow forecasts, stress-testing and mitigation planning throughout will continue to provide assurance to the Group Board.

Internal Controls Assurance

The Group Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal control and conduct an annual review of the effectiveness of this system.

The Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the Group is on-going and has been in place throughout the period commencing 1 April 2019 up to the date of approval of the report and financial statements. These internal controls act to identify key risks and to provide reasonable assurance that planned business objectives are achieved. They also exist to give reasonable assurance that the financial and management performance information is reliable and that the Group's assets are safeguarded. However, the Group Board recognises that no system of internal control can provide absolute assurance against material misstatement or loss.

Key elements of the systems of the control framework include:

- Group Board approved terms of reference and delegated authorities for committees and subsidiaries
- annually reviewed financial regulations and standing orders to inform authority levels for decision making and appropriate procurement activity
- 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 significant new initiatives and commitments
- a robust approach to treasury management which is reviewed externally each year
- regular reporting to the appropriate Board / Committee on key business objectives, targets and outcomes
- Group Board approved whistle-blowing, anti-money laundering and fraud policies covering prevention, detection and reporting of issues
- regular monitoring of loan covenants and requirements for new loan facilities

A fraud, anti-money laundering and whistle-blowing register is maintained and reviewed by the Audit and Risk Committee on a quarterly basis. The Audit and Risk Committee also review quarterly a Register of Personal Data Breaches and Near Misses to support Group GDPR compliance.

The Group Board has delegated authority to the Audit and Risk Committee to regularly review the effectiveness of the system of internal control. The Group Board receives Audit and Risk Committee quarterly reports and minutes. The Committee has received the Chief Executive's annual review of the effectiveness of the system of internal control for the Group, and the annual report of the internal auditor, and has reported its findings to the Group Board.

Group Board report (continued)

Value for Money Standard

The Group Board sets annual VFM targets for the Management Team which are monitored on a quarterly basis by the Group Board. The Group is committed to delivering a demonstrable value-for-money service for tenants to ensure we demonstrate appropriate levels of performance to our stakeholders and also demonstrate compliance with the revised VFM Standard launched in April 2018.

National Housing Federation (NHF) 2015 Code of Governance

We are pleased to report that the Group complies with the principal recommendations of the NHF 2015 Code of Governance. The Group observes best practice with regard to corporate governance and complies with all the recommendations in the Code.

GDPR

The Audit and Risk Committee acts as the Group's Board-level data protection champion with delegated responsibility for monitoring GDPR compliance and approving key policies in this area. All Board and Committee members have been briefed on awareness and understanding of the impact of the Regulations. Following the Data Incident impacting a number of customers in March 2020, a number of measures were provided to all affected customers and the appropriate regulators were notified promptly regarding the incident. Work continues within the Group to strengthen controls, systems and training in this area.

Statement of the Responsibilities of the Group Board for the Report and Financial Statements

The Group 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 Group Board to prepare financial statements for each financial year. Under that law the Group Board have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), of which FRS102 Reporting Standard is included. Under the Co-operative and Community Benefit Societies Act the Group Board members 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 and the association for that period. In preparing these financial statements, Group Board members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Social Housing Providers Update 2018, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Group Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014. It is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

In so far as each member of the Group Board is aware:

- there is no relevant audit information of which the Group's auditor is not aware of, and
- the members of the Group Board have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant audit information to establish that the auditor is aware of that information.

Annual General Meeting

The annual general meeting will be held on 14 September 2020.

External auditor

A resolution to reappoint Mazars LLP as external auditor will be proposed at the forthcoming annual general meeting.

The report of the Group Board was approved by the Group Board on 20 July 2020 and signed on its behalf by:

John Swinney
Group Board Chair

Independent auditor's report to the members of Watford Community Housing Trust

We have audited the financial statements of Watford Community Housing Trust (the 'Trust') and its subsidiaries (the 'Group') for the year ended 31 March 2020 which comprise the Group and the Trust's Statements of Comprehensive Income, the Group and the Trust's Statements of Financial Position, the Group Statement of Cash Flows and the Group and the Trust's Statements of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and 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 Trust's affairs as at 31 March 2020 and of the Group's and the Trust's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2019.

Basis for opinion

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

Emphasis of matter – Going concern and the impact of the COVID-19 outbreak on the financial statements

In forming our opinion on the Group and parent company financial statements, which is not modified, we draw your attention to the Board's view on the impact of COVID-19 as disclosed on page 19 and the consideration in the going concern basis of preparation on page 35.

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

The impact of COVID-19 is still evolving and, based on the information available at this point in time, the Board have assessed the impact of COVID-19 on the business and reflected the Board's conclusion that adopting the going concern basis for preparation of the financial statements is appropriate.

Conclusions relating to going concern

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

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

Other information

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

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 requires us to report to you if, in our opinion:

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

Responsibilities of the Board

As explained more fully in the Statement of the Board's responsibilities set out on pages 18-20, 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 Trust'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 Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of the audit report

This report is made solely to the Trust's members as a body in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Trust'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 Trust and the Trust's members as a body for our audit work, for this report, or for the opinions we have formed.

Mazars LLP

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

Date: **27 July 2020**

Consolidated Statement of Comprehensive Income

For the Year Ended 31 March 2020

	Note	2020 £'000	2019 £'000
Turnover		34,190	34,928
Operating costs		(23,585)	(23,579)
Share of joint venture profit after tax	28	104	9
Surplus on disposal of property, plant and equipment	4	547	228
(Deficit) on revaluation of investment properties	14	(55)	-
Operating surplus		11,201	11,586
Finance Income	6	286	502
Interest and financing costs	5	(6,170)	(6,177)
Change in fair value of financial instruments		-	-
Surplus before tax		5,317	5,911
Taxation	10	6	(6)
Surplus for the financial year		**5,323**	**5,905**
Actuarial gain/(loss) in respect of pension schemes	23	1,237	(329)
Change in fair value of hedged financial instruments		(7,022)	(1,095)
Total comprehensive income for the year		**(462)**	**4,481**

These financial statements on pages 23 to 61 were approved and authorised for issue by the Board on 20 July 2020 signed on its behalf by:

John Swinney
Chair

Richard Archer
Chair of Audit & Risk Committee

Mary Swaine
Company Secretary

Consolidated Statement of Financial Position

As at 31 March 2020

	Note	2020 £'000	2019 £'000
Fixed Assets			
Intangible assets	11	(28,317)	(28,734)
Investments in joint ventures	28	2,973	2,869
Housing properties	12	306,933	286,933
Investment properties	14	4,040	4,095
Other property, plant and equipment	13	12,906	13,049
Total fixed assets		**298,535**	**278,212**
Current assets			
Stock - Work in progress		11,767	3,236
Debtors	17	3,220	5,472
Defined benefit pension	23	737	0
Cash and cash equivalents		24,954	30,482
Total current assets		**40,678**	**39,190**
Creditors: Amounts falling due within one year	18	(10,346)	(9,259)
Net current assets		**30,332**	**29,931**
Total assets less current liabilities		**328,867**	**308,143**
Creditors: Amounts falling due after more than one year	18	(215,477)	(193,210)
Defined benefit pension liability	23	-	(478)
Provision for liabilities	29	(1,342)	(1,897)
Net assets		**112,048**	**112,557**
Capital and reserves			
Revenue reserve		52,599	46,035
Property revaluation reserve		96,089	96,141
Cashflow hedge reserve		(36,640)	(29,619)
Total reserves		**112,048**	**112,557**

These financial statements on pages 23 to 61 were approved and authorised for issue by the Board on 20 July 2020 and signed on its behalf by:

John Swinney
Chair

Richard Archer
Chair of Audit & Risk Committee

Mary Swaine
Company Secretary

Statement of Comprehensive Income

For the year ended 31 March 2020

	Note	2020 £ '000	2019 £ '000
Turnover	3a	**33,297**	**35,059**
Operating expenditure	3a	(21,357)	(20,636)
Cost of sales	3a	(1,568)	(2,621)
Impairment of housing properties	2	-	(522)
Surplus on disposal of property, plant and equipment	4	547	228
(Deficit) on revaluation of investment properties	14	(55)	-
Operating surplus	**3a**	**10,866**	**11,508**
Finance Income	6	286	502
Interest and financing costs	5	(6,099)	(5,843)
Gift aid received		423	309
Change in fair value of financial instruments		-	-
Surplus before tax		5,475	6,476
Taxation	10	-	-
Surplus for the financial year		**5,475**	**6,476**
Actuarial gain/(loss) in respect of pension schemes	23	1,237	(329)
Change in fair value of hedged financial instruments	20	(7,022)	(1,095)
Total comprehensive income for the year		**(310)**	**5,052**

Statement of Financial Position

As at 31 March 2020

	Note	2020 £ '000	2019 £ '000
Fixed Assets			
Intangible assets	11	(28,317)	(28,734)
Housing properties	12	309,516	286,181
Investment properties	14	4,040	4,095
Other property, plant and equipment	13	12,906	13,049
Total fixed assets		**298,145**	**274,591**
Current assets			
Stock - Work in progress	16	8,803	3,236
Debtors	17	7,938	10,002
Defined benefit pension	23	737	-
Investment		-	-
Debtors due after one year		-	-
Cash and cash equivalents		24,012	29,879
Total current assets		**41,490**	**43,117**
Creditors: Amounts falling due within one year	18	(9,013)	(7,799)
Net current assets		**32,477**	**35,318**
Total assets less current liabilities		**330,622**	**309,909**
Creditors: Amounts falling due after more than one year	18	(215,477)	(193,210)
Defined benefit pension liability	23	-	(478)
Provision for liabilities	29	(1,179)	(1,897)
Net assets		**113,966**	**114,324**
Capital and reserves			
Revenue reserve		54,517	47,802
Property revaluation reserve		96,089	96,141
Cashflow hedge reserve		(36,640)	(29,619)
Total reserves		**113,966**	**114,324**

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John Swinney
Chair

Richard Archer
Chair of Audit & Risk Committee

Mary Swaine
Company Secretary

Consolidated Statement of Changes in Reserves

For the year ended 31 March 2020

	Revaluation Reserve £ '000	Cash Flow Hedge Reserve £ '000	Revenue Reserve £ '000	2020 Total £ '000
At 1 April 2019	**96,141**	**(29,619)**	**46,035**	**112,557**
Surplus for the year	-	-	5,378	5,378
Actuarial gain/(loss) in respect to pension scheme	-	-	1,237	1,237
Transfer from Revaluation Reserve to Revenue Reserve	(52)	-	52	-
Loss on disposal of assets	-	-	(103)	(103)
Changes in fair value movement of derivatives	-	(7,021)	-	(7,021)
At 31 March 2020	**96,089**	**(36,640)**	**52,599**	**112,048**

	Revaluation Reserve £ '000	Cash Flow Hedge Reserve £ '000	Revenue Reserve £ '000	2019 Total £ '000
At 1 April 2018	**96,145**	**(28,524)**	**40,456**	**108,077**
Surplus for the year	-	-	5,905	5,905
Actuarial gain/(loss) in respect to pension scheme	-	-	(329)	(329)
Transfer from Revaluation Reserve to Revenue Reserve	(4)	-	4	-
Changes in fair value movement of derivatives	-	(1,095)	-	(1,095)
At 31 March 2019	**96,141**	**(29,619)**	**46,035**	**112,557**

Watford Community Housing Statement of Changes in Reserves

For the year ended 31 March 2020

	Revaluation Reserve £ '000	Cash Flow Hedge Reserve £ '000	Revenue Reserve £ '000	2020 Total £ '000
At 1 April 2019	**96,141**	**(29,619)**	**47,802**	**114,324**
Surplus for the year	-	-	5,530	5,530
Actuarial gain in respect to pension scheme	-	-	1,237	1,237
Transfer from Revaluation Reserve to Revenue Reserve	(52)	-	52	-
Loss on disposal of assets	-	-	(103)	(103)
Changes in fair value movement of derivatives	-	(7,021)	-	(7,021)
At 31 March 2020	**96,089**	**(36,640)**	**54,517**	**113,966**

	Revaluation Reserve £ '000	Cash Flow Hedge Reserve £ '000	Revenue Reserve £ '000	2019 Total £ '000
At 1 April 2018	**96,145**	**(28,524)**	**41,652**	**109,273**
Surplus for the year	-	-	6,475	6,475
Actuarial loss in respect to pension scheme	-	-	(329)	(329)
Transfer from Revaluation Reserve to Revenue Reserve	(4)	-	4	-
Changes in fair value movement of derivatives	-	(1,095)	-	(1,095)
At 31 March 2019	**96,141**	**(29,619)**	**47,802**	**114,324**

Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	2020 £ '000	2019 £ '000
Net cash inflow from operating activities (see below)	9,974	17,613
Cash flows from investing activities		
Purchase of property, plant and equipment	(26,176)	(32,781)
Investment in Joint Venture	-	-
Proceeds from sale of property, plant and equipment	1,092	3,727
Grants received	2,777	1,725
Interest received	286	502
Net cash flows from investing activities	**(12,047)**	**(9,214)**
Cash flows from financing activities		
Interest paid	(6,158)	(6,175)
New secured loans	12,575	-
Loan repayments	-	(68)
Capital element of finance lease payments	102	(65)
Net cash flows from financing activities	**6,519**	**(6,308)**
Net increase in cash and cash equivalents	**(5,528)**	**(15,522)**
Cash and cash equivalents at beginning of year	30,482	46,004
Cash and cash equivalents at end of year	24,954	30,482

	2020 £ '000	2019 £ '000
Cash flow from operating activities		
Surplus for the year	5,317	5,911
Adjustment for non-cash items:		
Depreciation of property, plant and equipment	5,672	5,593
Amortisation of intangible assets	(417)	(417)
(Increase) / Decrease in inventories	(8,531)	1,153
Decrease / (increase) in debtors	2,252	(3,566)
Increase / (decrease) in creditors	442	3,597
Share of profit of joint ventures	(104)	(9)
Pension costs less contributions payable	10	7
Carrying amount of property, plant & equipment disposals	545	3,493
(Increase)/decrease in fair value of investment property	112	-
Adjustments for investing or financing activities:		
Proceeds from the sale of property, plant and equipment	(1,092)	(3,727)
Movement in fair value of financial instrument	-	-
Government grants utilised in the year	(116)	(99)
Interest received	(286)	(502)
Interest payable	6,170	6,179
Cash generated by operations	**9,974**	**17,613**

Notes to the Financial Statements

For the year ended 31 March 2020

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

Basis of Accounting

The financial statements are prepared under the historical cost convention, as modified for the revaluation of housing properties and to include certain items at fair value, in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The financial statements comply with the Statement of Recommended Practice for registered social housing providers 2018 (SORP), the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. The accounts are produced on a going concern basis. The accounts present information about the Group that includes the parent entity Watford Community Housing Trust and its subsidiaries WCHT Devco Limited and Clarendon Living Limited (CLL), as well as its investment in four joint ventures via CLL, namely Hart Homes (Watford) Limited, Hart Homes Watford Development LLP, Three Rivers Homes Limited and Three Rivers Housing Developments LLP.

Watford Community Housing is a public benefit entity, as defined in FRS102 and has applied the relevant paragraphs prefixed "PBE" in FRS102.

The parent entity meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside these consolidated financial statements. Exemptions have been taken in relation to the following:-

- A Statement of Cash Flows has not been presented for the parent company;
- Certain disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole.

Basis of consolidation

The Group financial statements consolidate those of the parent and its subsidiary undertakings drawn up to 31 March 2020. Intra-group transactions are eliminated in full in accordance with FRS 102. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Property, Plant and Equipment - Housing Properties

Housing properties are stated at deemed cost for assets held at valuation at the date of transition to FRS 102. Cost includes the cost of acquiring land and buildings, directly attributable development costs and borrowing costs directly attributable to the construction of new housing properties during the development. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Depreciation is charged so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis, over their useful economic lives. Freehold land is not depreciated. The Group's housing properties have an expected useful life of 80 years.

Major components

Major components are treated as separable assets and depreciated on a straight line basis over their expected useful economic lives or of the structure to which they relate, if shorter, as follows:

Wall Structure	80 years
Roof Structure	50 years
Windows	30 years
External doors	30 years
Bathrooms	30 years
Heating distribution / electrical	30 years
Electrical systems	30 years
Lifts & Stair lifts	30 years
Kitchens	20 years
Garages	20 years
Heating Boilers	15 years
Communal doors and entry	15 years

Properties held on long leases are depreciated over their estimated useful economic lives or the lease duration if shorter.

Improvements

Where there are improvements to housing properties that are expected to provide incremental future benefits, these are capitalised and added to the carrying amount of the property. Any works to housing properties which do not replace a component or result in an incremental future benefit are charged as expenditure in surplus or deficit in the Statement of Comprehensive Income.

Joint Ventures

Entities in which the Group holds an interest and which are jointly controlled by the Group and one or more other partner under a contractual arrangement are treated as joint ventures. In the Group financial statements, joint ventures are accounted for using the equity method. In the parent company financial statements, investments in joint ventures are accounted for at cost less impairment and dividends receivable. The Group assesses at each reporting date whether there is any indication of impairment.

Leaseholders

Where the rights and obligations for improving a housing property reside with the leaseholder or tenant, any works to improve such properties incurred by the Group is recharged to the leaseholder and recognised in surplus or deficit in the Statement of Comprehensive Income along with the corresponding income from the leaseholder or tenant.

Non-Housing Property, Plant and Equipment

Non-housing property, plant and equipment is stated at historic cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all non-housing property, plant and equipment, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold office buildings	80 years
Office refurbishment	30 years
Furniture, fixtures and fittings	4 -10 years
Computers and office equipment	3 -5 years
Motor vehicles	3 years

Investment Properties

The classification of properties as investment property or property plant and equipment is based upon the intended use of the property. Properties held to earn commercial rentals or for capital appreciation or both are classified as investment properties. Properties that are used for administrative purposes or that are held for the provision of social housing are treated as property plant and equipment. Mixed use property is separated between investment property and property, plant and equipment.

Land is accounted for based on its intended use. Where land is acquired speculatively with the intention of generating a capital gain and/ or a commercial rental return it is accounted for as investment property. Where land is acquired for use in the provision of social housing or for a social benefit it is accounted for as property, plant and equipment.

Investment properties are measured at fair value annually with any change recognised in surplus or deficit in the Statement of Comprehensive Income.

Intangible Assets

Negative Goodwill arose on the acquisition of a business whereby the fair value of the net assets acquired exceeded the acquisition cost. This negative goodwill is written off (amortised) over the remaining economic lives of the underlying housing assets, namely 80 years.

Impairment of Social Housing Properties

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

The Group has also noted that no impairment is required at this stage based on the prudence and margins build into our schemes which have a level of sales risk. The impact continues to be reviewed regularly by the Group Board looking at key financial risk indicators and assessing these against our Golden Rules. The Group remains confident that it has a robust plan to manage the current pandemic but ongoing monitoring through cashflow forecasts, stress-testing and mitigation planning throughout will continue to provide assurance to the Group Board.

Social Housing Grant and Other Grants

Government grants are recognised using the accrual model and are classified either as a grant relating to revenue or a grant relating to assets.

Grants relating to revenue are recognised in income on a systematic basis over the period in which related costs for which the grant is intended to compensate are recognised. Where a grant is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised as revenue in the period in which it becomes receivable.

Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset. Grants received for housing properties are recognised in income over the expected useful life of the housing property structure. Where a grant is received specifically for components of a housing property, the grant is recognised in income over the expected useful life of the component.

Social Housing Grant (SHG) is receivable from Homes England in respect of capital costs of housing properties, including the land cost, and is amortised over the useful life of the structure (or the useful life of the component if the SHG relates to a component). SHG released on sale of a property may be repayable but is normally available to be recycled and is included in the Statement of Financial Position to recognise this obligation as a liability. Grants received from non-government sources are recognised as revenue using the performance model.

Recycling of Grants

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

For shared ownership staircasing sales, when full staircasing has not taken place, the recycling of the grant may be deferred if the net sales proceeds are insufficient to meet the grant obligation relating to the disposal and is not to be recognised as a provision. On subsequent staircasing sales, the requirement to recycle the grant becomes an obligation if sufficient sales proceeds are generated to meet the obligation and a provision is recognised at this point.

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, any unamortised grant remaining within liabilities in the Statement of Financial Position related to this asset is derecognised as a liability and recognised as revenue in surplus or deficit in the Statement of Comprehensive Income.

Agreements to Improve Existing Properties

Where an agreement has been entered into whereby the Group has prepaid a third party to undertake work to existing properties and at the same time, there is an agreement with the same third party to undertake the improvement work on behalf of the third party, the rights to have improvement works carried out to properties by the third party are recognised as prepayments where payment has occurred in advance of the works being carried out and receipts in advance from the same third party are recognised as liabilities.

Finance Leased Assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where this is not implicit in the lease, the Group's average rate of borrowing has been applied.

Finance assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date. The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to surplus or deficit in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Properties for outright sale

Properties developed for outright sale and land held for sale are measured at the lower of cost and estimated selling price less costs to complete and sell. Cost includes materials, direct labour and an attributable proportion of overheads based on normal levels of activity.

Interest Payable

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

Interest is capitalised on borrowings to finance developments to the extent that it accrues in respect of the period of development if it represents interest on borrowings specifically financing the development programme after deduction of Social Housing Grant (SHG) received in advance. Other interest payable is charged to the Statement of Comprehensive Income.

Loan Finance Issue Costs

These are written off evenly 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 written off. 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.

Pensions

The Group is a participating employer in the Hertfordshire County Council Pension Fund (HCCPF), which is a multi-employer scheme, in respect of those employees already in the scheme who transferred from Watford Borough Council. For this scheme the amounts charged to operating surplus are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to revenue and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained annually and are updated at each Statement of Financial Position date.

The Group also operates a Defined Contribution Scheme for employees. The scheme is administered by an independent third party administrator and the funds are held independent of the Group. The annual contributions payable are charged to the Statement of Comprehensive Income in respect of pension costs. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

Turnover

Turnover comprises rental income receivable in the year and other services at the invoiced value (net of rent and service charge losses from voids) and disposal proceeds of current assets such as properties developed for outright sale or shared ownership first tranche sales at completion together with revenue grants from local authorities and the Regulator of Social Housing and charitable fees and donations and revenue grants receivable 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. Service charge income is recognised when expenditure is incurred as this is considered to be the point at which the service has been performed and the revenue recognition criteria met.

Value Added Tax (VAT)

Each entity within the Group is VAT registered. Watford Community Housing 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 parent and not recoverable from HM Revenue & Customs (HMRC). The balance of VAT payable or recoverable at the year-end is included as a current liability or asset.

Service Charge Sinking Funds and Service Costs

Unutilised contributions to service charge sinking funds and over-recovery of service costs which are repayable to tenants or leaseholders or are intended to be reflected in reductions to future service charge contributions are recognised as a liability in the Statement of Financial Position. The amount included in liabilities in respect of service charge sinking funds includes interest credited to the fund. Where there has been an under-recovery of leaseholders' or tenants' variable service charges and recovery of the outstanding balance is virtually certain, the balance is recognised in the Statement of Financial Position as a trade receivable. Debit and credit balances on individual schemes are not aggregated as there is no right of set-off.

Supported Housing and Other Managing Agents

Where the Group has ownership of a supported housing or other scheme but also has an agreement with a third party to manage the scheme (including Supporting People funded schemes or services), where there has been a substantial transfer of the risks and benefits attached to the scheme to the third party, any scheme revenue and expenditure is excluded from these financial statements.

Shared Ownership Property Sales

Shared ownership properties, including those under construction, are split between non-current assets and current assets. The split is determined by the percentage of the property to be sold under the first tranche disposal which is shown on initial recognition as a current asset, with the remainder classified as a non-current asset within property plant and equipment. Where this would result in a surplus on the disposal of the current asset that would exceed the anticipated overall surplus, the surplus on disposal of the first tranche is limited to the overall surplus by adjusting the costs allocated to current or noncurrent assets.

Proceeds from first tranche disposals are accounted for as turnover in the Statement of Comprehensive Income of the period in which the disposal occurs and the cost of sale is transferred from current assets to operating costs. Proceeds from subsequent tranche sales are treated as disposals of fixed assets.

Financial Instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets carried at amortised cost

Financial assets carried at amortised cost comprise rent arrears, trade and other receivables and cash and cash equivalents. Financial assets are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

If there is objective evidence that there is an impairment loss, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced accordingly.

A financial asset is derecognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and reward are transferred.

If an arrangement constitutes a financing transaction, the financial asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities carried at amortised cost

These financial liabilities include trade and other payables and interest bearing loans and borrowings. Non-current debt instruments which meet the necessary conditions in FRS 102 are initially recognised at fair value adjusted for any directly attributable transaction cost and subsequently measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the Statement of Comprehensive Income. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Financing transactions – rent arrears

For rent arrears where the arrangement constitutes, in effect, a financing transaction because of extended credit arrangements the arrears are derecognised as a financial asset and a new financial asset measured at the present value of the future payments discounted at an appropriate market rate of interest. The present value adjustment is recognised in surplus or deficit in the Statement of Comprehensive Income.

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in surplus or deficit immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in surplus or deficit depends on the nature of the hedge relationship.

Public benefit entity concessionary loans

Where loans are made or received between a public benefit entity within the Group or an entity within the public benefit entity group and other party at below the prevailing market rate of interest that are not repayable on demand and are for the purposes to further the objectives of the public benefit entity or public benefit entity parent, these loans are treated as concessionary loans and are recognised in the Statement of Financial Position at the amount paid or received and the carrying amount adjusted to reflect any accrued interest payable or receivable.

Cash and cash equivalents

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

Gift aid payments

Gift aid payments are credited to income when received.

Going Concern

The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The Group has in place long-term debt facilities (including £43 million of undrawn facilities at 31 March 2020), which provide adequate resources to finance committed reinvestment and development programmes, along with the Group's day-to-day operations. The Group has a long-term business plan that shows it is able to service the debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the Group 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 twelve 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 Covid-19 Pandemic, which led to a lockdown in the UK in March 2020 had led to a number of risk and financial considerations for Watford Community Housing Group in terms of preparing these statements. In order to consider the impact on the Group, work has been undertaken to stress the business plan in line with the adverse conditions created by Covid-19 and work has been undertaken with our Treasury advisors on appropriate liquidity and cash holdings during this period. The Group Board has taken assurance that the liquidity and cash-holdings are strong for the Group even when facing uncertainty in terms rental income and capital income from property sales.

2. Significant management judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant management judgements

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

- **Impairment of social housing properties:** The Group identifies factors which are considered to be a trigger for impairment. For those schemes so identified the Group compares the carrying amount of the assets to the recoverable amount to determine if an impairment loss has occurred. Based on this assessment, the Group calculates the Depreciated Replacement Cost (DRC) of each social housing property scheme, using appropriate construction costs and land prices. Comparing this to the carrying amount of each scheme shows whether there is any impairment of social housing properties. Where DRC is not relevant, the value in use is calculated as the present value of the future cash flows expected to be derived from the asset.
- An impairment review has been carried out at 31 March 2020 to determine whether any assets required impairment. Two development schemes were identified as requiring in-depth assessments. Following these assessments, no impairment loss has been recognised at the reporting date.
- To determine the impairment charge, the impairment assessment performed a value in use net present value calculation for the cash generating units, using an appropriate discount rate to reflect its ability to secure finance over the development term. For the assets which were identified as non-cash generating social assets, these were assessed on a value in use depreciated replacement cost basis.
- **Capitalisation of works to existing properties:** Amounts capitalised within works to existing properties include the cost of replacing components of housing properties. This involves judgement and estimation around areas such as which costs to include in the amount capitalised, how much cost to de-recognise as a replacement, the number of different components and their assigned useful economic lives

Estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

- **Fair value measurement:** The Group carries its investment properties at fair value and engages independent valuers to determine fair value using a valuation technique based on a discounted cash flow model. The calculated fair value of the investment property therefore uses assumptions, of which the most sensitive relate to the estimated yield and the long term vacancy rate.
- **Derivative financial instruments:** These comprise standalone interest rate swaps and are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. This requires assumptions underlying the estimation of the fair values.
- **Components of housing properties and useful lives:** Major components of housing properties have significantly different patterns of consumption of economic benefits and estimates are made to allocate the initial cost of the property to its major components and to depreciate each component separately over its useful economic life. The Group considers whether there are any indications that the useful lives require revision at each reporting date to ensure that they remain appropriate.
- **Negative goodwill:** To ensure that the value of negative goodwill in the financial statements is fairly stated, the balance is written off (amortised) over the remaining economic lives of the underlying housing assets and this is a key assumption by management underpinning the carrying value.
- **Provisions:** Provision is made for bad debts. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.
- **Defined benefit pension scheme:** Watford Community Housing has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the Statement of Financial Position. The assumptions reflect historical experience and current trends.

3a. Particulars of turnover, cost of sales, operating costs and operating surplus - Watford Community Housing

	2020 Turnover £'000	2020 Operating costs £'000	2020 Operating surplus £'000	2019 Turnover £'000	2019 Operating costs £'000	2019 Operating surplus £'000
Social housing lettings (see note 3b)	**28,816**	**(19,614)**	**9,202**	**28,569**	**(18,736)**	**9,833**
Other social housing activities						
Supporting people contract income	28	(28)	-	27	(27)	-
Management services	487	(346)	141	648	(201)	447
Other	315	(894)	(578)	466	(940)	(474)
	830	(1,267)	(436)	1,141	(1,169)	(28)
Non-social housing activities						
Lettings	1,217	(832)	385	1,057	(1,321)	(264)
Other	56	(60)	(4)	56	(351)	(295)
Amortisation of Goodwill	-	417	417	-	417	417
Shared Ownership Equity & Sales Income	2,378	(1,568)	810	4,236	(2,621)	1,615
Surplus on disposal of property, plant & equipment	-	547	547	-	228	228
Deficit on revaluation of Investment Propeties	-	(55)	(55)	-	-	-
	3,651	**(1,550)**	**2,100**	**5,349**	**(3,648)**	**1,701**
	33,297	**(22,432)**	**10,866**	**35,059**	**(23,552)**	**11,508**

The Group statement recognises additional turnover of £893k related to property sales within the Clarendon Living Limited subsidiary, and additional costs of £557k related to cost of sales also within Clarendon Living Limited. The net increase in surplus is £336k

Notes

3b. Particulars of Income and Expenditure from Social Housing Lettings - Watford Community Housing

	General needs housing	Supported housing and housing for older people	Shared ownership	2020 Total	2019 Total
	£'000	£'000	£'000	£'000	£'000
Income					
Rent Receivable net of identifiable service charges	24,626	2,128	504	27,258	27,013
Service income	624	713	51	1,388	1,439
Amortisation of SHG	116	-	-	116	99
Other Revenue Grants	54	-	-	54	18
Turnover from social housing lettings	**25,420**	**2,841**	**555**	**28,816**	**28,569**
Expenditure					
Management costs	(7,569)	(952)	(298)	(8,819)	(8,436)
Service charge costs	(639)	(561)	(88)	(1,288)	(1,226)
Routine maintenance	(2,890)	(350)	-	(3,239)	(3,397)
Planned maintenance	(475)	(57)	-	(532)	(461)
Major repairs expenditure	(249)	(30)	-	(280)	(260)
Bad debts	(413)	(4)	25	(392)	(141)
Depreciation of housing properties	(4,571)	(312)	(180)	(5,063)	(4,814)
Operating costs on social housing lettings	(16,806)	(2,266)	(541)	(19,614)	(18,736)
Operating surplus on social housing lettings	8,615	575	14	9,202	9,833
Void losses	**751**	**95**	**-**	**846**	**920**
Number of units	4,268	537	168	4,973	4,808

4. Surplus on disposal of property, plant and equipment - Group and Watford Community Housing

	2020 £'000	2019 £'000
Right to Buy & shared ownership staircasing		
Disposal Proceeds	1,862	2,902
Less: Share of proceeds due to Watford Borough Council	(220)	(2,138)
Less: carrying value of fixed assets	(510)	(603)
Surplus on disposal	**1,132**	**161**
Other disposals		
Proceeds	-	69
Less: carrying value of fixed assets	(585)	(2)
Deficit on disposal	(585)	67
Total surplus on disposal	**547**	**228**

5. Interest and finance costs - Group

	2020 £'000	2019 £'000
Bank loan and overdraft	6,662	6,665
Finance lease charges	11	6
Loan fee costs	119	84
Capitalised Interest	(622)	(579)
	6,170	**6,177**
Interest and finance costs - Watford Community Housing		
Bank loan and overdraft	6,591	6,331
Finance lease charges	11	6
Loan fee costs	119	84
Capitalised Interest	(622)	(579)
	6,099	**5,843**

Borrowing costs have been capitalised based on a capitalisation rate of 3.94% (2019: 4.055%) which is the weighted average of rates applicable to Watford Community Housing's general borrowings outstanding during the year.

6. Interest receivable and other income - Group and Watford Community Housing

	Group		WCH	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Interest receivable and similar income	**286**	**502**	**286**	**502**

7. Surplus on ordinary activities before taxation

Surplus on ordinary activities before taxation is stated after charging/(crediting):

	2020	2019
	£'000	£'000
Depreciation of housing properties	4,939	4,803
Depreciation of other property, plant & equipment	733	789
Government grant amortisation	(116)	(99)
Amortisation of goodwill	(417)	(417)
Operating lease rental	73	54
(Gain) on disposal of fixed assets	(547)	(234)
External auditors remuneration:		
- Statutory audit	30	26
- Tax advisory/compliance services	7	37

8. Staff costs

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

	2020 No.	2019 No.
Administration	97	66
Asset Management and Development	14	21
Housing, Support and Care	25	55
In-House Repairs team	45	54
	181	**196**

Employee costs:

	2020 £'000	2019 £'000
Wages and Salaries	5,650	5,498
Social Security Costs	602	584
Other Pension Costs	568	516
	6,820	**6,598**

In addition to employee costs are redundancy and severance payments of £0.0k (2019: £4.7k)

The full time equivalent number of staff which includes executive directors who received remuneration from £60,000 upwards are as follows:

Salary Band

	2020 No.	2019 No.
£60,000 to £69,999	5	5
£70,000 to £79,999	1	1
£80,000 to £89,999	1	1
£90,000 to £99,999	1	-
£100,000 to £109,999	-	1
£110,000 to £119,999	1	3
£120,000 to £129,999	2	-
£130,000 to £139,999	-	-
£140,000 to £149,999	-	-
£150,000 to £159,999	-	1
£160,000 to £169,999	-	-
£170,000 to £179,999	1	-

Notes

9. Board members and executive directors

Executive Directors	Basic Salary £'000	Performance Related Pay £'000	Pension Contributions £'000	Ex Gratia Payment £'000	2020 Total £'000	2019 Total £'000
Chief Executive						
Tina Barnard	145.0	4.1	21.8	-	**170.9**	**158.0**
Director of Partnerships						
Gareth Lewis	115.0	3.2	11.5	-	**129.7**	**117.6**
Director of Finance						
Paul Richmond	115.0	3.2	11.1	-	**129.3**	**116.6**
Director of Operations						
Ben Johnson	105.0	3.0	11.4	-	**119.4**	**111.9**
Total	**480.0**	**13.5**	**55.8**	**-**	**549.3**	**504.1**

Board Members	Basic Salary £'000	Performance Related Pay £'000	Pension Contributions £'000	Ex Gratia Payment £'000	2020 Total £'000	2019 Total £'000
Chair of the Board						
John Swinney	11.3	-	-	-	**11.3**	**9.1**
Other Board and Committee Members						
Richard Barwick	2.0	-	-	-	**2.0**	**1.5**
Nigel Benjamin	7.0	-	-	-	**7.0**	**6.0**
Janice Blake	2.0	-	-	-	**2.0**	**1.5**
Razvana Hussain	4.5	-	-	-	**4.5**	**3.0**
Jeremy Kape (resigned 31/07/2018)	0.0	-	-	-	**0.0**	**2.0**
Raj Kumar	7.0	-	-	-	**7.0**	**6.0**
Bernadette Laventure (resigned 31/8/2019)	2.9	-	-	-	**2.9**	**6.0**
Michael Lavers	7.0	-	-	-	**7.0**	**6.0**
Andy Lynch	4.5	-	-	-	**4.5**	**2.1**
Serah Mahugu	2.0	-	-	-	**2.0**	**1.5**
Christopher Pagdin	2.0	-	-	-	**2.0**	**1.5**
Jamie Ratcliff	6.4	-	-	-	**6.4**	**3.5**
Lynn Riley	2.0	-	-	-	**2.0**	**1.5**
Marsha Thompson	4.5	-	-	-	**4.5**	**3.0**
Stephen Cavinder (appointed 1/6/2019)	4.3	-	-	-	**4.3**	**0.0**
Michael Comras (apppointed 1/9/2019)	2.6	-	-	-	**2.6**	**0.0**
Chris Cheshire (appointed 1/11/2019)	2.9	-	-	-	**2.9**	**0.0**
Richard Archer (appointed 1/9/2019)	4.1	-	-	-	**4.1**	**0.0**
Total	**79.0**	**-**	**-**	**-**	**79.0**	**54.2**

The Board agreed to remunerate its Chair during the year. Remuneration paid to Chair of the Board was £11.3k (2019: £9.1k). Remuneration paid to other Board members in the year was £67.8k (2019: £45.1k). Board members expenses were £18.8k (2019: £15.3k).

The emoluments of the highest paid director, the Chief Executive, including Performance Related Pay but excluding pension contributions, were £149.0k (2019: £137.7k).

The Chief Executive is a member of the stakeholder scheme with Standard Life. She is an ordinary member of the pension scheme but special terms apply. The Group does not make any further contribution to an individual pension arrangement for the Chief Executive.

10. Taxation

The Group recognised a tax charge of £6k for 2018/19, which was subsequently reversed in 2019/20. When completing the Corporation Tax return for 2018/19 for the Clarendon Living Limited subsidiary it was evident that the tax charge recognised was no longer applicable. The reversal of this within 2019/20 creates the tax credit on the Consolidated Statement of Comprehensive Income.

11. Intangible non-current assets: negative goodwill

The stock transfer from Watford Borough Council on 10 September 2007 has been treated as an acquisition of an equity business in accordance with the SORP 2014. All assets and liabilities were stated at their fair value on acquisition.

As the fair value on acquisition was greater than the acquisition cost, a negative goodwill of £33.3m arose. This is being amortised over the useful economic life of the assets, which is 80 years. Annual amortisation charge is £417k.

	£ '000
Cost	
At 1st April 2019 and 31st March 2020	33,326
Amortisation	
At 1st April 2019	(4,592)
Charge for the year	(417)
At 31st March 2020	(5,009)
Net book value	
At 31st March 2020	**28,317**
At 31st March 2019	**28,734**

12. Property, plant and equipment - housing properties - Group

	Social housing properties held for letting £'000	Social housing properties under construction £'000	Completed shared ownership housing properties £'000	Completed Housing Properties for Outright sale £'000	2020 Total £'000
Cost					
At 1 April 2019	255,769	50,050	5,531	-	311,350
Reclassification to debtors (note 17)	-	(85)	-	-	(85)
Reclassification to stock (note 16)	-	(6,042)	(147)	-	(6,189)
Additions	-	28,106	-	-	28,106
Completed properties	12,942	(25,378)	12,436	-	-
Works on existing properties	3,676	-	-	-	3,676
Disposals	(330)	-	(302)	-	(632)
At 31 March 2020	**272,057**	**46,651**	**17,518**	**-**	**336,226**
Depreciation and impairment					
At 1 April 2019	24,121	-	296	-	24,417
Charge for the year	4,754	-	185	-	4,939
Released on disposal	(26)	-	(37)	-	(63)
At 31 March 2020	**28,849**	**-**	**444**	**-**	**29,293**
NET BOOK VALUE					
At 31 March 2020	**243,208**	**46,651**	**17,074**	**-**	**306,933**
At 31 March 2019	231,648	50,050	5,235	-	286,933

Notes

12. Property, plant and equipment - housing properties - Watford Community Housing

	Social housing properties held for letting £'000	Social housing properties under construction £'000	Completed shared ownership housing properties £'000	2020 Total £'000
Cost				
At 1 April 2019	255,769	49,297	5,531	310,597
Reclassification to stock (note 16)	-	(3,224)	(147)	(3,371)
Additions	-	28,539	-	28,539
Completed properties	12,942	(25,378)	12,436	-
Works on existing properties	3,676	-	-	3,676
Disposals	(330)	-	**(302)**	**(632)**
At 31 March 2020	272,057	49,234	**17,518**	**338,809**
Depreciation and impairment				
At 1 April 2019	24,121	-	296	24,417
Charge for the year	4,754	-	185	4,939
Released on disposal	(26)	-	(37)	(63)
At 31 March 2020	28,849	-	444	29,293
NET BOOK VALUE				
At 31 March 2020	**243,208**	**49,234**	**17,074**	**309,516**
At 31 March 2019	231,648	49,297	5,235	286,180

Additions to housing under construction include capitalised interest of £0.6m (2019 £0.6m). Interest is capitalised at the weighted average interest cost for the Trust at 3.94%.

During the year the Group disposed of 6 properties (2019: 10 properties) to tenants under RTB entitlements. These properties were valued at £1.7m during the year (2019: £3.3m).

13. Property, plant and equipment - other - Group & Watford Community Housing

	Freehold properties £'000	Office Computers £'000	Furniture and fittings £'000	Office equipment and vehicles £'000	2020 Total £'000
Cost					
At 1 April 2019	14,350	2,062	539	824	**17,775**
Additions	38	281	-	245	**564**
Disposals	-	-	-	(143)	**(143)**
At 31 March 2020	14,388	2,343	539	926	**18,196**
Depreciation and impairment					
At 1 April 2019	2,362	1,580	121	661	**4,724**
Charge for the year	348	185	13	187	**733**
Released on disposal	-	-	-	(167)	**(167)**
At 31 March 2020	2,710	1,765	134	681	**5,290**
NET BOOK VALUE					
At 31 March 2020	**11,678**	**578**	**405**	**245**	**12,906**
At 31 March 2019	11,987	482	417	163	**13,049**

The increase in the additions compared to last year relates to additional vehicles and the refurbishment at Gateway House.

Notes

14. Investment properties - Group & Watford Community Housing

	2020 Properties held for market rent £'000	2019 Properties held for market rent £'000
Valuation as at 1 April	4,095	4,095
Additions	-	-
Disposals	-	-
Loss from adjustment to fair value	(55)	-
At 31 March	**4,040**	**4,095**

15. Group Subsidiaries

Clarendon Living Limited, a non-regulated subsidiary of Watford Community Housing, traded throughout 2019/20. The investment in the subsidiary is £1 share capital.

WCHT Devco Limited, a non-regulated subsidiary and wholly owned by Watford Community Housing, traded throughout 2019/20. The investment in the subsidiary is £2 share capital.

16. Stock - Group

	Completed SO 1st tranche £'000	Work in Progress - SO 1st tranche £'000	Work in Progress - Completed Outright Sale £'000	Total £'000
COST:				
At 1 April 2019	284	2,404	548	3,236
Additions	-	2,492	6,039	8,531
At 31 March 2020	**284**	**4,896**	**6,587**	**11,767**

16. Stock - Watford Community Housing

	Completed SO 1st tranche £'000	Work in Progress - SO 1st tranche £'000	Work in Progress - Completed Outright Sale £'000	Total £'000
COST:				
At 1 April 2019	284	2,404	548	3,236
Additions	-	2,492	3,075	5,567
At 31 March 2020	**284**	**4,896**	**3,623**	**8,803**

17. Debtors - Group

	2020 £'000	2019 £'000
Rent and service charges arrears	1,035	1,075
Less: Provision for bad and doubtful debts	(878)	(518)
	157	557
Service charges sinking fund account	309	273
Escrow account	258	142
Other debtors	1,964	4,086
Prepayments and accrued income	532	414
Debtors due within one year	**3,220**	**5,472**
Due after more than one year	**-**	**-**
Total Debtors	**3,220**	**5,472**

17. Debtors - Watford Community Housing

	2020 £'000	2019 £'000
Due within one year		
Rent and service charges arrears	1,035	1,075
Less: Provision for bad and doubtful debts	(878)	(518)
	157	557
Service charges sinking fund account	309	273
Escrow account	258	142
Other debtors	1,687	1,053
Loans to subsidiaries	2,085	4,653
Prepayments and accrued income	532	414
Debtors due within one year	**5,028**	**7,092**
Due after more than one year		
Loans to subsidiaries	2,910	2,910
Due after more than one year	2,910	2,910
Total Debtors	**7,938**	**10,002**

18. Creditors: amounts falling due within one year - Group

	2020 £'000	2019 £'000
Trade creditors	394	561
Rent and service charges received in advance	1,314	1,083
Government grants	144	106
Other taxation and social security	173	160
Pension Contributions	63	59
Other creditors	3,765	3,319
Finance lease liability	145	89
Accruals and deferred income	4,348	3,882
	10,346	**9,259**

18. Creditors: amounts falling due after one year - Group

	2020 £ '000	2019 £ '000
Bank loans	167,636	155,061
Government grants	10,965	8,342
Derivative financial instruments	36,644	29,621
Finance lease obligation	232	186
Creditors: amount falling due after more than one year	**215,477**	**193,210**

18. Creditors: amounts falling due within one year - Watford Community Housing

	2020 £'000	2019 £'000
Trade creditors	686	357
Rent and service charges received in advance	1,314	1,083
Government grants	144	106
Other taxation and social security	173	160
Pension Contributions	63	59
Other creditors	803	2,009
Finance lease liability	145	89
Accruals and deferred income	5,685	3,936
	9,013	**7,799**

18. Creditors: amounts falling due after one year - Watford Community Housing

	2020 £ '000	2019 £ '000
Bank loans	167,636	155,061
Government grants	10,965	8,342
Derivative financial instruments	36,644	29,621
Finance lease obligation	232	186
	215,477	**193,210**

All of the above mentioned bank loans and the derivative financial instruments liability are fully secured against properties.

The maturity profile of the drawn debt shown above is :

Within 1 year £nil (£nil)

Between 1 and 5 years : £13.0m (£nil)

After 5 years : £154.6m (£155.1m)

£100m of the drawn debt is funded through long term, fixed rate loans (the AHF and M&G respective facilities), and £57m of the Barclays debt is perfectly hedged with financial instruments (swaps).

The £13m drawn in March 2020 is variable rate. 92% of the drawn debt is therefore fixed rate. The weighted average cost of drawn borrowing is 3.94%.

19. Deferred income - Government grants - Group and Watford Community Housing

	2020 £'000	2019 £'000
At 1 April	8,448	6,823
Grants receivable	2,778	1,724
Total Grant Received	**11,226**	**8,547**
Amortisation to Statement of Comprehensive Income	(116)	(99)
At 31 March	11,110	8,448
Due within one year	144	106
Due after one year	10,966	8,342

20. Financial instruments - Group and Watford Community Housing

The carrying values of the financial assets and liabilities are summarised by category below:

	2020 £'000	2019 £'000
Financial assets		
Measured at undiscounted amount receivable		
Rent arrears and other debtors (see note 17)	157	557
	157	**557**
Financial liabilities		
Measured at fair value and designated in an effective hedging relationship		
Derivative financial liabilities (see note 18)	36,644	29,621
Measured at amortised cost		
Loans payable (see note 18)	167,636	155,061
Measured at undiscounted amount payable		
Trade and other creditors (see note 18)	9,013	7,799
	213,293	**192,481**

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	2020 £'000	2019 £'000
Fair value gains and losses		
On financial assets (including listed investments) measured at fair value through Statement of Comprehensive Income	-	-

	2020 £'000	2019 £'000
Obligation under finance leases		
In one year or more but less than two years	145	89
In two years or more but less than five years	232	186
In five years or more	-	-
	377	275

21. Derivative financial instruments

Derivatives that are designated and effective as hedging instruments carried at fair value.

	2020 £'000	2019 £'000
Interest rate swaps creditors	**36,644**	**29,621**

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Interest rate swap contracts - Group and Watford Community Housing

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

The interest rate swap contracts are designated as hedges of variable interest rate risk of recognised financial liabilities.

	Notional principal value		Fair value	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Outstanding receive floating pay fixed contracts				
5 years +	57,000	57,000	36,644	29,621

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Group's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

22. Non-equity share capital - Group and Parent

	2020 No.	2020 £	2019 No.	2019 £
Shares of 10p each issued and fully paid				
At 1 April	2,522	252	2,563	256
Shares issued during the year	40	4	17	2
Shares surrendered during the year	(54)	(5)	(58)	(6)
At 31 March	**2,508**	**251**	**2,522**	**252**

The shares provide full members with the right to vote at Annual General Meetings, but do not provide any rights to dividends or distributions on a winding up. Associate members do not have any voting rights.

23. Retirement benefit schemes

Hertfordshire County Council Pension Fund (HCCPF) - (Trust)

The HCCPF is a multi-employer scheme, administered by Hertfordshire County Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The most recent formal triennial actuarial valuation was completed as at 31 March 2016 by a qualified actuary.

The employers' contributions to the HCCPF by the Trust for the year ended 31 March 2020 were £26k (2019: £26k) at a contribution rate of 31.9% of pensionable salaries, set until the next funding valuation at 31 March 2021.

	31-Mar 2020 % pa.	31-Mar 2019 % pa.
Financial Assumptions		
Discount rate	2.3%	2.4%
Future salary increases	2.3%	2.6%
Future pension increases	1.9%	2.5%

Mortality Assumptions

The post mortality assumptions used to value the benefit obligation at March 2018 are based on the Fund's Vita Curves with improvements in line with the CMI 2013 model assuming current rates of improvements have peaked and will converge to a long term rate 1.25% p.a.

Based on these assumptions, the average life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.9	21.1
Future Pensioners	22.8	25.5

	2020 £'000	2019 £'000
Analysis of the amount charged to the Statement of Comprehensive Income		
Current service cost	36	33
Interest Income on plan assets	(283)	(302)
Interest on pension scheme liabilities	295	306
Total operating charge	**48**	**37**

	2020 £'000	2019 £'000
Amounts Recognised in Statement of Comprehensive Income		
Actuarial gains recognised	1,237	(329)

	2020 £'000	2019 £'000
Amounts recognised in the Statement of Financial Position		
Present value of funded obligations	(10,661)	(12,389)
Fair value of plan assets	11,398	11,911
Present value of unfunded obligations	737	(478)
Net asset / (liability)	**737**	**(478)**

	2020 £'000	2019 £'000
Changes in present value of plan assets		
Opening fair value for employer assets	11,911	11,348
Return on Assets	(542)	545
Contributions by members	5	5
Contributions by Employer	26	26
Interest Income on plan assets	283	302
Benefits paid	(285)	(315)
Closing defined benefit obligation	**11,398**	**11,911**

	2020 £'000	2019 £'000
Changes in present value of defined benefit obligation		
Opening defined benefit obligation	12,389	11,486
Service cost	36	33
Interest cost	295	306
Actuarial (gains)/losses	(1,779)	874
Contributions by members	5	5
Estimated benefits paid	(285)	(315)
Closing defined benefit obligation	**10,661**	**12,389**

	2020	2019
Major categories of plan assets as percentage of total plan assets		
Equities	48%	50%
Bonds	38%	38%
Property	10%	8%
Cash	4%	4%

	2021 £'000	2021 % of pay
Analysis of projected amounts to be charged to operating surplus for the year to 31 March 2021		
Projected Current Service Cost	(28)	-34.3%
Expected Return on Plan Assets	259	319.8%
Interest on Obligation	(242)	-298.8%
Total	**(11)**	**-13.3%**

Employers contributions for the year 31 March 2021 estimated to be £25.8K

24. Capital commitments – Group and Watford Community Housing

	2020 £'000	2019 £'000
Capital Expenditure		
Expenditure contracted for but not provided in the accounts	53,641	36,343
Expenditure authorised by the board, but not contracted for	34,072	55,076
Total	**87,713**	**91,419**

25. Operating Leases

The total minimum lease payments under non cancellable operating leases are as follows:

	2020 £'000	2019 £'000
Office equipment and computers payments in the following periods		
Within one year	66	63
Two to five years	7	6
	73	**69**

Operating lease payments represent rentals payable by the Group for certain office equipment. Leases are negotiated for an average term of 2-3 years and rentals are fixed for an average of one to three months with an option to extend for a further one year at the prevailing market rate.

26. Stock Profile

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

	2020 No.	2019 No.
Social housing		
General housing	4,268	4,189
Supported housing and housing for older people	537	541
Shared ownership	168	127
Total social housing owned	**4,973**	**4,857**
Accommodation managed for others	231	109
Total social housing managed	**5,204**	**4,966**
Leasehold	366	362
Total housing owned and managed	**5,570**	**5,328**
Non-Social Housing		
Commercial Shops	23	15
Commercial and Market Rented Properties	27	27
Garages	1,246	1,250
	1,296	1,292
Total owned and managed	**6,866**	**6,620**

Watford Community Housing manages accommodation for Watford Borough Council, Hertfordshire County Council, Three Rivers District Council, Hart Homes Watford Limited and Three Rivers Homes Limited.

Notes

27. Related Parties - Watford Community Housing

	Services Received 2020 £'000	Services Provided 2020 £'000	Debtor/ (Creditor) balances as at 31 March 2020 £'000
Regulated			
Watford Community Housing	672	465	5,159
Non-Regulated			
WCHT Devco Limited	237	672	(237)
Clarendon Living Limited	-	-	(4,769)
Hart Homes (Watford) Limited	153	-	(114)
Hart Homes Housing Developments LLP	-	-	-
Three Rivers Homes Limited	65	-	(39)
Three Rivers Housing Developments LLP	10	-	-

Watford Community Housing has made loan facilities available to Clarendon Living Limited of £4.4m.

WCHT Devco Ltd provides design and build services to Watford Community Housing, at a charge of 5% of applicable scheme costs. Watford Community Housing makes sales of professional services to WCHT Devco Ltd.

28. Joint Ventures

The wholly owned subsidiary, Clarendon Living Limited has a 50% interest in four joint ventures. These are Hart Homes (Watford) Limited, Hart Homes (Watford) Development LLP, Three Rivers Homes Limited and Three Rivers Housing Developments LLP.

Details on the investments are below:

	2020 £'000	2019 £'000
Investment in Joint Ventures		
Brought forward at 1 April	2,869	2,860
Investment in new joint ventures	-	-
Share of profit of joint ventures	104	9
Carried forward at 31 March	2,973	2,869

29. Provision for liabilities - Group

	£'000
At 1 April 2019	1,897
Charged to income and expense	-
Additions	852
Reclassification	(522)
Utilised in year	(885)
At 31 March 2020	1,342
At 1 April 2018	1,021
Charged to income and expense	522
Additions	434
Utilised in year	(80)
At 31 March 2019	1,897

Provisions consist of items recognised at year end which are of uncertain timing and value.

29. Provision for liabilities - Watford Community Housing

	£'000
At 1 April 2019	1,897
Reclassification	(522)
Additions	689
Utilised in year	(885)
At 31 March 2020	1,179
At 1 April 2018	1,021
Charged to income and expense	522
Additions	434
Utilised in year	(80)
At 31 March 2019	1,897

watford community housing

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