watford
community
housing

Report and Financial Statements

For the year ended 31 March 2018

Registered Society No: 30183R
Registered Housing Trust No: L4495

Contents

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

The Board
John Swinney, Chair
Chris Meade, Vice Chair (Group Board Co-Optee)

Members
Nigel Benjamin
Peter Jeffree
Jeremy Kape
Raj Kumar
John Lavers
Raz Hussain
Marsha Thompson
Chris Cheshire (Group Board Co-Optee)
Bernadette Laventure

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

Company Secretary
Tina Barnard

Committees
Audit and Risk Committee
Bernadette Laventure, Chair

Business Development Committee
Jeremy Kape, Chair

Remuneration and Appraisal Committee
Nigel Benjamin, Chair

Operations Committee
Raj Kumar, Chair

Tenant Group
Gateway Membership Team

Registered office
Gateway House,
59 Clarendon Road
Watford
Hertfordshire
WD17 1LA

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

Auditor
Mazars LLP
Birmingham
45 Church Street
Birmingham
B3 2RT

Solicitors
Devonshires
Salisbury House
London Wall
London EC2M 5QY

Anthony Collins Solicitors
134 Edmund Street
Birmingham
B3 2ES

Perrin Myddelton
10 Waterside
Station Road
Harpenden
AL5 4US

Bankers
Barclays Bank Plc
1 Churchill Place
London
B14 5HPs

Funders
Affordable Housing Finance plc
4th Floor, 107 Cannon Street
London
EC4N 5AF

The Prudential Assurance Company Limited
c/o M&G Investments Ltd
Laurence Pountney Hill
London
EC4R OHH

Group strategic report

Our Vision and Values

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 over 5,000 properties 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 of management consisting of 11 non-executive members. Other than the co-optees and local authority nominee (who became a Councillor in May 2017), 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 tenants 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 now operates with a Group structure and has two fully owned subsidiaries:

- Clarendon Living Limited – formally Gateway Enterprises (Watford) Ltd. 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) – established in 2015 to provide design and build services to the Group. The Devco Board is chaired by John Lavers and the Board consists of two non-executive members and two executive members.

Joint ventures

The Group is an active participant 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 company (Hart Homes (Watford) Development LLP). Both entities are split on a 50/50 basis with WBC and are managed by Boards with representatives from both Clarendon Living and WBC. The first scheme began in February 2017 and will deliver a combination of 40 temporary accommodation units and 36 affordable homes to the Watford area during 2018/19.

The Group is now also an active participant 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 company (Three Rivers Homes Development LLP). Both entities are split on a 50/50 basis with TRDC and are managed by Boards with representatives from both Clarendon Living and TRDC. The first scheme began in November 2017 and will deliver a combination of 33 dwellings to the Oxhey area during 2018/19.

Nature of Business

The Group operates five key business streams:

1. Housing for rent, primarily for families who are unable to rent or buy at open market rates.
2. Housing for older people who need additional support or care.
3. Shared ownership properties (i.e. residents purchase a share in the equity of their homes and pay rent to the Group on the remainder).
4. Market rent schemes
5. Selective market sale schemes and joint venture participation via Clarendon Living Limited.

The numbers of homes managed by the Group (as per note 26 of the financial statements) were:

Stock Profile

Type of Units	2018 No.	2017 No.
Owned by the Group:		
General needs	3,986	3,988
Affordable rents	172	133
Housing for older people	497	510
Shared ownership	110	95
Leaseholds	354	348
Commercial and market rents	27	32
Commercial shops	14	22
Garages	1,253	1,270
Temporary	43	42
	6,456	6,440
Managed for others	113	136
Total	**6,569**	**6,576**

During the year the Group's stock numbers decreased by 7 homes. This movement includes 73 completed new homes, a net decrease in managed properties of 23 units, 8 homes sold through right to buy, right to acquire, and shared ownership stair-casing, and the disposal of 25 housing properties and 17 garages. The 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. Investment will be determined by use of the Asset Investment Model, which was launched in 2016/17.

Objectives and Strategy

The Group's 2016-20 Business Plan has five priority areas which are underpinned by delivery targets for each area as follows:

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 tenants and delivering more homes – and 'friendlier communities' with a strong focus on community cohesion.

Our values remain integral to how we work at the Group and we are proud that together we:

- Take **personal ownership** for our actions to provide an excellent service,
- Act **professionally** and with **integrity** to deliver our promises,
- Offer **progressive** and **innovative** ways of doing this.

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, 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 revised for 2018/19 to align with 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 last year, matching or exceeding the designated target in fourteen areas, delivering steady performance in five and we saw one area underperforming. In 2018/19, we will be once again using a Corporate Balanced Scorecard, monitoring our performance across fifteen KPIs and our performance in these areas will be 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 tenants, continued to be high last year at 90.6%. This also showed an improvement on the prior year, with the ability to address 83% of repairs on our first visit.

Overall satisfaction with our services fell slightly over the year, feedback typically focusing on communication around repairs appointments and the upkeep of some of our estates. We have introduced a range of new customer satisfaction surveys in 2018 to monitor overall satisfaction with our services across a broader range of measures to give us better insight into how our services are performing across the board. The recent successful launch of our digital tenancy services platform for core transactions will expand further this year, with the ability for our customers to book their repairs appointment and check its status online which will also increase satisfaction going forward. In terms of estate maintenance, we have made various improvements to ensure our contractors are delivering work to agreed service standards and we continue to improve communication with our tenants around the standards we need to deliver. We will also be re-procuring our estate services contractors and monitoring their performance in collaboration with a tenant scrutiny group to ensure required improvements are made.

Our complaints to compliments ratio performed positively over the year and our service centre figures have also improved with further staff training and development. We introduced customer feedback on the quality of our service centre handling at the start of this year, as part of the new satisfaction surveys mentioned above. This combined approach should help to improve our complaints to compliments ratio even further.

Our community hubs have delivered another strong performance this year, generating over £113,000 of income for the Group through a wide range of community activities. We were able to capitalise upon this by opening a new hub and also extending use of our existing hub facilities to the wider community.

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, the latter peaking at +71 net satisfaction and averaging +65 for the year as a whole. We are continuing various projects to increase staff engagement following on from our new behaviours model introduced last year.

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. We commenced 33 new homes last year through joint venture activity and a further 144 homes under the Watford Community Housing brand which are either fully completed or contractually committed for building. We have 330 new homes currently under construction, 90 of which are due to be handed over in the near future.

Key performance indicators

	2018 Target	2018	2017	Flag vs. Target
1. Super Brand				
% of tenants satisfied with repairs & maintenance	87%	90.6%	88.7%	
% of tenants satisfied with overall service	85%	75.9%	80.2%	
First call resolution	87.5%	87.5%	82%	
Ratio of complaints to compliments	50:50	49:51	24:76	
Digital portal transactions	27.5%	25.8%	24%	
Gas compliancy	100%	100%	100%	
2. Strong Financial Position				
Operating margin	28%	35.2%	37.2%	
Operating margin (excl shared ownership & sales)	28%	34.6%	35.9%	
VFM Savings	£1.2m	£1.5m	£1.9m	
Occupancy	98.0%	98.9%	99.1%	
Headline social housing cost per unit	£4,120	£3,828	£3,934	
3. Partnership Working				
Net staff satisfaction	56	65	78	
Joint venture homes committed	100	33	76	
4. Active Developer				
Homes committed for building	250	83	159	
Homes completed	150	73	93	
Unsold units at quarter end (shared ownership & sales)	0	0	0	
Units unsold for more than 6 months	0	0	0	
5. Building Community Capacity				
Number of people using Hubs	26,000	26,812	31,525	
Hubs income	£65k	£114k	£131k	
Community investment per £1 from operations	£0.02	£0.01	£0.02	

Flag key:

Positive improvement Steady In need of attention

Strategic Report

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 2017/18 with its operating surplus being £11m. The financial highlights over the past five years are set out below.

Group highlights, summary (5 year summary)

For year ended 31 March	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Summary Statement of Comprehensive Income					
Total turnover	31,735	31,410	29,729	29,025	28,818
Income from Social Housing Lettings (note 3a)	28,272	27,757	27,626	26,880	25,595
Operating surplus: continuing activities	10,984	11,275	7,361	7,682	6,426
Surplus for the year transferred to reserves	6,708	7,321	4,985	4,756	3,541
Group Balance Sheet					
Intangible assets (note 11)	(29,151)	(29,568)	(29,985)	(30,402)	(30,818)
Investments in Joint Ventures	2,861	2,393	0	0	0
Housing Properties (note 12)	267,473	241,743	219,634	211,424	211,880
Investment Properties (note 14)	4,095	3,915	3,555	2,290	0
Other Property, Plant and Equipment (note 13)	13,210	12,974	13,437	13,571	13,501
Fixed assets	**258,488**	**231,457**	**206,641**	**196,883**	**194,563**
Net current assets	41,368	36,178	25,596	29,582	29,913
Total assets less current liabilities	**299,856**	**267,635**	**232,237**	**226,465**	**224,476**
Funded by:					
Loans (due over one year) (note 18)	155,129	132,158	85,027	84,979	79,036
Pension liability (note 23)	138	463	557	1,570	950
Other long term liabilities (note 18)	35,489	34,174	52,432	51,483	47,766
Reserves:					
Revenue inc. pension	40,456	33,398	25,175	19,106	14,923
Property Revaluation	96,145	96,150	96,929	96,929	97,073
Cashflow hedge reserve	(28,524)	(29,881)	(27,883)	(27,602)	(15,272)
Consolidated funds	**298,834**	**266,463**	**232,237**	**226,465**	**224,476**

The Financial Plan is reviewed annually by the Group Board. Where the position is clear, as is the case with the four-year rent reduction from 2016, this has been built into the new Long Term Financial Forecast which demonstrates long-term financial viability. 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 but 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 tenants whilst seeking to achieve VFM in its activities. It has achieved its financial target for efficiencies in 2017/18 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 fully operational in the year, and was used to facilitate 10 major development schemes and provided a zero-rated design and build service to the Group.

As part of the transfer agreement from WBC a significant portion of the Group's tenants have the Preserved Right to Buy (RTB) and during the year 8 tenants exercised this right. Under the transfer agreement until 2020 WBC receives the proceeds of RTB sales after the Group has deducted an allowance for administrative costs and rent foregone on the sold property.

The Group continues to develop new homes and is on course to meet its target of producing 1,000 new homes over the next four years. During the year 73 new homes were delivered.

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 risk is now considered at a Group level to reflect the increasing complexity of the organisation and assessed regularly to monitor whether the appropriate risks have been captured and also to monitor the assurance provided by the Executive Management Team.

Key risk	Mitigating actions being taken
Finance Risk: as a result of changes to government legislation, exposure to fraud, increased funding cost and market risks	• Refinancing activity significantly progressed at the Group, including a refinanced £100m Barclays facility, £65m Private Placement and a £30m AHF Bond • Ongoing monitoring and reporting of impact of welfare reform on areas such as bad debt 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 • VFM activity maintains focus on efficiency gains and productivity to mitigate any exposure of inflation / market risk
Poor Governance: arising from poor Board skill set, succession planning, compliance overkill, failure of strategic alliance and the gateway model	• Executive Management Team has been restructured 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 • Ongoing skills development sessions provided to Board and Committee members to support informed understanding and scrutiny of the Group, including Risk session, Asset Investment Model demonstration, and Treasury review. Board members are also regularly invited to stakeholder events to support engagement and awareness of the Group.
Culture and Identity: due to lack of Brand clarity, lack of service standards with tenants, ineffective community engagement	• Revised Service Standards launched to tenants in September 2017 to 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 tenant scrutiny model • Revised Brand launched in September 2017 to better define Watford Community Housing going forward • New management team structure embedded for Executive Management Team. Work ongoing on succession planning and talent development for management layers supporting Leadership Team
Best Use of Assets: due to lack of robust appraisal techniques for existing stock, poor decision making on asset investments, lack of investment in ICT estate	• Independent Living consultation underway with Group Board and tenants to define long-term strategy for Independent Living stock • 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 • IT Delivery Plan underway including insourcing of the IT function, delivery of a revised Digital Tenancy Service for tenants and preparation underway for GDPR readiness for May 2018 • IT core stability enhanced during 2017/18 with upgrades to telephony, switches, disaster recovery solution and mobile devices. Further work underway to enhance server infrastructure and digital offering in 2018/19
Development 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 • The Development Team has been strengthened further in 2017/18 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 units conducted by management team and Group Board to provide assurance on delivery. All scheme appraisals include an exit plan to anticipate options should market conditions change

Value for Money (VFM)

Our Strategy:

The Group is committed to delivering Value for Money through our business activities. Our Business Plan 2016-20 sets 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 tenants 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 VFM assessment, 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 earlier this year embedding VFM at the corporate and strategic level. Our existing Corporate Balanced Scorecard largely reflected the new measures but was slightly adjusted in response. 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 through the Group through three main areas of focus for VFM:

- 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 2018/19 we have budgeted to spend a total of £5.5m on maintenance of the properties plus a further £4.6m spent on programmed repairs. 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. We have also converted the use of some of our void properties to temporary accommodation to mitigate shortage in temporary accommodation being faced by WBC as well as to generate additional income for the Group. Additionally the Group are 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 £1.2m for the 2017/18 financial year. At the end of 2017/18, we were pleased to report VFM savings of £1.5m, meaning we have exceeded our target. We have continued to work hard this year to ensure we deliver more gains. Tabulated below is the register of our efficiency gains over the last four years, with an achievement of £0.5m greater than original projection. The gains have been identified in specific categories as set out in our "Road Map to Excellent Services – Our Journey Together". All gains identified contribute to the surpluses realised in the financial year which is used to further our social objectives through investment in services and new homes.

Efficiency Gains over four years

Efficiency Gains over 4 years	2014-15 Target £'000	2014-15 achieved £'000	2015-16 target £'000	2015-16 achieved £'000	2016-17 target £'000	2016-17 achieved £'000	2017-18 target £'000	2017-18 achieved £'000	Total target £'000	Total achieved £'000	Variance £'000
Procurement and contract savings & use of consultants	95	318	95	111	555	675	594	761	1,339	1,865	526
Self Servicing	50	10	50	16	0	0	0	0	100	26	(74)
Energy innovation	130	146	130	0	103	9	50	50	413	205	(208)
Streamlined Customer Engagement	20	21	20	141	364	364	70	176	474	702	228
IT infrastructural cost, system upgrades / Other	142	27	142	20	13	13	0	0	297	60	(237)
Review of responsive repairs cost	150	38	150	349	400	439	0	0	700	826	126
Lean business processes	113	176	387	360	193	236	300	300	993	1,072	79
Income Generation	0	0	0	33	156	165	215	223	371	421	50
Total	**700**	**736**	**974**	**1,030**	**1,784**	**1,901**	**1,229**	**1,510**	**4,687**	**5,177**	**490**

Achieving VFM through Efficient Procurement:

To support delivery of VFM across the business the Group has put in place a new Procurement Strategy, which included the recruitment of a new Finance and Risk Manager to support delivery of this strategy. The strategy is aligned with the Business Plan 2016-20 and is designed to ensure 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 supplies 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 tenants and the business.

VFM Monitoring through Benchmarking:

In order to maintain compliance with the newly published 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 2017, the RSH published a new 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 (2016/17 and 2017/18)

Due to the publication of Global Accounts for the Housing Sector we are able to benchmark the Group's Cost per Unit (CPU) performance against the sector. This has shown a positive performance year on year as we improve against the sector average. This improvement is linked to work on expense efficiency, VFM and maximising income. The overall position for the Group remains positive and the performance has continued to improve into 2017/18, this has occurred even with costs borne through the exceptional refinancing work conducted in the year (worth c.£100 per unit).

The industry performance has improved again in 2016/17 versus the previous year, but as noted by industry analysis, much of this has been driven by reductions in asset spend and investment. Watford Community Housing has taken the decision to maintain asset investment during the current challenging period regarding rent reductions to support the quality of our assets for the benefits of the tenants and the organisation.

Cost per Unit (£k)	2014/15	2015/16	2016/17	2017/18
Watford Community Housing	4.68	4.12	3.93	3.83
Average Performance in the Sector	3.94	3.96	3.70	

(2014-2017 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 2018 and 2017 with a commentary to support key movements. The Operating Margin for both years has been in excess of 34% both for the overall Group and for social housing lettings. This is in excess of the Group Board targets set for this period. Earnings Before Interest Tax Depreciation & Amortisation, Major Repairs Included (EBITDA MRI) has reduced in the last year, but this in line with expectations due to increased financing costs and still holds significant headroom against our loan covenants. Return on Capital Employed (ROCE) has reduced, but this is driven by an increase in the asset base rather than a reduction in the returns achieved. New supply has reduced slightly versus the previous year, but we continue to see traction in our development programme and as noted above, we continue to build a strong pipeline of committed schemes.

	2017	2018	Flag
Operating Margin % (social housing lettings)	37.2%	35.2%	
Operating Margin % (overall)	35.9%	34.6%	
EBITDA MRI	290.4%	251.3%	
Headline SH Cost per Unit	£3,934	£3,828	
Gearing	52.2%	40.9%	
Return on Capital Employed (RoCE)	3.9%	3.6%	
% Reinvestment	11.9%	11.1%	
% New supply delivered (social housing units)	2.0%	1.5%	
% New supply delivered (non-social housing units)	0.0%	0.0%	

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 average 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 as noted for the reasons above, slightly higher than the industry average. RoCE is lower than the benchmark and we expect this position will narrow in future years driven by the Group Board established targets on VFM savings and further improvement in the operating result through the completion of development programmes. This will also be reflected in the New Supply Delivered KPI.

	Group 2018	Peer group average 2017	Industry average 2017	Flag
Operating Margin % (social housing lettings)	35.2%	34.5%	32.9%	
Operating Margin % (overall)	34.6%	28.6%	29.9%	
EBITDA MRI	251.3%	223%	334%	
Headline SH Cost per Unit	£3,828	£4,002	£3,698	
Gearing	40.9%	45.9%	41.7%	
RoCE	3.6%	4.8%	5.20%	
Reinvestment %	11.1%	9.42%	6.52%	
% New supply delivered (social housing units)	1.5%	1.73%	1.73%	
New supply delivered (non-SH units)	0.0%	0.40%	3.02%	

VFM into 2018/19 and beyond:

The efforts to deliver value for money to our tenants and the organisation continue into 2018/19 and will be monitored through Group Board. The VFM activities planned for 2018/19 have been reviewed and discussed with Group Board and management focus will include delivering the following VFM initiatives:

- Asset Programme Efficiencies through partnership working
- Maximising development income streams
- Optimisation of assets through void performance improvements and tenure mix
- Improving performance of garage stock
- Delivering newly procured insurance arrangements
- ICT and Telephony procurement savings
- Managed usage of training / consultant spend

Financial Position

Capital Structure and Cashflow Forecast

At the year end the Group had long term borrowing facilities from three lenders totalling £200m in place. Total drawn down borrowings amounted to £157m.

The past twelve months saw the Group re-finance its debt arrangements concluding in February 2018 and resulting in facilities increasing from £145m to £200m. This was effected through the completion of the Affordable Housing Finance (AHF) securitisation which started in 2016/17 and allowed release of the £35m cash in July 2017 with the remainder enabled through a new £65m 32 year Private Placement with M&G and £100m with Barclays through a mix of term loans and revolving credit facilities. The revision to the Barclays facilities included the removal of the need for business plan approval requirements and a peak debt level. The restructure of debt facilities therefore offers additional capacity to support the Group in its business plan aspirations and a more appropriate, flexible funding structure with two additional lenders who are both committed to the social housing sector.

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.

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 there is £157m of fixed rate debt. As a result, 100% of the currently drawn debt of the Group is at fixed rates of interest. The maturity of the Group's borrowing was as follows on 31 March 2018:

Maturity Profile	2018 £'m	2017 £'m
Within 1 year	-	-
Between 1 and 5 years	25.0	-
After 5 years	175.0	98.3
Total	**200.0**	**98.3**

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 Existing Use Value-Social Housing (EUV-SH) and Market Value-Subject to Tenancy (MV-STT) methodology and currently the charged properties are valued at £240m, plus a further circa £44m 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 £41.4m excess security cover in the Group in order to meet the security requirement for drawn debt and the ISDAs (excluding excess security). This gives comfort there is sufficient asset cover for all existing facilities and for raising additional finance.

During the year £15.0m (2017: £20.7m) of cash was generated from operating activities and £58.1m of loans were drawn down reflecting the increased development activity through the year and the completion of the Group refinancing exercise. Total interest of £4.3m (2017: £3.9m) 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 2018/19 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. These homes will be a mixture of tenures ranging from temporary accommodation to market sale. The Group via Clarendon Living also entered into a joint venture with Mears New Homes in September 2016 to deliver 13 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 decreased to £15.0m (2017: £20.7m). Working capital moved as a result of the net cash flow from operating activities. A net interest payment of £4.3m was made during the year and approximately £31.4m 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 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 5% and 31.9%. The last formal valuation of the LGPS Fund was carried out as at 31 March 2016. 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).

Statement of Compliance

The Group Board confirm that this Strategic Report Review has been prepared in accordance with the principles set out in the 2014 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 2018.

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 inside the front cover (page 2). The Group Board members, including co-optees currently are 11 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.

Donations

The Group made donations totalling £50 during the year (2017: £nil).

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.

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 fully fixed, due to the fixed rate bonds in place and having SWAPs in place to fully hedge all 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 sufficient cash to meet 3 months' cashflow requirement, and sufficient cash and committed facilities to meet both 12 months' cashflow requirement and 18 months' 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 £43 million of undrawn facilities, of which £37m has already had security charged to it and therefore can be drawn immediately. The final element of the charging exercise was completed in May 2018.

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 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 £43 million of undrawn facilities at 31 March 2018), 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.

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 2017 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. In May 2018 a further control was included through 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.

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 Group Board has set an ambition to ensure readiness for the General Data Protection Regulations (GDPR) which came into effect in May 2018. 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 new Regulations.

Group Board report (continued)

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 2014, 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, 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 10 September 2018.

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 23 July 2018 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 2018 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 2018 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 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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.

Conclusions relating to going concern

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

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Trust'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 page 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: **30 July 2018**

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Turnover		31,735	31,410
Operating costs		(20,751)	(20,135)
Operating surplus		10,984	11,275
Share of joint venture loss after tax	28	(42)	(7)
Deficit on disposal of property, plant and equipment	4	(125)	(770)
Finance Income	6	59	21
Interest and financing costs	5	(4,348)	(3,556)
Change in fair value of financial instruments		0	(2)
Surplus on revaluation of investment properties	14	180	360
Surplus before tax		6,708	7,321
Taxation	10	0	0
Surplus for the financial year		**6,708**	**7,321**
Actuarial gain in respect of pension schemes	23	344	124
Change in fair value of hedged financial instruments		1,357	(1,998)
Total comprehensive income for the year		**8,409**	**5,447**

These financial statements on pages 23 to 61 were approved and authorised for issue by the Board on **23 July 2018** and signed on its behalf by:

John Swinney
Chair of the Group Board

Bernadette Laventure
Chair of Audit & Risk Committee

Tina Barnard
Company Secretary

Consolidated Statement of Financial Position

For the year ended 31 March 2018

	Note	2018 £ '000	2017 £ '000
Fixed Assets			
Intangible assets	11	(29,151)	(29,568)
Investments in joint ventures	28	2,861	2,393
Housing properties	12	267,473	241,743
Investment properties	14	4,095	3,915
Other property, plant and equipment	13	13,210	12,974
Total fixed assets		**258,488**	**231,457**
Current assets			
Debtors	17	1,906	44,242
Cash and cash equivalents		46,003	6,009
Total current assets		47,909	50,251
Creditors: Amounts falling due within one year	18	(6,541)	(14,073)
Net current assets		**41,368**	**36,178**
Total assets less current liabilities		**299,856**	**267,635**
Creditors: Amounts falling due after more than one year	18	(190,620)	(166,332)
Defined benefit pension liability	23	(138)	(463)
Provision for liabilities	29	(1,021)	(1,172)
Net assets		**108,077**	**99,668**
Capital and reserves			
Revenue reserve		40,456	33,399
Property revaluation reserve		96,145	96,150
Cashflow hedge reserve		(28,524)	(29,881)
Total reserves		**108,077**	**99,668**

These financial statements on pages 23 to 61 were approved and authorised for issue by the Board on **23 July 2018** and signed on its behalf by:

John Swinney

John Swinney
Chair of the Group Board

B.R.C. Laventure

Bernadette Laventure
Chair of Audit & Risk Committee

Tina Barnard

Tina Barnard
Company Secretary

Statement of Comprehensive Income

For the year ended 31 March 2018

	Note	2018 £ '000	2017 £ '000
Turnover		31,985	31,473
Operating expenditure	3a	(20,095)	(19,149)
Cost of sales	3a	(877)	(1,049)
Operating surplus	3a	11,013	11,275
Deficit on disposal of property, plant and equipment	4	(125)	(770)
Finance Income	6	407	196
Interest and financing costs	5	(4,348)	(3,556)
Gift aid received		595	-
Change in fair value of financial instruments		-	(2)
Surplus on revaluation of investment properties	14	180	360
Surplus before tax		7,722	7,503
Taxation	10	-	-
Surplus for the financial year		**7,722**	**7,503**
Actuarial gain in respect of pension schemes	23	344	124
Change in fair value of hedged financial instruments		1,357	(1,998)
Total comprehensive income for the year		**9,423**	**5,629**

Statement of Financial Position

For the year ended 31 March 2018

	Note	2018 £ '000	2017 Restated £ '000
Fixed Assets			
Intangible assets	11	(29,151)	(29,568)
Housing properties	12	261,782	236,561
Investment properties	14	4,095	3,915
Other property, plant and equipment	13	13,210	12,974
Total fixed assets		**249,936**	**223,882**
Current assets			
Debtors	17	12,045	52,412
Cash and cash equivalents		45,725	5,800
Total current assets		57,770	58,212
Creditors: Amounts falling due within one year	18	**(6,655)**	**(14,277)**
Net current assets		**51,115**	**43,935**
Total assets less current liabilities		**301,051**	**267,817**
Creditors: Amounts falling due after more than one year	18	(190,619)	(166,332)
Defined benefit pension liability	23	(138)	(463)
Provision for liabilities	29	(1,021)	(1,172)
Net assets		**109,273**	**99,850**
Capital and reserves			
Revenue reserve		41,652	33,581
Property revaluation reserve		96,145	96,150
Cashflow hedge reserve		(28,524)	(29,881)
Total reserves		**109,273**	**99,850**

These financial statements on pages 23 to 61 were approved and authorised for issue by the Board on **23 July 2018** and signed on its behalf by:

John Swinney
Chair of the Group Board

Bernadette Laventure
Chair of Audit & Risk Committee

Tina Barnard
Company Secretary

Consolidated Statement of Changes in Reserves

For the year ended 31 March 2018

	Revaluation Reserve £ '000	Cash Flow Hedge Reserve £ '000	Revenue Reserve £ '000	2018 Total £ '000
At 1 April 2017	96,150	(29,881)	33,399	99,668
Surplus for the year	0	0	6,708	6,708
Actuarial gain in respect to pension scheme	0	0	344	344
Transfer from Revaluation Reserve to Revenue Reserve	(5)	0	5	0
Changes in fair value movement of derivatives	0	1,357	0	1,357
At 31 March 2018	**96,145**	**(28,524)**	**40,456**	**108,077**

	Revaluation Reserve £ '000	Cash Flow Hedge Reserve £ '000	Revenue Reserve £ '000	2017 Total £ '000
At 1 April 2016	96,929	(27,883)	25,175	94,221
Surplus for the year	0	0	7,321	7,321
Actuarial gain in respect to pension scheme	0	0	124	124
Transfer from Revaluation Reserve to Revenue Reserve	(779)	0	779	0
Changes in fair value movement of derivatives	**0**	**(1,998)**	**0**	**(1,998)**
At 31 March 2017	**96,150**	**(29,881)**	**33,399**	**99,668**

Watford Community Housing Statement of Changes in Reserves

For the year ended 31 March 2018

	Revaluation Reserve £ '000	Cash Flow Hedge Reserve £ '000	Revenue Reserve £ '000	2018 Total £ '000
At 1 April 2017 (as previously reported)	96,150	(29,881)	34,176	100,445
Prior year adjustment (note 30)	0	0	(595)	(595)
Brought forward as restated	**96,150**	**(29,881)**	**33,581**	**99,850**
Surplus for the year	0	0	7,722	7,722
Actuarial gain in respect to pension scheme	0	0	344	342
Transfer from Revaluation Reserve to Revenue Reserve	(5)	0	5	0
Changes in fair value movement of derivatives	0	1,357	0	1,357
At 31 March 2018	**96,145**	**(28,524)**	**41,652**	**109,273**

	Revaluation Reserve £ '000	Cash Flow Hedge Reserve £ '000	Revenue Reserve £ '000	2017 Total £ '000
At 1 April 2016	96,929	(27,883)	25,175	94,221
Surplus for the year	0	0	7,503	7,503
Actuarial gain in respect to pension scheme	0	0	124	124
Transfer from Revaluation Reserve to Revenue Reserve	(779)	0	779	0
Changes in fair value movement of derivatives	0	(1,998)	0	(1,998)
At 31 March 2017	**96,150**	**(29,881)**	**33,581**	**99,850**

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

	2018 £ '000	2017 £ '000
Net cash inflow from operating activities (page 35)	15,040	20,685
Cash flows from investing activities		
Purchase of property, plant and equipment	(31,410)	(28,202)
Investment in Joint Venture	(510)	(2,400)
Proceeds from sale of property, plant and equipment	544	1,267
Grants received	2,634	1,612
Interest received	59	22
Net cash flows from investing activities	**(13,643)**	**(7,016)**
Cash flows from financing activities		
Interest paid	(4,336)	(3,860)
New secured loans	100,083	12,050
Loan repayments	(42,029)	0
Capital element of finance lease payments	(80)	(59)
Net cash flows from financing activities	**53,638**	**8,131**
Net increase in cash and cash equivalents	**39,995**	**1,115**
Cash and cash equivalents at beginning of year	6,009	4,894
Cash and cash equivalents at end of year	46,004	6,009

	2018 £ '000	2017 £ '000
Cash flow from operating activities		
Surplus for the year	6,708	7,321
Adjustment for non-cash items: Depreciation of property, plant and equipment	5,096	4,841
Amortisation of intangible assets	(417)	(417)
Decrease in inventories	0	2,996
Decrease / (increase) in debtors	7,253	(5,831)
Increase / (decrease) in creditors	(7,821)	7,849
Share of loss of joint ventures	42	8
Pension costs less contributions payable	8	11
Carrying amount of property, plant & equipment disposals	670	2,037
(Increase)/decrease in fair value of investment property	(180)	(360)
Adjustments for investing or financing activities: Proceeds from the sale of property, plant and equipment	(545)	(1,267)
Movement in fair value of financial instrument	0	2
Government grants utilised in the year	(63)	(39)
Interest received	(59)	(22)
Interest payable	4,348	3,556
Cash generated by operations	15,040	20,685

Notes to the Financial Statements

For the year ended 31 March 2018

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 2014 (SORP), the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. 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 2018. 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.

Notes

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.

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. This represents a change of accounting policy, the effect of which is disclosed in note 30.

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 2018), 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.

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.
- **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

	2018 Turnover £'000	2018 Operating costs £'000	2018 Operating surplus £'000	2017 Turnover £'000	2017 Operating costs £'000	2017 Operating surplus £'000
Social housing lettings (see note 3b)	28,272	(18,312)	9,960	27,757	(17,433)	10,324
Other social housing activities						
Supporting people contract income	34	(34)	0	38	(38)	0
Management services	407	(289)	118	335	(266)	69
Other	655	(795)	(140)	337	(686)	(349)
	1,096	(1,118)	(22)	710	(990)	(280)
Non-social housing activities						
Lettings	1,220	(729)	491	1,211	(602)	609
Other	221	(353)	(132)	144	(541)	(397)
Amortisation of Goodwill	0	417	417	0	417	417
Shared Ownership Equity & Sales Income	1,176	(877)	299	1,651	(1,049)	602
	2,617	(1,542)	1,075	3,006	(1,775)	1,231
	31,985	**(20,972)**	**11,013**	**31,473**	**(20,198)**	**11,275**

The difference to the Group statement is an adjustment in turnover and operating expenses of c.£29k relating to intra-trading with WCHT Devco Limited and Clarendon Living Limited.

Notes

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

	General needs housing £'000	Supported housing and housing for older people £'000	Shared ownership £'000	2018 Total £'000	2017 Total £'000
Income					
Rent Receivable net of identifiable service charges	24,404	2,095	203	**26,702**	**26,571**
Service income	751	676	62	**1,489**	**1,080**
Amortisation of SHG	63	0	0	**63**	**39**
Other Revenue Grants	18	0	0	**18**	**67**
Turnover from social housing lettings	**25,236**	**2,771**	**265**	**28,272**	**27,757**
Expenditure					
Management costs	(7,671)	(700)	(143)	**(8,514)**	**(8,249)**
Service charge costs	(700)	(499)	(50)	**(1,249)**	**(924)**
Routine maintenance	(3,095)	(277)	0	**(3,372)**	**(3,118)**
Planned maintenance	(325)	(29)	0	**(354)**	**(451)**
Major repairs expenditure	(196)	(18)	0	**(214)**	**(362)**
Bad debts	(133)	(9)	0	**(142)**	**(95)**
Depreciation of housing properties	**(4,120)**	**(273)**	**(74)**	**(4,467)**	**(4,234)**
Operating costs on social housing lettings	**(16,240)**	**(1,805)**	**(267)**	**(18,312)**	**(17,433)**
Operating surplus/(deficit) on social housing lettings	**8,996**	**966**	**(2)**	**9,960**	**10,324**
Void losses	**553**	**120**	**0**	**673**	**656**

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

	2018 £'000	2017 £'000
Right to Buy & shared ownership staircasing		
Disposal Proceeds	2,183	5,352
Less: Share of proceeds due to Watford Borough Council	(1,722)	(4,212)
Less: carrying value of fixed assets	(465)	(1,203)
Deficit on disposal	**(4)**	**(63)**
Other disposals		
Proceeds	45	22
Less: carrying value of fixed assets	(166)	(729)
Deficit on disposal	(121)	(707)
Total deficit on disposal	**(125)**	**(770)**

5. Interest and finance costs - Group and Watford Community Housing

	2018 £'000	2017 £'000
Bank loan and overdraft	4,761	3,819
Finance lease charges	5	11
Loan fee costs	55	48
Capitalised Interest	(473)	(322)
	4,348	**3,556**

Borrowing costs have been capitalised based on a capitalisation rate of 3.685% (2017: 3.78%) which is the weighted average of rates applicable to the Watford Community Housing's general borrowings outstanding during the year.

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

	Group		WCH	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Interest receivable and similar income	**59**	**21**	**407**	**196**

7. Surplus on ordinary activities before taxation

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

	2018 £'000	2017 £'000
Depreciation of housing properties	4,466	4,234
Depreciation of other property, plant & equipment	657	582
Government grant amortisation	(63)	(39)
Amortisation of goodwill	(417)	(417)
Operating lease rental	150	76
(Gain)/Loss on disposal of fixed assets	125	770
External auditors remuneration:		
- Statutory audit	26	34
- Tax advisory/compliance services	37	52

8. Staff costs

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

	2018 No.	2017 No.
Administration	61	48
Asset Management and Development	15	12
Housing, Support and Care	55	57
In-House Repairs team	49	44
	180	**161**

Employee costs:

	2018 £'000	2017 £'000
Wages and Salaries	5,293	4,769
Social Security Costs	537	514
Other Pension Costs	471	425
	6,301	**5,708**

In addition to employee costs are redundancy and severance payments of £10.5k (2017: £92k)

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

8. Staff costs – (Continued)

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

Salary Band

	2018 No.	2017 No.
£60,000 to £69,999	0	0
£70,000 to £79,999	1	0
£80,000 to £89,999	1	2
£90,000 to £99,999	0	0
£100,000 to £109,999	1	0
£110,000 to £119,999	2	0
£120,000 to £129,999	0	1
£130,000 to £139,999	0	0
£140,000 to £149,999	0	1
£150,000 to £159,999	1	0

Notes

9. Board members and executive directors

Executive Directors	Basic Salary £'000	Performance Related Pay £'000	Pension Contributions £'000	Ex Gratia Payment £'000	2018 Total £'000	2017 Total £'000
Chief Executive						
Tina Barnard	135.0	3.7	20.3	0	**159.0**	**148.1**
Director of Partnerships						
Gareth Lewis	105.0	3.3	10.5	0	**118.8**	**124.5**
Director of Finance						
Paul Richmond	105.0	1.5	9.5	0	**116.0**	**55.4**
Director of Operations						
Ben Johnson (appointed May 2017)	93.6	2.3	7.9	0	**103.8**	**87.9**
Director of Resources						
Julie Robinson (resigned May 2016)	0	0	0	0	**0**	**29.5**
Assistant Director of Customer Services						
Tony Lewis (resigned July 2016)	0	0	0	0	**0**	**43.8**
Total	**438.6**	**10.8**	**48.2**	**0**	**497.6**	**489.2**

Notes

Board Members	Basic Salary £'000	Performance Related Pay £'000	Pension Contributions £'000	Ex Gratia Payment £'000	2018 Total £'000	2017 Total £'000
Chair of the Board						
John Swinney	8.1	0	0	0	**8.1**	**8.2**
Other Board Members						
Nigel Benjamin	6.0	0	0	0	6.0	3.0
Janice Blake (appointed 30/10/2017)	0.6	0	0	0	0.6	0
Razvana Hussain	3.0	0	0	0	3.0	1.5
Peter Jeffree	0.3	0	0	0	0.3	1.5
Jeremy Kape	6.0	0	0	0	6.0	3.0
Raj Kumar	5.3	0	0	0	5.3	1.5
Bernadette Laventure	6.0	0	0	0	6.0	2.3
John Lavers	6.0	0	0	0	6.0	3.0
Andy Lynch	1.5	0	0	0	1.5	0.6
Serah Mahugu (appointed 01/08/2017)	1.0	0	0	0	1.0	0
Christopher Pagdin	1.5	0	0	0	1.5	0.8
Lynn Riley	1.5	0	0	0	1.5	0.3
Marsha Thompson	3.0	0	0	0	3.0	1.5
Total	**49.8**	**0**	**0**	**0**	**49.8**	**27.2**

Remuneration paid to Chair of the Board was £8.1k (2017: £8.2k). Remuneration paid to other Board members in the year was £41.7k (2017: £19k). A further £8.1k was paid to Committee members during the year. Board and committee members expenses were £5.7k (2017: £9.3k).

The emoluments of the highest paid director, the Chief Executive, including Performance Related Pay but excluding pension contributions, were £138.7k (2017: £129.5k).

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.

Notes

10. Taxation

There is no tax charge for the year. Watford Community Housing has charitable status with HMRC and consequently the surpluses derived from primary activities are exempt from taxation. The subsidiary entities either have losses for the year or gift aids profits to the parent.

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 2017 and 31st March 2018	33,326
Amortisation	
At 1st April 2017	(3,758)
Charge for the year	(417)
At 31st March 2018	(4,175)
Net book value	
At 31st March 2018	**29,151**
At 31st March 2017	29,568

Notes

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	2018 Total £'000
Cost				
At 1 April 2017	228,637	23,680	1,095	253,412
Prior year adjustment	3,579	0	0	3,579
Restated opening balance 1 April 2017	232,216	23,680	1,095	256,991
Additions	0	27,080	0	27,080
Reclassification	0	0	0	0
Completed properties	5,784	(6,782)	998	0
Works on existing properties	3,584	0	0	3,584
Disposals	(359)	0	(139)	(498)
At 31 March 2018	241,225	43,978	1,954	287,157
Depreciation and impairment				
At 1 April 2017	11,533	0	136	11,669
Prior year adjustment	3,579	0	0	3,579
Restated opening balance 1 April 2017	15,112	0	136	15,248
Charge for the year	4,386	0	80	4,466
Released on disposal	(24)	0	(6)	(30)
At 31 March 2018	19,474	0	210	19,684
NET BOOK VALUE				
At 31 March 2018	**221,751**	**43,978**	**1,744**	**267,473**
At 31 March 2017	217,104	23,680	959	241,743

Following a review of the fixed asset register, the analysis of book value between cost and accumulated depreciation has been amended as disclosed above.

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	2018 Total £'000
Cost				
At 1 April 2017 as stated in stat acs	228,637	18,498	1,095	248,230
Prior year adjustment	3,579	0	0	3,579
Restated opening balance 1 April 2017	232,216	18,498	1,095	251,809
Additions	0	26,571		26,571
Reclassification	0	0	0	0
Completed properties	5,784	(6,782)	998	0
Works on existing properties	3,584	0	0	3,584
Disposals	(359)	0	(139)	(498)
At 31 March 2018	241,225	38,287	1,954	281,466
Depreciation and impairment				
At 1 April 2017 as stated in stat acs	11,533	0	136	11,669
Prior year adjustment	3,579	0	0	3,579
Restated opening balance 1 April 2017	15,112	0	136	15,248
Charge for the year	4,386		80	4,466
Released on disposal	(24)	0	(6)	(30)
At 31 March 2018	19,474	0	210	19,684
NET BOOK VALUE				
At 31 March 2018	**221,751**	**38,287**	**1,745**	**261,782**
At 31 March 2017	217,104	18,498	959	236,561

Additions to housing properties under construction include capitalised interest of £0.5m (2017 £0.3m). Interest is capitalised at the weighted average interest cost for the trust at 3.685%.

During the year the Group disposed of 8 properties (2017: 20 properties) to tenants under RTB entitlements. These properties were valued at £2.5m during the year (2017: £6.4m).

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	2018 Total £'000
Cost					
At 1 April 2017	14,185	1,484	174	865	**16,708**
Additions	181	219	342	326	**1,068**
Disposals	(206)	0	0	(293)	**(499)**
At 31 March 2018	14,160	1,703	516	898	**17,277**
Depreciation and impairment					
At 1 April 2017	1,738	1,275	91	630	**3,734**
Charge for the year	324	131	18	157	**630**
Released on disposal	(4)	0	0	(293)	**(297)**
At 31 March 2018	2,058	1,406	109	494	**4,067**
NET BOOK VALUE					
At 31 March 2018	**12,102**	**297**	**407**	**404**	**13,210**
At 31 March 2017	12,447	209	83	235	**12,974**

Within the total at 31 March 2018 are vehicles leased under a finance lease with a book value of £370k (2017: £143k)

Notes

14. Investment properties - Group & Watford Community Housing

	2018 Properties held for market rent £'000	2017 Properties held for market rent £'000
Valuation as at 1 April	3,915	3,555
Additions	0	0
Disposals	0	0
Gain from adjustment to fair value	180	360
At 31 March	**4,095**	**3,915**

The fair value of investment property has been determined by an independent valuer with recent experience in the location and class of the investment property being valued. The valuation has been prepared in accordance with the RICS Valuation-Global Standards 2017.

15. Group Subsidiaries

Clarendon Living Limited, a non-regulated subsidiary of Watford Community Housing, traded throughout 2017/18. 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 2017/18. The investment in the subsidiary is £2 share capital.

16. Stock and work in progress

The Group does not hold stocks or work in progress. Housing properties under construction are detailed in note 12.

17. Debtors - Group

	2018 £'000	2017 £'000
Rent and service charges arrears	1,177	821
Less: Provision for bad and doubtful debts	(536)	(480)
	641	341
Service charges sinking fund account	227	204
Escrow account - Rembrandt House development programme	97	100
Other debtors	607	4,829
AHF Bond	0	35,083
Prepayments and accrued income	334	3,685
Debtors due within one year	**1,906**	**44,242**
Due after more than one year	**0**	**0**
Total Debtors	**1,906**	**44,242**

17. Debtors - Watford Community Housing

	2018 £'000	2017 £'000
Due within one year		
Rent and service charges arrears	1,176	821
Less: Provision for bad and doubtful debts	(536)	(480)
	640	341
Service charges sinking fund account	227	204
Escrow account - Rembrandt House development programme	97	100
Other debtors	1,179	6,710
Loans to subsidiaries	9,444	2,650
AHF Bond	0	35,083
Prepayments and accrued income	334	1,561
Debtors due within one year	**11,921**	**46,649**
Due after more than one year		
Loans to subsidiaries	124	5,763
Due after more than one year	124	5,763
Total Debtors	**12,045**	**52,412**

Notes

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

	2018 £'000	2017 £'000
Trade creditors	618	7,952
Rent and service charges received in advance	978	987
Government grants	87	55
Other taxation and social security	161	135
Pension Contributions	57	48
Other creditors	673	3,025
Finance lease liability	111	5
Accruals and deferred income	3,856	1,866
	6,541	**14,073**

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

	2018 £ '000	2017 £ '000
Bank loans	155,130	132,158
Government grants	6,735	4,197
Derivative financial instruments	28,526	29,883
Finance lease obligation	229	94
Creditors: amount falling due after more than one year	**190,620**	**166,332**

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

	2018 £'000	2017 £'000
Trade creditors	438	7,952
Rent and service charges received in advance	978	987
Government grants	87	55
Other taxation and social security	161	135
Pension Contributions	57	48
Other creditors	954	18
Finance lease liability	111	5
Accruals and deferred income	3,869	5,077
	6,655	**14,277**

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

	2018 £ '000	2017 £ '000
Bank loans	155,129	132,158
Government grants	6,735	4,197
Derivative financial instruments	28,526	29,883
Finance lease obligation	229	94
Creditors: amount falling due after more than one year	**190,619**	**166,332**

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

	2018 £'000	2017 £'000
At 1 April	4,251	2,678
Grants receivable	2,634	1,613
Amortisation to Statement of Comprehensive Income	(63)	(39)
At 31 March	6,822	4,252
Due within one year	87	55
Due after one year	6,735	4,197

20. Financial instruments - Group and Watford Community Housing

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

	2018 £'000	2017 £'000
Financial assets		
Measured at undiscounted amount receivable		
Rent arrears and other debtors (see note 17)	842	341
	842	**341**
Financial liabilities		
Measured at fair value and designated in an effective hedging relationship		
Derivative financial liabilities (see note 18)	28,526	29,883
Measured at amortised cost		
Loans payable (see note 18)	155,129	132,158
Measured at undiscounted amount payable		
Trade and other creditors (see note 18)	6,655	15,448
	190,310	**177,489**

Watford Community Housing's income, expense, gains and losses in respect of financial instruments are summarised below:

	2018 £'000	2017 £'000
Fair value gains and losses		
On financial assets (including listed investments) measured at fair value through Statement of Comprehensive Income	0	(2)

	2018 £'000	2017 £'000
Obligation under finance leases		
In one year or more but less than two years	111	5
In two years or more but less than five years	229	94
In five years or more	0	0
	340	99

21. Derivative financial instruments 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.

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

	Notional principal value		Fair value	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Outstanding receive floating pay fixed contracts				
5 years +	57,000	57,000	28,526	29,883

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

	2018 No.	2018 £	2017 No.	2017 £
Shares of 10p each issued and fully paid				
At 1 April	2,550	255	2,616	262
Adjustment to opening balance	33	3	0	0
Shares issued during the year	69	7	65	6
Shares surrendered during the year	(28)	(3)	(131)	(13)
At 31 March	**2,624**	**262**	**2,550**	**255**

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)

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 Watford Community Housing for the year ended 31 March 2018 were £26k (2017: £27k) at a contribution rate of 31.9% of pensionable salaries, set until the next funding valuation at 31 March 2020.

	31-Mar 2018 % pa.	31-Mar 2017 % pa.
Financial Assumptions		
Discount rate	2.7%	2.6%
Future salary increases	2.5%	2.5%
Future pension increases	2.4%	2.4%

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	22.5 years	24.9 years
Future Pensioners	24.1 years	26.7 years

Notes

	2018 £'000	2017 £'000
Analysis of the amount charged to the Statement of Comprehensive Income		
Current service cost	34	38
Interest Income on plan assets	(287)	(345)
Interest on pension scheme liabilities	299	364
Total operating charge	**46**	**57**

	2018 £'000	2017 £'000
Amount Recognised in Statement of Comprehensive Income		
Actuarial gains recognised	344	124

	2018 £'000	2017 £'000
Amounts recognised in the Statement of Financial Position		
Present value of funded obligations	(11,486)	(11,615)
Fair value of plan assets	11,348	11,152
Present value of unfunded obligations	(138)	(463)
Net liability	**(138)**	**(463)**

Notes

	2018 £'000	2017 £'000
Changes in present value of plan assets		
Opening fair value for employer assets	11,152	9,945
Return on Assets	134	1,036
Contributions by members	5	9
Contributions by Employer	26	27
Interest income on plan assets	287	345
Benefits paid	(256)	(210)
Closing defined benefit obligation	**11,348**	**11,152**

	2018 £'000	2017 £'000
Changes in present value of defined benefit obligation		
Opening defined benefit obligation	11,615	10,502
Service cost	34	38
Interest cost	299	364
Actuarial (gains)/losses	(211)	912
Contributions by members	5	9
Estimated benefits paid	(256)	(210)
Closing defined benefit obligation	**11,486**	**11,615**

	2018	2017
Major categories of plan assets as percentage of total plan assets		
Equities	59%	65%
Bonds	28%	25%
Property	8%	7%
Cash	5%	3%

	2019 £'000	2019 % of pay
Analysis of projected amounts to be charged to operating surplus for the year to 31 March 2019		
Projected Current Service Cost	(33)	-40.5%
Expected Return on Plan Assets	303	374.1%
Interest on Obligation	(306)	-377.8%
Total	**(36)**	**-44.2%**

Employer's contributions for the year 31 March 2019 are estimated to be £17.1K

24. Capital commitments – Group and Watford Community Housing

	2018 £'000	2017 £'000
Capital Expenditure		
Expenditure contracted for but not provided in the accounts	43,040	37,363
Expenditure authorised by the board, but not contracted for	48,260	46,691
Total	**91,300**	**84,054**

The above capital commitments will be financed through the Group's existing loan facilities. The Group has £200m of loan facilities, of which £98.6m remains available for drawdown.

25. Operating Leases

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

	2018 £'000	2017 £'000
Office equipment and computers payments in the following periods		
Within one year	38	58
Two to five years	27	9
	65	**67**

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:

	2018 No.	2017 No.
Social housing		
General housing	4,158	4,121
Supported housing and housing for older people	540	552
Shared ownership	110	95
Total social housing owned	**4,808**	**4,768**
Accommodation managed for others	113	136
Total social housing managed	**4,921**	**4,904**
Leasehold	354	348
Total housing owned and managed	**5,275**	**5,252**
Non-Social Housing		
Commercial Shops	14	22
Commercial and Market Rented Properties	27	32
Garages	1,253	1,270
	1,294	1,324
Total owned and managed	**6,569**	**6,576**

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

Notes

27. Related Parties - Watford Community Housing

	Services Received 2018 £'000	Services Provided 2018 £'000	Debtor/ (Creditor) balances as at 31 March 2018 £'000
Regulated			
Watford Community Housing	558	295	9,345
Non-Regulated			
WCHT Devco Limited	250	558	268
Clarendon Living Limited	0	0	(9,568)
Hart Homes (Watford) Limited	30	0	(30)
Hart Homes Housing Developments LLP	0	0	0
Three Rivers Homes Limited	15	0	(15)
Three Rivers Housing Developments LLP	0	0	0

Watford Community Housing Trust is the parent company of Clarendon Living Limited and WCHT Devco Limited.

Watford Community Housing Trust has made loan facilities available to Clarendon Living Limited of £9.6m

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

	2018 £'000	2017 £'000
Investment in Joint Ventures		
Brought forward at 1 April	2,393	0
Investment in new joint ventures	510	2,400
Share of loss of joint ventures	(42)	(7)
Carried forward at 31 March	2,861	2,393

29. Provision for liabilities - Group & Watford Community Housing

	£'000
At 1 April 2017	1,172
Charged to income and expense	
Additions	0
Utilised in year	(151)
At 31 March 2018	1,021
At 1 April 2016	1,028
Charged to income and expense	
Additions	194
Utilised in year	(50)
At 31 March 2017	1,172

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

30. Prior year adjustment

The company previously accrued gift aid receipts at the year end. The company now recognises the gift aid receipt as income in the period in which it is received. The comparative figures have been restated for this change of accounting policy.

watford
community
housing

Watford Community Housing
Gateway House
59 Clarendon Road
Watford
Hertfordshire
WD17 1LA

T 0800 218 2247

E enquiries@wcht.org.uk

W www.wcht.org.uk