FINANCIAL STATEMENTS

For the year ended
31 March 2018

Contents

Board members and professional advisors

For the year ended 31 March 2018

Board from 1 April 2017 to 21 September 2017

Tenant Board Members
Christopher England
Cecelia Beal
Suzanne Porretta
William Edwin Groves
Jayne Anne Rose
Peter Gillon

Council Board Members
Jane Mudd
Val Delahaye
Sally Mlewa (Retired 16 May 2017)

Independent Board Members
John Roger Harrhy
Iain Logue
Nicola Somerville

Board from 21 September 2017 to 31 March 2018

Nicola Somerville
(Interim Chair June 2017 to March 2018)
Jayne Anne Rose
Jane Mudd (Chair until June 2017)
Christopher J H England
Alex Stephenson
Helen Taylor
Catherine Anne Bryant
Kevin David Ward
Janice Averil Morgan
John Roger Harrhy

Secretary and Registered Office

Tim Jackson
Nexus House
Mission Court
Newport NP20 2DW

Executive Officers

Ceri Doyle	Chief Executive
Tim Jackson	Executive Director of Finance and Resources
Robert Lynbeck	Executive Director of Operations

Bankers

Barclays Bank plc
Windsor Court
3 Windsor Place
Cardiff CF10 3ZL

Lenders

Royal Bank of Scotland plc
Nationwide Building Society
Barclays Bank plc

Principal Solicitors

Hugh James
Hodge House
114 – 116 St Mary Street
Cardiff CF10 1DY

Blake Morgan
Bradley Court
11 Park Place
Cardiff CF10 3DR

External Auditors

Bevan Buckland
Langdon House
Langdon Road
Swansea Waterfront
Swansea SA1 8QY

Internal Auditors

Mazars LLP, Bristol
Clifton Down House
Beaufort Buildings
Clifton
Bristol BS8 4AN

Newport City Homes Housing Association Limited is regulated by the Financial Conduct Authority and is a registered society under the Co-operative and Community Benefit Societies Act 2014, registration number 30192R, and with the Welsh Government registration number L149.

Strategic Report

For the year ended 31 March 2018

The Board is pleased to present its strategic report, board report and the audited financial statements for Newport City Homes Housing Association Ltd (the Association) for the year ended 31 March 2018.

Legal status

The Association is registered under the Co-operative and Community Benefit Societies Act 2014 and is a registered provider of social housing. We are registered with Welsh Government (WG) as a registered social housing provider (RSHP). We were set up to take the transfer of housing stock from Newport City Council in 2009.

Principal activities and geographical coverage

We are a not-for-profit organisation administered by a voluntary board of management. We provide management, maintenance and improvement services to 8,887 rented homes located within the administrative boundary of Newport City Council. All of these homes are let at below market rents to those unable to rent on the open market.

We also provide management services to 648 leasehold flats, have a portfolio of 97 premises let on commercial terms, manage 782 garages and hold between 25% and 75% equity in 148 shared ownership properties on which we receive rental income.

Statement of vision

We have completed our ninth year of operation since transfer and delivered the key 'offer document' promises that set out the commitments made on stock transfer from Newport City Council to residents. We have achieved 100% compliance with the Welsh Housing Quality Standard (WHQS).

We have never been just a housing association. Newport is undergoing substantial change and we are playing an important role in this.

2020 Vision is our five-year strategy that sets out our ambitious and exciting plans to transform the city.

The year has seen us develop into a maturing housing association with fundamental changes to our governance structure, the rollout of our ambitious development programme and our expanding work of 'co-production' with our residents.

Here are some brief examples of how we have delivered against 2020 Vision in 2017/18.

Putting residents at the heart

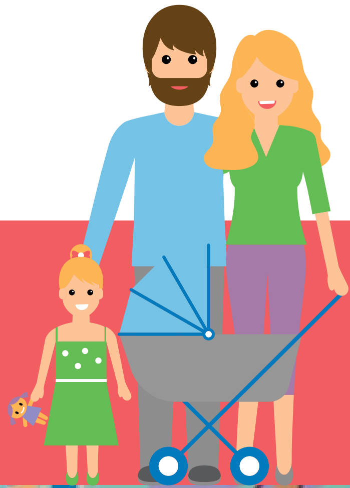
Resident safety has always been our priority and this was evident in the way in which we responded to the Grenfell tragedy in June 2017.

We carried out focused engagement with our residents and introduced fire wardens in the short-term to reassure them. Our board took the decisive step to install sprinklers in the tower blocks and committed £627,655 to make it happen quickly. This was an expense outside of our business plan, and one that we did not pass on to our residents. The sprinklers have now been fitted. A contract to replace the rain screen ACM cladding on the three tower blocks has been let with work due to commence in the early part of 2018/19.

Reassurance and resident safety were also the driving factors in us installing carbon monoxide alarms in all our homes. This was a substantial effort and saw us shortlisted for a national 'gas safety collaboration' award.

We continue to listen to the needs of our residents and opened a new city centre office in the heart of the city, making it much easier for our residents to get to us.

We launched a new website to complement this, as part of our expanded and improved customer service offer. Residents can now access their rent statements, make a request, or make a payment, any time of the day or night.

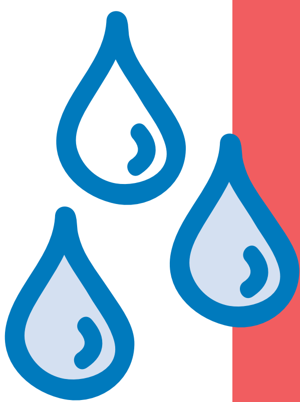


We have used our online reach to not only promote our services, but provide help and advice to our residents in times of need. For example, social media played a crucial role in highlighting our commitment to supporting residents when Universal Credit (UC) full service went live in November 2017.

We had 474 new UC claims in 2017/18 and, as predicted, we have seen arrears rise. However, we are providing tailored support to help sustain tenancies.

We have also put the resident at the heart of our partnerships with external providers. For example, we negotiated a deal to launch a new low cost home contents insurance package for our residents, leaseholders and homeowners.

More than 650 residents were helped to change water tariffs, meaning their bill was capped to £180 a year. This is more than £320 less than the average annual bill. We helped 77 residents have debts totalling £174,000 written off.



Investing in homes and neighbourhoods

2017/18 saw us make major strides in our ambitious development plans for the city.

In Pillgwenlly, we demolished garages in Knight Close, Coulson Close, Francis Street and Alma Street as part of our £7.9 million regeneration programme. Work started on the creation of 11 homes, and a new community hub. Our work in Pillgwenlly has been praised at a national level and is a good example of the public service board delivering on a local level.

Work also started on a new heating system for homes in Duffryn. It will be more energy efficient and reliable, improving the energy efficiency of homes for the residents. Homeowners can take advantage of the upgrade at a cost.

We have also invested money internally. In total, we carried out more than 30,000 repairs in our homes in 2017/18, with a strong focus on getting the issue resolved first time.

Local charities in the city were supported too. We improved a community kitchen at King's Church and donated a brand new kitchen to a Newport charity that helps people recovering from addiction.

Providing new homes

We made our first substantial land purchase in 2017/18.

As part of our ambitious regeneration plans for the city, we bought 10 acres of land in Old Town Dock on which we could build more than 150 homes. The site, which is between Usk Way and East Docks Road, forms part of the Old Town Dock development scheme. It already has planning permission for housing, retail, leisure and office space.

Newport City Council has also granted us planning permission for the first phase of our multi-million pound Ringland regeneration scheme. This will see us build 56 new homes, in response to a review of local housing need. We also appointed architects to create the wider masterplan for Ringland shopping centre and surrounding area.

In Bettws, our £1.2m development at Glen Court was almost completed in 2017/18. We are building 11 family homes and a bungalow for people with disabilities at the site. The homes were completed in May 2018.

All of the above will help us build affordable homes that are fit for communities now and in the future.

Making a difference in our communities

Youth engagement continued to feature prominently, particularly the work of UNITY, which was a runner up in the ‘community action’ category at the TPAS Cymru awards.

It helped raise awareness of changes to the local housing allowance (LHA) for people under 35, highlighting key messages around the changes across the region.

Our work with Shaftesbury Youf Gang continues the partnership theme when making a difference in our communities. We have been working with Gwent Police on the project that is seeing 11 pioneering Shaftsbury youngsters improving their local environment.

These are excellent examples of a housing association working with the police and residents to improve the environment, tackle anti-social behaviour and work with a demographic that is generally hard to reach.

We supported more than 570 victims of anti-social behaviour and helped eight victims of domestic abuse find new homes last year. We have also created a safeguarding policy to ensure our residents feel empowered to report a safeguarding concern, however minor they may think it is.

More than 1,000 young people took part in the Fit and Fed scheme across the city, which aims to improve the lives of disadvantaged children and young people at risk of holiday hunger, isolation, and inactivity.

Strong and effective organisation

We are working hard to learn, grow and improve so that we can do more with our communities. We completed a restructure in 2017/18 and made major changes to the way in which we are governed.

We became the first community benefit society in Wales to adopt a single-status board and had 28 people apply to become one of our new board members. Newport City Council relinquished its 'golden share' and nominations rights to the board as part of this change and we now have 10 board members, and a strong ongoing working relationship with Newport City Council.

We defined five new customer service standards, which set out our promise to our residents on how we will provide services that put them at the heart. We supported this with training all our colleagues to deliver high-quality customer service, with a focus on getting it right first time. A new resident scrutiny partnership was also launched.

In total, we engaged with more than 1,500 residents and had more than 150,000 interactions with them in 2017/18. This is a 50% increase on the previous year and we plan to be even more community-based in the future.

We have undertaken an Income and Cost review which will ensure that our finances remain strong and stable going forward.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Financial Performance

For the year ended 31 March 2018

Newport City Homes continues to be in a strong financial position and aims to maintain this financial strength.

Newport City Homes generates surpluses in order to further invest in our homes and communities. All our surpluses are re-invested in our on-going activities, together with our commitment to provide new homes to meet the housing needs of Newport. Newport City Homes is also committed to maintaining its existing assets in a sound condition, in line with Welsh Housing Quality Standards and to providing great services for our residents. These aims drive our financial performance.

Turnover

Newport City Homes' turnover in the year was £47,326k (2016/17: £45,486k). The majority of this was made up of rent from social housing, £39,896k, service charge income, £2,117k and amortisation of social housing grants £2,668k. The remainder came from a number of smaller sources.

Turnover includes £22k rent from the 782 garages we own, and £346k from our commercial properties. We also are contracted to provide services under the 'supporting people' funding regime, and received £262k under these contracts during the year. Additionally we received £156k for our biomass boiler in the form of renewable heat incentives.

Expenditure

Our main operating costs are management costs, the costs of maintaining our properties, and depreciation. The table below shows expenditure on maintenance compared with the previous year. This excludes the one off item, in 2016/17, relating to the reassessment of value of the biomass boiler facility.

	2018 £'000	2017 £'000
Planned maintenance	**11,769**	7,475
Day to day maintenance	**14,215**	13,555
Capital maintenance	**10,238**	7,335
	36,222	28,365

Expenditure on planned and day to day maintenance programmes in 2017/18 was higher than those in 2016/17 primarily due to the increased expenditure on the regeneration programme in Pillgwenlly, combined with continued work to maintain WHQS standards. Capital maintenance is higher in 2017/18, reflecting the cyclical nature of the agreed work programme including capital investment schemes in such areas as Somerton and Shaftsbury, together with pan-estate safety and security improvements.

Management and Employee Costs

Our overall management costs in 2017/18 were £7,371k compared with the previous year of £6,610k. The increase is due to inflationary growth, incremental increases to the organisational structure and the reclassification of expenditure in the operating model.

Overall employee costs were £12,597k compared with £10,539k in 2016/17, representing an increase of 19.5% compared with the previous year. This is partially due to the effect of the pay award (pay, pension and national insurance) from 1st April 2017 and an increase in headcount towards the latter part of the year. The main increase in headcount were as a result of bringing in-house specialist skills and knowledge, such as procurement, development, project management and the restructuring of the customer experience team. The 2016/17 actuarial report on the Association's defined benefit pension scheme identified a 6.1% increase in employer contributions from 1st April 2017.

Depreciation

This is a measure of the wear and tear of our properties with other assets such as existing components including kitchens, windows, and bathrooms. We replace these periodically. Depreciation costs in 2017/18 were £7.3m compared with £6.9m in 2016/17. Depreciation has increased as the asset base being depreciated has grown in actual value.

Treasury

On transfer NCH entered into a facility agreement with a consortium of three lenders, Nationwide, RBS and Barclays. This was provided for the Association to achieve its objectives set out in the transfer agreement, and subsequent investment in existing and new properties.

Our aim in the longer term is to borrow only to develop and acquire new property and any debt we raise for new homes will also be supplemented by the cash generated by our existing activities.

At 31 March 2018 the Association had loan facilities with three lenders as set out below:

	Amount of Loan Facility £m	Amount drawn down as at 31 March 2018 £m	End Date of Loan Term
Barclays Bank PLC	37.5	21	31/03/2033
Royal Bank of Scotland	37.5	21	31/03/2033
Nationwide Building Society	37.5	21	31/03/2033
	112.5	63	

The Association's interest costs have decreased in 2017/18 by £1.9m as a result of the deferment of a drawdown of £21m of borrowing in 2016/17, which resulted in a one-off breakage fee of £1.8m.

Loan Covenants

Newport City Homes is required by its lenders to meet three key covenants within the loan agreements

1. Annual cash flow surplus/deficit
2. Net operating cash flow/total funding costs
3. Debt per unit

Performance at the year-end was as follow:

	Current Position	Covenant	Covenant met
Maximum annual Cash flow (deficit)	(£7,514)	(£14,225)	Yes
Debt per charged unit	£6,978	£7,054	Yes

NCH is operating comfortably within its covenants for the year. The business plan for 2017/18 assumed a higher level of development expenditure during the year.

Other Balance Sheet items

The value of social housing properties in Fixed Assets, have increased by £14,996k. This is as result of the costs of the development and capital maintenance programme during the year.

Debtors falling within one year have increased by £668k. This is driven by the increase in tenant rent and service charge debt (net of bad debt provision), VAT and rechargeable costs.

The cash invested has reduced since 2016/17 principally due to the investment in land stock, for example Old Town Dock, to support the development of new homes for prospective tenants.

Pensions

The Association participates in two pension schemes:

The NOW Pension Scheme is a defined contribution scheme. The contributions payable are charged to the statement of comprehensive income as an expense during the year in which the employees have become entitled to this benefit.

The Association is only liable for the contributions and therefore there is no requirement to include a liability in the statement of financial position.

The Local Government Pension Scheme (LGPS) is a defined benefit scheme managed by Torfaen County Borough Council (Greater Gwent). Contributions are assessed in accordance with the advice of an independent qualified actuary.

The pension deficit on the LGPS scheme is recorded in the accounts. The deficit at 31 March 2018 was £10.4m compared with £10.5m at 31 March 2017.

Key Accounting Policies

The principal accounting policies are set out in Note 1 to the financial statements on pages 36-56. The most critical accounting policies in terms of the impact of the financial statements are the calculation of depreciation on housing properties and the capitalisation of the investment in housing properties.

Going Concern

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

On this basis, the Board has a reasonable expectation that the Association 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.

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Tower Block Cladding

Following the tragic events at Grenfell, Newport City Homes undertook a full assessment of its three tower blocks at Greenwood St Julian's, Hillview Gaer and Milton Court Ringland.

The Department for Communities and Local Government (DCLG) announced that single panel and then whole system cladding testing would be undertaken by the Building Research Establishment (BRE). On the 2 August 2017, the Association was notified that a whole system cladding test, similar to that on the three tower blocks, had received a fail.

Since then we have undertaken a comprehensive and robust communication with our residents and undertaken all of the recommendations advocated by the DCLG. Furthermore, the Board approved the retro-fitting of sprinklers in all of the tower blocks and this work at Greenwood, Milton and Hillview has been completed.

The accounts reflect the installation of sprinkler systems within each block and the provision of fire wardens, both of which were necessary for resident safety.

Negotiations are still ongoing with the contractor who installed the initial cladding to determine the rectification works to the towers.

The Association has tendered for the removal and replacement of the existing rain screen ACM cladding, where works will be undertaken during the next financial year on all three tower blocks. This contract has now been procured and signed.

The recent Prime Ministerial announcement confirmed that funding was being made available for Associations to fund their cladding replacement programmes in England. This has led the Welsh Government to follow suit and agree to fund circa £3m to the Association.

Treatment within 2017-18 accounts

The remaining net book value of the original cladding works for the three blocks is £924,000. This will remain on the balance sheet and the removal and replacement costs will be capitalised (net of grant) within the 2018-19 accounts and added to the carrying amount. The replacement product will ensure Health & Safety compliance and provide future benefits to the entity.

The implications of the above is recognised as a contingent liability of £2.9m plus VAT, for the removal and replacement of the three tower blocks cladding, together with a contingent asset for the Welsh Government funding of circa £3m, which is anticipated during the 2018/19 financial period.

No provision has been made within the 2017/18 accounts, since there is no financial impact and negotiations are on-going with the Welsh Government.

GDPR

In August 2017 NCH started its journey to become compliant with the latest Data Protection legislation in particular GDPR and the newly drafted Data Protection Bill (DPB). In January 2018 a Data Protection Officer (DPO) was employed to support the Association in preparing for principle 7 (Accountability). The Association has adopted, and is implementing, a new data protection framework including new policies, procedures, records and tools, including privacy notices, data breach registers and procedures, Subject Access Request (SAR) procedures and records as well as consent procedures.

The Association is taking a 'data protection by design and default' approach with all new projects carrying out Data Protection Impact Assessments (DPIAs) where there is a risk to individuals' interests, data audits are living documents being updated as processes and projects change, technological and organisational measures are being taken to improve security and the Association has put in place new data sharing and data processing agreements with all external partners.

Although we consider we are compliant with principle 7, we are continuously reviewing and improving our processing of personal data to improve business efficiency and restrict the opportunity for a loss of data integrity and confidentiality, whilst putting residents, staff and stakeholders at the heart.

Summary

Overall in the year the Association achieved a surplus after tax of £1.1m compared with £6.7m in the previous year. Comparisons of the major items for this year and last year are set out in the table below:

The decrease in surplus on social housing lettings is primarily due to increased activity relating to the Pill regeneration scheme during 2017/18 which is classified as revenue expenditure. The surplus on commercial properties and garages is not a material increase, but is due to a change in the management reporting of income and expenditure in 2017/18.

	2018 £'000	2017 £'000
Surplus on social housing letting	2,338	7,615
Surplus on commercial properties and garages	1,322	371
Revaluation of Biomass Boiler	-	3,980
Interest received and disposal of assets	1,882	1,019
Interest payable	(4,444)	(4,467)
Interest payable - breakage fee for loan deferral	-	(1,830)
Total surplus	1,098	(6,688)

Summary five year financial performance

	2017/18 £'000	2016/17 £'000	2015/16 £'000	2014/15 £'000	2013/14 £'000
Income & Expenditure Account					
Turnover	**47,326**	45,486	44,285	42,545	39,634
Operating Costs	**(46,228)**	(42,778)	(41,523)	(44,134)	(37,468)
Surplus	**1,098**	2,708	2,762	(1,589)	2,166
Balance Sheet					
Fixed Assets	**119,134**	104,033	99,045	98,916	61,248
Net Current Assets / (Liabilities)	**(26,787)**	(14,506)	(10,989)	(33,862)	9,880
Loans	**(63,000)**	(63,000)	(63,000)	(42,000)	(42,000)
	29,347	26,527	25,056	23,054	29,128
Reserves	**29,347**	26,527	25,056	23,054	29,128
Cashflow Statement					
Net Cash Inflow - Operating Activities	**9,785**	12,757	8,733	9,978	9,541
Servicing of Financing and Investing	**(4,307)**	(6,120)	(4,298)	(6,011)	(3,030)
Capital Expenditure	**(9,495)**	1,479	1,285	(8,706)	(8,387)
Financing	**0**	0	0	0	0
Increase / (decrease) in cash	**(4,017)**	8,116	5,720	(4,739)	(1,876)

Please note the figures for 2016/17 exclude £4m of exceptional income in order to allow a fair year on year comparison.

Assurance Framework and Value for Money

Assurance Framework

We operate an assurance framework to ensure the effective identification and management of key risks faced by the Association, which allows the Board to delegate management of key activities to the Executive with confidence that key controls are in place. The Audit and Risk Committee (ARC) meets regularly to oversee the delivery of the framework and reports to Board.

The Assurance Framework identifies all key areas of assurance received by the Board, ARC and the Leadership Team. This is provided by internal and external audits, the risk management framework, financial and performance reporting and other sources of independent external assurance. A key component of assurance is the value for money framework that supports the delivery of our strategic objectives driving economies of scale, efficiencies and effectiveness in everything we do.

Value for Money (VfM)

Value for money is a cornerstone of our operating model, ensuring that we generate maximum return from the money invested in our properties, the delivery of our services are valued by our residents and to support the development of new homes to meet needs.

Objectives

- To maximise the benefits from the money invested in our housing stock and commercial assets.
- To maximise the benefits from the money invested in the delivery of housing and community services.
- To maximise the benefit to customers from every pound we spend.
- Designing our ways of working to deliver what residents value and eliminating inefficiency, duplication and waste.
- To deliver year on year efficiency improvements in the way we work.
- To maximise the social value and benefit to the communities and the city of Newport from our investment.

Monitoring and Reporting

We have adopted the sector score card measures to enable the monitoring of value for money performance and these are reported annually through the Financial Statements. In addition, the Board receives quarterly Key Performance Indicators (KPI's) that include the operating margin and management costs. The challenges and opportunities presented by the operating environment means that we will continue to evolve our approach to value for money. We will refresh our VfM framework during 2018/19 to ensure that it remains a driver for continuous improvement in financial performance. The Board receive regular financial performance information through the management accounts.

In 2017/18 we commenced a comprehensive Income & Cost Review to evaluate the Association's financial position and identify the opportunities for improvement. This has resulted in a financial plan with year-on-year improvements in the financial position. The progress of the Income and Cost review is reported to Board. The review will evolve into business-as-usual through the refresh of the VfM Framework. The new Framework will implement the annual reporting of performance to ARC through the annual VfM Statement.

Benchmarking

We undertake an annual VfM benchmarking to enable the understanding of our comparative performance against the sector. This is undertaken using the sector VfM scorecard and the global accounts. The comparative data is set out in the table below and compares our performance over the last five years against the sector averages for 2016/17.

Value for money key metrics

	Newport City Homes					Sector
	2017/18	2016/17	2015/16	2014/15	2013/14	2016/17
Total operating cost per social housing unit (£)	**4,794**	4,103	4,289	3,937	3,765	3,211
Management costs per social housing unit (£)	**829**	741	677	578	686	1,350
Reactive costs per social housing unit (£)	**1,600**	1,519	1,460	1,289	1,289	1,091
Major repairs & components costs per social housing unit (£)	**2,476**	1,552	1,635	1,573	1,219	1,084
Bad debt costs per social housing unit (£)	**28**	9	18	24	52	29
Weighted average cost of capital	**7.1%**	10.0%	7.1%	9.9%	7.6%	5.90%
Free cash inflow (outflow) per housing association (£m)	**(4.0)**	8.1	5.7	16.3	(1.9)	0.97
Gross arrears / social housing turnover	**3.6%**	2.9%	2.3%	5.6%	6.0%	4.6%
Rent per social housing unit (£)	**4,727**	4,624	4,525	4,500	4,332	5,314
Rental void loss per social housing unit (£)	**96**	123	92	99	78	79

It is important to note that across the sector there are variations in how associations allocate their management costs between different areas of expenditure. As a result, our cost analysis focuses on total operating costs rather than individual cost centre comparison.

In terms of the operating cost per social housing unit, we are higher than the sector average 2017/18, this is mainly due to:

- The major repairs and components costs increasing by £5m in 2017/18 compared to 2016/17, due to investment schemes in areas such as Somerton and Shaftsbury, together with pan-estate safety and security improvements.
- Costs of £2.7m for the regeneration programme of existing properties in Pillgwenlly, which has been recognised as a revenue scheme due to the nature of the works being carried out, rather than capital.

The operating cost per social housing unit with the scheme removed reduces by £892 to £3,902. As part of the income and cost review exercise we are reviewing the operating costs to identify areas where savings can be achieved.

Bad debt has increased in line with the sector average this is directly attributable to residents moving onto the Universal Credit system since November 2017, as opposed to previously receiving housing benefits.

The weighted average cost of capital is high (ie the effective rate of interest on debt). This is due to the fixed rate loans that were agreed with our lenders at stock transfer. This is an area of focus and we are actively working with our treasury advisors to improve the condition.

The cash flow for 2017/18 is below sector average and this reflects the investment during the year in our development programme, and in particular, the land acquisition of the Old Town Dock site.

We have a well-defined 10 year development and regeneration programme in place and this will reduce the cash balances we hold in the shorter term. However, ultimately it will improve and strengthen our cash in later years, as schemes are built and start to generate increased rental income.

Gross arrears remains below the sector average and this demonstrates the positive impact of the housing services team in working with residents to reduce rent arrears.

Voids costs have reduced compared to 2016/17 but continues to be an area of focus.

Benchmarking our performance: financial return on investment

Financial return on assets is a key measure of performance. This measures the income we receive after costs as a percentage of the total we have spent building or acquiring our housing assets. There are a variety of different methods adopted in the sector and we have used three different approaches in assessing return.

1. General needs housing surplus as percentage of the total cost (net book value) of our asset

2. Total surplus before interest and tax as percentage of the total cost (net book value of our assets).

3. The existing use value (EUV) of our assets. This is the discounted value of the income less the costs of assets, and is therefore the value of the total return from assets in today's prices.

Our performance reflects the large maintenance schemes in our existing properties in Somerton and Shaftsbury and the regeneration programme in Pillgwenlly.

Return on Assets

	2017/18	2016/17	Sector average (2016/17)
General needs housing surplus as a percentage of the net book value of our assets	**2.0%**	7.5%	2.6%
Total surplus before interest and tax as a percentage of the net book value of our assets	**3.1%**	7.8%	n/a
EUV	**£279m**	£275m	n/a

Value for Money: examples of efficiency savings achieved during the year

Headquarter costs
We have successfully renegotiated the lease at Nexus House from April 2019, resulting in a recurring annual saving of £250k from 2019/20.

Residents' Home Insurance
During 2017/18 a tendering process was undertaken for residents' home insurance provision, resulting in a saving of £36k compared to the previous contract value.

Planned Maintenance
We have reduced and smoothed the planned maintenance programme by creating a three year rolling programme to allow projects to be accelerated or slowed down as required to get the most efficient use of resources and to maximise spend against the budget. This reflects the completion of WHQS works and the dedication to regular stock condition surveys being undertaken.

ICT
An annual review was undertaken on the costs of IT licences, software maintenance and telephony, which has resulted in a reduction of £90k compared to previous years.

Banking Arrangements
We thoroughly reviewed our banking and deposit accounts arrangements and have achieved a financial gain of £65k per year.

Procurement Services
We have invested internally in our procurement team to drive a consistent corporate approach, this has enabled us to reduce the cost of external consultancy and resulted in a saving of £90k, year on year.

Digitalisation
We have recently launched the new Newport City Homes web site and resident portal which allows for the automation of processes and access to information, for example, resident statements.

Our Performance: social return on investment

Whilst we aim to work as efficiently and effectively as we can, we also exist to provide homes and services to our community. We need to achieve social returns on our financial investment. In 2017/18, we invested £244k in a variety of community initiatives, one of which helped 31 residents secure employment.

In total, we now own or manage more than 9,000 homes. These are at rent levels below market levels. This creates a significant social return: for residents in receipt of housing benefit, rents lower than market rates mean a lower housing benefit bill and this saves government and the tax payer money. For those residents not on housing benefit, they pay less rent than for homes in the private sector. The average rent we charge is £90 per week, compared with market rents of £119 per week. Given about half our rents are covered by housing benefit, we are saving residents that pay the rent themselves more than £12.3m a year. We also save the government and tax payers £12.3m in housing benefit compared with housing residents at private sector rent levels.

Risk management

Risk management is a key part of our assurance framework. As our ambitions for growth increase, it is important that we are able to identify and assess the risks that we face and how we will manage them. Whilst we ended the year in a strong financial position, we face a number of challenges and threats to financial wellbeing, largely arising from changes in UK government policy and national and international financial volatility.

We understand our dynamic operating environment and the potential impact on our income and expenditure of changes in the local, regional and national economy. The uncertainty created by changes to UK government policy, particularly around welfare reform, is also an issue. Brexit has created a period of uncertainty particularly in the availability and cost of borrowing. We are aware of the risks associated with the availability of sufficient and appropriate loan funding to support our growth ambitions.

Health and safety remains a key element in our risk management and the need to ensure compliance with health and safety obligations as a landlord, employer, developer, and provider of support and community services. The issues that arose following the Grenfell Tower fire and the failure of the cladding safety tests on our three tower blocks required swift and effective management of the risk. NCH put in place robust and comprehensive measures to manage the immediate and long-term risks including the installation of sprinklers and a signed contract for the replacement of the cladding within 12 months of the risk being identified.

Risks are reported to, and reviewed by, the ARC and the leadership team. In-depth reviews of the most significant risks are presented to, and debated by the ARC. Stress and scenario testing is carried out and reported annually to the Board. The Board has set its activity limits for the Association and these are reviewed annually.

Future VfM priorities

The on-going income and cost review has enabled the Association to understand current performance, identify opportunities for improvement and implement plans to deliver improved performance. Year-on-year improvements in VfM will remain an organisational priority.

Initial analysis showed that realigning our expenditure to achieve the average for the sector, including all capital items, we could potentially make savings of £5m-£6m per year. In year one of the review substantial savings have been achieved. Further continued improvements would support us in achieving 2020 Vision and our growth ambitions.

Our priority is to improve our financial performance, whilst improving our operating performance and resident satisfaction. We are launching a series of service reviews to help us improve the efficiency and effectiveness of the way we work. We will do this by understanding what our residents want and need, and designing our processes to deliver that, whilst reducing complexity, duplication and waste in the way we work. We will continue to invest in new homes, while ensuring that our management and maintenance costs per unit continue to decline.

We will continue to look at improving our performance in areas such as treasury, procurement, resident engagement, maintenance of housing stock, repairs, voids turnaround times and moving to digital services. We will identify areas where we can work more efficiently or generate new income streams.

Our Plans for the future; our financial plan 2018/48

Our financial plan demonstrates the capacity to deliver our aspirations.

The below table shows the key metrics over the next 5 years:

	2018/19	2019/20	2020/21	2021/22	2022/23
Number of social housing units	8,969	9,079	9,219	9,319	9,419
Operating margin	15%	21%	22%	22%	23%
Interest cover	166%	166%	176%	190%	202%
EBITDA	148%	198%	224%	242%	259%
Debt per unit	7,054	7,068	9,331	9,280	9,229

The key projections included in the financial plan for 2018/48 are:

- Revenue surpluses being generated from 2018/19 for the remainder of the plan. This reflects the impact of the stabilising of the cost base and the reduction in the maintenance costs recognising that the Welsh Housing Quality Standards have been met.
- A total of 827 additional new units have been included and profiled up until to 2028/29. The number of new units, in any one year, have been shown as being completed in that year and the new rental income has been included in the year following the completion.
- Peak debt remains at £84m and assumes drawdown of the pre-agreed fixed rate loan of £21m in April 2019. The loan repays in line with the agreed repayment schedule approved by lenders by 2034.
- The balance sheets shows total fixed assets of £97.4m at the end of the plan in 2048. This has increased from the projections in the 2017/47 plan, due to the new development programme.
- Cash balances are lower in early years due to a higher level of investment spend; however, balances return to comparable levels in 2034.

Board Report

For the year ended 31 March 2018

The Board presents its report and the audited Financial Statements for the year ended 31 March 2018.

Performance for the Year

The Board reports a surplus for 2017/18 of £1.1m. The surplus does not include capital expenditure of £10.2 million. During the year the Association spent £34.3 million on reactive, cyclical and planned repairs, adaptations and improvements to housing properties.

The Statement of Financial Position shows housing assets of £117.1 million and net book value of capital grants received at £50.8 million. Total net assets as at 31 March 2018 were £29.3 million. There were loans of £63.0 million outstanding at 31 March 2018.

The cashflow statement shows a reduction in cash of £4.0 million.

Board and Senior Executives

Membership of the Board and the Executive team is set out on page 2. The senior executives of the Association do not hold share capital in the Association and although not having the legal status of directors, they act as executives within the authority delegated to them by the Board.

Board Member Obligations

The Board has an agreed person specification setting out the obligations of each Member and that of the Board. This specification was reviewed in May 2017 which considered skills and experience required by the Board to deliver its strategic aims and objectives.

Board Member obligations include:

- To work as a team to ensure that we comply with its Governing Rules, Standing Orders and Code of Conduct at all times, and that the Association complies with all relevant legislation and/or regulations as well as pursuing the delivery of its organisational priorities.
- To support the Chair, other Board Members and the Executive Team in developing our strategy, policy and planning.
- Ensure the Association places residents at the heart of all it does and is open to their involvement and influence.
- Support the development of performance criteria that enable the Board to manage the strategic direction of the Association.
- Promote a culture of transparency and accountability ensuring continuous improvement in driving a performance culture.
- Ensure the Board conducts itself in accordance with the highest standards of public life.
- Support the creation of positive partnership arrangements, promoting the profile of the Association with the range of agencies it works with.

- Support the effective and efficient use of our resources to deliver strategic objectives, maintaining the Association's long term financial viability and safeguarding assets.

Responsibilities of the Board

The Board is responsible for preparing the Financial Statements in accordance with applicable law and regulations. The Co-operative and Community Benefit Societies Act 2014 requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK Accounting Standards.

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

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

- select suitable accounting policies and then ensure that they are applied consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) have been followed, subject to any material departures disclosed and explained in these financial statements; and
- ensure that the Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the Association will continue to operate.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Association and enable it to ensure that its Financial Statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Requirements for Social Landlords Registered in Wales: General Determination 2015. The Board is also responsible for ensuring that the assets of the Association are safeguarded and to prevent and detect fraud and other irregularities. The Board has a current policy on the prevention, detection and reporting of fraud and has delegated responsibility to the ARC to receive compliance information in relation to fraud and other matters.

Board Member Skills, Qualities and Experience

The skills of the Board are assessed on an annual basis as part of the Board Member one to one process.

The analysis is used by the Board to inform the skills required by the Association in order to deliver its 2020 Vision effectively and these skills are added to the Person Specification which is used to identify learning and development for existing Board Members and to assess any future candidates who apply for Board vacancies. For the period 2017/18, the Board identified the following skills are required:

Skills/competencies

- Financial management
- Performance management and business analysis
- Ability to work as an effective member of the board
- Strategic awareness
- Risk management
- Integrity and sound judgement
- High ethical standards
- Experience of community working or being a social housing tenant
- Equal opportunities
- Development and regeneration
- Marketing/PR/Media
- Legal and governance

Personal skills

- Ability to communicate effectively to a range of audiences
- Ability to hold senior staff to account and challenge constructively
- Demonstrates commitment and leads by example
- Has good interpersonal and listening skills
- Sets positive standards of behaviour
- Demonstrates vision
- Understands drivers for change and importance of planning

The ARC Support Member recruited in December 2016, subsequently applied to become a Board member and was successful in joining both the Board and ARC in September 2017. This has strengthened the skills and experience of the Board by drawing on their previous engagement with the Association via their role in ARC.

Board Membership and Governance Structure

Board Membership

Membership of the Board is reported to each Annual General Meeting (AGM) and each Member serves for a term of up to three years, with the opportunity to serve a maximum of three consecutive terms.

Following a governance review in 2016/17, the Board determined to recommend to Share Members the adoption of new rules and a new Governance structure.

The Board communicated with Share Members through a briefing paper that detailed its determinations and recommendations to adopt a new set of Rules and a single status board structure that would allow greater flexibility in achieving its strategic aims and objectives.

These recommendations were approved at a Special General Meeting held in October 2017 and were subsequently approved by our lenders, the regulator and the Financial Conduct Authority (FCA).

The Board currently comprises up to 12 non-executive members and is responsible for strategic direction and monitoring the activities of the Association. The Board comprises of ten Members with two vacancies being held. Board Members are drawn from a wide background bringing together a professional, commercial, local and resident focus.

The Board meets formally six times a year and undertakes up to two strategic planning days each year. The Board is supported by the ARC and the Remuneration Committee (RC).

The Association has adopted the Code of Governance of Community Housing Cymru.

The Board is responsible for the Association's strategy and policy framework. It delegates day-to-day management and implementation of that framework to the Chief Executive and other senior executives who meet regularly and attend Board meetings

Committees

Audit & Risk Committee (ARC)

The ARC comprises of five Members and meets at least three times a year. Its purpose is to advise and provide assurance to the Board on the adequacy and effectiveness of internal controls in order to ensure the Association is operating at appropriate levels of risk.

Remuneration Committee (RC)

Membership of the RC comprises of five Members and its purpose is to supports the Board by making recommendations on annual pay settlements for all staff and/or any other changes to the Association's terms and conditions of employment.

The Public Accounts Committee undertook an Inquiry into Regulatory oversight of Housing Associations, and published their findings in August 2017. In accordance with recommendation number 15, the RC will consider the existing pay setting process and make any recommendations to the Board. This will ensure that robust and appropriate disclosure is made in future Financial Statements in the Annual Accounts of Housing Associations of senior management pay.

Internal Control

The Board acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate for the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used by the Association or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposition.

It is the Board's responsibility to establish and maintain systems for internal financial control. Such systems only provide reasonable but not absolute assurance against material misstatement or loss. Key elements include ensuring that:

- experienced and suitably qualified staff take responsibility for important business functions;
- formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restricts the unauthorised use of the Association's assets;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures; and
- The ARC receives reports from management and the internal and external auditors to provide reasonable assurance that control procedures are in place and are being followed.
- This includes a general review of the major risks facing the Association not otherwise dealt with directly by the Board. Formal procedures have been established for instituting appropriate action to correct material weaknesses identified from the above reports. The ARC undertakes regular deep dives of the top ten strategic risks and provides assurance to the Board.

Employees

The strength of the Association relies upon the commitment from its staff. The Association's ability to meet its key objectives and commitments to the residents of Newport depends upon the contribution of employees throughout the Association.

In pursuit of the Association's commitment to be an association that is Fair, Innovative, Respectful, Sincere and Trustworthy, it has continued to invest in targeted training and development of staff during the year, as it is recognised this is one of the key drivers for improved business performance and service delivery outcomes for residents.

The Association is fully committed to equal opportunities and values the diversity of all its employees, residents and the communities in which it works.

In particular, the Association supports the employment and retention of employees with protected characteristics in relation to the Equalities Act.

Share Membership

The Association has a policy in relation to Share Membership and all tenants, leaseholders and those who share ownership of their home with NCH, are eligible to become share members. Share Membership is a standard agenda item at Board meetings and applications are considered by the Board.

Individuals who are interested in becoming a share member can obtain more information from the Company Secretary of the Association at the address on page 2.

Disclosure of Information to Auditors

The Board Members who held office at the date of approval of this Board report confirm that, so far as they are each aware, there is no relevant audit information of which the Association's auditors are unaware, and each Board Member has taken all the steps that they ought to have taken as a Board.

Members are required to ensure that they are aware of any relevant audit information, in addition to reporting any issues or concerns with the Association's auditor as and when they become aware.

A resolution to reappoint the Association's External Auditors will be proposed at the AGM on 27 September 2018.

Approved by the Board and signed on its behalf by:

N Somerville

Nicola Somerville

Interim Chair of the Board for the period June 2017 to March 2018

17 July 2018


newport
city homes
Newport City Homes

Independent Auditors Report

To the members of Newport City Homes Limited registered under The Co-operative and Community Benefit Societies Act 2014

For the year ended 31 March 2018

In addition to our audit on the financial statements for the year ended 31 March 2018, we have reviewed the Board's statement of Newport City Homes Housing Association Limited ("the Association") compliance with the Welsh Government Circular 02/10, Internal Financial Control and Financial Reporting ("the Circular").

The objective of our review is to enable us to conclude on whether the Board has provided the disclosures required by the Circular and whether the statement is consistent with the information of which we are aware from our audit work on the financial statements.

We are not required to form an opinion on the effectiveness of the Association's corporate governance procedures or its internal financial control.

Opinion

With respect to the Board's statement on internal financial control on page 26, in our opinion the Board of Management has provided the disclosures required by the Circular and the statement is consistent with the information of which we are aware from our audit work in the financial statements.

Bevan & Buckland
Chartered Accountants & Statutory Auditors
Langdon House
Langdon Road
Swansea
SA1 8QY

Date: 17 July 2018

Opinion

We have audited the financial statements of Newport City Homes Housing Association Limited for the year ended 31 March 2018 which comprise the statement of comprehensive income, statement of changes in reserves, the statement of financial position, the cash flow statement and its related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2018 and of its income and expenditure for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015.

Basis for Opinion

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

Conclusions relating to going concern

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

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Board are responsible for the other information. 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 upon 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 where the Co-operative and Community Benefit Societies Act 2014 require us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Association has not kept proper accounting records; or

- the financial statements are not in agreement with the books of account of the Association; or
- we have not received all the information and explanations we need for our audit.

Responsibilities of the board

As explained more fully in the Statement of Responsibilities of the Board (set out on page 24), 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Use of our report

This report is made solely to the Association's members, as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Bevan & Buckland
Chartered Accountants & Statutory Auditors
Langdon House
Langdon Road
Swansea
SA1 8QY

Date: 17 July 2018

Statement of Comprehensive Income
For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Turnover	2	**47,326**	45,486
Operating expenditure	2	**(43,666)**	(37,500)
Operating surplus		**3,660**	7,986
Gain on disposal of property, plant and equipment	5a	**1,737**	848
Exceptional Income	5b	**-**	3,980
Interest receivable		**145**	171
Interest and financing costs	10	**(4,444)**	(6,297)
Surplus/(deficit) before tax		**1,098**	6,688
Taxation		**-**	-
Surplus/(deficit) for the year		**1,098**	6,688
Actuarial (loss)/gain in respect of pension schemes	23	**1,721**	(5,217)
Total comprehensive income for the year		**2,819**	1,471

Statement of Changes in Reserves
For the year ended 31 March 2018

	Designated Reserves				
	Duffryn direct heating system £'000	Major repairs and Regeneration £'000	Total £'000	General reserve £'000	**2018 Total £'000**
At 1 April 2017	293	22,317	22,610	3,916	**26,526**
Transfer		847	847	(847)	**-**
At 1 April 2018	293	23,164	23,457	3,069	**26,526**
Surplus for year	-	1,737	1,737	1,082	**2,819**
At 31 March 2018	**293**	**24,901**	**25,194**	**4,151**	**29,345**

The Duffryn District Heating system designated reserve transferred from Newport City Council and recognises some of the future maintenance requirements for the heating system.

Statement of Financial Position
As at 31 March 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible Fixed Assets			
Social Housing properties	11	**117,132**	102,136
Other Property	12	**197**	179
Other fixed assets	13	**1,805**	1,718
		119,134	104,033
Current assets			
Stock	14	**160**	183
Debtors: amounts falling due within one year	15a	**3,443**	2,775
Debtors: amounts falling due after more than one year	15b	**1,018**	1,086
Cash and cash equivalents		**38,146**	42,163
		42,767	46,207
Less:			
Creditors: amounts falling due within one year	16	**(10,981)**	(9,092)
Total current assets less current liabilities		**31,786**	37,115
		150,920	141,148
Creditors: amounts falling due after more than one year	17	**(111,175)**	(104,105)
LGPS pension liability	23	**(10,399)**	(10,516)
Total net assets		**29,346**	26,527
Capital and reserves			
Share capital	19	**1**	1
Reserves		**29,345**	26,526
		29,346	26,527

The financial statements were approved by the Board of Management on 17 July 2018 and signed on it's behalf by:

N Somerville
Chair

T Jackson
Secretary

Cash flow statement
For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Net cash flow from operating activities	(a)	**9,785**	12,757
Returns on investment and servicing of finance			
Interest received		**119**	171
Interest paid		**(4,426)**	(6,291)
		(4,307)	(6,120)
Capital Expenditure			
Purchase and construction of housing & other properties		**(20,572)**	(7,071)
Capital grants received		**9,875**	7,973
Purchase of other fixed assets		**(741)**	(384)
Sale of housing properties & land		**1,945**	961
Sale of other fixed assets		**-**	-
		(9,495)	1,479
Free cash (consumed)/generated before Loan repayments		**(4,017)**	8,116
Financing			
Housing loans received		**-**	-
Housing loans repaid		**-**	-
	(b)	**-**	-
Free cash (consumed)/generated after Loan repayments	(c)	**(4,017)**	8,116
		(4,017)	8,116

Notes to the cashflow statement
For the year ended 31 March 2018

a. Reconciliation of operating surplus to net cash inflow from operating activities

	2018 £'000	2017 £'000
Operating surplus	**3,660**	7,987
Depreciation of tangible fixed assets	**7,171**	6,926
Amortisation of Government Grant funding	**(2,663)**	(2,704)
Prepaid loan fees	**-**	68
LGPS - movement between current and past service cost and contributions paid	**1,604**	694
	9,772	12,971
Working Capital Movements		
Decrease/(increase) in stock	**23**	(132)
(Increase)/decrease in operating debtors	**(767)**	139
Increase/(decrease) in operating creditors	**563**	(191)
(Decrease)/increase in provisions	**194**	(30)
Net cash flow from operating activities	**9,785**	12,757

b. Reconciliation of net cash inflow to movement in net debt

	2018 £'000	2017 £'000
(Decrease)/increase in cash	**(4,017)**	8,116
(Increase) in loans	**-**	-
(Increase) in net debt	**(4,017)**	8,116
Net debt at 1 April 2017	**(20,837)**	(28,953)
Net debt at 31 March 2018	**(24,854)**	(20,837)

c. Analysis of net debt

	Cash at bank and in hand £'000	Loans due in more than one year £'000	Changes in net debt £'000
At 1 April 2017	42,163	(63,000)	(20,837)
Net cash flows	(4,017)	-	(4,017)
At 31 March 2018	**38,146**	**(63,000)**	**(24,854)**

Notes to the financial statements

For the year ended 31 March 2018

1. Principal accounting policies

A summary of the more important accounting policies, which have been applied consistently, are set out below:

Basis of accounting

The financial statements are prepared on the historical cost basis of accounting in accordance with applicable financial reporting standards in the United Kingdom, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", the Statement of Recommended Practice (SORP) for "Accounting by Registered Social Housing Providers" as updated in 2014, and comply with the Accounting Requirements for Social Landlords registered in Wales General Determination 2015.

The Association is a public benefit entity in accordance with FRS 102 and the financial statements are presented in Sterling (£).

Financial instruments

Financial instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS 102 are accounted for under an amortised historic cost model. Basic financial instruments are recognised at amortised historical cost.

Turnover

Turnover comprises rental income receivable in the year, income from shared ownership first tranche sales, sales of properties built for sale and other services included at the invoiced value (excluding VAT where recoverable) of goods and services supplied in the year and 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, net of any voids. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with Administering Authorities.

Social Housing properties

In March 2009 all housing properties transferred at no cost from Newport City Council and were also subject to a nil valuation based on an independent report using the basis of existing use value for social housing. Investment works in the housing property stock that have been capitalised are valued at cost less depreciation.

"Housing properties in the course of construction" are stated at cost and transferred into "housing properties" when completed.

Any overhead costs directly attributable to bringing fixed assets into their working condition for their intended purpose are capitalised. Expenditure on initial purchase of land and buildings is capitalised and disclosed as part of housing properties in course of construction within tangible fixed assets. Any directly attributable finance costs (other than interest costs) are capitalised as the asset is developed and amortised over the life of that asset.

Some residents have rights under their tenancy agreement to purchase their homes at prices which are at a discount below the open market price. Surpluses or deficits on disposals of properties are recognised as at the date a sale becomes certain.

The surplus or deficit arising on a disposal of a property is the difference between the sale price and the aggregate of the depreciated cost and any associated costs of disposal such as valuation and Legal fees. Any Social Housing grant (SHG) originally received on a property is repayable in full in the case of a disposal, demolition or change of use to an ineligible activity, save that in circumstances where the Welsh Government considers appropriate it may reduce the amount repayable. Where this arises on a disposal, the grant repayable so waived is added back to the surplus or deficit on that disposal.

Interest payable

Interest payable is charged to the statement of comprehensive income to reflect the costs of loan finance attributable to each accounting period.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to decent homes standards which may require more frequent replacement of key components.

The Association depreciates its housing properties in accordance with the Statement of Recommended Practice (SORP) "Accounting by Registered Social Housing Providers". Depreciation is charged on the historic cost of property (excluding land). The depreciable amount is written off over the estimated useful lives as follows:

	Houses	Flats
New build properties	150 years	110 years
Acquisition / refurbishments	100 years	80 years

Properties on long leases are depreciated over the shorter of the above and/or the remaining period of the lease.

The policy in respect of expenditure to refurbish or replace major components is that all such work is assessed against life cycle costing principles. Any cost in respect of repairs with a life of less than 10 years is charged directly to the statement of comprehensive income. Refurbishment or replacement of major components which have an estimated useful life in excess of 10 years are capitalised and depreciated over the useful life of the component as follows:

Windows and doors	30 years
Kitchens	15 years
Bathrooms	25 years
Central heating	15 to 30 years
Roofing	15 to 55 years

Depreciation is charged over the expected useful economic life of other fixed assets as follows:

Office refurbishment	15 years
Office & I.T. equipment	4 to 10 years
Vehicles and equipment	5 to 20 years

Dowry Grant/Gap Funding

The Association received financial assistance from the Welsh Government to support the delivery of the business plan and the achievement of the Welsh Housing Quality Standard. There is no requirement to repay this grant when disposal occurs. The Grant is accounted for using the accrual method, whereby, Grant is amortised over the expected useful economic life of the components.

Government Grants

Government grants include grants receivable from the Welsh Government, local authorities, and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and, where applicable, its individual components (excluding land) under the accruals model.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once reasonable assurance has been gained that the entity will comply with the conditions and (WG) that the funds will be received.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Government grants received for housing properties are subordinated to the repayment of loans by agreement with the WG. Government grants released on sale of a property may be repayable but are normally available to be recycled and are credited to a Recycled Capital Grant Fund and included in the statement of financial position in creditors.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income in income and expenditure.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to income and expenditure. Upon disposal of the associated property, the Association is required to recycle these proceeds and recognise them as a liability.

Other grants

Grants received from non-government sources are recognised using the performance model. A grant which does not impose specified future performance conditions is recognised as revenue when the grant proceeds are received or receivable. A grant that imposes specified future performance-related conditions on the Association is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as deferred income.

Supporting People

Supporting People income and expenditure is accounted for on an accruals basis, matching income and expenditure and disclosures are made in accordance with relevant standards and legislation.

Impairment

Annually housing properties are assessed for impairment indicators. Where indicators are identified an assessment for impairment is undertaken comparing the scheme's carrying amount to its recoverable amount. Where the carrying amount of a scheme is deemed to exceed its recoverable amount, the scheme is written down to its recoverable amount. The resulting impairment loss is recognised as operating expenditure. Where a scheme is currently deemed not to be providing service potential to the Association, its recoverable amount is its fair value less costs to sell.

Repairs and maintenance

The costs of repairs and maintenance are expensed as incurred on the basis of work done at the statement of financial position date.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Association. All other leases are classified as operating leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring the surplus or deficit. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to income and expenditure on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the Association recognises annual rent expense equal to amounts owed to the lessor.

Other tangible fixed assets

Other tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land.

Gains or losses arising on the disposal of other tangible fixed assets are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised as part of the surplus/deficit for the year.

Stock

Stock is valued at the lower of cost or net realisable value.

Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Where deferral of payment terms have been agreed at below market rate, and where material, the balance is shown at the present value, discounted at a market rate.

Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Classification of loans as basic

The Association has a number of loans which have a 'two-way break clause' which is applicable where the loan is repaid early and could result in a break cost or a break gain. The loans in question are fixed rate loans. In a prepayment scenario that results in a break gain, the loan agreement provides for the repayment of the capital at par. Any break gain payable by the lender would be in relation to future interest periods only.

Management have considered the terms of the loan agreements and concluded that they do meet the definition of a basic financial instrument, therefore are held at amortised cost.

Right to Buy sales

Surpluses arising from sales of properties under the Right to Buy legislation are disclosed on the face of the statement of comprehensive income.

Value Added Tax

The Association is partially exempt for VAT purposes and claims are made for repayment of VAT for items that are specifically allowable. Expenditure is shown inclusive of non-recoverable VAT.

Provisions

Provisions are recognised when the Association has a present obligation (legal or constructive) as a result of a past event, it is probable that the Association will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

The Association recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

Pension costs

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

The Association participates in two pension schemes:

- The NOW Pension Scheme is a defined contributions scheme. The contributions payable for by the Association are charged to the statement of comprehensive income as an expense during the year in which the employees have become entitled to this benefit. The Association is only liable for the contributions and therefore no requirement to include a liability in the statement of financial position.
- The Local Government Pension Scheme (LGPS), a defined benefits scheme managed by Torfaen County Borough Council (Greater Gwent). Contributions are assessed in accordance with the advice of an independent qualified actuary.
- Certain information concerning the assets, liabilities, income and expenditure relating to the LGPS scheme are disclosed in accordance with FRS102 – Employee Benefits.

Defined benefit obligation

Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the liability and the annual defined benefit expenses (as analysed in Note 23). The surplus for the year to 31 March 2018 was £1,721k.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets including investment properties. This involves developing estimates and assumptions consistent with how market participants would price the instrument or asset. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available.

2. Turnover, operating costs and surplus

	Year ended 31 March 2018			Year ended 31 March 2017		
	Turnover £'000	**Operating Costs £'000**	**Operating Surplus £'000**	Turnover £'000	Operating Costs £'000	Operating Surplus £'000
Income and expenditure from lettings						
General needs housing	**44,943**	**42,605**	**2,338**	44,226	36,611	7,615
Fully rented housing accommodation	**44,943**	**42,605**	**2,338**	44,226	36,611	7,615
Garages	**22**	**2**	**20**	118	7	111
Other activities	**2,361**	**1,059**	**1,302**	1,142	882	260
Total	**47,326**	**43,666**	**3,660**	45,486	37,500	7,986

3. Turnover from lettings

	2018 £'000	2017 £'000
Rents receivable (net of void loss)	**39,896**	39,234
Service charges receivable	**2,117**	2,026
Amortisation of Social Housing & Other Government Grants	**2,668**	2,704
Supporting People Grant	**262**	262
Turnover from social housing lettings	**44,943**	44,226

4. Operating costs from lettings

	2018 £'000	2017 £'000
Management costs	**7,371**	6,610
Service Charge costs	**2,410**	2,514
Planned maintenance	**11,769**	7,475
Day to day maintenance	**14,215**	13,555
Depreciation of housing properties	**6,592**	6,375
	42,357	36,529
Rent losses from bad debts	**248**	82
Operating costs on social housing activities	**42,605**	36,611
Operating Surplus on social housing lettings	**2,338**	7,615
Rent loss due to voids (memorandum note)	**853**	1,099

5a. Disposal of Property, plant and equipment

	2018 £'000	2017 £'000
Sale proceeds	1,873	899
Cost of sales	(136)	(51)
Prior year dowry disposal	-	-
Surplus on disposal	1,737	848

During the year the Association sold 21 properties. 12 under Right to Buy and 9 under Right to Acquire. 4 properties were staircased and there were 3 land sales.

5b. Exceptional Income

	2018 £'000	2017 £'000
Duffryn Biomass Boiler re-assessment	-	3,980
	-	3,980

6. Operating surplus for the period

	2018 £'000	2017 £'000
Operating surplus for the period is stated after charging:		
Depreciation	7,019	6,705
Rent losses from bad debts	248	82
Operating leases	466	466
Auditor's remuneration (inclusive of VAT):	16	13

7. Board members and senior executives emoluments

The remuneration paid to the senior executives of the Association was:

	2018 £'000	2017 £'000
Emoluments (including pension contributions and benefits in kind)	**405**	308
Emoluments (excluding pension contributions) paid to he highest paid senior executive	**139**	137

No remuneration was paid to the members of the Board of Management during the year. The emoluments of Board members and senior employees, excluding pension contributions were in the following ranges:

	2018 No.	2017 No.
£Nil	**10**	12
£1 - £50,000	**-**	1
£50,001-£60,000	**-**	-
£60,001-£70,000	**-**	-
£70,001-£80,000	**-**	-
£80,001 - £90,000	**-**	-
£90,001 - £100,000	**-**	1
£100,001 - £110,000	**2**	-
£110,001 - £120,000	**-**	-
£120,001 - £130,000	**-**	-
£130,001 - £140,000	**1**	1

The Chief Executive is an ordinary member of the LGPS pension scheme and no enhanced or special terms apply. The Association's contribution in respect of the Chief Executive's pension fund amounted to £24,337 (2017 - £16,399). Newport City Homes does not make any further contribution to any individual pension arrangement for the Chief Executive. The emoluments paid to the Chief Executive include a 10% car allowance.

8. Employee and employer costs

	2018 £'000	2017 £'000
Staff costs during the year:		
Wages and salaries	**8,686**	8,133
Social security costs	**944**	877
Other pension costs	**2,967**	1,529
	12,597	10,539

	2018 No.	2017 No.
Average number of full time equivalent employees during the year:		
Management and administration	**209**	219
Wardens, caretakers and cleaners	**35**	41
Housing repair service	**55**	57
	299	317

9. Interests and related party transactions

During the year the Association provided rented accommodation to seven Board members who were tenants of the Association, and charged rent to those members on the Association's standard terms. Tenant Board members are unable to use their position to their advantage. Where Board members are Councillors, any transaction with those local authorities are at an arms length basis and as such Board members are unable to use their position to their advantage.

10. Interest and financing costs

	2018 £'000	2017 £'000
Interest payable and similar charges	**4,444**	4,467
Facility breakage fee	**-**	1,830
	4,444	6,297

11. Property, Plant and Equipment

Social Housing Properties

	Freehold Housing properties held for letting £'000	Housing properties in the course of construction £'000	**2018 Total £'000**
Cost			
At 31 March 2017	133,300	241	**133,541**
Additions during the year	10,238	11,529	**21,767**
Disposals during the year	(255)	-	**(255)**
At 31 March 2018	143,283	11,770	**155,053**
Depreciation			
At 31 March 2017	31,404	-	**31,404**
Charge for the year	6,524	68	**6,592**
Disposals during the year	(75)	-	**(75)**
At 31 March 2018	37,853	68	**37,921**
Net book value			
At 31 March 2018	105,430	11,702	**117,132**
At 31 March 2017	101,896	241	**102,137**

Major repairs and investment in existing Housing properties to let during the year amounted to £22 million (including capitalised salaries of £533,812). This has been accounted for as follows:

	2018 Total	2017 Total
Planned maintenance (revenue)	**11,769**	7,475
Investment (capital)	**10,238**	11,315

	2018 No.	2017 No.
Units in Management:		
General needs housing properties in management	**8,887**	8,922
Shared ownership	**148**	150
Leasehold management services	**648**	642
Garages	**782**	1,082
	10,465	10,796

12. Property, Plant and Equipment

Other Property

	Other Property Assets £'000	**2018 Total £'000**
Cost		
At 31 March 2017	212	**212**
Additions during the year	30	**30**
Disposals during the year	-	**-**
At 31 March 2018	242	**242**
Depreciation		
At 31 March 2017	33	**33**
Charge for the year	12	**12**
Disposals during the year	-	**-**
At 31 March 2018	45	**45**
Net book value		
At 31 March 2018	197	**197**
At 31 March 2017	179	**179**

13. Property, Plant and Equipment

Other Fixed Assets

	Office premises £'000	Service assets £'000	Vehicles & office equipment £'000	**2018 Total £'000**
Cost				
At 31 March 2017	1,327	666	4,535	**6,528**
Additions during the year	151	18	572	**741**
Disposals during the year	-	-	(12)	**(12)**
At 31 March 2018	1,478	684	5,095	**7,257**
Depreciation				
At 31 March 2017	663	325	3,822	**4,810**
Charge for the year	104	127	415	**646**
Disposals during the year	-	-	(5)	**(5)**
At 31 March 2018	767	452	4,232	**5,451**
Net book value				
At 31 March 2018	711	232	863	**1,806**
At 31 March 2017	664	341	713	**1,718**

14. Stock

	2018 £'000	2017 £'000
Stocks of materials	**160**	183
	160	183

15a. Debtors: amounts falling due within one year

	2018 £'000	2017 £'000
Arrears of rent and service charges	**1,620**	1,279
Less: provision for bad and doubtful debts	**(699)**	(505)
	921	774
Prepaid loan monitoring fees	**12**	-
Prepaid loan facility fees	**68**	68
Debtors and prepayments	**2,442**	1,933
Transfer Development Agreement	**-**	-
	3,443	2,775

15b. Debtors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Prepaid loan facility fees	**1,018**	1,086
Transfer Development Agreement	**-**	-
	1,018	1,086

16. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade Creditors	**563**	940
Amortisation of grants (Note 18)	**2,664**	2,582
Transfer Development Agreement	**-**	-
Employee benefits	**69**	59
Accruals and deferred income	**6,722**	4,537
Over recovery of Service Charges	**-**	-
Prepayments of rents and service charges	**848**	848
Prepayments of other charges	**113**	123
Deposits	**2**	3
	10,981	9,092

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

	2018 £'000	2017 £'000
Housing loans	**63,000**	63,000
Social housing and other Government grants (Note 18)	**48,175**	41,105
	111,175	104,105

Loans are secured on all properties where the Association holds an interest.
At 31 March 2018, the Association had un-drawn loan facilities of £49.5 million
Loan interest payable varies between 6% and 6.25%

Loans repayable by instalments fall due as follows:

	2018 £'000	2017 £'000
In five years or more	**63,000**	63,000
Between two and five years	**-**	-
	63,000	63,000
In one year or less	**-**	-
	63,000	63,000

18. Grants

	Dowry	Other Grants	SHG	**Total**
	£'000	£'000	£'000	**£'000**
At 31 March 2017	52,120	1,340	1,473	**54,933**
Additions during the year	6,500	134	3,240	**9,874**
Disposals during the year	(81)	(2)	-	**(83)**
Cost	58,539	1,472	4,713	**64,724**
At 31 March 2017	11,043	203	-	**11,246**
Amortised in year	2,614	49	-	**2,663**
Amortisation written back on disposal	(23)	-	-	**(23)**
Amortisation	13,634	252	-	**13,886**
Net book value				
At 31 March 2018	44,905	1,220	4,713	**50,838**
At 31 March 2017	41,077	1,137	1,473	**43,687**

	2018 £'000	2017 £'000
Grant falls due as follows:		
In one year or less	**2,664**	2,582
After more than one year	**48,175**	41,105

19. Non-equity share capital

	2018 £	2017 £
Shares of £1 issued:		
At 31 March 2017	**1,491**	1,569
Issued during the year	**6**	2
Cancelled during the year	**(62)**	(80)
At 31 March 2018	**1,435**	1,491

The shares provide members with the right to vote at general meetings. The shares carry no right to a dividend, there is no provision for the redemption of shares and there is no provision for a distribution following a winding up.

20. Operating leases

At 31 March 2018 the Association had commitments under operating leases as follows:

	2018 £'000	2017 £'000
Motor vehicle and office equipment expiring :-		
Within one year	**124**	281
Between two and five years	**49**	137
	173	418

	2018 £'000	2017 £'000
Land and buildings expiring :-		
Within one year	**508**	466
Between two and five years	**994**	466
Over five years	**2,627**	-
	4,129	932

The expenditure incurred during the year is detailed in Note 6 - Operating Surplus for the period.

The Association signed a fifteen year lease terms on office accommodation at Nexus House, Mission Court, Newport. The terms of the lease are subject to review after five years, with the first review having taken place on 12th March 2014. A further review took place in 2017/18 where it was agreed to reduce the number of floors from three to two from April 2019.

21. Capital commitments

	2018 £'000	2017 £'000
Capital expenditure contracted but not provided for in the financial statements	**9,784**	7,879
Capital expenditure authorised by the Board but not contracted	**23,548**	10,358

These capital commitments will be funded by existing loan facilities and capital grants from the Welsh Government.

22. Net assets

The balance sheet of the Association is reporting net assets of £29.3 million as at 31 March 2018, compared to net assets of £26.5 million at the end of the previous financial year.

The Association made a surplus on ordinary activities during the year.

The Welsh Government has undertaken to pay a dowry to the Association in acknowledgement of the level of work required. This dowry is payable in annual instalments phased to reflect the Association's long term financial plan.

The Board is satisfied that the availability of future loan finance and the dowry payment to be paid by the Welsh Government are sufficient to ensure that the Association will be able to meet its future liabilities as they fall due.

23. Pension costs

The Association participates in the Torfaen County Borough Council (Greater Gwent) pension scheme which is a defined benefit scheme based on final pensionable salary. Certain employees of the Association participated in the scheme prior to the stock transfer taking place and, as such, assets or liabilities attributable to these individuals were identified at the transfer date ie 9 March 2009. As part of the transfer agreement, liability for the proportions of the debt attributable to these employees that relates to the pre-transfer period rests with Newport City Council. The gains and losses recognised by the Association therefore relate solely to the period since transfer.

The most recent valuation was carried out at the 31 March 2016 and has been updated by independent actuaries to the scheme to take into account the requirements of FRS102 in order to assess the liabilities of the fund at 31 March 2018. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value. The Association's contribution rate from 1 April 2015 to 31 March 2017 was 13.2% of members' contributions. This increased from 1 April 2017 to 19.3% and will continue at this rate until 31 March 2020.

The principal assumptions used by the independent qualified actuaries in updating the latest valuations of the fund for FRS102 purposes were:

	2018 %pa	2017 %pa
Discount rate	**2.7%**	2.6%
Rate of increase in salaries	**2.8%**	2.8%
Rate of increase in pensions	**2.4%**	2.4%
Rate of RPI Inflation	**n/a**	n/a
Rate of CPI Inflation	**2.7%**	2.7%

	2018	2017
	% pa	% pa
Expected rates of return on:		
- Equities	**3.7%**	2.6%
- Government Bonds	**3.7%**	2.6%
- Other bonds	**3.7%**	2.6%
- Property	**3.7%**	2.6%
- Cash/liquidity	**3.7%**	2.6%
- Other	**3.7%**	2.6%
Expenses deduction	**0.5%**	0.4%

	2018 £'000	2017 £'000
Market value		
Equities	**32,791**	32,039
Bonds	**7,568**	6,724
Property	**1,261**	791
Cash/liquidity	**420**	-
	42,040	39,554

The movement in the net surplus for the period to 31 March 2018 is as follows:

	2018 £'000	2017 £'000
Reconciliation of funded status to balance sheet		
Fair value of plan assets	**42,040**	39,554
Value of funded obligations	**(52,439)**	(50,070)
Total estimated scheme (deficit)/surplus	**(10,399)**	(10,516)

	2018 £'000	2017 £'000
Components of pension costs for year:		
Current service cost	**(2,528)**	(1,272)
Interest on pension liabilities	**1,041**	1,176
Expected return on assets	**(1,331)**	(1,351)
Effect of curtailments or settlements	**-**	-
Total pension cost recognised in income and expenditure account	**(2,818)**	(1,447)

	2018 £'000	2017 £'000
Statement of recognised surpluses and deficits		
Actuarial gains/(losses)	**1,721**	(5,217)
Total pension cost recognised in the statement of comprehensive income	**1,721**	(5,217)

	2018 £'000	2017 £'000
Changes to the fair value of assets during the year:		
Present value of scheme assets at 31 March 2017	**39,554**	32,442
Expected return on assets	**442**	5,434
Business combinations	**-**	-
Actuarial (losses)/ gains on assets	**1,041**	1,176
Contributions by the employer	**1,214**	753
Contributions by the participants	**425**	379
Benefits and transfers paid	**(636)**	(630)
Total fair value of plan assets	**42,040**	39,554

Changes to present value of liabilities during the year:

	2018 £'000	2017 £'000
Present value of scheme liabilities at 31 March 2017	**50,070**	37,047
Current service cost	**2,528**	1,272
Interest cost	**1,331**	1,351
Contributions by the participants	**425**	379
Actuarial(gains)/losses on liabilities	**-**	-
Curtailments	**-**	-
Changes in demographic assumptions	**-**	(1,153)
Benefits and transfers paid	**(636)**	(630)
Changes in financial assumptions	**(1,279)**	9,974
Other experience	**-**	1,830
Total value of funded obligations	**52,439**	50,070