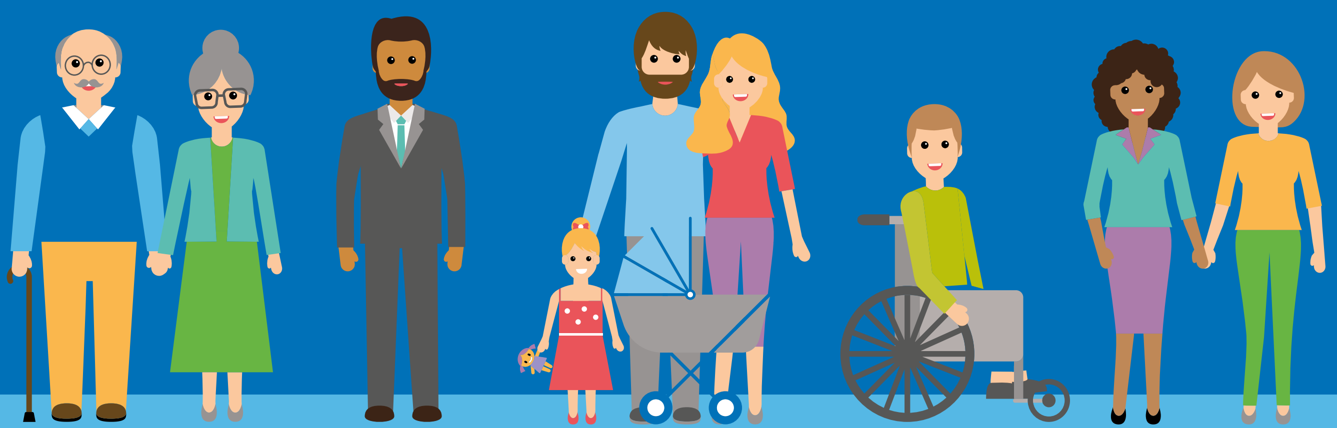
newport city homes

FINANCIAL STATEMENTS

For the year ended
31 March 2020



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Board members and professional advisors

For the year ended 31 March 2020

Board from 1 April 2019 to 23 September 2019

Nicola Somerville (Chair)

Jayne Anne Rose

Helen Taylor

Kevin David Ward

Catherine Anne Bryant
(until 23 May 2019)

Janice Averil Morgan

Alex Stephenson

James Tarrant

Sheila Davies

Christian Cadwallader

Guy Stenson

Board from 23 September 2019 to 31 March 2020

Nicola Somerville (Chair)

Jayne Anne Rose
(until 23 September 2019)

Alex Stephenson

Helen Taylor
(until 23 September 2019)

Kevin David Ward

Janice Averil Morgan

Guy Stenson

Christian Cadwallader

Sheila Davies
(until 26 November 2019)

James Tarrant
(Co-optee until 23 September 2019)
(Board Member from 23 September 2019)

Amelia John
(Co-optee from 26 November 2019)

Chris Sutton
(Co-optee from 6 January 2020)

Company Secretary and Registered Office

Tim Jackson (until 1 April 2020)
Joanna Fairley (from 2 April 2020)

Nexus House
Mission Court
Newport
NP20 2DW

Executive Officers

Ceri Doyle
Chief Executive

Tim Jackson
Executive Director of Finance and Resources (until 1 April 2020)
Interim Executive Director of Transformation (from 2 April 2020)

Robert Lynbeck
Executive Director of Operations

Matthew Davies
Executive Director of Development

Stephanie Bradley
Interim Director of Finance and Resources (from 2 April 2020)

Bankers

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

Lenders

Royal Bank of Scotland plc

Barclays Bank plc

Legal and General Investment Management Limited

The Housing Finance Company

Principal Solicitors

Hugh James
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Blake Morgan
Bradley Court
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Cardiff
CF10 3DR

Trowers & Hamlins LLP
55 Princess Street
Manchester
M2 4EW

Valuers

Savills
Embassy House
Queens Avenue
Bristol
BS8 1SB

External Auditors

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

Internal Auditors

RSM UK
Regus House
Malthouse Avenue
Cardiff Gate Business Park
Cardiff
CF23 8RU

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 2020

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 2020.

Legal status

The association is a registered society under the Cooperative and Community Benefit Society 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 (NCC) in 2009.

Principal activities and geographical coverage

We are a not-for-profit organisation administered by a voluntary board of management, for the financial year ended 31 March 2020. We provide management, maintenance and improvement services to 9,015 rented homes, which includes shared ownership properties, located within the administrative boundary of NCC. 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 644 leasehold flats, have a portfolio of 98 premises let on commercial terms, manage 153 garages and hold between 25% and 75% equity in 136 shared ownership properties on which we receive rental income.

Statement of vision

2019/20 marks the last year of our 2020 Vision; our five-year strategy which has set solid foundations to enable us to continue to provide homes in communities where people want to live.

Over the last five years, we have improved the services we provide to our residents and communities, contributed to meeting the demand for more housing, and delivered regeneration projects throughout the city.

In order to improve, we've had to overcome the challenges presented by welfare reform, the implementation of Universal Credit, the health and safety issues exposed through the Grenfell tragedy, the outcome of Brexit and more recently, the worldwide health crisis caused by Covid-19. These challenges have demonstrated that we are a flexible and agile association with the ability to adapt in the most challenging of circumstances.

It is this agility and the flexibility of our dedicated colleagues that will enable us to achieve even more for the residents and communities we serve over the next five years.

Newport City Homes has never been just a housing association. We are proud to play a key role in transforming the city of Newport, by creating vibrant and safe communities our residents are proud to work and live in.

We have huge ambitions to meet Newport's demand for affordable housing. Our strong financial position means we can continue to play a central role in driving Newport's development by regenerating our existing communities, in addition to building more than 250 new mixed tenure homes for every year of our strategy, supporting the provision of good quality affordable housing in Newport and surrounding areas.

We want to do more than just provide homes.

We want to be the absolute best we can.

NCH Strategy 2025 lays out our ambition to remain sector leading and keep pace with the emerging challenges, opportunities, and evolving trends our rapidly changing operating environment presents.

As the world around us changes, so will we. By constantly adapting and looking for opportunities to improve our ways of working, we are confident we will deliver even better and more efficient services to our residents and communities.

We are excited for our future. We hope you are too.

We are the largest social landlord in Newport, with 71% of the city's social housing stock.

We provide homes and services to more than 20,000 residents, leaseholders, and shared owners.

In the last five years, Newport City Homes has made a significant contribution to the city of Newport through the delivery of our 2020 Vision.

Putting residents at the heart

We are focused on satisfaction by embedding customer service standards, enhancing our digital service offer and getting things right first time.

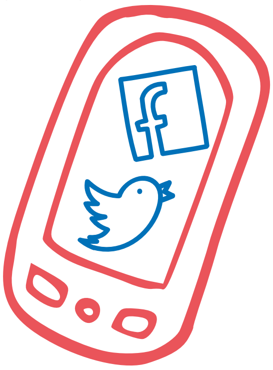
Putting residents at the heart of every decision we make is not just something we say, it is something that we do.

We continue to listen to how our residents want to engage with us so we can be confident our service offer remains flexible and fit for purpose.

Our digital services review has continued to expand our online services so residents can communicate with us at a time and place that best suits their needs.

Our 24/7 self-serve online portal allows residents to make payments, update their personal information and view and contact us about their account online at their convenience. We are also working on an online repair booking system in direct response to feedback received from our residents. In the last year, there has been a notable increase in residents using the webchat facilities and our online portal services.

Our use of social media and digital platforms to explain changes to our ways of working proved invaluable towards the latter end of the financial year with the widespread effect of the Coronavirus impacting on residents and colleagues alike.



It's good to talk

Many of our residents do not have regular access to the internet, we therefore ensure we have a multi-channel approach to communications and interactions with residents that is inclusive and accessible to all.

- 72,295 calls were answered this year, which is 12% increase on last year
- Our Customer Service Standards and improved digital service offer have halved our average call waiting time to an average of two minutes this year. We are constantly looking at ways to improve and will continue to review all of our services to ensure they are as efficient and effective as they can be.

Our residents play a key role in driving us to improve and ensure our services reflect the needs of our residents and communities.

Our Resident Scrutiny Partnership is a group made up of residents and leaseholders who evaluate our services and decisions, challenging us to make sure residents' voices are heard and considered in our strategic and operational decisions.

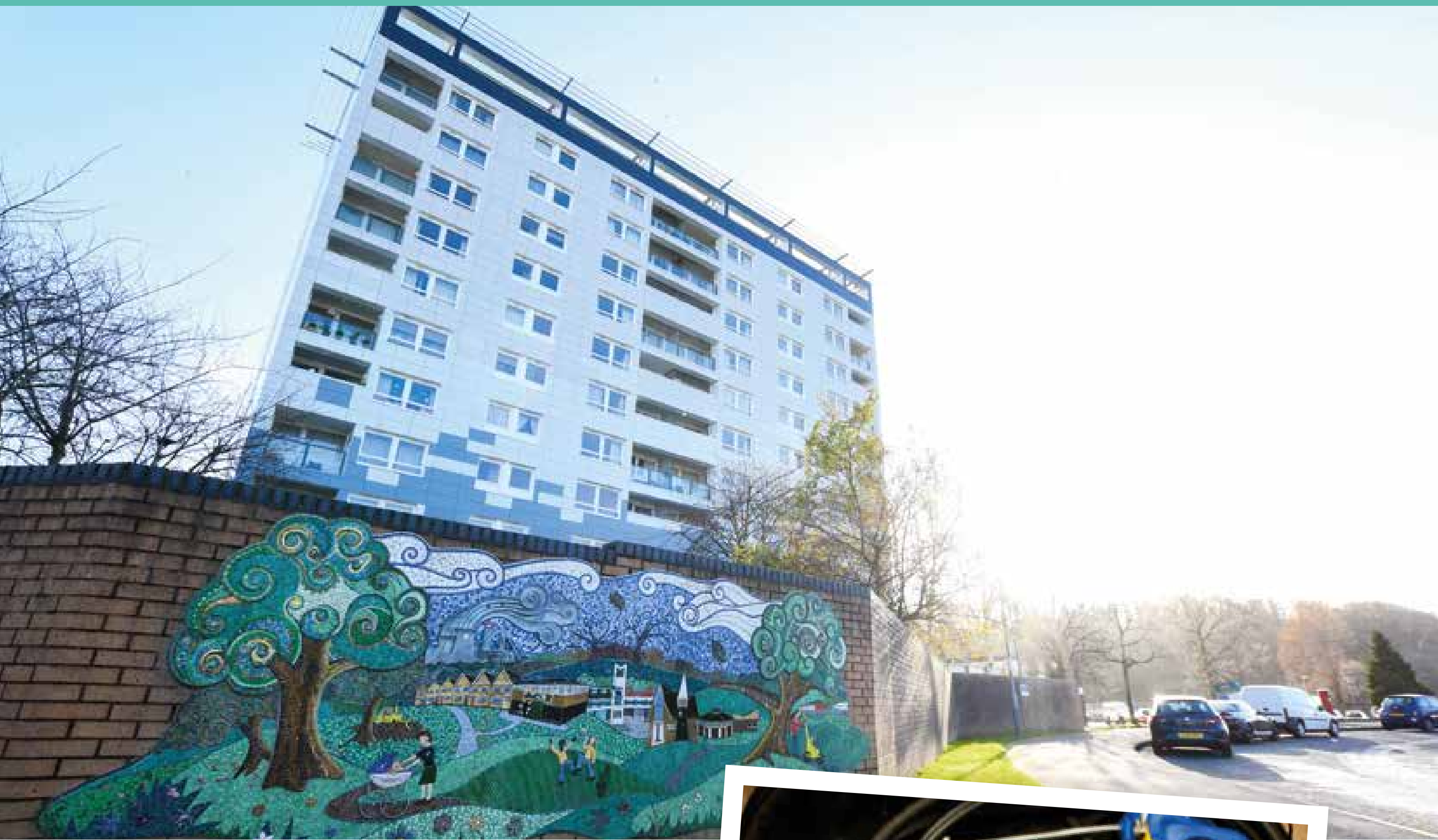
Maximising occupancy of our homes

Our lettings and void review have significantly reduced the amount of time our properties are vacant, maximised the occupancy of our homes and generated income to reinvest in our communities.

Our average turnaround time has reduced to 31 days resulting in the reduction of routine void loss of £175k in 2019/20 compared to 2018/19. This is a significant reduction, but we will continue to find ways to reduce this further.

Investing in homes and neighbourhoods

Having a safe and warm place to live and call home is the starting point for everyone to be successful in their lives. We believe good housing should be a basic human right. That's why we are continuing to invest in homes and neighbourhoods across Newport.



Throughout 2019/20, we have continued to support residents ensuring they are safe in their homes at all times.

- All of our homes continue to meet the Welsh Quality Housing Standard and have delivered an ongoing investment programme to maintain all homes to this standard.
- 99.9% of our homes continue to be gas safe compliant.

We continue to expand our direct employment of skilled trades operatives such as plumbers, electricians, and wet trades to increase the efficiency of our maintenance service and improve resident satisfaction.

We have enhanced our data management processes to make sure timely, accurate and complete records are in place to enable evidence-based decision making and assurance that we are fully compliant with our landlord health and safety obligations.

The safety and wellbeing of our residents will always remain our highest priority

Our priority has always been the safety of our residents. Never before has this been more sharply in focus than in the aftermath of the Grenfell tragedy. We took immediate action to install sprinklers and remove and replace the cladding on the tower blocks in Newport. The feedback received from residents gave us further assurance we were not only meeting but exceeding our fire safety regulation requirements.

Our work on the tower blocks has been recognised as best practice by both UK and Welsh Government and was awarded the Safety Board Leadership & Participation Award at the 2019 ASCP Safety & Compliance Awards.

The coronavirus pandemic

During the early stages of the coronavirus (Covid-19) pandemic, our enhanced communal cleaning service and regular health and safety checks provided much needed assurance for many residents.

With cleanliness and safety remaining essential, our cleaners cleaned and disinfected communal areas such as entryways, stairwells, hallways, and balconies.

Our cleaning teams also carry out essential health and safety compliance work to ensure all communal areas and emergency escape routes are clear to minimise fire risk.

Provide new homes

"We have got big ambitions for growth at Newport City Homes and recognise the important role we play in tackling the housing crisis through the provision of new homes."

As the third largest city in Wales, Newport has seen some of the highest levels of house price growth in the UK. Demand for affordable housing, through rental or ownership, has increased significantly.

We have huge ambitions to meet the city's demand for affordable housing with new mixed tenure homes for residents that would otherwise be excluded from the Newport housing market.

This year, we have completed 41 new properties, with 217 in progress and a further 615 approved by our Board, which contribute to our ambition of building more than 250 new homes a year for the next five years.

With our stronger financial position, reduced loan costs and additional Welsh Government funding for innovative Shared Ownership and Rent to Own products, we have more flexibility to invest in regeneration projects and affordable new homes than ever before.

Our plans involve multiple developments across the city, where we have purchased land to build sustainable and connected new homes with enhanced energy efficiency and high design standards.

Somerton Road

Work on 25 brand-new one and two bedroom apartments at the derelict Kings Hotel pub in Somerton Road, Lliswerry, completed in December 2019. The £2.8 million development was delivered with local developer, P&P Builders, and local architect, Letruco Design.

"I'm looking forward to my independence, for better things for my little girl. It's a lovely opportunity to give her a permanent home."

Cot Farm, Ringland

The £30 million development and regeneration of Ringland is our flagship regeneration scheme.

Phase one began in January 2019, as we started work to build 56 new houses and apartments in Cot Farm in response to a review of local housing needs.

Residents moved into the first of these new two and three bedroom homes in February 2020, with the rest of the new homes being released towards the end of the summer 2020.

New tenure opportunities at Coverack Road

In February, work began on 76 new homes on Coverack Road, near the George Street Bridge.

The new one and two bedroom apartments, which are being built on a former Brownfield site by local contractor, Jehu Group, will provide a new variety of housing options.

As well as apartments for social rent, there will also be new options including private rent and low-cost home ownership opportunities such as Rent to Own and Shared Ownership.

City centre regeneration

As Newport's largest social housing provider, we know how important the city centre is to residents and our partners. We are focused on identifying the right opportunities and investing in the regeneration of the city centre to create high quality accommodation where our residents want to live and work.

In 2018/19 our first city centre development Albany Chambers delivered 9 apartments.

In the last quarter of 2019/20, we purchased the Olympia House building, which will provide 62 mixed tenure units for social and private rent including shared ownership and Rent to Own apartments, to be available towards the end of 2020.

Making a difference in our communities

We are focused on supporting communities through the work on employability, financial inclusion and wellbeing.

Our Resident Engagement Strategy continues to review how and where we can provide a tangible long-term contribution to local communities.

Our apprenticeship and academy programmes have supported residents to progress their career ambitions and gain permanent employment. We have also been working with local schools to improve school leavers employability skills as they prepare for the world of work.

This year, we supported 14 people to gain employment through these schemes. As part of our Business Class Partnership with Llanwern High School, we have also supported six parents to gain Maths and English GCSE qualifications, which were proving an entry barrier to the workplace.

Helping residents make the most of their income

Last year, we helped residents:

- Save £71,500 on their water bills
- Access £190,000 through grant support, including the Discretionary Assistance Fund and various relief grants such as the Vicar's Relief Fund.
- Access additional housing benefit of £115,000
- Access £887,000 in welfare benefits and Universal Credit (UC).

Our targeted interventions have supported 686 residents to maintain their tenancies by providing housing-related support.

We are partnered with Money Saviour to work with residents who may be struggling financially. This means that 136 residents have received further help with their finances this year.

We were an early adopter in Newport for the UC scheme and despite seeing a continued increase in the number of households on UC, the impact upon our rent arrears has slowed significantly. We have evolved and refined our support mechanisms to residents to help them maintain healthy rent accounts.

In 2018/19 we saw a 59% increase in tenant rent arrears which slowed to a 3% increase in 2019/20. This has resulted in net rental income being higher than planned as a result of bad debt being lower than budget.

We are proud to continue working closely with Newport City Council, and other local registered social landlords on the innovative 'Housing First' initiative in Newport. The project aims to reduce repeat homelessness in the city and is designed to support people who need significant levels of help to move away from homelessness.

In September, we signed the 'Make a Stand' pledge, demonstrating our commitment to tackling domestic abuse and sexual violence experienced by our residents across Newport. The pledge is an initiative developed by the Chartered Institute of Housing in partnership with Women's Aid and the Domestic Abuse Housing Alliance, created to encourage housing associations to make a commitment to support people experiencing domestic abuse.

We have launched a training programme for our colleagues to help them recognise and support those who may be experiencing domestic abuse.

In response to the rapidly changing circumstances our residents are facing as a result of Coronavirus, we have prioritised our Social Purpose Programme for 2020/21.

This programme reviews the changing needs of our communities and will clearly define our role and how our support, interventions and investment can make the biggest impact in communities through our own activities and in partnership with others.

Strong and effective organisation

Our stronger financial position means we are in the best position to fulfil our potential, support and sustain our existing communities and build new homes.

We have transformed our financial position, providing improved business strength to support our ambitions. Our business plan not only enables the delivery of our strategic objectives but also has the strength to withstand significant financial major disruption to our operating environment.

Our recent successful refinancing deal, which includes some of the lowest interest rates in the housing sector. This enables us to build much needed affordable homes in Newport as well as regenerate existing communities to deliver improved return on investment and provide sustainable income for years to come.

We have attained the highest available regulatory judgement, recognising that we have effective governance arrangements in place and are financially well-managed.

A modern flexible association

Much of our success is down to our highly engaged and motivated colleagues. We are committed to the development of existing colleagues and employing new people with the right knowledge, skills, experience, and behaviours.

To develop our commitment further, we participate in several recognised training programmes as well as run our own staff development initiatives and programmes.

Doing this ensures we can retain and attract colleagues with the right skills to meet our needs and encourage a diverse workforce that fully reflects the communities we serve.

We have:

- Signed up to Disability Confident to promote NCH as an employer to individuals with disabilities.
- Supported 15 colleagues to achieve new qualifications relating to their roles through our Sponsorship to Study scheme

- Supported colleagues with professional qualifications and memberships
- Modernised our Recognition and Reward and programme
- Delivered mental health and wellbeing awareness training so we can better understand and manage mental health and wellbeing in the workplace and to help residents who may need extra support.

We have seen an increase in our overall staff engagement scores of 11% between 2018/19 and 2019/20.

Our Agile approach to our work and essential services has enabled us to keep the association operational with minimal disruption in even the most challenging of circumstances. Colleagues now work in an agile and flexible way which has reduced the need for office space, resulting in cost savings and reduced environmental impact.

Our future focus is the transformation of our services to improve the quality and value for money of what we provide, which should in turn improve resident satisfaction. We will redesign our operating model, with a focus on delivering what matters most to residents whilst continuing to improve our digital service offer.

The revised transformation approach will focus on delivering improvements in cost, quality, and satisfaction. This will be supported by improvements in three cross-cutting areas: data, digitalisation, and resource planning.

Financial Performance

For the year ended 31 March 2020

Newport City Homes (NCH) continues to be in a strong financial position and aims to maintain this financial strength. We generate 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. We are committed to maintaining our existing assets in a sound condition, in line with WHQS and to providing great services for our residents. These aims drive our financial performance.

Turnover

Our turnover in the year was £49,783k (2018/19: £48,791k). The majority of this was made up of rent from social housing, £42,604k, service charge income, £2,551k and amortisation of social housing grants £3,221k. The remainder came from a number of smaller sources.

Turnover includes £35k rent from the 81 garages we let, and £385k from our commercial properties. We received £157k 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.

	2020 £'000	2019 £'000
Planned maintenance*	**6,264**	5,907
Day to day maintenance*	**14,519**	14,573
Capital maintenance	**9,263**	8,268
	30,046	28,748

*Planned and day to day maintenance include direct costs plus an allocation of central costs.

Expenditure on planned and capital maintenance in 2019/20 was higher than that in 2018/19 primarily due to the smoothing of the planned maintenance programme over a three-year rolling basis and extra work on the re-cladding of tower blocks.

Day to day maintenance costs have stabilised with the introduction of internal trade teams in 2018/19.

Management and Employee Costs

Our overall management costs in 2019/20 were £10,577k compared with the previous year of £10,420k. The increase is due to inflationary growth, incremental increases to the organisational structure, in particular employing specialist skills such as data and performance management, we also welcomed our new Executive Director of

Development, to lead on the delivery of new homes within our vision 2025.

Overall employee costs were £17,480k compared with £14,842k in 2018/19, representing an increase of 17.7% compared with the previous year. This is partially due to the effect of the pay award (pay, pension and national insurance) from 1 April 2020. The main increase in costs was the recruitment of the trades teams towards the end of 2018/19 resulting in a full year salary costs for these posts in 2019/20. There were no changes to the employer's contributions rates deducted from employees, the pensions charges included in the accounts are per the 2019/20 Local Government Pension Scheme actuary report.

Gain on disposal of properties

The association received £2.9 million net income from the disposal of forty three properties through various transactions that included twenty five properties via the Government Right to Buy scheme which closed in January 2019, twelve properties as right to acquire, six properties were shared ownership stair cased (tenants took the opportunity to increase their equity share in the property), and five land sales.

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 2019/20 were £8.1 million compared with £7.7 million in 2018/19. Depreciation has increased as the asset base being depreciated has grown in actual value.

A review and analysis of the current depreciation records and internal processes identified discrepancies and inconsistencies in the way component data had been treated in previous years. This data cleansing exercise resulted in component data being written off to the income and expenditure account of £790k. In 2020/21 we will implement a refresh of financial systems to provide improved reporting to support decision making.

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.

In March 2018, the Board approved the refinancing of our existing loan facilities and a refinancing exercise was completed in September 2019. In July 2019, the old loan of £112.5 million was repaid, which incurred market to market interest breakage fees of £34.1 million, which was paid from existing cash deposits.

The longer-term benefits of lower interest rates and less restrictive loan covenants improves our financial strength overall and provides more financial flexibility to support future growth plans and aspirations.

Arrangements for the new loans/funding are as follows:

- £15 million 5-year revolving credit facility
- £15 million 10-year revolving credit facility
- £95 million private placement drawnin four tranches, of which one tranche for £15 million is deferred until 25 July 2020
- £25 million loan agreement drawnin two tranches, with £13 million still to draw by September 2020

At 31 March 2020, the association had loan facilities drawn with two lenders.

Loan Covenants

NCH is required by its lenders to meet two key covenants within the loan agreements:

1. EBITDA-MRI interest cover

2. Net debt per unit

Performance at the year-end was as follow:

	Covenant limit	Actual
Interest Cover	110%	339%
Net debt per unit	£25,000	£5,646

We operated comfortably within the limits of our lenders for the year ended 31 March 2020.

Other Balance Sheet items

The value of social housing properties in Fixed Assets, have increased by £19.7 million. This is as a result of the costs of the development and capital maintenance programmes during the year.

Debtors falling within one year have increased by £495k which reflects the roll out of Universal Credit. This is driven by the increase in tenant rent and service charge debt (net of bad debt provision), VAT and rechargeable costs.

Debtors falling due after more than one year is disclosed at £1.96 million, this reflects deferred Welsh Government Housing Finance Grant (HFG) which has been awarded towards covering the borrowing costs associated with the Pillgwenlly and Cot Farm schemes over a 30 year period.

The cash invested has reduced since 2018/19, which reflects the net cash effect of the refinancing exercise and the expenditure incurred in year on 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 is 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 2020 was £13.79 million compared with £16.63 million at 31 March 2019. This largely reflects the changes to the financial assumptions in the 2019/20 actuary report and in particular a lower future discount factor, CPI and mortality rate has been applied compared to last year.

Key Accounting Policies

The principal accounting policies are set out in Note 1 to the financial statements on pages 42-69. 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 association activities, its current financial position and factors likely to affect its future development are set out within the financial performance and value for money (VfM) sections of the Strategic Report. The association has secured more flexible and lower cost long-term debt to replace the existing facilities which will continue to 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.

The Coronavirus Pandemic

The Coronavirus (Covid-19) has had a significant global impact, it was declared a pandemic by the World Health Organisation on 11 March 2020 and on 23 March 2020 the UK government imposed a lockdown on the whole population. When transmission of the virus within the UK was confirmed in February 2020 the association implemented the business continuity plan and established an Incident Management Team to oversee the strategic management of the incident and a Business Recovery Team (BRT) to oversee the delivery of business critical services, as a result of the business interruption caused by the pandemic.

The BRT prepared a plan and tested it against various scenarios and triggers to fully prepare the association for the pandemic. On the 19 March 2020, the association implemented the "amber" status of the plan where the focus was on keeping both residents and colleagues safe. The delivery of the essential services became the Covid-19 operating model. The association was able to maintain a high level of service immediately, with the majority of colleagues able to work fully from home.

The essential services being delivered include emergency repairs, compliance safety checks and work, essential cleaning and caretaking, wellbeing checks of residents, help and support residents to maintain healthy rent accounts, and key corporate services. The association established key service performance triggers with the Board and clear routes for escalation on the materialisation of any areas of concern.

The association's business recovery plan also established mechanisms and protocols for the reintroduction of a fuller level of services when permitted. The plan enables the association to move between different stages of continuity if restrictions are lifted or reinstated and in the event of prolonged disruption caused by the pandemic.

The association has reported to Board on the full stress-testing of the business plan against the various scenarios presented by the pandemic including short, medium and long-term disruption and the possibility of a post-pandemic recession. The testing shows the association is in a very strong position to respond to these scenarios.

Throughout the period of disruption, the association is focused on the continuity of key service provision and in planning for the recovery and effective operation in the period following.

Significant management judgements and key sources of estimation uncertainty

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

Significant management judgements

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

Impairment of social housing properties

The association has to make an assessment as to whether an indicator of impairment exists. In making the judgement, management considered the detailed criteria set out in the SORP. Specifically, this includes whether there is an impairment indicator for a cash-generating unit. For these purposes a cash-generating unit is defined as a property scheme.

Defined benefit pension scheme

The association has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend upon a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

Categorisation of properties between investment properties and property, plant and equipment

The association bases this assessment depending upon the use of the asset and the level of rent charged.

Estimation uncertainty

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

Depreciation

Tangible fixed assets, other than investment properties, are depreciated over their useful lives based upon various factors. The actual lives of the assets are re-assessed on a periodic basis and may vary depending on the standard of the asset. For housing property assets, the assets are broken down into components based upon management’s assessment of the properties and the specific costs incurred in replacing these components. Individual useful economic lives are assigned to these components.

Summary

Overall, in the year the association had two exceptional items, detailed below, creating a deficit position after tax of £25.9 million. Taking into consideration the exceptional items for comparative purposes the association has a surplus of £4.4m compared with £3.5 million surplus in the previous year. Comparisons of the major items for this year and last year are set out in the table below:

	2020 £'000	2019 £'000
Surplus on social housing letting	**5,419**	4,947
Surplus on commercial properties and garages	**221**	577
Interest received and disposal of assets	**3,173**	3,902
Interest payable	**(4,440)**	(5,960)
Total (deficit)/surplus	**4,373**	3,465
Exceptional items	**(30,095)**	0
Total (deficit)/surplus after exceptional items	**(25,722)**	3,465

The increase in surplus on social housing lettings is primarily due to the completion of a number of schemes.

The surplus on commercial properties and garages has reduced due to the reduction in the number of garages and commercial properties let.

The disposal of assets decreased by £729k to £3.173k due to the Welsh Government Right to Buy scheme closing in January 2019.

The exceptional items include £34.1 million in breakage fees due to the repayment of the old loan during the re-financing exercise and income of £4.0 million received in respect of the original tower block cladding.

Summary five year financial performance

	2019/20 £'000	2018/19 £'000	2017/18 £'000	2016/17 £'000	2015/16 £'000
Income & Expenditure Account					
Turnover	**49,783**	48,791	47,326	45,486	44,285
Operating Costs (incl'ds finance costs)	**(75,505)**	(45,326)	(46,228)	(42,778)	(41,523)
Surplus/(Deficit)	**(25,722)**	3,465	1,098	2,708	2,762
Balance Sheet					
Fixed Assets	**149,262**	129,744	119,134	104,033	99,045
Net Assets / (Liabilities)	**(43,326)**	(38,404)	(26,787)	(14,056)	(10,989)
Loans	**(97,571)**	(63,000)	(63,000)	(63,000)	(63,000)
	8,366	28,340	29,346	26,527	25,056
Reserves	**8,366**	28,340	29,346	26,527	25,056
Cashflow Statement					
Net Cash Inflow - Operating Activities	**13,545**	13,795	9,786	12,757	8,733
Servicing of Financing and Investing	**(4,171)**	(5,358)	(4,307)	(6,120)	(4,298)
Exceptional Items	**(30,095)**	-	-	-	-
Capital Expenditure (net of grant)	**(15,828)**	(2,669)	(9,496)	1,479	1,285
Financing	**34,571**	-	-	-	-
Increase/(decrease) in cash	**(1,978)**	5,768	(4,017)	8,116	5,720

Assurance Framework and Value For Money

For the year ended 31 March 2020

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 along with other sources of independent external assurance. A key component of assurance is the Value for Money (VfM) framework that supports the delivery of our strategic objectives driving economies of scale, efficiencies and effectiveness in everything we do.

Value for Money (VfM)

VfM 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

- **Doing the right things:** meet the association's core purpose, ensuring resources are invested in what matters most.
- **Do things economically:** ensure the association get the best price for what we buy.
- **Maximise the return from our resources:** maximising productivity and ensuring activities add value and eliminate waste.
- **Maximising the return from our housing and commercial assets:** invest in the right assets to the right standard, in the right places, for the right cost and for the right return.
- **Maximise the social value and benefit to the community:** delivering results that matter by improving the effectiveness of the association year-on-year and reinvesting in homes and communities.
- **Embedding value for money in everything we do:** achieving a culture of continuous improvement and empowering our people to make informed decisions in all activities.

Monitoring and Reporting

We have adopted the housing sector score card measures to enable the monitoring of VfM performance and these are reported annually through the Financial Statements. In addition, the Board receives quarterly key performance indicators (KPI's) that reports on all sector score card measures.

The VfM framework is supported through effective governance and performance management. The framework is focused on achieving the six objectives which will be delivered through a rolling three-year action plan, which will specify the key activities to strengthen the financial position and improve service performance.

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 Welsh housing association global accounts.

The comparative data is set out in the table below and compares our performance over the last four years against the sector averages for 2018/19.

Value for money key metrics

	Newport City Homes				Sector
	2019/20	2018/19	2017/18	2016/17	2018/19
Total operating cost per social housing unit (£)	**3,988**	3,907	4,024	3,380	3,260
Management costs per social housing unit (£)	**1,204**	1,175	1,037	965	1,196
Reactive costs per social housing unit (£)	**1,513**	1,533	1,363	1,407	1,115
Major repairs & components costs per social housing unit (£)	**935**	1,248	1,152	1,995	785
Bad debt costs per social housing unit (£)	**34**	57	28	9	42
Weighted average cost of capital	**5.2%**	9.5%	7.1%	10.0%	4.80%
Free cash inflow (outflow) per housing association (£m)	**(1.8)**	5.8	(4.0)	8.1	6.6
Gross arrears / social housing turnover	**3.5%**	3.4%	3.6%	2.9%	4.4%
Rent per social housing unit (£)	**5,139**	4,958	4,727	4,624	5,723
Rental void loss per social housing unit (£)	**72**	105	96	123	60

We are higher than the sector average 2018/19, this is mainly due to:

- The operating cost per social housing unit for 2019/20 shows a stabilising of costs when compared to 2018/19, although it continues to be above the sector average, We are actively working to reduce costs through the VfM action plan, examples are set out further in the report. It is worth noting that the 2017/18 and 2018/19 value includes a complex regeneration scheme in Pillgwenlly which inflated the costs per unit compared to the sector average.

- The management costs increased in 2019/20 which was mainly due to external services being brought in house such as data management and reporting and the new Executive Director of Development. The costs also include the increase costs of the LGPS pension scheme actuary valuation for 2019/20.
- The reactive maintenance costs have stabilised over the last two years but are still higher than the sector average. The expansion of the internal trade teams will deliver more effective and efficient services to our residents and reduce the costs of external contractors going forward.
- The major repairs costs have reduced compared to 2018/19, this is due to the fire health and safety programme in the 55+ schemes and two and three storey flats, being put on hold, awaiting legislation guidance to be issued. The programme is planned to commence in 2020/21 and will be delivered over a rolling programme.
- Bad debt has reduced and is lower than the sector average, this is directly attributable to the settling down of residents going onto the UC system, as opposed to previously receiving housing benefits. In addition, the review and write off of former tenant debt, which was deemed unrecoverable, at the end of 2018/19 contributed.
- The weighted average cost of capital has reduced in 2019/20, which reflects the part year effect of the refinancing exercise in July 2019. The full year impact of the lower interest rates will be seen in the financial statements for 2020/21.
- The cash flow for 2019/20 is lower than sector average and this reflects the investment during the year in our development programme. 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. The market to market interest breakage costs, incurred due to the early repayment of the original loans, reduced cash balances in year.
- Gross arrears remain 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 2018/19 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.

Return on Assets	2019/20	2018/19	Sector Average (2018/19)
General needs housing surplus as percentage of the net book value of assets	**3.7%**	3.9%	2.0%
Total surplus before interest and tax as percentage of the net book value of assets	**3.8%**	4.3%	n/a
EUV	**£272m**	£272m	n/a

Our performance reflects the investment we have made in the last ten years or future investment required in our existing properties. We have successfully completed a new development in Somerton and purchased the Olympia House building in the city centre.

In 2018/19 we undertook an in-depth analysis of the performance of our properties. The outcome of the work has enabled us to develop a robust asset management strategy that has categorised our properties into three areas of good, relative and poor performing stock that will drive our property investment and regeneration programmes going forward.

Value for Money: examples of efficiency savings achieved to date

Headquarter Costs

We have rethought how we make best use of our office space and successfully renegotiated the lease at the head office from April 2019, resulting in a recurring annual saving of £250k from 2019/20.

Planned Maintenance

The association completed the improvement programme to bring all stock up to the Welsh Housing Quality Standard in 2015 and has implemented a rolling programme of stock condition surveys to ensure strategic asset investment decision making. A rolling ten-year programme for asset investment has been implemented to maintain the quality of homes.

The asset investment programme is now procured through longer term framework agreements, that will support the flexibility of the ten-year programme and move away from being tied into short term arrangements that can be costly. The enhanced approach to strategic asset investment has resulted in a reduction in cost per unit (per year) of over £300.

Procurement services

Procurement services has seen a shift towards a more strategic approach to procurement where expenditure is better organised and understood. Implementation of a central procurement team has standardised and streamlined processes. We have invested internally in our procurement team and electronic tendering system, to drive a consistent corporate approach, this has enabled us to reduce costs across the association by £90k year on year. A tendering process was undertaken for our insurance provision, resulting in an annual saving of £200k compared to the previous contract value.

We have undertaken market analysis and benchmarking on common and repetitive spend and have switched suppliers or accessed external procurement frameworks where appropriate to secure better value for money, resulting in savings on average of 5% of contract value and significantly improved service delivery.

Expansion of the in-house trade teams

In 2018/19 we commenced a programme to expand the size of the internal trade teams within the next three years, who will then be able to deliver the majority of maintenance services to our residents. The drive to increase the proportion of in-house delivery as opposed to external contractors will improve the quality of works, reduce inefficiencies and increase resident satisfaction. The successful delivery of the project by year three will result in an annual saving of £1m.

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 2019/20, we invested £55k in a variety of community initiatives that support employability, health and wellbeing schemes along with financial and digital inclusion programmes.

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 taxpayer 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 £97 per week, compared with market rents of £121 per week. Given about half our rents are covered by housing benefit, we are saving residents that pay the rent themselves more than £6.06 million a year. We also save the government and taxpayers £6.06 million 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 and our operating environment becomes more volatile, 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, the uncertainty about the UKs future relationship with the European Union and the major impact of the Covid-19 pandemic and the effect that will have on the economy and government expenditure.

We continually monitor and understand the risk and opportunities presented within our dynamic operating environment. We have fully examined and tested the potential impact of all major events including the coronavirus pandemic, landlord health and safety issues, Brexit, ongoing welfare policy and possible regulatory changes as a result of the Welsh Government Review of Affordable Housing Policy. We have analysed the potential impacts on our income and expenditure as well as evaluating the potential consequences for our residents and partners.

Our risk work includes analysis of the actual events and the impact of the response of government including the potential for any change in government policy and expenditure priorities.
We keep the risk environment under constant review and keep the Board fully informed of the stress-testing results of all possible scenarios.

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.

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 are carried out and reported annually to the Board. The Board has set its activity limits and golden rules for the association and these are reviewed annually.

The leadership team and Board annually review and confirm the associations risk appetite. To inform this the association's risk capacity is reviewed within the context of the strategic objectives, with the association understanding the aggregate risk exposure and the effectiveness of key controls. The risk appetite is agreed within strict parameters that ensure we are not exposed to a risk level that compromises the integrity or validity of the association.

Our future - VfM priorities

The progress to date on improving value for money has put us in a strong financial position. We have in place an agreed action plan to further enhance financial strength and to support the delivery of the ambitious growth objectives. Our market analysis shows significant unmet housing need in south east Wales and that the market remains strong with significant demand across a range of price points that presents us with opportunities to play a significant role in meeting housing need.

The annual planning and budget setting exercise informs the areas of focus within the forward looking VfM action plan. The annual process enables us to understand in more detail the current performance, identify opportunities for improvement, implement plans and agree the measurement tools to demonstrate the effectiveness of the improvements on performance. Year-on-year improvements in VfM will remain an association priority.

Our priority is to improve our financial performance, whilst improving our service performance and resident satisfaction. We are launching a series of service reviews to help us improve the 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. The priority for the year ahead is the transformation of high-volume service activities through implementing new delivery models that will deliver improved resident satisfaction and achieve higher service quality and efficiency resulting in declining management and maintenance costs per unit.

The VfM action plan includes further approved initiatives to improve the financial position of the association. These include increasing the income from our commercial and leaseholds assets by £90k per annum and reducing our accommodation costs by £100k per annum. Further refinements to our procurement activities are scheduled to deliver additional savings of £200k per year and rationalisation of our staffing establishment will provide savings of £175k.

Our Plans for the future; our financial plan 2020/50

Our financial plan for 2020/50 supports the review of the association's assets and includes a long-term programme to address health and safety, decarbonisation and environmental issues required to be delivered over the next five years along with a development programme based upon delivering a net two hundred plus new homes from 2022/23 onwards.

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

	2020/21	2021/22	2022/23	2023/24	2024/25
Number of social housing units	9,155	9,291	9,527	9,756	9,968
Operating margin	20%	26%	27%	25%	27%
EBITDA MRI	264%	258%	271%	253%	258%
Debt per unit	6,968	8,965	13,311	16,189	17,861

The key projections included in the financial plan for 2020/50 are:

- Revenue operating surpluses are being generated from 2020/21 for the remainder of the plan and the operating margin grows steadily. This reflects the impact of stabilising the cost base and the proactive asset management approach to maintenance costs, recognising that the WHQS have been met.
- The business plan includes a total of 2,218 additional new units, for both rental and sale, which have been included and profiled up until to 2029/30. 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 increases to £335 million and assumes drawdown of the pre-agreed deferred draw downs, of LGIM £15 million and THFC £13 million, approved during the refinancing exercise in 2019/20.
- The balance sheets show total fixed assets of £748.3 million at the end of the plan in 2050. This has increased, compared with the 2019/49 plan due to the new development and regeneration programme.
- The EBITDA MRI covenant calculation is 264% for 2020/21 and 274% in 2031/32 and climbing during the rest of the plan, which is very strong compared to the lenders target of 110%.

Board Report

For the year ended 31 March 2020

The Board presents its report and the audited Financial Statements for the year ended 31 March 2020.

Performance for the Year

The Board reports a deficit after taxation for 2019/20 of £25.72 million. The deficit does not include capital expenditure of £8.7 million. During the year the association spent £30.1 million on reactive, cyclical and planned repairs, adaptations and improvements to housing properties.

The Statement of Financial Position shows housing assets of £147.4 million and net book value of capital grants received at £65.9 million. Total net assets as at 31 March 2020 were £8.4 million. There were loans of £97.6 million outstanding at 31 March 2020.

The cashflow statement shows a decrease in cash of £1.9 million.

Board and Senior Executives

Membership of the Board and the executive team is set out on page three. 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 new role profiles in place for the chair of the Board, vice chair of the Board, chairs of committees and Board members setting out the personal attributes, skills, knowledge & experience and eligibility criteria of the roles, this includes the collective accountabilities to ensure the effectiveness of:

- Strategic Direction
- Internal Controls
- Governance & Financial Viability

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, the Statement of Recommended Practice for registered local housing providers 2018 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 Board assesses its collective and individual member's skills on an annual basis as part of its governance effectiveness process.

The analysis is used by the Board to inform the skills required by the association in order to deliver its strategic decision making effectively and these skills are added to the role profile and used to identify learning and development opportunities for existing Board members and to assess any future candidates who apply for Board vacancies. For the period 2019/20, the Board identified the following skills being required:

Skills/competencies:

- Treasury
- Finance and accountancy
- Audit and compliance
- Performance management and data analysis
- Development and regeneration
- New homes
- Community-led regeneration
- Information communications technology (ICT) and security
- HR – culture, employment proposition
- Risk management
- Marketing/PR/Media/Branding
- Experience of representing communities
- Experience of chairing meeting and committees

Board remuneration

Following the Office for National Statistics' (ONS) decision in September 2016 to reclassify Welsh RSLs as public non-financial corporations, and the Welsh Ministers move towards deregulation in May 2017, the Regulation of Registered Social Landlords (Wales) Bill was passed in October 2017 which allowed RSLs to implement Board remuneration.

During the period May 2018 to November 2019, the Board, with independent support and guidance, considered the case for Board remuneration and delegated to the Remuneration Committee (RC) to undertake an options appraisal and present a business case for approval.

Following detailed discussions and consideration of the outcomes of the impact assessment and consultation with residents, staff and stakeholders, the Board approved the principle of remuneration at the upper middle range, as set out in the 'Non-executive remuneration in RSLs in Wales resource pack', published by Community Housing Cymru, the association's membership body.

In November 2019, the Board approved specific fees of:

- Board Chair - £10K
- Vice chair, chair of committees - £7K
- Board members & Co-optees - £5K

with effect from 1 April 2020.

To support the implementation of remuneration, the Board also approved reviewed role profiles and supporting governance framework documentation.

The Board has delegated authority to the RC to review benchmarked Board member remuneration, with independent support, before making any future recommended changes to remuneration.

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, nine years in total.

The Board can comprise of up to 12 non-executive members and is responsible for strategic direction and monitoring the activities of the association. The Board currently comprises of seven members and two co-optees. Board members are drawn from a wide background bringing together a professional, commercial, local and resident focus. Co-optees have specific skills identified as a gap or vulnerability in the Board's skills matrix and have specific terms of office, as determined by the Board.

The Board meets formally six times a year and undertakes up to two strategic planning days each year. The Board is supported by the audit and risk committee (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, including two co-optees, 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 four members, and its purpose is to support 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 and a review of Board remuneration.

Scrutiny Partnership (SP)

The SP is a group of highly involved residents, who have been recruited for their skills, in order to assist in the continuous improvement of Newport City Homes.

As part of their work programme, the SP gather, review and analyse a range of evidence and provide insight on areas identified for improvement; this intelligence is used in the re-design of services and to contribute to the decision making around the development of operational improvements.

The SP works closely with the ARC, which helps to ensure that resident scrutiny is embedded within the association's internal governance and assurance framework. SP representative attends ARC meetings as a participating observer, with the ability to contribute fully towards non-confidential discussions held at the meeting. A standard agenda item is included at each ARC for observations and comments to be made by the SP.

The SP present an annual 'Resident at the Heart' report to ARC in June, which sets out their views on the effectiveness of the RES based upon evidence reviewed during the previous year. The report identifies where the residents' voices are heard and how they are able to influence decision making at NCH, providing a level of assurance, examples of good practice and recommendations for improvement that help keep residents at the heart of our work.

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 strategic risks and provides assurance to the Board.

The coronavirus pandemic

Ahead of the major disruption caused by the coronavirus pandemic the association put in place protocols to ensure the full continuation of all governance activities and an enhanced assurance framework to ensure the correct scrutiny, assessment and reporting of risk management, and control processes for the association during the event. The Board has agreed with the leadership team key performance and assurance triggers for priority areas of operation which are continuously monitored by leadership and team and with clear escalation criteria for any areas of concern.

Governance arrangements remained fully operational and effective during the period of disruption with the Board and all committee meetings happening as scheduled virtually.

Employees

The strength of the association relies upon the commitment and performance from its colleagues. Our colleagues drive the association's performance to deliver on our vision and strategy, in line with our expected behaviours including our commitment to our customer service standards.

We have continued to review the way we deliver our services and how colleague's roles are aligned to support this. As part of this process we have continued to invest in targeted training and development of colleagues 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 colleagues, residents and the communities in which it works.

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 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 three.

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 23 September 2020.Approved by the Board and signed on its behalf by:

N Somerville

Nicola Somerville

Chair of the Board for the period April 2019 to March 2020

14 July 2020

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 2020

In addition to our audit on the financial statements for the year ended 31st March 2020, we have reviewed the Board's statement of Newport City Homes Housing Association Limited's ("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 organisation's corporate governance procedures or its internal financial control.

Opinion

With respect to the Board's statement on internal financial control on page 33, 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 LLP
Chartered Accountants & Statutory Auditors
Langdon House
Langdon Road
Swansea
SA1 8QY

Date: 14 July 2020

Auditor's responsibilities for the audit of the financial statements

Opinion

We have audited the financial statements of Newport City Homes for the year ended 31st March 2020 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, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (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 organisation's affairs as at 31st March 2020 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 organisation'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 on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters 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 organisation has not kept proper accounting records; or

- the financial statements are not in agreement with the books of account of the organisation; 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 29, 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 organisation'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 organisation 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 organisation'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 organisation'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 organisation and the organisation's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Date: 14 July 2020

Statement of Comprehensive Income
For the year ended 31 March 2020

	Notes	**2020 £'000**	2019 £'000
Turnover	2	**49,783**	48,791
Operating expenditure	2	**(44,143)**	(43,267)
Operating surplus	2	**5,640**	5,524
Gain on disposal of property, plant and equipment	5a	**2,904**	3,635
Exceptional items	5b	**(30,095)**	-
Interest receivable		**269**	266
Interest and financing costs	10	**(4,440)**	(5,960)
(Deficit)/surplus before taxation		**(25,722)**	3,465
Taxation		**-**	-
(Deficit)/surplus for the year		**(25,722)**	3,465
Actuarial (loss)/gain in respect of pension schemes	23	**5,748**	(4,470)
Total comprehensive income for the year		**(19,974)**	(1,005)

Statement of Changes in Reserves
For the year ended 31 March 2020

	Designated Reserves				
	Duffryn direct heating system £'000	Major repairs and regeneration £'000	Total £'000	General reserve £'000	**2019 Total £'000**
At 1 April 2019	**293**	**24,901**	**25,194**	**3,146**	**28,340**
(Deficit) for year				(19,974)	**(19,974)**
Transfers	-	(16,828)	(16,828)	16,828	**-**
At 31 March 2020	**293**	**8,072**	**8,366**	**-**	**8,366**

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 2020

	Notes	2020 £'000	2019 £'000
Fixed assets			
Tangible Fixed Assets			
Social Housing Properties	11	**147,414**	127,766
Other Property	12	**378**	370
Other fixed assets	13	**1,471**	1,608
		149,263	129,744
Current assets			
Stock	14	**164**	223
Debtors: amounts falling due within one year	15a	**5,918**	4,095
Debtors: amounts falling due after more than one year	15b	**1,964**	-
Cash and cash equivalents		**41,936**	43,914
		48,982	48,232
Less:			
Creditors: amounts falling due within one year	16	**(14,460)**	(77,864)
Total current assets less current liabilities		**35,522**	(29,632)
		184,784	100,112
Creditors: amounts falling due after more than one year	17	**(162,632)**	(55,140)
LGPS pension liability	23	**(13,787)**	(16,632)
Total net assets		**8,366**	28,340
Capital and reserves			
Share capital	19	**-**	-
Reserves		**8,366**	28,340
		8,366	28,340

The financial statements were approved by the Board of Management on 14 July 2020 and signed on its behalf by:

N Somerville
Chair

J Fairley
Secretary

Alex Stephenson
Vice Chair

Cash Flow Statement
For the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Net cash flow from operating activities	(a)	**13,545**	13,795
Returns on investment and servicing of finance			
Interest received		**269**	346
Interest paid		**(4,440)**	(5,704)
		(4,171)	(5,358)
Exceptional Items			
Adjudication result		**3,988**	-
Loan facility break costs		**(34,083)**	-
		(30,095)	-
Capital Expenditure			
Purchase and construction of housing and other properties		**(32,921)**	(16,786)
Capital grants received		**13,461**	10,379
Purchase of other fixed assets		**(508)**	(471)
Sale of housing properties and land		**4,140**	4,209
		(15,828)	(2,669)
Free cash (consumed)/generated before Loan repayments		**(36,549)**	5,768
Financing			
Housing loans received		**97,571**	-
Housing loans repaid		**(63,000)**	-
	(b)	**34,571**	
Free cash (consumed)/generated after Loan repayments	(c)	**(1,978)**	5,768
Cash and cash equivalents at the beginning of the year		**43,914**	38,146
Cash and cash equivalents at the end of the year		**41,936**	43,914

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

	2020 £'000	2019 £'000
Operating surplus	**5,386**	5,524
Depreciation of tangible assets	**7,497**	7,420
Amortisation of Government Grant funding	**(2,822)**	(2,957)
Prepaid loan fees	**(1,069)**	1,001
LGPS – movement between current and past service cost and contributions paid	**2,903**	1,763
	11,895	12,751
Working Capital Movements		
(Increase)/decrease in stock	**59**	(63)
(Increase)/decrease in operating debtors	**(1,130)**	(867)
Increase/(decrease) in operating creditors	**2,521**	1,824
Increase/(decrease) in provisions	**200**	150
Net cash flow from operating activities	**13,545**	13,795

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

	2020 £'000	2019 £'000
Increase/(decrease) in cash	**(1,978)**	5,768
(Increase) in loans	**(34,571)**	-
Decrease/(increase) in net debt	**(36,549)**	5,768
Net debt at 2018	**(19,086)**	(24,854)
Net debt at 2019	**(55,635)**	(19,086)

c. Analysis of net debt

	Cash at bank and in hand £'000	Loans due in less than one year £'000	Loans due in more than one year £'000	Changes in net debt £'000
At 1 April 2019	43,914	(63,000)	-	(19,086)
Net cash flows	(1,978)	63,000	(97,571)	(36,549)
At 31 March 2020	**41,936**	**-**	**(97,571)**	**(55,635)**

Notes to the Financial Statements

For the year ended 31 March 2020

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) 2018 for "Accounting by Registered Social Housing Providers", 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. Housing properties are included at cost within the accounts.

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 WHQS. 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.

Housing Finance Grants

Housing finance grants (HFG) are capital grants receivable from the Welsh Government which are repayable to the extent that such amounts have been received in the event of the disposal, demolition or change of use to an ineligible activity. These are designed as a contribution towards the capital cost of providing new social housing and are received in instalments over a term of 30 years commencing once a scheme is approved for development.

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 (Welsh Government) 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 Welsh Government. 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.

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 has 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. The Right to Buy legislation ended in Wales on 26 January 2019 for new applications.

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 2020 was £5,748k.

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.

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, we undertook a full assessment of our three tower blocks at Greenwood St Julian's, Hillview Gaer and Milton Court Ringland.

We entered into a contract in May 2018 for the removal and replacement of the existing rain screen of aluminium composite material (ACM) cladding on all three tower blocks, the replacement works were completed during 2019/20 and the costs incurred have been accounted appropriately.

The association secured a Welsh Government grant of £3 million to fund the removal and recladding programme, the funding has been accounted for in line with the funding profile.

The association received £3.99 million funding through a successful contract claim in relation to the original cladding contract and has been reported as exceptional income in the financial statements.

2. Turnover, operating costs and surplus

	Year ended 31 March 2020			Year ended 31 March 2019		
	Turnover £'000	Operating Costs £'000	Operating Surplus £'000	Turnover £'000	Operating Costs £'000	Operating Surplus £'000
Income and expenditure from lettings						
General needs housing	**48,383**	**42,964**	**5,419**	47,106	42,159	4,947
Fully rented housing accommodation	**48,383**	**42,964**	**5,419**	47,106	42,159	4,947
Garages	**35**	**5**	**31**	30	2	28
Commercial properties and other activities	**1,365**	**1,174**	**191**	1,655	1,106	549
Total	**49,783**	**44,143**	**5,640**	**48,791**	**43,267**	**5,524**

3. Turnover from lettings

	2020 £'000	2019 £'000
Rents receivable (net of void loss)	**42,604**	41,478
Service charges receivable	**2,551**	2,486
Amortisation of Social Housing & Other Government Grants	**3,221**	2,968
Supporting People Grant	**7**	174
Turnover from social housing lettings	**48,383**	47,106

4. Operating costs from lettings

	2020 £'000	2019 £'000
Management costs	**10,577**	10,420
Service charge costs	**3,822**	3,738
Planned maintenance	**6,264**	5,907
Day to day maintenance	**14,519**	14,573
Depreciation of housing properties	**7,478**	7,012
	42,660	41,650
Rent losses from bad debt	**304**	509
Operating costs on social housing activities	**42,964**	42,159
Operating surplus on social housing lettings	**5,419**	4,947
Rent loss due to voids (memorandum note)	**636**	934

5a. Disposal of property, plant and equipment

	2020 £'000	2019 £'000
Sales proceeds	**3,937**	3,880
Cost of sales	**(243)**	(245)
Prior year dowry disposal	**(790)**	-
Surplus on disposal	**2,904**	3,635

5b. Exceptional Items

	2020 £'000	2019 £'000
Adjudication result – tower blocks	**3,988**	-
Finance break costs	**(34,083)**	-
	(30,095)	-

6. Operating surplus for the period

	2020 £'000	2019 £'000
Operating surplus on disposals for the period is stated after charging:		
Depreciation	**8,141**	7,691
Rent losses from bad debts	**304**	509
Operating leases	**547**	466
Auditor's remuneration (inclusive of VAT)	**18**	18

7. Board members and senior executive's emoluments

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

	2020 £'000	2019 £'000
Emoluments (including pension contributions and benefits in kind)	930	785
Emoluments (excluding pension contributions) paid to the highest paid senior executive	150	142

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

	2020 No.	2019 No.
£ Nil	10	10
£50,000-£60,000	1	1
£60,001-£70,000	2	4
£70,001-£80,000	3	-
£100,001-£110,000	2	2
£140,001-£150,000	-	1
£150,001-£160,000	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 £26,232 (2019 £24,921). 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

	2020 £'000	2019 £'000
Staff costs during the year:		
Wages and salaries	**11,627**	10,390
Social security costs	**1,125**	1,111
Other pension costs	**4,728**	3,341
	17,480	14,842

	2020 Number	2019 Number
Average number of full-time equivalent employees during the year:		
Management and administration	**242**	248
Wardens, caretakers and cleaners	**43**	50
Housing repair service	**81**	68
	366	366

9. Interests and related party transactions

During the year the association provided rented accommodation to two Board members who were tenants of the association up until 23 August 2019, after that to one tenant who was a tenant of the association and charged rent to those member/s on the association's standard terms. Board members who are tenants are unable to use their position to their advantage.

10. Interest and financing costs

	2020 £'000	2019 £'000
Interest payable and similar charges	**4,067**	4,591
Write off of existing loan arrangement fees	**-**	1,001
Refinancing fees	**373**	368
	4,440	5,960

11. Property, Plant and Equipment

Social Housing Properties

	Freehold Housing properties held for letting £'000	Housing properties in the course of construction £'000	**2020 Total £'000**
Cost			
At 31 March 2019	153,671	18,814	**172,486**
Additions during the year	8,268	10,412	**18,680**
Schemes completed during the year	11,855	-	**11,855**
Disposals during the year	(4,052)	-	**(4,052)**
At 31 March 2020	169,742	29,226	**198,969**
Depreciation			
At 31 March 2019	44,554	166	**44,720**
Charges for the year	7,379	100	**7,479**
Disposals during the year	(644)	-	**(644)**
At 31 March 2020	51,289	266	**51,555**
Net book value			
At 31 March 2020	**118,453**	**28,960**	**147,414**
At 31 March 2019	109,118	18,648	127,766

Disposals during the year relate to the data cleansing exercise that took place prior to the migration of data to a new system. The cost relating to the disposals is £3.4m and depreciation of £457k

Social Housing Properties continued

Major repairs and investment in existing housing properties to let during the year amounted to £15.1 million (including capitalised salaries of £812k). This has been accounted for as follows:

	2020 Total	2019 Total
Planned maintenance (revenue)	**6,264**	5,907
Investment (capital)	**8,268**	11,063

	2020 No.	2019 No.
Units in Management:		
General needs housing properties in management	**8,879**	8,867
Shared ownership	**136**	141
Leasehold management services	**644**	647
Garages	**153**	223
	9,812	9,878

12. Property, Plant and Equipment

Other Property*

	2020 £'000
Cost	
At 31 March 2019	**431**
Additions during the year	**24**
Disposals during the year	**-**
At 31 March 2020	**455**
Depreciation	
At 31 March 2019	**61**
Charge for the year	**16**
Disposals during the year	**-**
At 31 March 2020	**77**
Net book value	
At 31 March 2020	**378**
At 31 March 2019	370

*Other property is comprised of the Malpas depot and commercial shops.

13. Property, Plant and Equipment

Other Fixed Assets

	Office premises £'000	Service assets £'000	Vehicles & office equipment £'000	**2020 Total £'000**
Cost				
At 31 March 2019	1,340	759	5,566	**7,665**
Additions during the year	-	19	489	**508**
Disposals during the year	-	-	-	**-**
At 31 March 2020	1,340	778	6,055	**8,173**
Depreciation				
At 31 March 2019	806	554	4,696	**6,056**
Charge for the year	184	64	398	**646**
Disposals during the year	-	-	-	**-**
At 31 March 2020	990	618	5,094	**6,702**
Net book value				
At 31 March 2020	**350**	**160**	**961**	**1,471**
At 31 March 2019	534	204	869	1,608

14. Stock

	2020 £'000	2019 £'000
Stocks of materials	**164**	223

15a. Debtors: amounts falling due within one year:

	2020 £'000	2019 £'000
Arrears of rent and service charges	**1,560**	1,621
Less: Provision for bad and doubtful debts	**(1,048)**	(849)
	512	772
Accrued grant income	**1,074**	-
Housing Finance Grant deferred income	**31**	-
Debtors and prepayments	**4,301**	3,295
	5,918	4,095

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

	2020 £'000	2019 £'000
HFG Grant deferred income	**1,964**	-

16. Creditors: amounts falling due within one year:

	2020 £'000	2019 £'000
Trade Creditors	**3,986**	1,818
Amortisation of Social Housing and other Government grants (Note 18)	**2,822**	2,956
Employee benefits	**125**	40
Accruals and deferred income	**6,363**	9,006
Prepayments of rents and service charges	**1,017**	925
Prepayment of other charges	**129**	116
Deposits	**18**	3
Loan Account	**-**	63,000
	14,460	77,864

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

	2020 £'000	2019 £'000
Housing loans	**92,000**	-
Loan premium	**5,571**	-
Deferred Grant Income	**1,964**	-
Social housing and other Government grants (Note 18)	**63,097**	55,140
	162,632	55,140

Loans are secured on 41% of properties where the association holds an interest.
At 31 March 2020, the association had un-drawn loan facilities of £58 million.
Loan interest payable varies between 1.15% and 5.20%

Loans repayable by instalments fall due as follows:

	2020 £'000	2019 £'000
In five years or more	**96,860**	-
Between two and five years	**540**	-
	97,400	-
In one year or less	**171**	63,000
	97,571	63,000

18. Grants

	Dowry £'000	Other Grants £'000	SHG/ HFG/R2O £'000	**Total £'000**
Cost				
At 31 March 2019	64,806	3,336	6,726	**74,868**
Additions during the year	6,500	1,000	5,961	**13,461**
Disposals during the year	(2,806)	(10)	-	**(2,816)**
At 31 March 2020	68,500	4,326	12,687	**85,513**
Amortisation				
At 31 March 2019	16,388	367	17	**16,772**
Amortised in year	3,017	149	56	**3,222**
Amortisation written back on disposal	(398)	(2)	-	**(400)**
At 31 March 2020	19,007	514	73	**19,594**
Net book value				
At 31 March 2020	**49,493**	**3,812**	**12,614**	**65,919**
At 31 March 2019	48,418	2,969	6,709	58,096

Grants fall due as follows:	**2020 £'000**	2019 £'000
In one year or less	**2,822**	2,956
Between one and two years	**4,203**	4,197
Between two and five years	**12,607**	12,830
After more than five years	**46,287**	38,112

19. Non-equity share capital

Shares of £1 issued:	**2020 £'000**	2019 £'000
At 31 March 2019	**201**	1,435
Issued during the year	**1**	8
Cancelled during the year	**(6)**	(1,242)
At 31 March 2020	**196**	201

The shares provide members with the rights to vote at general meetings. The shares carry no right to dividends, 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 2020 the association had commitments under operating leases as follows:

	2020 £'000	2019 £'000
Motor vehicle and office equipment expiring:		
Within one year	**73**	120
Between two and five years	**-**	-
	73	120

	2020 £'000	2019 £'000
Land and buildings expiring:		
Within one year	**302**	42
Between two and five years	**302**	-
	974	1,048
Over five years	**2,392**	2,531
	3,970	3,621

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

The association signed a fifteen-year lease for office accommodation at Nexus House, Newport.

These terms were reviewed in 2017/18 with the number of floors occupied being reduced from three to two from April 2019.

21. Capital commitments

	2020 £'000	2019 £'000
Capital expenditure contracted but not provided for in the financial statements	**13,138**	14,461
Capital expenditure authorised by the Board but not contracted	**20,327**	15,537

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

22. Net assets

The net assets of the association were £8.4 million as at 31 March 2020, a decrease of £19.9m from the previous financial following the breakage costs of refinancing reducing surplus for the year.

The association made a surplus of £5.6m on ordinary activities during the year (2019: £5.5m)

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 2019 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 2019. 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 2017 to 31 March 2020 was 19.3% of members' contributions. This increased from 1 April 2020 to 17% and will continue at this rate until 31 March 2023.

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

	2020 %pa	2019 %pa
Discount rate	**2.30%**	2.40%
Rate of increase in salaries	**2.10%**	2.90%
Rate of increase in pensions	**1.80%**	2.50%
Rate of RPI Inflation	**n/a**	n/a
Rate of CPI Inflation	**1.80%**	2.5%
Actual returns from the period	**(7.00%)**	5.90%

Market value of plan assets

Equities	**32,398**	35,756
Bonds	**10,208**	9,168
Property	**1,331**	917
Cash/liquidity	**444**	-
	44,381	45,841

The movement in the net surplus for the period to 31 March 2020 is as follows:

	2020 £'000	2019 £'000
Reconciliation of funded status to balance sheet		
Fair value of plan assets	**44,381**	45,841
Value of funded obligations	**(58,168)**	(62,473)
Total estimated scheme (deficit)/surplus	**(13,787)**	(16,632)

Components of pension costs for year:		
Current service cost	**(4,020)**	(2,917)
Past service cost	**(175)**	-
Interest income on plan assets	**1,120**	1,151
Interest cost on defined benefit obligation scheme	**(1,548)**	(1,452)
Total pension cost recognised in income and expenditure account	**(4,623)**	(3,218)

Statement of recognised surpluses and deficits		
Actuarial gains/(losses)	**5,748**	(4,470)
Total pension surplus / (cost) recognised in the statement of comprehensive income	**5,748**	(4,470)

Changes to the fair value of assets during the year:		
Present value of scheme assets at 31 March 2019	**45,841**	42,040
Expected return on assets	**(4,052)**	1,378
Interest income on plan assets	**1,120**	1,151
Actuarial (losses)/ gains on assets	**-**	-
Contributions by the employer	**1,720**	1,455
Contributions by the participants	**609**	506
Benefits and transfers paid	**(857)**	(689)
Total fair value of plan assets	**44,381**	45,841

	2020 £'000	2019 £'000
Changes to present value of liabilities during the year:		
Present value of scheme liabilities at 31 March 2019	**62,473**	52,439
Current service cost	**4,020**	2,917
Past service costs	**175**	1,452
Interest costs	**1,548**	
Contributions by the participants	**609**	506
Actuarial(gains)/losses on liabilities	**-**	-
Curtailments	**-**	-
Changes in demographic assumptions	**(3,050)**	-
Benefits and transfers paid	**(857)**	(689)
Changes in financial assumptions	**(9,056)**	5,848
Other experience	**2,306**	-
Total value of funded obligations	**58,168**	62,473

24. Contingent Liability

The association received a grant from the Welsh Government in a previous year for a specific activity and due to a subsequent event, there is a remote possibility that a small amount may become repayable. The liability value is not considered to be an adjusting event and therefore has not been recognised in the financial statements.

newport city homes