COMPANY NUMBER: 3752751
CHARITY NUMBER: 1151945
RSH REGISTRATION NUMBER: L4254

# CALICO HOMES LIMITED

## Report and Financial Statements

## Year ended 31 March 2019

# Contents

# Board Members, Executive Officers, Advisors and Bankers

| | |
|---|---|
| **Board** | |
| Chair | John Inglesfield |
| Vice Chair | Peter Bevington |
| Other Members | Karen Ainsworth (resigned 11 June 2018)<br>Victoria Appleton<br>Claire Bradley (appointed 11 March 2019)<br>Gemma Dyson<br>Adam Greenhalgh<br>William Lacey (appointed 30 April 2018)<br>Andrew Mullen<br>Gregory Robinson (appointed 30 April 2018)<br>Paula Robinson (appointed 30 April 2018)<br>Stewart Shaw<br>Shazna Yasmin (appointed 11 March 2019)<br>Christina Yates (resigned 5 November 2018) |
| **Executive Officers** | |
| Chief Executive | Anthony Duerden |
| Director of Finance and Company Secretary | Stephen Aggett |
| Executive Director of Operations | Helen Thompson |
| Director of Organisational Development | Vicki Howard |
| Director of Strategy and Business Development | Ed Barber |
| **Registered Office** | Centenary Court, Croft Street, Burnley, Lancashire, BB11 2ED<br>www.calico.org.uk |
| **Company Registered number** | 3752751 |
| **Charity Registered number** | 1151945 |
| **Regulator of Social Housing** | L4254 |
| **External Auditor** | Beever and Struthers<br>Chartered Accountants and Statutory Auditor<br>St. George's House<br>215 – 219 Chester Road<br>Manchester, M15 4JE |
| **Internal Auditor** | BDO LLP<br>3 Hardman Street<br>Spinningfields<br>Manchester, M3 3AT |
| **Solicitors** | Forbes Solicitors<br>Rutherford House<br>4 Wellington Street<br>St. Johns, Blackburn, BB1 8DD |
| **Bankers** | National Westminster Bank<br>6th Floor, 1 Spinningfields Square<br>Manchester, M3 3AP |
| **Lenders** | Royal Bank of Scotland<br>Floor 3, Kirkstane House<br>139 St Vincent Street<br>Glasgow, G2 5JF<br><br>Nationwide Building Society<br>Kings Park Road<br>Moulton Park<br>Northampton, NN3 6NW |

# Corporate Framework

**Our Vision**
The vision for the Company is:

*"Investing in local communities where everyone thrives – through innovation, strength and collaboration"*

**Our Values**
Our values reflect the priorities we see our organisation needs to concentrate on to ensure that the vision can be delivered.

Our values are:

- Going one step further with our customers
- Our wellbeing as individuals and teams
- Improving and strengthening ourselves and our organisation

To achieve our purpose of making a real difference to people's lives.

**Strategic Objectives**
The vision and values provides the strategic direction of the Company. The Company will achieve its vision and values through its strategic objectives which are:

- Unlocking opportunities for customers, neighbourhoods & communities.
- Achieving our growth aspirations and maximising our assets to strengthen our organisation and create sustainable communities.
- Being easy to deal with and delivering an excellent customer experience.
- Following a leadership approach that aims to have happy, positive and connected teams who believe in our purpose and values.
- Learning from and working with the rest of the Group to ensure a unique offer for our customers and staff.
- Having effective and forward thinking governance, supporting financial strength across the Calico Group.

# Strategic Report of the Board

The Board is pleased to present its strategic report as required by the Companies Act 2006. The trustees are also directors for the purposes of company law.

**Public Benefit**
We have referred to the guidance contained in the Charity Commission's general guidance on public benefit when reviewing our aims and objectives and in planning our future activities. In particular, the trustees consider how planned activities will contribute to the aims and objectives they have been set.

The Company undertakes and manages its activities in line with the above objectives through the provision of support contracts. The trustees receive regular updates on performance and feel that the objectives have been achieved as set out in the next section.

**Performance for the year**
For Calico Homes, the purpose of "making a real difference to people's lives" has remained consistent and has become more evident through the delivery of yet more homes and services for our customers over the past 12 months.

Since 2014, nearly 300 units have been developed for affordable rent, sale, shared ownership and supported housing. With nearly 150 units, this year has had the largest number of units handed over.

Collaborative working with a fellow subsidiary, Ring Stones Maintenance and Construction LLP ("RingStones") has resulted in the design and development of affordable homes and shared ownership properties, increasing the financial viability of the development programme and the flexibility of tenure for our customers. In addition, successful partnership working with key stakeholders such as East Lancashire Hospital Trust, NHS, Homes England and local authorities across Pennine Lancashire has ensured that we are accessing existing markets and creating new ones.

During 2018/19, the Melrose scheme provided 31 new units, a mix of 2 and 3 bedroom homes for affordable rent and includes one specialist 3 bedroom bungalow for a family who have high mobility needs.

The Barley View care home at Whitworth which was completed in November 2018. The 28 bed state of the art facility is now operational and work is on-going to identify an additional site for Phase 2.

The regeneration of Brunshaw maisonettes and the empty homes programme has contributed to our vision for successful neighbourhoods in creating new homes from shops, commercial premises and long term empty voids.

Perseverance Mill has also had a hugely positive impact on the neighbourhood, the existing housing market and indeed the environmental improvements around the opening of the culvert which is a river that was previously enclosed in a tunnel. This 56 unit development won the 2019 RICS North West awards for regeneration of neighbourhoods. The culvert at Perseverance Mill was opened in 2018 and is now flowing impressively between the stone built properties either side. There are plans to regenerate adjoining dilapidated buildings nearby that will complement the new build development and extend our specialist supported housing offer and affordable housing offer to even more customers.

The Gateway project, an impressive architectural gateway into Burnley, opened its doors in August 2018, providing 30 units with communal space for homeless people. Companies in the Calico Group are working together to provide an array of services to customers with complex needs linked to homelessness including drug and alcohol rehabilitation and employment and training support.

On the 18 July 2018, we successfully completed the new funding arrangement which has increased our total loan facility by £27.5m from £115m to £142.5m. This is a bi-lateral arrangement with Royal Bank of Scotland and Nationwide who have both been our funders since transfer in 2000. This will support the continuation of our ambitious growth strategy and enable us to continue the delivery of our property development programme which will increase our property portfolio by circa 265 additional properties.

In relation to income collection, we have continued to perform strongly for a fifth year despite the continued roll out of Universal Credit and our year end rent collection performance was 99%. This year we have strengthened our relationship with the Department of Work & Pensions to help us support customers moving on to Universal Credit and mitigate the associated risks to our income stream. Around 15% of our customers claim Universal Credit and our intensive and proactive approach is enabling us to achieve high levels of rent collection performance whilst dealing with this challenge. We have started 2019/20 by developing a closer relationship with the Citizens Advice Bureau with the aim of working collaboratively to support customers to navigate the change to Universal Credit.

Income continues to be received for the delivery of Group Business Services (Human Resources, Finance, IT, Facilities and Media & Communications) from other companies within the Calico Group.

The aim of our Asset Management Strategy is "To ensure Group assets are managed in a way which maintains and maximises their value". Our Asset Performance Evaluation (APE) model has enhanced our knowledge of the performance our domestic stock and we are using this to inform decisions about investment and wider opportunities. The average 30 year Net Present Value (NPV) of our stock is £24,718 per unit (2018: £13,537), which has increased significantly since we launched APE in 2016, and is better than benchmarked organisations in the North West.

Several long term voids have been included in the Empty Homes programme and have been refurbished and brought back into stock, hence improving their performance. We have completed an options appraisal of the impact of the Empty Homes programme and anticipate an improved NPV of this asset group in the long term as a result.

# Strategic Report of the Board (continued)

**Performance for the year (continued)**
Our 'Successful Neighbourhoods' Working Group are leading on our approach to active asset management. They have prioritised the 'Poor' asset groups for review and are continually considering options to improve performance. Using our Asset Performance Evaluation Model, we have reviewed the performance of our sheltered asset groups and continue to review our stock and our Retirement Living Strategy, to better understand our customer aspirations and whether our current properties and services meet their needs.

In 2018/19, we spent a total of £2.8m (2018: £3.6m) investing in our properties on the following work streams: The Brunshaw Improvement Programme; Damp programme; Boiler Upgrade programme, Roofing repairs and Fire Safety Works. The Stock Condition Survey from February 2018, informs our future investment programmes and planned level of investment throughout the life of the business plan.

We also invested £49k (2018: £56k) completing disabled adaptations to our current customers' homes enabling them to remain in the property whilst improving their quality of life. A further £70k (2018: £77k) was invested on asbestos surveying and removals, ensuring a safe working & living environment for staff, contractors & customers.

Our repairs service has continued to perform highly and we are awaiting the outcome of our annual accreditation assessment from the Housing Quality Network. We continue to achieve 100% gas servicing completed for the 7$^{th}$ consecutive year and focus on all compliance areas is a key priority for us. This year we have introduced additional reporting to our Board around health & safety performance as part of our focus on this important matter.

Customer feedback has remained largely positive with the response rate to our annual customer perception survey increasing significantly, giving us more rounded insight around what customers say about our services. Overall customer satisfaction with our services is 87%, which is just below our challenging target.

The regulation of social housing is the responsibility of the Regulator of Social Housing ("RSH"). The regulator undertook an In Depth Assessment in 2016 and we maintained the highest possible rating (G1 and V1) for both our governance and financial viability. Subsequent stability checks completed in October 2018 and November 2017 have reconfirmed our G1/V1 status.

Void property performance has remained an area of challenge and focus this year. A seasonal and forecasted increase in tenancy terminations during the last three months of the financial year, alongside successful handover of a large new development (Perseverance Mill), resulted in us ending the year with 121 (2018: 90) void properties against a target of 80 and we are taking steps to reduce this. Rent loss due to void properties (excluding the hostel and supporting housing) has not met our target and ended the year at 2.37% (2018: 2.18%). We have, however, remained within our overall stress trigger for void loss and bad debt combined. A void performance improvement plan is in place and is a key priority for our leadership team. 89% (2018: 88%) of tenancies sustain for at least 12 months demonstrating that our approach to tenancy sustainment is effective, despite the challenges relating to welfare reform.

**Reserves Policy**
The objective of having unrestricted funds in reserve is to enable the charity to cope with unplanned events. Very often, the effects of the event can be managed in the long term, but the charity needs reserves in the meantime. There is no rule on how large reserves should be; this will depend a great deal on the nature of the charity's activities and the level of external risk perceived by the trustees. It will also depend on what other action the charity is taking to mitigate the effects of the external threats, as this will affect the level of reserves required.

The trustees will monitor and review the level of reserves annually, in line with guidance issued by the Charity Commission. The Business Plan indicates positive reserves will be achieved within 5 years.

**Trustees' Induction and Training**
New trustees undergo training on their legal obligations under charity and company law; the content of the Articles of Association; the board and decision making processes; the business plan and recent financial performance of the charity. During the induction training programme, held over four training sessions, they learn about the organisation's purpose, history, aims and objectives, services, staff and volunteers, facilities, security, funding, residents' participation, strategic work, multi-agency and partnership involvement. They also meet key staff to learn about their work roles.

The background of the trustees means they are already familiar with the work being undertaken and their responsibilities as trustees. Presentations have been made to each Board meeting to further identify and explain the work being undertaken by the charity and its governance structure.

**Future Activity**
Following the Government requirement for Registered Providers to reduce rents by 1% for a four year period, we have adjusted our business plans and introduced efficiency targets across the business. A total efficiency saving of £1.8m cumulative from 2016/17 was required and has been achieved cumulatively. The 2019/20 budget and business plan did not include any further efficiency savings.

Alongside, our new funding arrangement (an additional £27.5m), our partnership with local authorities across Pennine Lancashire and Homes England goes from strength to strength and development schemes being prepared and secured with grant subsidy and land availability for delivery in 2019/20 and 2020/21.

# Strategic Report of the Board (continued)

**Future Activity (continued)**
In 2018, Ring Stones commenced building 33 properties on Priory Chase, Nelson. These properties were offered to the market for shared ownership initially but with little appetite the homes were handed over for rent in June 2019.

Station Road in Padiham, a Calder Green site has been purchased and has been allocated Homes England funding for 67 units which will be completed in 2020.

Capital grant rates have increased over the past 3 years, mainly to support tender costs increasing on a year by year basis. Schemes tendered in 2018/19 have proved to be the most expensive and costs have increased by 10 - 15%. This has put some strain on the programme budget although some refurbishment schemes such as the empty homes programme and off the shelf purchases have ensured the budget is not compromised overall.

Recent key projects including Janes' Place for SafeNet and Gateway for Calico Enterprise have been major additions to the Group portfolio, increasing the Calico reputation of being at the forefront of specialist housing provision and establishing a successful platform for the care and support (Syncora Group) to offer bespoke services for vulnerable people in an austere political environment.

Board members have been presented with options and agreed to dispose of the former hostel (Elizabeth Street, Burnley) and former care home (Sunnyside, Whitworth). These sites are now redundant and feasibility studies have concluded that value for money cannot be achieved by investment or refurbishment.

In line with our asset management strategy, we have undertaken an opportunity to refurbish and remodel 20 existing units owned on the Brunshaw Estate, which complements our externals refurbishment programme in that neighbourhood.

A number of land purchases have been made to facilitate the development programme and included: Whitworth, Station Road, Priory Chase and Maytree Close. Although this list is not exhaustive, these purchases have enabled us to provide affordable housing and work with Syncora to increase growth opportunities across the Group.

Growth and Development meetings are taking place with the Executive team on a regular basis and include the evaluation of opportunities against strategic priorities. In addition, officers have created a Successful Neighbourhoods Panel where managers from across Calico Homes meet on a monthly basis to discuss growth and development opportunities. The aim of which is to broaden staff knowledge and skills and align our strategic priorities.

The panel will prioritise opportunities in line with the Asset Management Strategy, Development Strategy and Successful Neighbourhoods Strategy to then report back to the Executive team. Staff will also have the opportunity to champion projects and lead the progression of schemes and include customers in the feasibility and planning of development projects.

Alongside delivering the Brunshaw Improvement Programme, we will continue to invest in our properties through planned works to tackle damp, replace boilers and manage asbestos.

Welfare reform and particularly the roll out of Universal Credit across Pennine Lancashire continues to be a risk for Calico Homes' income stream. Whilst we remain well prepared for this and have continued to strengthen our relationship with the Department of Work & Pensions to understand plans to migrate customers on to Universal Credit, we will continue to monitor performance closely and to be ready to respond when necessary.

Calico considers our employees as our most valuable asset. As part of investing in our staff, we are partway through delivery of a bespoke leadership programme, to help us support our staff to realise their potential, improve productivity and staff satisfaction across the organisation, despite the challenges of our complex operating environment and diversity of our organisation. In February 2019, Calico were recognised as the 62$^{nd}$ (2018: 36$^{th}$) Best Company to work for in the Sunday Times Best 100 Companies to Work for (not-for-profit category) ,our 11$^{th}$ consecutive year in this category.

This report was approved by the Board on 16 September 2019 and signed on its behalf by:

Stephen Aggett
**Company Secretary**
16 September 2019

# Report of the Board

The Board is pleased to present its report and the financial statements for the year ended 31 March 2019.

**Principal activities**
Calico Homes Limited is a registered charity. New charitable Articles were adopted from 1 April 2013 with Charities Commission registration being granted on 8 May 2013. The Company is governed by its memorandum and articles of association and is registered with the Regulator of Social Housing ("RSH") as a registered provider.

The Company is the largest provider of affordable housing in the Burnley area and plays a significant role in the on-going development and enhancement of housing opportunities for people in need.

Whitworth Care Trust, was incorporated into Calico Homes in January 2017, the CQC registration is now in the name of Calico Homes and the care home service continues at the new development Barley View, Whitworth (formerly Sunnyside, Whitworth).

Calico Homes Limited is a subsidiary of The Calico Group Limited.

**Value for Money ("VfM")**
The RSH has issued a new Value for Money Standard ("VfM") and a supporting Code of Practice that applies to all private registered providers of social housing ("RPs") and which came into effect on 1 April 2018. RPs must include evidence in these financial statements to enable stakeholders to understand:

- Performance against its own VfM targets and any metrics set out by the regulator and how that performance compares to its peers.
- Measurable plans to address any areas of underperformance.

Below is a table of Calico Homes Limited VfM Metrics together with a comparison of the 2017/18 Sector Scorecard analysis for our peer group.

| | VfM Metrics | 2020/21 | 2019/20 | 2018/19 | 2018/19 | 2017/18 | 2017/18 |
|---|---|---|---|---|---|---|---|
| | | Target | Target | Target | Actual | Actual | Peer* |
| 1 | Reinvestment % | 14.9% | 14.8% | 17.1% | 14.9% | 16.8% | 7.65% |
| 2A | New supply delivered (social housing) | 2.3% | 3.1% | 3.0% | 2.3% | 1.4% | 0.5% |
| 2B | New supply delivered (non-social) | 0.0% | 0.0% | 0.0% | 0.6% | 0.0% | |
| 3 | Gearing | 90.0% | 90.6% | 96.2% | 92.8% | 95.0% | 49.9% |
| 4 | Interest Cover – EBITDA MRI | 126.9% | 138.3% | 129.7% | 130.2% | 123.4% | 279.2% |
| 5A | Headline Social Housing cost per unit | £2,757 | £2,548 | £2,550 | £2,730 | £3,001 | £3,176 |
| 5B | Management cost per unit | £1,107 | £1,093 | £1,134 | £1,084 | £1,041 | £1,043 |
| 5C | Service charge per unit | £223 | £218 | £197 | £196 | £213 | £342 |
| 5D | Maintenance cost per unit | £682 | £658 | £693 | £755 | £776 | £909 |
| 5E | Major repairs cost per unit | £623 | £462 | £408 | £561 | £762 | £693 |
| 5F | Other social housing costs per unit | £122 | £117 | £118 | £135 | £209 | £189 |
| 6A | Operating Margin (social housing) | 29.1% | 29.0% | 33.1% | 31.5% | 31.9% | 32.8% |
| 6B | Operating Margin | 28.2% | 28.0% | 30.0% | 25.2% | 28.4% | 33.2% |
| 7 | ROCE (Return on capital employed) | 4.6% | 5.0% | 5.1% | 5.5% | 6.5% | 6.3% |
| | **Additional Measures** | **2020/21** | **2019/20** | **2018/19** | **2018/19** | **2017/18** | **2017/18** |
| | | **Target** | **Target** | **Target** | **Actual** | **Actual** | **Peer*** |
| 8 | Development (No. of social units) | 118 | 153 | 154 | 112 | 65 | 27 |
| 9 | Rent collected | 98.5% | 98.5% | 98.5% | 99.1% | 99.1% | 100.2% |
| 10 | Overheads as % of adjusted turnover | 14.6% | 14.9% | 14.5% | 14.6% | 14.8% | 11.85% |
| 11 | Customer satisfaction | 88.0% | 88.0% | 88.0% | 87.0% | 88.0% | 87.88% |
| 12 | Investment: communities | £250,000 | £250,000 | £250,000 | £294,894 | £299,898 | £360,896 |
| 13 | Repairs ratio – responsive : planned | 0.75 | 0.76 | 0.68 | 0.90 | 0.84 | 0.81 |
| 14 | Occupancy Rate | 97.0% | 97.0% | 97.0% | 96.5% | 97.7% | 99.21% |

*The Peer group represents 8 other North West housing associations with less than 6,000 housing units.

The Reinvestment %(1), which relates to new development and work to existing properties, is below target in 2018/19 due to development expenditure timing differences which resulted in £4m of costs being deferred to future periods and lower loan drawdowns than planned, thus corresponding lower Gearing (3). However, due to the increased levels of development, our performance is considerably higher than peers.

# Report of the Board

**Value for Money (continued)**

For 2018/19, the New supply delivered (2A and 2B) is on target but the new care home units have been classified as non-social, which also explains the lower social housing unit delivery (8). Through the delivery of the development strategy performance is above the peer average.

The Gearing metric (3) which is a ratio of net debt against housing NBV (net book value) is high due to the initial full costs of assets at transfer, our continuing reinvestment, new development and growth. Our treasury strategy is to maximise our asset value to allow for this to continue. The company can borrow funds on a loan to value (LTV) basis and this is monitored by a debt per unit covenant. With high growth and reinvestment, the metric is higher than peers.

The Interest Cover metric (4) is lower than peers primarily due to the fact that there will be more interest payable as indicated by the higher Gearing metric. Our funders monitor this using an interest cover covenant.

The Headline Social Housing cost per unit ("CPU") metric (5A) indicates that the company is operating at similar efficiency levels to our peers. The overall cost for 2018/19 was higher than target due to additional repairs costs, including one off expenditure. There is a projected trend of improvement, which links to savings made through the efficiency programme.

Management CPU (5B) for 2018/19 were within the target and are at a similar level to the peer group. Service charge costs per unit (5C) are close to the 2018/19 target but are low compared to our peers. A service charge review is ongoing to ensure all the costs are being allocated correctly. The future increases relate to the inflation assumptions.

Maintenance CPU (5D) for 2018/19 were higher than target due to one off costs such as additional fire safety works, damp works and increased staffing costs for sickness absence cover. However, the overall cost per unit reduced from the previous year and is at lower levels to our peers.

Major repairs CPU (5E) are in line with the stock condition survey that was carried out in 2018 by Savills, but in 2018/19, additional expenditure was agreed as part of the Empty Homes initiative to refurbish long term voids. The 2017/18 major works CPU is slightly higher than peers.

Other social housing CPU (5F) for 2017/18 were higher due to an exceptional item for the pension lump sum (Note 3A). The remainder are lower than the peer group. The 2018/19 CPU is higher than target due to the other fixed asset impairment (Note 28).

Operating Margin (6B) is lower than target due to losses on non-social housing activities. Primarily, the Whitworth Care & Support Service, which for 2018/19, has performed lower than target due to the extending running of former care home and in respect of the new service the delayed set-up, consultancy costs and its phased occupancy. This in turn is affecting the lower margin in comparison to peers.

ROCE (7) measures the efficiency of investment of capital resources and for 2017/18 was higher than peers, which indicates a better use of capital and a good overall performance. The 2018/19 ROCE has been impacted by the 1% rent reduction.

Rent collected (9) for 2017/18 was lower than peer average with impact from welform reform agenda and Universal Credit ("UC") and the effect of a previous good track record. The income management service continue to work with the Department of Work and Pensions ("DWP") to overcome the challenges that customers face through UC.

Overheads as % of adjusted turnover (10) is higher than peers likely due to the inclusion of a DLO (direct labour operative team) internal turnover given the similar operating costs. Target performance is as expected.

Customer Satisfaction (11) following the recent "Views for Vouchers" survey, our overall satisfaction with services has declined to 87% and is now lower than the 2017/18 peer average and our target of 88%. Plans for focus and improvement were outlined to Board in May 2019 via the "What Our Customers Are Saying" ("WOCAS") report. Shifting transactional services to a digital channel will contribute to achieving this objective and create resource efficiencies to do more for customers.

Investment in Communities (12) is slightly below the peer average. There has been an internal recognition of our contribution to the Successful Neighbourhoods Strategy and community centres.

Repairs ratio (13) is similar to peers, the 2018/19 actual was higher than target due to long term sickness cover and additional fire safety works from high level of fire risk assessments. For 2017/18, the peer average is at a similar level.

Occupancy Rate (14) the decline in 2018/19 to 0.5% below our challenging target is the result of higher void properties than our preferred level. This includes a number of newly developed properties that were awaiting first let along with a higher number of empty existing properties. We have introduced an improvement plan and this is a key priority for the leadership team with performance being monitored weekly to drive forward improvement. Whilst we are determined to improve performance, we are also maintaining our approach to tenancy sustainment, which can result in it taking longer to let empty homes. We have already seen performance improvement as a result of this and this will remain an area of leadership focus and scrutiny going forward.

The VfM metrics and indicators will be reviewed, now that the new Strategic Objectives, measures and outcomes have been approved by Board for April 2019 onwards.

# Report of the Board

**Value for Money (continued)**

In respect of the Company's Value for Money Action Plan, the below table summarises the company's strategic aims alongside its relevant corporate strategies and actions to be taken:

| Strategic Objectives | Strategy | Action |
|---|---|---|
| Unlocking opportunities for customers, neighbourhoods and communities | Successful Neighbourhoods Strategy | • Deliver transformational projects in key neighbourhoods, creating catalysts for regeneration.<br>• Better illustrate how we create social profit, through our approach to successful neighbourhoods and the holistic offer to customers and commissioners through the Calico Group.<br>• Ensure that social profit is maximised as part of achieving best value. |
| | Development Strategy | • Establish links with commissioners, Health Boards and local authorities to promote Calico offer.<br>• Through delivery of the development and investment programme create social profit/added value through our partnership with Ring Stones and realise a positive impact on the local economy.<br>• Bidding for further capital funding to support the development programme.<br>• Identify opportunities to broaden tenure type through new developments.<br>• The Future of Affordable Housing: Create a platform for discussion with Board regarding energy performance, sustainability, construction of buildings.<br>• Develop action plan to facilitate land banking strategy for future developments.<br>• Identify and assess new opportunities to form a pipeline development programme.<br>• Develop a knowledge base of Burnley area rents/ demands/ customer market conditions. |
| | Sales and Marketing Strategy | • Develop Sales and Marketing Strategy.<br>• Articulate demand/our strategy around Shared Ownership/Sales. |
| Achieving our growth aspirations and maximising our assets to strengthen our organisation | Asset Management Strategy | • Delivery of the asset management strategy action plan.<br>• Upgrade current Asset Performance Evaluation (APE) Model to incorporate more recent data.<br>• Through APE, enhance our stock knowledge of our assets and use this, in conjunction with performance information, to inform decisions about future investment.<br>• Consolidate our approach to Options Appraisal ensuring we have a robust framework to ensure that property performance information is used in unison with neighbourhood profile mapping to inform investment decisions.<br>• Consider the Net Present Value of our assets at neighbourhood, scheme and property level and ensure they are all performing positively or moving towards this. Use the NPV data to determine core neighbourhoods and investment decisions.<br>• Ensure our Development and Asset Management Strategies align, to balance growth with investment in existing assets.<br>• Within our options appraisal framework review underperforming, void, low demand and non-core stock and consider opportunities for stock investment/refurbishment, change of tenure, use or sale. |
| | Development Strategy | • Ensure our Development and Asset Management Strategies align, to balance growth with investment in existing assets.<br>• Continuing to develop the partnering approach to contract management with Ring Stones.<br>• Complete a review of our sheltered stock to ensure it is fit for the future.<br>• Consider opportunities to broaden our geographical spread to enhance asset value and increase income. |

| Strategic Objectives | Strategy | Action |
|---|---|---|
| Being easy to deal with and delivering | ICT Strategy | • Increase our digital and self-serve offer by delivering the digital transformation project. |
| an excellent customer service | Customer Strategy | • Use customer insight gained from the What our customers are saying ('WOCAS') report to support leaner processes and improved service delivery.<br>• Carry out a programme of customer profiling and journey mapping which will support us to offer flexible services that will more closely meet the needs and expectations of different customer segments. The process will also map a number of customer journeys to help us create leaner processes.<br>• Deliver digital transformation of transactional services that makes us easier to deal with and more efficient.<br>• Continue to work with other Group companies to deliver a broader range of services to customers enabling us to enhance our offer as a housing provider. |
| | Development Strategy | • Energy Efficiency and Housing Quality Standards: Development of energy efficiency charter to reduce fuel poverty via design brief, Standard Specification and KPIs to monitor progress of improvements throughout the programme and on going. |
| Following a leadership approach that aims to have happy, positive and connected teams who believe in our purpose and values | Value for Money Strategy | • Maximise the use of our resources throughout the Group and the synergies that can be generated from group companies working together to deliver their strategic objectives.<br>• To identify external best practice and use this to influence how services are delivered.<br>• Staff have commercial awareness and utilise this to identify improvements in current activities or highlight potential new activities.<br>• Continuously review staffing infrastructure to support changing delivery models across the company. |
| | People Strategy | • Developing our people and teams, so that they are fulfilling their potential and increasing productivity as a result. |
| Learning from and working with the rest of the Group to ensure a unique offer for our customers and staff | Customer Strategy/Sales and Marketing Strategy | • Complete a Calico Homes branding review, to enhance our marketing approach and self-awareness of our brand.<br>• Use the branding review to better inform us of competition through the Private Rented Sector and other HAs/providers.<br>• Through the branding review complete population analysis, with the aim of having a more strategic approach to future proofing our stock.<br>• Use the branding review to inform our offer to BME communities. |
| Have effective and forward thinking governance, supporting financial strength across the Calico Group | Value for Money Strategy | • Position ourselves to influence government and regional policy.<br>• Develop a Merger Strategy outlining our approach to evaluating any potential merger opportunities. Board signed up to NHF Code for Mergers in May 2016.<br>• Continuous review of contracts and procurement approaches to maximise VfM and social profit.<br>• Ensure that all Calico Homes teams are set VfM targets and monitor performance against them, performance will be reported to the Calico Homes Board through the budget setting process. The targets will be reviewed annually and plans will be developed with each company to achieve the target savings/efficiencies.<br>• Deliver the Homes efficiency programme action plan, following the reduction of social and affordable rents by 1%.<br>• Ensure compliance with regulatory requirements to ensure Calico Homes retains its G1/V1 status.<br>• Use the sector scorecard results to help better understand our costs, and how we compare, and inform actions for improvement. |
| | Treasury Strategy | • Aim to reach accumulated surplus.<br>• Maximise financing opportunities and explore different funding options to enable future borrowing for further development and growth.<br>• Maximise income through further rental increases in line with the Rent Standard. |
| | Customer Strategy | • Continue to work with other Group companies to deliver a broader range of services to customers enabling us to enhance our offer as a housing provider. |

# Report of the Board (continued)

**Board members and executive directors**
The present Board members and the executive directors of the Company together with details of the changes which have occurred up to the date of approval of this report by the Board are set out on page 1. The senior officers act as executives within the authority delegated by the Board.

The Company has insurance policies that indemnify its Board members and executive directors against liability when acting for the Company.

**Remuneration policy**
The Group Remuneration Committee is responsible for setting the remuneration policy, and in doing so pays close attention to remuneration levels in the sector in determining the remuneration packages of the senior officers. Basic salaries are set having regard to each senior officers responsibilities and pay levels for comparable positions.

**Pensions**
The senior officers are eligible to join the Social Housing Pension Scheme. The senior officers participate in the scheme on the same terms as all other eligible staff. Full details of the scheme are given in note 9 to the financial statements.

**Employees**
The strength of the Company lies in the quality and commitment of its employees. The Company's ability to meet its objectives and commitments to customers in an efficient and effective manner depends on the contribution of all its employees.

The Company continues to provide information on its objectives, progress and activities through briefings from senior staff, regular departmental meetings, an annual staff conference, One Calico events, a performance and personal growth framework and a regularly updated intranet site. This year we formed a new Employee Voice Group who represent staff from across the Company and meet regularly with senior leaders to consider how the Company delivers services and runs its business.

The Company is committed to inclusivity for all its employees and customers. Calico has established "This is Me" groups to support our colleagues and communities. The aim of these groups is to influence Calico's culture to ensure inclusivity and diversity in all realms. The vision of the This is Me Groups is "*Through our own diversity and lived experiences we will celebrate and champion (LGBTQ+/BAME/Youth) across the Calico Group and our communities".* Calico has retained its two ticks for disability recruitment, is a member of the HouseProud Network and a member of the Housing Diversity Network.

In February 2019, Calico were recognised as the 62nd (2018: 36th) Best Company to work for in the Sunday Times Best 100 Companies to Work For (not-for-profit category). This is a testimony to how we successfully engage with our staff.

**Health and Safety**
The Board is aware of its responsibilities on all matters relating to health and safety. Calico has prepared detailed health and safety policies and risk assessments and provides staff training and education on health and safety matters. The Health and Safety Performance Team, chaired by the Chief Executive, meets on a regular basis. The company are CHAS (the Contractors Health and Safety Assessment Scheme) accredited.

The Regulator of Social Housing, and Calico Homes Board, have previously been advised of an investigation undertaken by the Health and Safety Executive (HSE) with regards to the Health And Safety At Work Act 1974, specifically the Controls of Vibrations Regulation. The investigation was prompted through our internal health surveillance checks, whereby we identified one individual was being monitored for Hand Arm Vibration Syndrome (HAVS) and we reported this via RIDDOR. In response to this reporting, the HSE began an investigation in November 2017.

In response to the HSE investigation, and subsequent issue of two improvement notices, we:

- Introduced a HAVs procedure and Recording Log
- Launched a Vibration awareness initiative
- Provided more HAVs training and information for managers
- Introduced vibration recording amongst our trades and caretaking teams

Whilst we addressed all recommendations made by the HSE, they proceeded with prosecution under the Health and Safety At Work Act with the fine determined at £20,000.

**Reserves**
After transfer of the surplus for the year of £2,692,000 (2018: £2,441,000) and actuarial loss of £116,000 (2018: gain £1,937,000) and a gain on settlement of LCC pension scheme amounting to £Nil (2018: £9,226,000) and the initial recognition of multi-employer defined benefit scheme loss of £559,000 (2018: £Nil), the Company reserves at the year end amounted to a deficit of £5,075,000 (2018: £7,092,000) which is in line with expectations.

# Report of the Board (continued)

**Capital structure and treasury management**
In July 2018, the Company secured additional funding of £27.5m taking the total borrowing facility to £142.5m.

The Company borrowed an additional £12.0 million (2018: £9.2 million) to bring its total borrowings to £111.7 million (2018: £99.7 million). The additional borrowing was used to support the development programme.

The Company borrows from the Royal Bank of Scotland and Nationwide at both fixed and floating rates of interest and currently has 79.0% (2018: 64.4%) of its borrowings at fixed rates. The loans are secured by fixed and floating charges on the property stock.

The fixed rates of interest range from 2.76% to 7.64% (2018: 3.77% to 7.09%) with the weighted average rate of interest on all loans due to low variable rates being 4.25% (2018: 4.56%).

Gearing, calculated as total loans less cash as a percentage of net book value of housing properties (VFM Metric definition), was 92.6% (2018: 95.0%).

The Group borrows and lends only in sterling and so is not exposed to currency risk.

**NHF Code of Governance**
We are required by the RSH, our regulator, to adopt an appropriate code of governance. We have adopted the National Housing Federation Code of Governance – Promoting board excellence in housing associations 2015. The Code sets down key principles with which we must comply and supporting best practice recommendations where we have some discretion. Where we do not follow the Code we must explain why not.

The Code deals with our Board, the way it operates, our constitution, the role of chair, the chief executive, equalities and probity, in fact everything which you would expect to see in a well-run Board and organisation. Each year, we review whether we fully comply with this Code - where we do not, we agree an action plan and do what is necessary to comply with the Code.

We carry out individual and collective Board appraisals and produce a board development programme. This programme focuses on Board performance and how the Board ensures its future effectiveness together with tailored events on specific business related topics where a training need has been identified.

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

The Board certifies that the Company is pleased to report full compliance with this Code for the year ended 31 March 2019 following an annual review that took place in March 2019. The Code states that the voting members of the committee responsible for audit must not include the chair of the board. It should be noted that the chair of the Calico Homes Board is a member of the Group Audit and Risk Committee and was appointed due to his extensive knowledge of funding, risk and regulation. All meetings during the year ended 31 March 2019 were quorate without any votes from the chair of the Calico Homes Board.

**RSH Regulatory Standards Compliance**
The Board has carefully considered the requirements of the RSH's Regulatory Framework and fully embraces the principles of co-regulation and the expectations of registered providers arising from that regulatory approach as set out in the Framework. We have, in particular, reviewed all aspects of the Governance and Financial Viability Standards in May 2019 and the Board certifies that the Company was fully compliant with those standards for the year ended 31 March 2019.

**The Board**
The Board comprises twelve (2018: eleven) non-executive members and is responsible for managing the strategic direction of the Company. It meets several times throughout the year. Details of Board Members can be found on page 1.

The Board is responsible for the Company's strategy and policy framework. It delegates the day-to-day management and implementation to the Chief Executive and other senior officers. The Executive Team meet weekly and attend Board meetings.

**Committees**
The Group Audit Committee meets a minimum of three times a year. It considers the appointment of internal and external auditors, the scope of their work and their reports. It also reports to the Board on the effectiveness of the Company's internal financial control arrangements.

The Group Remuneration Committee is responsible for making recommendations to the Board on the remuneration and employment contracts of the senior officers. The committee also sets the objectives for the Chief Executive and reviews performance against those objectives. The committee meets at least annually but at other times as required.

# Report of the Board (continued)

**Community Engagement**
Our approach to involving customers is in line with the regulatory standards. We involve customers both formally and informally and use their feedback to influence service improvements and key decisions. We have a range of different opportunities which ensure customers are involved at all levels. These include:

- Customer Board membership;
- Service level and informal involvement within neighbourhoods;
- Neighbourhood representatives who complete customer scrutiny activities and are involved in the development of policies and strategies; and
- Active tenant and resident associations and community groups.

It is important that we use the insight we gather from our customers and we have developed a "What Our Customers are Saying" (WOCAS) report that is used to inform decision-making and service improvement. Our Board oversees our approach to involvement and ensures co-regulation is happening effectively.

Furthermore, we have a clear and simple complaints policy that is available to all customers and which focusses on a principle of doing the right thing to resolve complaints.

**Internal controls assurance**
The Board has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, and not absolute, assurance against material misstatement or loss, in line with the Board's view that risks should be controlled and not avoided.

In meeting its responsibilities, the Board has adopted a risk-based approach to establishing and maintaining internal controls that are embedded within day-to-day management and governance processes. This approach includes the regular evaluation of the nature and extent of risks to which the Company is exposed.

The process for identifying, evaluating and managing the significant risks faced by Calico is ongoing and has been in place throughout the period commencing 1 April 2018 up to the date of approval of the annual report and financial statements. The Board receives and considers reports from management on these risk management and control arrangements on a regular basis during the year and considers at each meeting whether the risk map needs amending as a result of the meeting.

The arrangements adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework include:

**Identifying and evaluating key risks**
Calico's risk management strategy, setting out the Board's attitude to risk in the achievement of its objectives, underpins the risk management, business planning and control arrangements. These arrangements clearly define management responsibility for the identification, evaluation and control of significant risks. The executive directors regularly consider reports on these risks and the Chief Executive is responsible for reporting to the Board any significant changes affecting key risks. A review of the Risk Management Framework is ongoing and will be refined and updated as appropriate.

**Information and reporting systems**
Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. These are reviewed and approved by the Board and monitored throughout the year. Reports on key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes are regularly produced and reviewed. The outcomes of these reviews are formally reported and discussed by the Board quarterly.

**Monitoring arrangements**
Regular management reporting on control issues provides assurance to successive levels of management and to the Board. It is supplemented by regular reviews by internal audit who provide independent assurance to the Board, via the Group Audit Sub-Committee. The arrangements include a rigorous procedure, monitored by the Group Audit Sub-Committee, for ensuring that corrective action is taken in relation to any significant control issues. Calico has implemented a programme of control risk self-assessment and is further embedding this at all levels of the organisation, which will continue to strengthen control arrangements.

# Report of the Board (continued)

**Risks and uncertainties**
As part of the Calico Group approach to risk management, Calico Homes has in place a risk map which is reviewed by the Board on a quarterly basis.

| Area of risk | Risk code and title | Status | Strategic Objective |
|---|---|---|---|
| Financial<br>Reputational<br>Regulatory<br>Service | 1.<br>Government policy and funding relating to Registered Providers impacts on financial viability of Calico Homes affecting ability to grow and meet strategic aims. | • Assumptions in the business plan in respect of income collection agreed annually and built into the business plan to ensure financial viability is maintained.<br>• Tenancy Sustainment Strategy and action plans being delivered focussing on sustainment and Universal Credit.<br>• Income management policy in place.<br>• Income collection & tenancy sustainment monitored and reported to Board as a KPI, including information around Universal Credit.<br>• Multi-variant stress testing carried out and consultation with Board about scenarios and stress triggers.<br>• Group Development Strategy approved and action plan ongoing.<br>• Partnership contracting with RingStones to ensure VfM and value engineer policies and procedures, design development and standards.<br>• Responded to the de-regulation agenda and the potential legal and governance risks to enable Board to govern effectively and maintain G1 status – through the approval of a Disposals Policy.<br>• ICT improvements to support rent collection performance (Proactive arrears) to increase level of performance reporting to Board around rent collection with Universal Credit customers.<br>• The potential impact of Brexit on the Business Plan and budgets (for example, materials supply and prices) is reviewed through the stress testing process and mitigation plan. | Having effective and forward thinking governance, supporting financial strength across The Calico Group. |
| Service | 2.<br>Staff | • People Strategy in place.<br>• Calico Homes Vision and Objectives, linked to team objectives.<br>• Various Occupational Development and Employee Relations policies in place.<br>• Leadership Development Programme.<br>• Leadership Approach – Calico Homes.<br>• Salary benchmarking completed periodically.<br>• Continued embedding of the company values.<br>• Review of Calico Homes Leadership Team structure.<br>• Learning and Development function and opportunities.<br>• Best Companies surveys and feedback. | Following a leadership approach that aims to have happy, positive and connected teams who believe in our purpose and values. |
| Reputational<br>Service | 3.<br>Operational performance | • Regular performance report, reviewed by teams, senior management team and executive team monthly.<br>• Further review of company performance indicators for 2019/20, to ensure they reflect our strategic targets and priorities.<br>• Sector Scorecard data analysis informs Value for Money action plan.<br>• Internal audit function able to validate the information being presented to Boards as part of their review of controls.<br>• Additional checks to ensure external data is reported accurately.<br>• External environment being monitored for changes in Government policy and action plans developed to manage.<br>• Development updates and additional reporting to Board, focussing on high profile schemes.<br>• Reporting to Board on high profile schemes, for example, Barley View and Gateway.<br>• WOCAS reports provided to Board highlighting customer insight. | Being easy to deal with and delivering an excellent customer experience. |

| Area of risk | Risk code and title | Status | Strategic Objective |
|---|---|---|---|
| Regulatory | 4.<br>Governance | • Board member appraisals undertaken.<br>• Revised Board Development Plan.<br>• Code of Governance.<br>• Terms of Reference.<br>• Board skills/behaviour matrix.<br>• G1/V1 rating maintained in HCA – IDA in June 2016 and status reconfirmed in November 2017 and 2018.<br>• Asset Management Strategy approved by Board in March 2016 and annual progress updates provided to Board for consideration.<br>• Additional Board sessions completed in 2018/19 focussing on CQC requirements, stress testing, VfM and Asset Management.<br>• Group Boards Strategic Events.<br>• Financial training for all Boards.<br>• Board Governance Framework.<br>• Annual self-assessment against the NHF Code of Governance, for review by Board.<br>• Board effectiveness review and summary.<br>• Annual self-assessment against the regulatory standards, for review by Board.<br>• Board approved our Merger Strategy, in November 2018, which sets out our approach and framework for decision making.<br>• Disposals Policy approved by Board.<br>• Board notification/approval of any disposals on a quarterly basis.<br>• Board Stress Testing and Mitigation workshops and regular reporting at Board meetings.<br>• Newly appointed lead on Clinical Governance for Care.<br>• Appointment of two customer Board members in February 2019. | Having effective and forward thinking governance, supporting financial strength across The Calico Group. |
| Financial<br>Reputational<br>Regulatory<br>Service | 5.<br>Health, Safety and Wellbeing of Calico Customers and staff<br><br>Regulatory and legislative compliance | • Health and Safety ("H&S") Policy in place approved by all Boards.<br>• Viability monitored through annual business plan preparation and other regulatory returns.<br>• Structured regular quorate Board meetings held.<br>• Company performance report includes compliance indicators.<br>• Health and safety and Compliance reporting to Board, on a quarterly basis.<br>• Internal audit of key H&S and compliance functions.<br>• H&S Performance Team.<br>• Quarterly Calico Homes H&S Reporting to H&S Performance Team and Homes SLT.<br>• CQC audit completed.<br>• G1/V1 assessment maintained in HCA IDA in June 2016 and subsequently in November 2017 and November 2018.<br>• Bi-annual Health and Safety audit.<br>• H&S training for Board Members.<br>• Assets and Liabilities Register updated periodically.<br>• Our approach to scrutiny includes customer engagement/neighbourhood reps, informal consultation and analysis of complaints and feedback.<br>• Homes Business Continuity Plan/Emergency Response Plan to ensure we have an appropriate approach to response following an emergency, which is well communicated and understood.<br>• GDPR working Group, including team members from Calico Homes.<br>• Progress against the GDPR action plan reported to Board via quarterly performance reports.<br>• GDPR training for all staff. | Having effective and forward thinking governance, supporting financial strength across The Calico Group. |

| Area of risk | Risk code and title | Status | Strategic Objective |
|---|---|---|---|
| Financial Regulatory | 6. Development Activity | • Development Strategy approved by Board in May 2019.<br>• All new schemes are financially appraised and approved at Homes Board.<br>• Current development programme monitored by Development Team on a weekly basis. Financial commitments reported to Executive Team each month.<br>• Sales progress report produced regularly.<br>• Financial position monitored through management accounts.<br>• Monthly meetings between finance and development staff to review cash-flow forecasts.<br>• Partnership meetings between Homes and Ring Stones.<br>• Regular Development updates at Homes Board meetings.<br>• Revised financial assumptions approved by Board April 2018.<br>• Internal and external audit.<br>• Suite of KPIs now included in company performance report.<br>• Design development processes being introduced to manage the Ring Stones programme now established and informing material and component specifications for new build, refurbishment, improvements and repairs.<br>• New business opportunities being considered for new funding streams.<br>• Preparing use of Sequel monitoring tool to align processes and procedures between finance, ring stones and homes development spend. | Achieving our growth aspirations and maximising our assets to strengthen our organisation.<br><br>Having effective and forward thinking governance, supporting financial strength across The Calico Group. |
| Financial Reputational | 7. Growth | • Growth Strategy in place.<br>• Group KPI Board report produced.<br>• Corporate plan targets reviewed and introduced for Homes.<br>• Growth Strategy reviewed and approved at Group Board.<br>• Involvement of Homes Board in establishing strategic priorities and informing the Homes Growth Plan. | Achieving our growth aspirations and maximising our assets to strengthen our organisation.<br><br>Having effective and forward thinking governance, supporting financial strength across The Calico Group. |
| Financial Service | 8. Availability of funding | • Annual treasury strategy in place.<br>• Annual business plan prepared in conjunction with Growth strategy.<br>• Updates on market availability of funds regularly received by Group Director of Finance.<br>• Funding Options Review was undertaken and discussed at Group and Homes Board .<br>• New funding arrangement in place from July 2018.<br>• Future funding options are now being considered for the next round of funding.<br>• LIBOR will not exist after 2021. Consultation has been carried out about the replacement SONIA. We are receiving updates from treasury advisors DTP. Bank of England working towards a neutral conversion, so risk should be low. | Having effective and forward thinking governance, supporting financial strength across The Calico Group. |

| Area of risk | Risk code and title | Status | Strategic Objective |
|---|---|---|---|
| Reputational<br>Service | 9.<br>Customer Satisfaction | • Regular reporting of customer insight. Action taken to address causes of dissatisfaction.<br>• Adoption of Mary Gober principles.<br>• Revised co-regulation framework.<br>• Calico group Customer Contacts Policy – focus on treating feedback as gold and doing the right thing.<br>• Review of the role of the Customer Engagement Team completed and implemented to support Homes strategy.<br>• Launched new customer strategy & action plan.<br>• "What Our Customers Are Saying" ("WOCAS") report which enables us to use customer insight to inform service improvements.<br>• Revised approach to STAR and introduce more quality checks.<br>• Vision for digital services now in place. | Being easy to deal with and delivering an excellent customer experience. |
| Financial<br>Service | 10.<br>Group cohesion | • Growth Strategy.<br>• Board Strategic Sessions.<br>• New Group Executive and Leadership Team Structure.<br>• Homes Leadership Team Structure Review.<br>• Strategic Review.<br>• Introducing partnership meetings for intra-group relationships.<br>• Revision of Intra-group agreements currently in progress. | Learning form and working with the rest of the Group to ensure a unique offer for our customers and staff.<br><br>Having effective and forward thinking governance, supporting financial strength across The Calico Group. |
| Financial<br>Reputational<br>Regulatory<br>Service | 11.<br>Financial Viability | • All required efficiency savings delivered.<br>• Board and Leadership Team monitoring of efficiency programme.<br>• Stress testing and identification of mitigations undertaken.<br>• Management accounts reviewed monthly and forecasts made.<br>• Annual budget setting process.<br>• Review of group contributions.<br>• Development of monitoring mechanism to track efficiency savings.<br>• Regular reports to Board advising of progress against the efficiency programme and action plan.<br>• Monthly review of financial performance at Homes SLT Meetings. | Having effective and forward thinking governance, supporting financial strength across The Calico Group |
| Financial<br>Reputational<br>Regulatory<br>Service | 12.<br>Financial Viability<br>Operational Performance<br>Customer Safety and Satisfaction | • Gas Servicing Policy and Procedures.<br>• Electrical Safety Policy and Procedures.<br>• Gas and electrical servicing.<br>• Fire Safety Policy and Procedure.<br>• Fire Risk Assessments and action plan.<br>• Asbestos Policy and Procedure.<br>• Legionella Policy and Procedure.<br>• Lift Safety Procedures.<br>• Insurance investigations.<br>• Decant Policy.<br>• Repairs policies.<br>• Smoke/CO2 detection.<br>• Property MOTs.<br>• Homes Business Continuity Plan/Emergency Response Plan to ensure we have an appropriate approach to response following an emergency, which is well communicated and understood.<br>• Fire Safety Internal Audit. | Maximising and growing our assets to strengthen our organisation and create sustainable communities |

# Report of the Board (continued)

**Statement of directors' responsibilities for the annual report and financial statements**
Company law and registered provider regulation requires the directors to prepare financial statements for each financial period. Under that law directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company, and of the surplus or deficit of the Company for that period. In preparing these financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure United Kingdom Accounting Standards and the Statement of Recommended Practice: "Accounting by Registered Social Housing Providers" (updated 2014) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis.

The Board is responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable it to ensure that the financial statements comply with the Companies Act 2006, paragraph 17 of schedule 1 of the Housing and Regeneration Act 2008 and the Accounting Direction for Registered Social Landlords. It is also responsible for taking reasonable steps to safeguard the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

**Statement as to disclosure of information to auditors**
The Board, who were in office on the date of approval of these financial statements, have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Board members have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

**Going concern**
After making enquiries, the Board are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. Although there was a surplus of £2.0m and net liabilities of £5.1m, which includes £1.025m provision for the SHPS defined benefit scheme liability. The 2019 business plan shows that the reserves are anticipated to be in a positive position by March 2024. Therefore, the Company continues to adopt the going concern basis in the financial statements.

**Auditor**
Beever and Struthers, Statutory Auditor, have indicated their willingness to continue in office. A resolution to reappoint them as External Auditors will be proposed at the forthcoming annual general meeting.

This report was approved by the Board on 16 September 2019 and signed on its behalf by:

Stephen Aggett
**Company Secretary**
16 September 2019

# Independent Auditor's Report to the Members of Calico Homes Limited

**Opinion**
We have audited the financial statements of Calico Homes Limited "the charitable company" for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Statement of Financial Position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the charitable company affairs as at 31 March 2019 and of its incoming resources and application of resources including its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charitable company 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 to you in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

**Other information**
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The trustees 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.

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Board which includes the Strategic Report prepared for the purposes of company law for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report included within the Report of the Board has been prepared in accordance with applicable legal requirements.

# Independent Auditor's Report to the Members of Calico Homes Limited (continued)

**Matters on which we are required to report by exception**
In the light of the knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report included in the Report of the Board.

We have nothing to report in respect of the following matters in relation to which Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of trustees**
As explained more fully in the Trustees' Responsibilities Statement set out on page 16, the trustees (who are also the directors of the charitable company for the purposes of company law) are 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 trustees 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 trustees are responsible for assessing the [charitable company's / association's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the [charitable company / association] or to cease operations, or have no realistic alternative but to do so.

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

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

**Use of our report**
This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company'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 charitable company and the charitable company's members as a body for our audit work, for this report, or for the opinions we have formed.

Maria Hallows BA FCA DChA
(Senior Statutory Auditor)
For and on behalf of
**BEEVER AND STRUTHERS**
Statutory Auditor
St George's House
215/219 Chester Road
Manchester M15 4JE

Date: 30 September 2019

Calico Homes Limited
Company number: 3752751

# Statement of Comprehensive Income

**For the year ended 31 March 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Turnover** | 3 | 22,443 | 22,394 |
| **Operating expenditure** | 3 | (16,779) | (16,046) |
| Gain on disposal of fixed assets | 7 | 1,230 | 753 |
| **Operating surplus** | | 6,894 | 7,101 |
| Interest receivable and other income | 8 | 72 | 2 |
| Interest payable and financing costs | 8 | (4,274) | (4,662) |
| **Surplus on ordinary activities before tax** | | 2,692 | 2,441 |
| Taxation on non-charitable activities | 11 | - | - |
| **Surplus for the year after tax** | | 2,692 | 2,441 |
| Initial Recognition of multi-employer defined benefits scheme | | (559) | - |
| Actuarial (loss)/gain in respect of pension schemes | 9 | (116) | 1,937 |
| Gain on pension scheme settlement | | - | 9,226 |
| **Total comprehensive income for the year** | | 2,017 | 13,604 |
| Total comprehensive income for the year attributable | | 2,017 | 13,604 |

# Statement of Changes in Reserves

**For the year ended 31 March 2019**

| **Income and expenditure reserve** | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Balance as at 1 April | (7,092) | (20,696) |
| Surplus from Statement of Comprehensive Income | 2,017 | 13,604 |
| Balance at 31 March | (5,075) | (7,092) |

The financial statements on pages 19 to 46 were approved and authorised for issue by the Board on 16 September 2019 and signed on its behalf by:

John Inglesfield
**Chair of the Board**

Stephen Aggett
**Group Director of Finance**

# Statement of Financial Position
**As at 31 March 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible fixed assets | 12 | 123,464 | 108,693 |
| Intangible assets | 13 | 174 | 211 |
| | | 123,638 | 108,904 |
| **Current assets** | | | |
| Stock | 14 | 36 | 56 |
| Debtors | 15 | 5,522 | 3,483 |
| Cash at bank and in hand | | 663 | 594 |
| | | 6,221 | 4,133 |
| **Creditors:** Amounts falling due within one year | 16 | (5,177) | (4,071) |
| **Net current assets** | | 1,044 | 62 |
| **Total assets less current liabilities** | | 124,682 | 108,966 |
| **Creditors:** Amounts falling due after more than one year | 17 | 128,732 | 115,427 |
| **Provision for liabilities** | | | |
| Pension provision | 9 | 1,025 | 631 |
| | | 129,757 | 116,058 |
| **Income and expenditure reserve** | | (5,075) | (7,092) |
| | | 124,682 | 108,966 |

The notes on pages 22 to 46 form part of these financial statements.

The financial statements on pages 19 to 46 were approved and authorised for issue by the Board on 16 September 2019 and signed on its behalf by:

John Inglesfield
**Chair of board**

Stephen Aggett
**Group Director of Finance**

# Statement of Cash Flows
**For the year ended 31 March 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 24 | 6,282 | 7,964 |
| **Cash flow from investing activities** | | | |
| Interest received and other income | 8 | 72 | 2 |
| Purchasing of housing properties and improvements | | (17,022) | (17,270) |
| Grants received | | 3,401 | 3,800 |
| Purchase of other fixed assets | | (426) | (64) |
| Purchase of intangible fixed assets | 13 | (152) | (269) |
| Proceeds of sales of housing properties | | 1,562 | 1,166 |
| **Net cash flow used in investing activities** | | (12,565) | (12,635) |
| **Cash flow from financing activities** | | | |
| Interest and financing costs paid | | (5,648) | (4,624) |
| Loans received | | 12,500 | 9,200 |
| Repayment of borrowings | | (500) | - |
| **Net cash flow from financing activities** | | 6,352 | 4,576 |
| **Net change in cash and cash equivalents** | | 69 | (95) |
| Cash and cash equivalents at beginning of the year | | 594 | 689 |
| **Cash and cash equivalents at end of the year** | | 663 | 594 |

The notes on pages 22 to 46 form part of these financial statements.

# Notes to the Financial Statements

## 1. Legal Status

The Company is registered with the Charities Commission and registered with the Regulator of Social Housing ("RSH") as a registered provider of social housing. The company is limited by guarantee and incorporated in England & Wales. The registered office and principal place of business is Centenary Court, Croft Street, Burnley, Lancashire, BB11 2ED.

## 2. Accounting Policies

**Basis of accounting**

The financial statements have been prepared in accordance with UK Accounting Generally Accepted Accounting Practice (UK GAAP) including FRS 102, the 'Statement of Recommended Practice for registered housing providers' (Housing SORP 2014) and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015, and under the historical cost convention and are presented in sterling £'000 for the year ended 31 March 2019. The company meets the definition of a public benefit entity ("PBE").

**Going concern**

The Company's financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. The impact on the future income of the company from the 2015 Government announcements has been assessed within the company's business plan as well as an assessment of imminent or likely future breach in borrowing covenants which have now been changed as part of the new funding arrangement. No significant concerns have been noted and we consider it appropriate to continue to prepare financial statements on a going concern basis.

**Basis of consolidation**

The financial statements of the Company are consolidated in the financial statements of The Calico Group Limited. The consolidated financial statements of The Calico Group Limited are available from the registered office, Centenary Court, Croft Street, Burnley Lancashire, BB11 2ED.

The company has taken advantage of the exemption under section 401 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the company as individual entity and not about its group.

**Critical accounting judgements and key sources of estimation uncertainty**

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

- **Development expenditure**. The company capitalises development expenditure in accordance with the accounting policy described on page 21. Initial capitalisation of costs is based on management's judgement that a development scheme is confirmed, usually when Board approval has taken place. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.
- **Categorisation of housing properties**. The company has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, management has considered if the asset is held for social benefit or to earn commercial rentals and has determined that there are no investment properties.
- **Pension and other post-employment benefits.** The cost of defined benefit contributions and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty.
- **Impairment of non-financial assets.** Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit ("CGU") is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of a CGU exceeds the higher of its net realisable value or its value in use. A CGU is normally a group of properties at scheme level whose cash income can be separately identified.

  Since the year end, the company has assessed that there was a trigger for an impairment review as an offer received for the sale of the former care home and day centre was lower than the net book value. As a result an impairment adjustment has been shown in these financial statements of £34k for housing properties (2018:Nil) and £48k other tangible fixed assets, (2018: Nil), (Notes 6 and 12).

# Notes to the Financial Statements (continued)

## 2. Accounting Policies (continued)

Following a trigger for impairment, the company performs impairment tests based on fair value costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in arm's length transaction or similar CGUs or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on a depreciated replacement cost based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential as the existing property.

**Critical accounting judgements and key sources of estimation uncertainty (continued)**

Other key sources of estimation and assumptions:

- **Tangible fixed assets.** Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors.
- **Goodwill and intangible assets.** The company establishes a reliable estimate of the useful life of goodwill and intangible assets arising from business combinations.
- **Accounting for the Social Housing Pension Scheme ("SHPS").** The Company's view, considering the guidance issued in FRED71 and guidance issued by the National Housing Federation, is that the difference between the deficit funding agreement previously recognised in relation to SHPS, and the net defined benefit, should be recognised in Other Comprehensive Income. The relevant date to apply the adjustment is judged to be 1 April 2018, as TPT Retirement Solutions does not have data to provide sufficient information before the date 31 March 2018.

**Merger accounting**
Where merger accounting is used, the investment is recorded at the nominal value of shares issued together with the fair value if any additional consideration paid. In the company's financial statements, merged subsidiary undertakings are treated as if they already had been a member of the company. The results of such a subsidiary are included for the whole period in the year it joins the company. The corresponding figures for the previous year include its results for that period and the assets and liabilities at the previous balance sheet date.

**Intangible fixed assets**
Intangible assets are measured at cost less accumulated amortisation and any impairment losses.

Software development costs are recognised as an intangible asset when all of the following criteria are demonstrated:

- The technical feasibility of completing the software so that it will be available for use.
- The ability to use the software.
- The availability of adequate resources to complete the development.
- The ability to measure reliably the expenditure attributable to the software during its development.

Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using the straight-line method. The principal annual rates used are:

- Software development costs 20 – 33%

**Turnover and revenue recognition**
Turnover represents rental income receivable, amortised capital grant, supporting people services contract income, revenue grants from local authorities and Homes England, income from the sale of shared ownership and other properties developed for outright sale and other income and are recognised in relation to the period when the goods or services have been supplied.

Rental income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion. Supporting People Income is recognised under the contractual arrangements.

Sales of properties developed for outright sale are included in Turnover and Cost of Sales.

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

# Notes to the Financial Statements (continued)

## 2. Accounting Policies (continued)

**Loan interest payable**
Loan interest costs are calculated using the effective interest method of the difference between the loan amount at initial recognition and the amount of maturity of the related loan.

**Loan finance issue costs**
These are amortised over the life of the related loan. Loans are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts amortised.

**Taxation**
The charge for taxation for the year is based on the profits arising on taxable activities undertaken within the company at the appropriate enacted rate.

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

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted. Deferred tax assets are only recognised to the extent that their recovery is reasonably expected in the foreseeable future.

**Value added tax**
The Company charges VAT on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Company and not recoverable.

**Tangible fixed assets and depreciation**

**Social housing properties**
Social housing properties are principally properties available for rent and are stated at cost less depreciation. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of improvements.

Improvements subsequently made to social housing properties are capitalised in-line with component accounting regulations. See deprecation of social housing properties note for more information.

Housing properties under construction are stated at cost and are not depreciated. These are re-classified as housing properties on practical completion of construction.

**Disposal of social housing properties**
Properties are sold under the statutory regulations of ‘Preserved Right to Buy’ and ‘Right to Acquire’. The sale is recognised when the transaction is completed. Amounts arising on the disposal of properties under the Right to Acquire before 5 April 2017 were credited to the disposal proceeds fund in creditors and have been recycled against future development activity.

**Capitalisation of interest and administration costs**
Interest on loans financing development is capitalised up to the date of completion of the scheme and only when development activity is in progress.

Administration costs relating to the development activities capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

**Supported housing managed by agencies**
Where the Company holds the support contract with the Supporting People Administering Authority and carries the financial risk, the entire project’s income is included in the Company’s Statement of Comprehensive Income.

**Depreciation – Social housing properties**
Freehold land is not depreciated.

Where a social housing property comprises two or more major components with substantially different useful economic lives (“UELs”), each component is accounted for separately and depreciated over its individual useful economic life, on the basis of original cost, less the proportion of SHG and other grants attributable to the component. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred and any remaining net book value relating to the original component is written off to the income and expenditure account in the year it is disposed of.

The company depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

# Notes to the Financial Statements (continued)

## 2. Accounting Policies (continued)

The company depreciates housing properties held on long term leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

**Depreciation – Social housing properties (continued)**

Major components and their UELs are as follows:

| | | | |
|---|---|---|---|
| Structure – general needs houses | 100 years | Central heating | 30 years |
| Structure – GN flats/ sheltered housing hostel | 75 years | External wall insulation | 25 years |
| Structure – sheltered housing | 50 years | Electrical wiring | 25 years |
| Roof | 50 years | Doors | 20 years |
| Bathrooms | 30 years | Kitchens | 20 years |
| Windows | 30 years | Boilers | 15 years |
| Externals | 30 years | Solar panel system | 25 years |

**Low cost home ownership properties**
Low cost home ownership properties which remain unsold at the accounting date are split proportionally between current and fixed assets based on the element relating to expected first tranche sales. As the properties are sold, the proceeds are included in turnover and the Group share remains in fixed assets at cost less any provisions needed for depreciation or impairment.

**Depreciation – Other tangible fixed assets**
Other tangible fixed assets are stated at cost less depreciation. 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. The principal annual rates used for other assets are:

| | |
|---|---|
| • Freehold property | 75 years |
| • Leasehold properties | 75 years or the term of the lease (whichever is lower) |
| • Furniture, fixtures and fittings | 10-33% |
| • Computers and office equipment | 5-33% |

**Leased assets**
Assets held under finance leases are included in the balance sheet and depreciated in accordance with the Company's normal accounting policies. The present value of future rentals is shown as a liability.

The interest element of rental obligations is charged to the Statement of Comprehensive Income over the period of the lease in proportion to the balance of capital repayments outstanding.

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

**Stock and properties for sale**
Stocks are stated at the lower of cost and net realisable value being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

Properties developed for outright sale are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell.

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

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

# Notes to the Financial Statements (continued)

## 2. Accounting Policies (continued)

**Social Housing and other government grants**
Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. SHG received for items of cost written off in the Statement of Comprehensive Income Account is included as part of turnover.

When Social Housing Grant (SHG) in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the Company under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by Homes England. However, SHG may have to be repaid if certain conditions are not met. If a grant is not required to be recycled or repaid, any unamortised grant is recognised as turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

**Disposal Proceeds Fund**
Before 5 April 2017, receipts from the sale of SHG funded properties less the net book value of the property and the costs of disposal were credited to the DPF and used to fund the acquisition of new social housing.

After 6 April 2017 the company elected not to show new proceeds from relevant disposals in the Disposal Proceeds Fund. However, the company will continue to comply with DPF requirements during the wind-down period.

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

**Pensions**
The Company participates in the Social Housing Pension Scheme (“SHPS”); a defined benefit final salary pension scheme. The assets of the scheme are invested and managed independently of the finances of the Company. The Company also participates in a defined contribution scheme with the Social Housing Pension Scheme (“SHPS”).

At 31 March 2018, the company terminated its participation in the Lancashire County Pension Fund (“LCPF”) defined benefit scheme.

For defined benefit schemes, the operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities are recognised in the accounting period in which they arise. The operating costs, finance costs and expected return on assets are recognised in the income and expenditure account with any other changes in fair value of assets and liabilities being recognised in the statement of total recognised gains and losses.

For SHPS, for the periods prior to 31 March 2018, it was not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The income and expenditure charge represents the employer contribution payable to the scheme for the accounting period. Contributions payable under an agreement with SHPS to fund past deficits are recognised as a liability in the company’s financial statements calculated by the repayments known, discounted to the net present value of the year ended using a market rate discount factor as detailed in note 9. The unwinding of the discount was recognised as a finance cost in the Statements of Comprehensive Income in the period incurred.

**Financial instruments**
Financial assets and financial liabilities are measured at transaction price initially, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

At the end of each reporting period, financial instruments are measured as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

Debt instruments that meet the conditions in paragraph 11.8(b) of FRS 102 are measured at amortised cost using the effective interest method, except where the arrangement constitutes a financing transaction. In this case the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt.

Commitments to receive or make a loan to another entity which meet the conditions in paragraph 11.8(c) of FRS 102 are measured at cost less impairment.

# Notes to the Financial Statements (continued)

## 2. Accounting Policies (continued)

**Financial instruments held by the Company are classified as follows:**

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method.
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method.
- Loans to or from subsidiaries including those that are due on demand are held at amortised cost using the effective interest method.
- Commitments to receive or make a loan to another entity which meet the conditions above are held at cost less impairment.
- An investment in another entity's equity instruments other than non-convertible preference shares and non-puttable ordinary and preference shares are held at fair value.
- Derivatives such as interest rate swaps are classified as financial assets or financial liabilities at fair value.

**Financial Instruments Impairment**
Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in profit or loss immediately.

An impairment loss is measured as follows on the following instruments measured at cost or amortised cost:

(a) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

(b) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

# Notes to the Financial Statements (continued)

## 3. Turnover, operating expenditure and operating surplus

**Continuing activities**

| | 2019 Turnover £'000 | 2019 Operating expenditure £'000 | 2019 Operating surplus/ (deficit) £'000 | 2018 Turnover £'000 | 2018 Operating expenditure £'000 | 2018 Operating surplus/ (deficit) £'000 |
|---|---|---|---|---|---|---|
| **Social housing lettings [A]** | 21,085 | (14,444) | 6,641 | 21,083 | (14,347) | 6,736 |
| **Other social housing activities:** | | | | | | |
| **Support services** | 123 | (244) | (121) | 201 | (281) | (80) |
| **Non-social housing [B]** | 1,235 | (2,091) | (856) | 1,110 | (1,418) | (308) |
| | 22,443 | (16,779) | 5,664 | 22,394 | (16,046) | 6,348 |

## A. Particulars of income and expenditure from social housing lettings

| | General Housing £'000 | Sheltered Housing £'000 | 2019 Total £'000 | 2018 Total £'000 |
|---|---|---|---|---|
| **Turnover from social housing lettings** | | | | |
| Rent receivable net of identifiable service charges and net of voids | 15,343 | 4,175 | 19,518 | 19,566 |
| Service charges receivable | 492 | 845 | 1,337 | 1,339 |
| Amortised government grants | 173 | 57 | 230 | 178 |
| **Turnover from social housing lettings** | 16,008 | 5,077 | 21,085 | 21,083 |
| **Expenditure on social housing lettings** | | | | |
| Management | (4,076) | (1,347) | (5,423) | (5,149) |
| Service charge costs | (410) | (569) | (979) | (1,051) |
| Routine Maintenance | (2,301) | (761) | (3,062) | (3,463) |
| Planned Maintenance | (539) | (178) | (717) | (372) |
| Major repairs expenditure | (612) | (202) | (814) | (683) |
| Bad debts | (94) | (31) | (125) | (90) |
| Depreciation of housing properties | (2,145) | (710) | (2,855) | (2,786) |
| Impairment of housing properties | (25) | (9) | (34) | - |
| Other costs | (328) | (107) | (435) | (342) |
| Exceptional – pension lump sum | - | - | - | (411) |
| **Operating costs on social housing lettings** | (10,530) | (3,914) | (14,444) | (14,347) |
| **Operating surplus on social housing lettings** | 5,478 | 1,163 | 6,641 | 6,736 |
| **Void loss** | (508) | (105) | (613) | (511) |

# Notes to the Financial Statements (continued)

## 3. Turnover, operating costs and operating surplus (continued)

## B. Non-social housing activities

| | Turnover £'000 | Operating Costs £'000 | 2019 Operating surplus/ (deficit) £'000 | 2018 Operating surplus/ (deficit) £'000 |
|---|---|---|---|---|
| Market Lettings | 36 | (18) | 18 | 16 |
| Other** | 1,199 | (2,073) | (874) | (324) |
| | 1,235 | (2,091) | (856) | (308) |

****** Included in Other are recharges of office costs to group companies (note 26) and Whitworth Care Homes.

## 4. Accommodation owned, managed and in development

| | 2019 No. of properties | | | 2018 No. of properties | | |
|---|---|---|---|---|---|---|
| **Social Housing** | **Owned** | **Managed** | **Total** | **Owned** | **Managed** | **Total** |
| **Under management at end of year:** | | | | | | |
| General needs housing social rent | 3,010 | 213 | **3,223** | 3,015 | 236 | **3,251** |
| General needs housing affordable rent | 475 | - | **475** | 385 | - | **385** |
| Supported housing | 199 | - | **199** | 174 | - | **174** |
| Housing for older people | 1,103 | - | **1,103** | 1,120 | - | **1,120** |
| Low-cost home ownership | 5 | - | **5** | 7 | - | **7** |
| Registered Care Homes | - | - | **-** | 7 | - | **7** |
| | 4,792 | 213 | **5,005** | 4,708 | 236 | **4,944** |
| **Non-Social Housing** | **Owned** | **Managed** | **Total** | **Owned** | **Managed** | **Total** |
| **Under management at end of year:** | | | | | | |
| Market rented | 5 | - | **5** | 4 | - | **4** |
| Registered Care Homes | 35 | - | **35** | - | - | **-** |
| | 40 | - | **40** | 4 | - | **4** |
| | **Owned** | **Managed** | **Total** | **Owned** | **Managed** | **Total** |
| **Under development at end of year:** | | | | | | |
| General needs housing affordable rent | 68 | - | **68** | 66 | - | **66** |
| Supported housing | - | - | **-** | 38 | - | **38** |
| Low-cost home ownership | 10 | | **10** | 33 | - | **33** |
| Care homes | - | | **-** | 28 | - | **28** |
| | 78 | - | **78** | 165 | - | **165** |

Properties managed for Burnley Borough Council and Rossendale Borough Council are their Empty Homes programme properties which we let and manage on their behalf.

# Notes to the Financial Statements (continued)

## 5. Accommodation managed by others

The company owns property managed by fellow subsidiaries.

| | **2019** | ***2018*** |
|---|---|---|
| | **£'000** | **£'000** |
| Supported housing | 117 | 75 |

## 6. Operating surplus

The operating surplus is stated after charging/(crediting):-

| | **2019** | **2018** |
|---|---|---|
| | **£'000** | **£'000** |
| (Surplus) on sale of fixed assets | (1,230) | (753) |
| Depreciation of housing properties | 2,855 | 2,786 |
| Impairment losses of housing properties | 34 | - |
| Depreciation of other tangible fixed assets | 179 | 149 |
| Impairment losses of other tangible fixed assets | 48 | - |
| Amortisation of intangible fixed assets | 189 | 163 |
| Amortisation of government grants | (230) | (178) |
| Pension deficit contributions (SHPS) | 63 | 57 |
| Pension deficit contributions (LCPF) | - | 209 |
| Operating lease rentals – land and buildings | 189 | 148 |
| Operating lease rentals – other | 128 | 195 |
| Auditor's remuneration (excluding VAT): | | |
| - for auditor services | 18 | 16 |
| - taxation compliance services | 1 | 1 |
| - service charge certification | 1 | 1 |

## 7. Surplus on sale of fixed housing assets

| | **2019** | ***2018*** |
|---|---|---|
| | **£'000** | **£'000** |
| Disposal proceeds | 1,531 | 1,166 |
| Carrying value of fixed assets | (301) | (413) |
| Grant disposal | - | - |
| Surplus/(deficit) on disposal | 1,230 | 753 |

Disposal proceeds represent the net receipt for sale of properties in accordance with the sharing agreement with Burnley Borough Council and proceeds from other sales.

# Notes to the Financial Statements (continued)

## 8. Net interest

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| ***Interest receivable and similar income*** | | |
| Interest receivable and similar income | 72 | 2 |
| ***Interest payable and financing costs*** | | |
| Loans and bank overdrafts | 5,453 | 4,808 |
| Adjustment for effective interest rate | (517) | (215) |
| Pensions – net interest on pension deficit | 92 | 282 |
| Unwinding of SHPS pension liability discount | - | 6 |
| | 5,028 | 4,881 |
| Less: interest capitalised on housing properties under construction | (754) | (219) |
| | 4,274 | 4,662 |

The interest rate of 4.56% (2018: 4.58%) was used for capitalising finance costs.

## 9. Employees

| **Average monthly number of employees** | **2019** | **2018** |
|---|---|---|
| | **No.** | **No.** |
| Administration | 62 | 63 |
| Housing and community services | 161 | 181 |
| Total | 223 | 244 |
| **Full time equivalents (36.25 hours/week)** | 166 | 172 |

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Employee costs:** | | |
| Wages and salaries (gross) | 6,159 | 6,091 |
| Social security costs | 576 | 562 |
| Redundancy | 36 | - |
| Other pension costs | 428 | 1,279 |
| Pension adjustment to Income and Expenditure Accounts | (18) | (369) |
| | 7,181 | 7,563 |

**Pension obligations**
The Group participates in the Social Housing Pension Scheme (SHPS). The Group also operates a stakeholder pension scheme.

# Notes to the Financial Statements (continued)

## 9. Employees (continued)

**Social Housing Pension Scheme**
The Company participates in the Social Housing Pension Scheme ("SHPS"), a defined benefit multi-employer pension scheme administered by TPT Retirement Solutions ("TPT"). The latest actuarial valuation was as at 30 September 2017. The accounting policy in relation to SHPS is set out on page 23. As noted in the accounting policy, there has been a change in accounting in relation to SHPS.

The following adjustments have been made in relation to the change in accounting policy:

- Removal of the liability for the funding of the deficit funding agreement (reduction in creditors £344k; increase in Other Comprehensive Income £344k),
- Recognition of the net pension deficit (increase in pension liability £903k; reduction in Other Comprehensive Income £903k).

**PRESENT VALUES OF DEFINED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND DEFINED BENEFIT ASSET (LIABILITY)**

| | 31 March 2019 (£000s) | 31 March 2018 (£000s) |
|---|---|---|
| Fair value of plan assets | 2,851 | 2,591 |
| Present value of defined benefit obligation | 3,876 | 3,494 |
| Surplus (deficit) in plan | (1,025) | (903) |
| Unrecognised surplus | - | - |
| Defined benefit asset (liability) to be recognised | (1,025) | (903) |
| Deferred tax | - | - |
| Net defined benefit asset (liability) to be recognised | (1,025) | (903) |

**RECONCILIATION OF THE IMPACT OF THE ASSET CEILING**

| | 31 March 2019 (£000s) |
|---|---|
| Impact of asset ceiling at start of period | - |
| Effect of the asset ceiling included in net interest cost | - |
| Actuarial losses (gains) on asset ceiling | - |
| Impact of asset ceiling at end of period | - |

**RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE DEFINED BENEFIT OBLIGATION**

| | 31 March 2019 (£000s) |
|---|---|
| Defined benefit obligation at start of period | 3,494 |
| Current service cost | 86 |
| Expenses | 3 |
| Interest expense | 92 |
| Contributions by plan participants | 45 |
| Actuarial losses (gains) due to scheme experience | (72) |
| Actuarial losses (gains) due to changes in demographic assumptions | 10 |
| Actuarial losses (gains) due to changes in financial assumptions | 293 |
| Benefits paid and expenses | (75) |
| Liabilities acquired in a business combination | - |
| Liabilities extinguished on settlements | - |
| Losses (gains) on curtailments | - |
| Losses (gains) due to benefit changes | - |
| Exchange rate changes | - |
| Defined benefit obligation at end of period | 3,876 |

# Notes to the Financial Statements (continued)

## 9. Employees (continued)

**RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE FAIR VALUE OF PLAN ASSETS**

| | **31 March 2019 (£000s)** |
|---|---|
| Fair value of plan assets at start of period | 2,591 |
| Interest income | 68 |
| Experience on plan assets (excluding amounts included in interest income) - gain (loss) | 115 |
| Contributions by the employer | 107 |
| Contributions by plan participants | 45 |
| Benefits paid and expenses | (75) |
| Assets acquired in a business combination | - |
| Assets distributed on settlements | - |
| Exchange rate changes | - |
| Fair value of plan assets at end of period | 2,851 |

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £183,000.

**DEFINED BENEFIT COSTS RECOGNISED IN STATEMENT OF COMPREHENSIVE INCOME (SOCI)**

| | **31 March 2019 (£000s)** |
|---|---|
| Current service cost | 86 |
| Expenses | 3 |
| Net interest expense | 24 |
| Losses (gains) on business combinations | - |
| Losses (gains) on settlements | - |
| Losses (gains) on curtailments | - |
| Losses (gains) due to benefit changes | - |
| Defined benefit costs recognised in statement of comprehensive income (SoCI) | 113 |

**DEFINED BENEFIT COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME**

| | **31 March 2019 (£000s)** |
|---|---|
| Experience on plan assets (excluding amounts included in net interest cost) - gain (loss) | 115 |
| Experience gains and losses arising on the plan liabilities - gain (loss) | 72 |
| Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss) | (10) |
| Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss) | (293) |
| Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss) | (116) |
| Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss) | - |
| Total amount recognised in other comprehensive income - gain (loss) | (116) |

# Notes to the Financial Statements (continued)

## 9. Employees (continued)

**ASSETS**

| | 31 March 2019 (£000s) | 31 March 2018 (£000s) |
|---|---|---|
| Global Equity | 480 | 512 |
| Absolute Return | 247 | 317 |
| Distressed Opportunities | 52 | 25 |
| Credit Relative Value | 52 | - |
| Alternative Risk Premia | 164 | 98 |
| Fund of Hedge Funds | 13 | 85 |
| Emerging Markets Debt | 98 | 105 |
| Risk Sharing | 86 | 24 |
| Insurance-Linked Securities | 82 | 68 |
| Property | 64 | 119 |
| Infrastructure | 150 | 66 |
| Private Debt | 38 | 23 |
| Corporate Bond Fund | 133 | 106 |
| Long Lease Property | 42 | - |
| Secured Income | 102 | 96 |
| Over 15 Year Gilts | - | - |
| Liability Driven Investment | 1,043 | 945 |
| Net Current Assets | 5 | 2 |
| Total assets | 2,851 | 2,591 |

None of the fair values of the assets shown above include any direct investments in the employer's own financial instruments or any property occupied by, or other assets used by, the employer.

**KEY ASSUMPTIONS**

| | 31 March 2019 % per annum | 31 March 2018 % per annum |
|---|---|---|
| Discount Rate | 2.39% | 2.60% |
| Inflation (RPI) | 3.21% | 3.10% |
| Inflation (CPI) | 2.21% | 2.10% |
| Salary Growth | 3.21% | 3.10% |
| Allowance for commutation of pension for cash at retirement | 75% of maximum allowance | 75% of maximum allowance |

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

| | Life expectancy at age 65 (Years) |
|---|---|
| Male retiring in 2019 | 21.8 |
| Female retiring in 2019 | 23.5 |
| Male retiring in 2039 | 23.2 |
| Female retiring in 2039 | 24.7 |

# Notes to the Financial Statements (continued)

## 9. Employees (continued)

**Lancashire County Pension Fund (LCPF)**
The LCPF is a multi-employer defined benefit scheme with more than one participating employer, which is administered by Lancashire County Council under the regulations governing the Local Government Pension Scheme (LGPS). The benefit paid is normally in the form of a lump sum retirement grant plus an annual pension. The last actuarial valuation of the scheme was as at 31 March 2016. On 31 March 2018, the company terminated its membership of this scheme. The final invoice dated 2 July 2018 amounted to £631,000 excluding interest and fees.

**Assumptions**
The major assumptions used by the actuary in assessing scheme liabilities were:

| | **31 March 2019** | **31 March 2018** |
|---|---|---|
| | **% per annum** | **% per annum** |
| Rate of increase in salaries | - | 3.6 |
| Rate of increase in pensions in payment | - | 2.2 |
| Discount rate | - | 2.6 |
| Inflation assumption | - | 2.1 |

**Fair value and expected return on assets**

The expected rate of return on plan assets is based on market expectations, at the beginning of the period, for investment returns over the entire life of the related obligation. The assumption used is the average of the following assumptions appropriate to the individual asset classes weighted by the proportion of the assets in the particular asset class. The rates quoted are gross of expenses.

The fair value of assets in the LCPF were:

| | **Fair value 31 March 2019 £'000** | **Fair value 31 March 2018 £'000** |
|---|---|---|
| Equities | - | - |
| Government bond | - | - |
| Bonds other | - | - |
| Property | - | - |
| Cash/liquidity | - | - |
| Others | - | - |

There is no provision for unitising the assets of a Fund under the LGPS. The above assets as a whole are allocated to participating bodies on a consistent and reasonable basis.

| | **2019** | **2018** |
|---|---|---|
| | **£'000** | **£'000** |
| Fair value of the above assets relating to the company | - | - |
| Value placed on liabilities relating to the company | - | (631) |
| | - | (631) |

# Notes to the Financial Statements (continued)

## 9. Employees (continued)

| **Analysis of the amount charged to operating costs** | **2019** | **2018** |
|---|---|---|
| | **£'000** | **£'000** |
| Current service cost | - | (868) |
| Net charge | - | (868) |

**Analysis of the amount charged to interest payable and similar charges**

| | **2019** | **2018** |
|---|---|---|
| | **£'000** | **£'000** |
| Interest on pension scheme assets | - | 695 |
| Interest on pension scheme liabilities | - | (977) |
| Administration expenses | - | (13) |
| Net charge | - | (295) |

**Analysis of amount recognised in Statement of Comprehensive Income (SOCI)**

| | **2019** | **2018** |
|---|---|---|
| | **£'000** | **£'000** |
| Actuarial gain/(loss) less expected return on pension scheme assets | - | 1,937 |
| Actuarial gain/(loss) recognised in SOCI | - | 1,937 |

**Amounts recognised in the Statement of Comprehensive Income (SOCI)**

| | **2019** | **2018** |
|---|---|---|
| | **£'000** | **£'000** |
| Actuarial gains/(losses)recognised in SOCI | - | 1,937 |
| Cumulative actuarial gains and losses | - | - |

**Reconciliation of defined benefit obligation**

| | **2019** | **2018** |
|---|---|---|
| | **All benefits** | **All benefits** |
| | **£'000** | **£'000** |
| Opening defined benefit obligation | - | 640 |
| Current service costs | - | - |
| Interest cover | - | 16 |
| Contributions by members | - | - |
| Actuarial (gains)/losses | - | 6 |
| Settlements | - | - |
| Estimated benefits paid | - | (31) |
| Closing defined benefit obligation | - | 631 |

# Notes to the Financial Statements (continued)

## 9. Employees (continued)

**Reconciliation of fair value of employer's assets**

| | 2019 All £'000 | 2018 Unfunded benefits £'000 | 2018 All benefits £'000 |
|---|---|---|---|
| Opening fair value of employer's assets | - | - | 27,529 |
| Expected return on assets | - | - | 695 |
| Re-measurements | - | - | 305 |
| Contributions by members | - | - | 181 |
| Contributions by the employer | - | 31 | 1,237 |
| Actuarial (losses)/gains | - | - | - |
| Benefits paid | - | (31) | (844) |
| Settlements | - | - | (29,090) |
| Administration expenses | - | - | (13) |
| | - | - | - |

**Movement in deficit during the year**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Company share of scheme liabilities at beginning of year | - | (11,848) |
| **Movement in year:** | | |
| Current service cost | - | (868) |
| Contributions | - | 1,217 |
| Net interest/return on assets | - | (295) |
| Actuarial gain/(loss) | - | 1,937 |
| Settlement gain | - | 9,226 |
| | - | (631) |

## 9. Employees (continued)

Aggregate number of full time equivalent staff whose remuneration (basic salary, benefits in kind, employer's pension contributions and compensation for loss of office) exceeded £60,000 in the period:

| | 2019 No. | 2018 No. |
|---|---|---|
| £60,000 to £70,000 | 3 | 4 |
| £70,000 to £80,000 | 3 | - |
| £80,000 to £90,000 | 1 | - |
| £90,000 to £100,000 | 1 | 2 |
| £110,000 to £120,000 | 1 | 1 |
| £120,000 to £130,000 | 1 | |
| £140,000 to £150,000 | - | 1 |
| £150,000 to £160,000 | 1 | - |

# Notes to the Financial Statements (continued)

## 10. Board members and executive officers

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| The aggregate emoluments paid to or receivable by non-executive Directors | - | - |
| The aggregate emoluments paid to or receivable by executive officers | 609 | 385 |
| The aggregate compensation paid to or receivable by executive officers | - | - |
| The emoluments paid to the highest paid executive officer (excluding pension) | 134 | 121 |
| The aggregate pensions costs for executive officers | 92 | 45 |
| Total key management personnel remuneration | 609 | 385 |

None of the Board members received emoluments. Expenses paid during the year in respect of Board members amounted to £1,412 (2018: £975). The executive officers (the key management personnel) are those as listed on page 1. The Chief Executive has been a member of the SHPS defined contribution scheme since 1 April 2018. He is an ordinary member of the pension scheme and no enhanced or special terms apply. The Company does not make any further contribution to an individual pension arrangement for the Chief Executive.

## 11. Taxation on non-charitable activities

As a charity Calico Homes Limited is not liable to tax on its ordinary charitable activities. One element of their operation includes property sales which are deemed by HMRC to be non-charitable. Therefore, a tax provision on the surplus/(deficit) has been provided at the relevant corporation tax rate.

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| UK Corporation Tax charge for the year | - | - |
| Adjustment in respect of prior years | - | - |
| Total tax charge | - | - |
| *Factors affecting tax charge for period:* | | |
| Surplus on ordinary activities before tax | 2,692 | 2,530 |
| Surplus on ordinary activities at standard rate 19% (2018: 19%) | 511 | 506 |
| Effect of charitable income and expenditure not subject to tax | (511) | (506) |
| Current tax charge for year | - | - |
| Adjustments in respect of prior years | - | - |

# Notes to the Financial Statements (continued)

## 12. Tangible fixed assets

| | Housing Properties | | | | Other Fixed Assets | | |
|---|---|---|---|---|---|---|---|
| | Social Housing Properties for Letting Completed £'000 | Social Housing Properties for letting under Construction £'000 | Low cost home ownership Properties completed £'000 | Total Housing Properties £'000 | Freehold offices £'000 | Furniture and office equipment £'000 | Total fixed assets £'000 |
| **Cost** | | | | | | | |
| At start of the year | 112,732 | 13,710 | 626 | 127,068 | 5,567 | 1,336 | 133,971 |
| Additions | - | 15,780 | - | 15,780 | 125 | 301 | 16,206 |
| Works to existing properties acquired | 1,996 | - | - | 1,996 | - | - | 1,996 |
| Schemes completed | 19,892 | (19,892) | - | - | - | - | - |
| Asset Re-classification | 527 | - | (235) | 292 | (292) | - | - |
| Disposals | (685) | - | - | (685) | - | - | (685) |
| At end of the year | 134,462 | 9,598 | 391 | 144,451 | 5,400 | 1,637 | 151,488 |
| **Depreciation and impairment** | | | | | | | |
| At start of the year | 22,940 | - | 35 | 22,975 | 1,228 | 1,075 | 25,278 |
| Charge for the year | 2,842 | - | 8 | 2,850 | 82 | 102 | 3,034 |
| Impairment (Note 28) | 34 | - | - | 34 | 48 | - | 82 |
| Asset Re-classification | 19 | | (14) | 5 | (5) | - | - |
| Disposals | (370) | - | - | (370) | - | - | (370) |
| At end of the year | 25,465 | - | 29 | 25,494 | 1,353 | 1,177 | 28,024 |
| **Net book value at the 31 March 2019** | **108,997** | **9,598** | **362** | **118,957** | **4,047** | **460** | **123,464** |
| Net book value at the 31 March 2018 | 89,792 | 13,710 | 591 | 104,093 | 4,339 | 261 | 108,693 |

# Notes to the Financial Statements (continued)

## 12. Tangible fixed assets – properties (continued)

**Housing properties comprise:**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Freehold land and buildings | 116,471 | 101,689 |
| Long leasehold land and buildings | 2,486 | 2,404 |
| | 118,957 | 104,093 |
| **Major works to existing properties in the year:** | | |
| Works capitalised | 1,996 | 3,083 |
| Amounts charged to expenditure (note 3) | 814 | 683 |
| | 2,810 | 3,766 |
| Aggregate amount of interest and finance costs included in the cost of housing properties (note 8) | 754 | 219 |
| The capitalisation rate used was 4.56% (2018: 4.58%) | | |

Cost of properties includes £132,000 (2018: £143,000) for direct administrative costs capitalised during the year.

The completed housing properties with net book value £109,359,000 (2018: £90,383,000) are secured against the debt detailed in Note 18.

## 13. Intangible Fixed Assets

| **Computer software and licences** | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Cost** | | |
| At start of year | 1,434 | 1,165 |
| Additions | 152 | 269 |
| At end of year | 1,586 | 1,434 |
| **Amortisation** | | |
| At start of year | 1,223 | 1,060 |
| Charge for year | 189 | 163 |
| | 1,412 | 1,223 |
| **Net book value** | | |
| **At 31 March** | 174 | 211 |

## 14. Stock and work in progress

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Raw materials and consumables | 36 | 56 |

# Notes to the Financial Statements (continued)

## 15. Debtors

| | 2019 | 2018 |
|---|---|---|
| | **£'000** | **£'000** |
| **Due within one year** | | |
| Rent and service charges receivable | 1,823 | 1,472 |
| Less: Provision for bad and doubtful debts | (1001) | (885) |
| | 822 | 587 |
| Other debtors | 765 | 971 |
| Less: Provision for bad and doubtful debts | (360) | (315) |
| Prepayments and accrued income | 674 | 466 |
| Intercompany balance | 3,621 | 1,774 |
| | 5,522 | 3,483 |

## 16. Creditors: amounts falling due within one year

| | 2019 | 2018 |
|---|---|---|
| | **£'000** | **£'000** |
| Trade creditors | 527 | 119 |
| Rent and service charges received in advance | 505 | 422 |
| Bank loan | 500 | - |
| Others creditors | 72 | 237 |
| Accruals and deferred income | 2,163 | 2,536 |
| Other taxation and social security | 9 | 17 |
| RTB proceeds due to Burnley Borough Council | 88 | 176 |
| Intercompany balances | 868 | 295 |
| Pension liability – SHPS (Note 9) | - | 59 |
| Deferred capital grant (Note 19) | 240 | 210 |
| Disposal proceeds fund (Note 20) | 205 | - |
| | 5,177 | 4,071 |

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

| | 2019 | 2018 |
|---|---|---|
| | **£'000** | **£'000** |
| Debt (Note 18)* | 109,697 | 99,194 |
| Deferred capital grant (Note 19) | 18,965 | 15,645 |
| Disposal proceeds fund (Note 20) | - | 244 |
| Pension liability – SHPS (Note 9) | - | 285 |
| Leaseholder sinking funds | 70 | 59 |
| | 128,732 | 115,427 |

* Debt is secured by housing properties. See note 18.

# Notes to the Financial Statements (continued)

## 18. Debt analysis

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Due after more than one year** | | |
| Bank loans | 109,697 | 99,194 |
| **Debt is repayable as follows:** | | |
| Within one year | 500 | - |
| Between two to five years | 4,000 | 21,510 |
| After five years | 105,697 | 77,684 |

The Company borrows, currently from the Royal Bank of Scotland and Nationwide, at both fixed and floating rates of interest. The Company currently has 79.01% (2018: 64.44%) of its borrowings at fixed rates. The undrawn loan facility as at 31 March 2019 was £30.3m (2018:£15.3m).

The fixed rates of interest range from 2.76% to 7.64% (2018: 3.77% to 7.09%) with the weighted average rate of interest on all loans due to low variable being 4.25% (2018: 4.56%). Variable rate loans have their rate linked to LIBOR.

**Break costs**
The Company has interest rate fixes and forward rate fixes in place maturing at intervals up to 2038. If these fixes are not taken up or are terminated prior to maturity then break costs will be incurred. No provision for break costs is recognised in the financial statements as it is likely that they will be taken up when they fall due and terminations prior to maturity date are not expected.

Our loan portfolio also includes a number of loans whose interest rate is calculated in relation to the retail price index. Details are as follows:

| Value date | Maturity date | Lender | Type | Amount £'000 | Rate including margin at 31/03/19 % |
|---|---|---|---|---|---|
| 13/10/2008 | 13/10/2038 | Nationwide | RPI cap/collar | 3,000 | 6.78 |

RPI (floor 0% p.a., Cap 5% p.a.) + 0.915% + margins payable from the effective date.

The bank loans are secured by a fixed and floating charge over the housing properties of the Company held on behalf of the Funders by Prudential Trustee Company. The loans are repayable in agreed stages from 2018 onwards. The break costs are considered to be the fair value of the loans.

## 19. Deferred capital grant

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At start of year | 15,855 | 11,658 |
| Grant received in the year | 3,580 | 4,375 |
| Released to income in the year | (230) | (178) |
| At the end of the year | 19,205 | 15,855 |
| Amount due to be released within one year (note 16) | 240 | 210 |
| Amount due to be released after one year (note 17) | 18,965 | 15,645 |
| | 19,205 | 15,855 |

# Notes to the Financial Statements (continued)

## 20. Disposal proceeds fund

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| At start of year | 244 | 912 |
| Net PRTB receipts | (40) | - |
| Allocation of funds – New build | - | (671) |
| Interest accrued | 1 | 3 |
| At the end of the year | 205 | 244 |
| Amount due to be released within one year | 205 | - |
| Amount due to be released after one year | - | 244 |
| | 205 | 244 |
| Amounts over 3 years where repayment may be required | - | - |

## 21. Capital commitments

**Capital expenditure commitments were as follows:**

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Capital expenditure** | | |
| Expenditure contracted for but not provided in the accounts | 4,097 | 4,405 |
| Expenditure approved by the Board, but not contracted | 16,150 | 11,613 |
| | 20,247 | 16,018 |

These are to be funded out of undrawn loan facilities of £30.3m (2018: £15.3m) and estimated grants of £5.5m (2018: £3.5m) and relate to potential property developments.

## 22. Operating leases

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

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Land and buildings: | | |
| • Within one year | 171 | 148 |
| • Two to five years | 421 | 41 |
| | 592 | 189 |
| Other leases: | | |
| • Within one year | 130 | 164 |
| • Two to five years | 32 | 720 |
| | 162 | 884 |

# Notes to the Financial Statements (continued)

## 23. Grant and financial assistance

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| The total accumulated government grant and financial assistance received or receivable at 31 March 2019: | | |
| Held as deferred capital grant | 20,744 | 17,163 |
| Recognised as income in Statement of Comprehensive Income in the current period | 230 | 178 |

## 24. Reconciliation of Company operating surplus to net cash inflow from operating activities

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Operating surplus** | 6,894 | 7,101 |
| **Adjustments for non-cash items:** | | |
| Pensions adjustment | 6 | (362) |
| Depreciation of housing properties | 2,855 | 2,786 |
| Impairment of housing properties | 34 | - |
| Amortisation of intangible fixed assets | 189 | 163 |
| Amortisation of government grants | (230) | (178) |
| Depreciation of other tangible fixed assets | 179 | 149 |
| Impairment of other tangible fixed assets | 48 | - |
| (Profit)/loss on sale of fixed assets | (1,230) | (753) |
| | 8,745 | 8,906 |
| **Working capital movements:** | | |
| Stock | 20 | (19) |
| Debtors | (2,039) | (196) |
| Creditors | (444) | (727) |
| **Net cash generated from operating activities** | **6,282** | **7,964** |

## 25. Control

The Calico Group Limited ("Group"), a company incorporated in United Kingdom, is the immediate parent and ultimate controlling party.

The consolidated accounts of The Calico Group Limited are available from its registered office:

- Centenary Court, Croft Street, Burnley, Lancashire, BB11 2ED.

# Notes to the Financial Statements (continued)

## 26. Related parties

**Tenant members**
The tenant member at 31 March 2018 had a tenancy on normal commercial terms with rent payable of £5,523 per annum (2018: £5,533) and she was not able to use her position to her advantage.

The tenant members at 31 March 2019 have tenancies on normal commercial terms with combined rent payable of £8,648.

At 31 March 2019, there were no outstanding amounts (2018: £Nil).

**Hobstones Homes Limited** ("Hobstones"), a fellow subsidiary of Group
During the year, Hobstones was contracted to deliver our major development programme listed below:

| | Mar-19<br>£'000 | Mar-18<br>£'000 |
|---|---|---|
| • New house building | 11,667 | 11,094 |

During the year, the company recharged office costs to Hobstones totalling £144,000 (2018: £106,000).

At 31 March 2019, the company owed to Hobstones £315,000 (2018: £Nil).

**Ring Stones Maintenance and Construction LLP** ("Ring Stones"), a subsidiary of Calico JV Limited

During the year, Ring Stones carried out part of the major works programme for Calico Homes, below is a list of the work programmes and the values involved:

| | Mar-19<br>£'000 | Mar-18<br>£'000 |
|---|---|---|
| • Various Investment works | 683 | 991 |
| • Externals | 991 | 2,543 |
| • Heating | 446 | 412 |
| • Roofing | 238 | 133 |
| • Damp proofing | 482 | 437 |
| • Various Responsive works | - | 120 |
| • Development | 517 | - |
| • Rossendale Empty Homes properties | 110 | 98 |
| | 3,467 | 4,734 |

During the year, the company recharged office costs to Ring Stones totalling £340,000 (2018: £340,000).

At 31 March 2019, the company owed to Ring Stones £410,000 (2018: owed by £65,000).

**The Calico Group Limited** ("Group"), the parent company
During the year, the Group recharged office costs amounting to £35,000 (2018: £38,000).

At 31 March 2019, Group owed the company £81,000 (2018: £93,000).

**Syncora Limited** ("Syncora")**,** a fellow subsidiary of Group
There were no transactions during the year (2018: £Nil).

At 31 March 2019, Syncora owed the company £167,000 (2018: £2,000)

**Calico Enterprise Limited** ("Enterprise"), a subsidiary of Syncora
During the year, the company recharged office and property rental costs to Enterprise totalling £217,000 (2018: £136,000) and Enterprise charged £632,000 (2018: £650,000) for cleaning, painting, decorating and catering services.

At 31 March 2019, Enterprise owed the company £647,000 (2018: £133,000).

**Acorn Recovery Projects** ("Acorn"), a subsidiary of Syncora
During the year, the company recharged rents and office costs to Acorn totalling £242,000 (2018: £211,000).

At 31 March 2019, Acorn owed the company £1,612,000 (2018: £839,000).

**Safenet Domestic Abuse Service** ("Safenet"), a subsidiary of Syncora
During the year, the company recharged rents and office costs to Safenet totalling £300,000 (2018: £247,000).

At 31 March 2019, Safenet owed the company £200,000 (2018: £53,000).

# Notes to the Financial Statements (continued)

## 26. Related parties (continued)

**Calico JV Limited** ("JV"), a fellow subsidiary of Group
There were no transactions during the year (2018: £Nil).

At 31 March 2019, JV owed the company £47,000 (2018: £46,000).

**Delphi Medical Limited** ("Delphi"), a subsidiary of Acorn
During the year, the company recharged rents and office costs to Delphi totalling £168,000 (2018: £73,000).

At 31 March 2019, the company owed Delphi £143,000 (2018: £141,000).

**Delphi Medical Consultants Limited** ("DMC"), a subsidiary of Acorn
There were no transactions during the year (2018: £Nil).

At 31 March 2019, DMC owed the company £867,000 (2018: £521,000).

## 27. Financial instruments

The Company had the following financial instruments:

| | **2019** | **2018** |
|---|---|---|
| | **£'000** | **£'000** |
| Financial assets that are debt instruments measured at amortised cost: | | |
| • Cash at bank and in hand | 663 | 594 |
| • Rent and service charges receivable | 822 | 587 |
| • Other debtors | 405 | 656 |
| • Amounts due from group undertakings | 3,621 | 1,774 |
| | 5,511 | 3,611 |
| Financial liabilities at amortised cost: | | |
| • Bank loans | 110,197 | 99,194 |
| • Trade creditors | 527 | 119 |
| • RTB proceeds due to Burnley Borough Council | 88 | 176 |
| • Amounts due to group undertakings | 867 | 295 |
| • Deferred capital grant | 19,205 | 15,855 |
| • Disposal proceeds fund | 205 | 244 |
| | 131,089 | 115,883 |

## 28. Post Balance Sheet Events

Since the year end, there have been offers in relation to the sale of the former care home, day centre and hostel from different third parties. Following which it has been determined that the net book value for the former care home and day centre is greater than the potential market value. As a result of which impairment has been reflected in these financial statements £34k (2018: £Nil) housing properties and £48k (2018: £Nil) other tangible fixed assets (Note 12).