

Registered Society No: 28156R
Homes and Communities Agency No: LH4090

DRUM HOUSING ASSOCIATION LIMITED

Annual Report and Financial Statements

Year Ended 31 March 2019

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DRUM HOUSING ASSOCIATION LIMITED

GENERAL INFORMATION

BOARD OF MANAGEMENT

Carol Bode
Ashley West
Beverley Anne Costain
Jayne Beeson
Michael Sweeney Resigned 15/10/18
Simon Porter
John Gary Orr Appointed 15/10/18

SECRETARY

Malcolm Rule

REGISTERED OFFICE

Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

BANKERS

Lloyds Bank
25 Gresham Street
London
EC2V 7HN

AUDITOR

BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA

STRATEGIC REPORT

Business Overview

Drum Housing Association Limited is regulated by the Regulator of Social Housing as a registered provider and is a company limited by guarantee. The Association is a member of the Radian Group, with a registered head office in Eastleigh.

The Association operates with the intention of generating surpluses which are reinvested to support our social purpose in delivering more homes and services for customers. The Association benefits from charitable tax status and its surpluses are therefore not subject to corporation tax. Income is predominantly derived from rents from housing properties.

The Association is funded over the long term by a range of loans, bonds and government grants in addition to its retained surpluses.

Performance Highlights

An overview of the Association's result has been presented below.

Financial Performance

Turnover has reduced by 10% in the year, down to £38.7m, driven by a £4.6m reduction in first tranche sales relative to the prior year. A 2% increase in rental income, primarily from shared ownership units, partly mitigates this reduction. Cost of sales relate solely to first tranche activity and have reduced as expected, however the margins on first tranche sales have reduced from 37% to 21% year on year.

Operating costs and surpluses from disposal of fixed assets are in line with the prior year at £22.3m and £0.5m respectively, with net margins increasingly marginally from 39% to 40% in the year despite operating surpluses being £1.1m lower at £15.6m.

Interest costs have increased by 10% to £6.4m in the year, following a full year of charges relating to Affordable Housing Finance funds raised during 2017/18. Finance income and fair values movements made a positive contribution to surpluses of £0.3m, compared to £0.1m in the year before.

As a result of the above, surplus before tax was £1.5m lower than the prior year at £9.4m, with net margins reducing from 26% to 24% accordingly.

Financial Position

Housing Properties increased by 8% to close at £313.1m, following £25.7m capitalised spend in the year, the majority of which related to properties for social and affordable rent.

Properties for sale at the reporting date were £2.8m, with £2.1m relating to shared ownership properties in the course of construction. Current assets were £9.7m lower overall, principally due to a reduction in cash, reflecting the investments in housing properties in the year.

Payables due within one year increased by £5.6m, with £2.9m owed to Group undertakings and accruals £2.7m higher than in the prior year; both balances are in line with the increased development activity in the year.

The Association did not take on any new debt in the year, closing with £74.0m of reserves.

STRATEGIC REPORT (continued)

Our Performance

We monitor our operations every month on a group-wide basis by a range of key performance indicators (KPIs), allowing us to assess our financial performance and position and the delivery of our corporate strategy during the year.

An appraisal of these KPIs is included in our Group statutory accounts, available on our website.

Principal Risks and Uncertainties

Within the Group, the principal risks and uncertainties, as identified by the Executive Board, are deemed to be those that would impact on the Group's ability to successfully deliver on the aims and objectives of its corporate strategy. An appraisal of these strategic risks is included in our Group statutory accounts.

Operational risks are those that the entities in the organisation face on a day to day basis, which are specific to the activities performed in each legal entity.

Capital and Treasury Management

The Association is financed by a combination of revenue reserves, a long-term bank loan, bond finance and social housing grant received from government.

Radian has a comprehensive Treasury Policy with tests that apply to the Group as a whole. The policy requires the Group to maintain a minimum level of liquidity such that there is sufficient cash and committed financing facilities capable of immediate drawdown to cover the next six months' forecast cash requirement.

The Group must also have sufficient cash and committed financing facilities, though not necessarily capable of immediate drawdown, to cover the higher of committed development spend or forecast cash requirement over the next 18 months. The policy also prioritises a lack of reliance on any single counterparty whether through cash holdings or available facilities.

Capital structure

At 31 March 2019 the Association's borrowings amounted to £183.7m nominal (2018: £183.7m) with no repayments due within the next year.

Risks

- **Interest rate risk** is the risk that the Association is unable to service its loans and borrowings due to rises in interest rates. The Association manages interest rate risk through the requirements laid out in the Group Treasury Policy, including entering into interest rate swaps to fix a proportion of floating rate debt;
- **Liquidity risk** is the risk that the Association is unable to service its loans and borrowings, or meet repayment liabilities as they fall due, due to insufficient cash. The Association manages liquidity risk through the requirements laid out in the Group Treasury Policy, including requirements for minimum levels of cash or immediately available facilities;
- **Counterparty credit risk** is the risk that the Association is unable to access cash deposits due to failure of counterparties. The Association manages counterparty credit risk by regularly monitoring and reviewing the credit rating of counterparties through the requirements laid out in the Group Treasury Policy;

STRATEGIC REPORT (continued)

Capital and Treasury Management (continued)

Risks (continued)

- **Market risk** is the risk that the Association is unable to refinance loans and borrowings at an acceptable interest rate as they mature. The Association manages market risk by modelling the impact of interest rate rises in its long-term forecast and identifying mitigating actions; and
- **Currency risk** is not applicable as the Association borrows and invests surplus funds only in sterling.

Interest rate management

The Association's borrowings consist of a fixed rate bond and a bank loan at both a fixed and floating rate of interest. The bank loan has embedded interest rate swaps that run for all or part of the loan term.

Total debt of £183.7m at 31 March 2019 consisted of 70% fixed and 30% variable rate debt. Of our 70% fixed rate debt, £95.0m was made up of embedded interest rate swaps running for all or part of the loan term and £33.7m was the fixed interest bond. There are no options in our portfolio.

Financial loan covenant compliance

Financial loan covenants are primarily measured by interest cover, debt per home limits and asset cover based on property asset values. Covenants are continually monitored and reported to the Board. There were no breaches of financial covenants during the year.

Surplus assets for future debt security

As at 31 March 2019 the Association had over 700 unsecured completed housing properties not required for charging to existing debt facilities. These are sufficient to raise approximately £67.0m of future new debt on an asset cover ratio of 105% for Existing Use Value as Social Housing (EUUSV-SH) properties.

Per our current development programme, we expect to complete 269 properties in the period to 31 March 2020.

Future funding options

As at 31 March 2019, the Association had sufficient funds for its current and medium-term needs.

Our Developments

The Association is one of the four stock holding entities in the Group, whom together are working towards delivering our target of 3,500 new homes before March 2023, through buying land, regeneration schemes, recycling our own assets, or in partnerships with others. These partnerships include joint ventures with local authorities, landlords or other housebuilders and Section 106 elements of major housing schemes.

There are numerous schemes in progress at any one time; the Association had 14 sites at various stages of development at the reporting date. We deliver a variety of homes, ranging from one bed flats to four bed houses depending on the site.

STRATEGIC REPORT (continued)

Our Developments (continued)

Below is an overview of our development activity in the year:

Scheme name and location	Actual/ expected completion	Units	Affordable rent	Shared ownership
Leyland Walk Bursledon, Southampton	January 2020	58	X	
Fen Meadow Nursling, Southampton	June 2020	65	X	
Daedalus Village Lee-on-the-Solent	February 2021	80		X
King's Chase Ampfield, Romsey	July 2021	55		X

Value for Money


The Group assesses its performance in relation to Value for Money (VfM) at a Group level rather than on an entity by entity basis due to the Group's structure.

An assessment of our VfM performance is included in our Group statutory accounts, available on our website.

Statement of Compliance

The Board confirms that this strategic report has been prepared in accordance with the principles set out in the 'Statement of Recommended Practice for registered social housing providers 2014'.

The strategic report was approved by the Board on 31 July 2019 and signed on its behalf by the Chair:



Carol Bode
Chair

DIRECTORS' REPORT

The Directors present their report for the year ended 31 March 2019.

Group Combined and Executive Board Members

Group Combined Board

As a regulated registered provider in the Radian Group, the legal Directors of Drum Housing Association unite with the Directors of the five other registered providers to form the Group Combined Board.

The Chair, Group Chief Executive, and Chair of the Audit and Risk Committee are common members across all six entity boards. The Association has a directorship in common with the other entity in the Group with charitable tax status.

The Directors of the Association are listed on page 1 and their remuneration is disclosed in note 8.

An overview of the full Group Combined Board, including those who are Directors of the Association, is included in our Group Statutory Accounts and updated as membership changes on our website.

Executive Board

As a member of the Radian Group, the day to day operations of the Association are the responsibility of the Executive Board.

An overview of the Executive Board is included in our Group Statutory Accounts and updated as the composition changes on our website.

Executive Service Contracts

The members of the Executive Board are employed on the same terms as other staff, except for a discretionary annual bonus scheme, overseen by the Remuneration and Nominations Committee. The Group Combined Board is responsible for approving any bonus awards or changes in the Chief Executive's remuneration or contract. Details of the benefits received by Executive Directors are set out on page 29.

The Executive Board members, including those who are Group Combined Board members, hold no interest in the Group's shares and act within the authority delegated to them by the Group Combined Board under defined terms of reference.

Governance and Regulation

As the Association is a registered provider, its Directors form part of the Group Combined Board. An overview of the approach to governance and regulatory compliance, as determined by the Group Combined Board, is included in our Group statutory accounts.

DIRECTORS' REPORT (continued)

Employees

The Association directly employed an average of 27 full time equivalent employees during the year (2018: 29), calculated on standard working hours per week for each employee.

The Association shares information on its vision, strategic plan and objectives through briefings from senior management. In February 2019 a staff conference was held, where the Executive Board reflected on the performance of the wider Group since its formation and communicated their vision for the future of the organisation. Day-to-day operational information is shared with employees in a variety of formats, including vlogs, blogs and e-newsletters.

The Association is committed to providing equal opportunities to its employees, underpinned by a working environment that is inclusive and free from discrimination or harassment. The Association is flexible and considers all reasonable requests from existing and prospective employees in relation to any disability, impairment or change in circumstance.

Disclosure of Information in the Strategic Report

As the funding and development of the Association are inextricably linked to its business model and strategy, such information has been presented within the Capital and Treasury Management section on page 3.

Post Balance Sheet Events

There have been no events since the reporting date that the Board considers have had a significant effect on the Association's financial position.

Going Concern

After making enquiries, the Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months after the date on which the report and the financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

The budget and long-term business plan, which take into account the current uncertain economic climate and expected trading conditions, show that the Association will be able to operate within its current facilities and comply with its banking covenants for the foreseeable future.

Disclosure of Information to Auditor

At the date when this report is approved each of the Board Members confirm the following:

- So far as each board member is aware, there is no relevant audit information needed by the Association's auditor in connection with preparing their report, of which the Association's auditor is unaware; and
- Each board member has taken all the steps that they ought to have taken as a board member to make themselves aware of any relevant audit information needed by the Association's auditor in connection with preparing their report and to establish that the Association's auditor is aware of that information.

DRUM HOUSING ASSOCIATION LIMITED

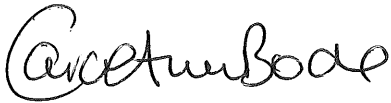
DIRECTORS' REPORT (continued)

External Auditor

BDO LLP has indicated their willingness to continue in office and a resolution to appoint them will be proposed at the forthcoming annual general meeting.

Approval of the Board

The Directors' Report was approved by the Board on 31 July 2019 and signed on its behalf by the Chair:

A handwritten signature in black ink that reads "Carol Bode". The signature is written in a cursive, flowing style.

Carol Bode
Chair

STATEMENT OF THE BOARD'S RESPONSIBILITIES

The Board Members are responsible for preparing the report of the board and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board Members to prepare financial statements for each financial year. Under that law the Board Members have elected to prepare the Association's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these financial statements, the Board Members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and society will continue in business.

The Board Members are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Board Members. The Board Members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRUM HOUSING ASSOCIATION LIMITED

Opinion

We have audited the financial statements of Drum Housing Association Limited ("the Association") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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 Association's affairs as at 31 March 2019 and of the Association's surplus for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting 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 Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The Board Members are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRUM HOUSING ASSOCIATION LIMITED
(continued)**

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 to report to you if, in our opinion:

- The information given in the strategic report and board report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- Adequate accounting records have not been kept by the Association; or
- A satisfactory system of control has not been maintained over transactions; or
- The Association financial statements are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of the Board

As explained more fully in the board responsibilities statement set out on page 9, the Board Members 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 Board Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the members of the Association, as a body, in accordance with in accordance with the Housing and Regeneration Act 2008 and the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the members as a body, for our audit work, for this report, or for the opinions we have formed.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRUM HOUSING ASSOCIATION LIMITED
(continued)**

Auditor's responsibilities for the audit of the financial statements (continued)

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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



Philip Cliftlands
BDO LLP
Statutory Auditor
Gatwick, United Kingdom

1 August 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Turnover	3	38,745	42,773
Cost of sales	3	(1,448)	(4,140)
Operating costs	3	(22,258)	(22,454)
Surplus from disposal of fixed assets	3	519	511
Operating surplus		15,558	16,690
Finance income	4	142	62
Finance costs	5	(6,387)	(5,804)
Fair value movement on investment properties	12	175	23
Surplus on ordinary activities before and after tax	6	9,488	10,971
Other comprehensive income			
Actuarial losses on defined benefit pension schemes	19	(61)	(637)
Total comprehensive income		9,427	10,334

All activities derive from continuing operations.

The notes on pages 16 to 44 form part of these financial statements.

DRUM HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

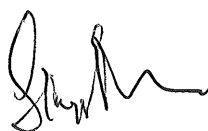
	Note	2019 £'000	2018 £'000
Fixed assets			
Housing properties	10	313,122	290,345
Other fixed assets	11	1,519	1,394
Investment properties	12	637	446
		315,278	292,185
Current assets			
Properties for sale	13	2,804	556
Receivables	14	2,185	4,898
Cash and cash equivalents		18,430	27,701
		23,419	33,155
Payables: amounts due within one year	15	(10,684)	(5,061)
Net current assets		12,735	28,094
Total assets less current liabilities		328,013	320,279
Payables: amounts due after one year	16	(187,811)	(188,252)
Deferred capital grant due after one year	17	(58,200)	(59,088)
Pension liability	19	(8,011)	(8,375)
Net assets		73,991	64,564
Capital and reserves			
Share capital	20	0	0
Revenue reserve		73,991	64,564
Association's funds		73,991	64,564

The notes on pages 16 to 44 form part of these financial statements.

The financial statements of Drum Housing Association Limited, registered society number 28156R on pages 13 to 44, were approved by the Board and authorised for issue on 31 July 2019 and signed on its behalf by:



Carol Bode
Chair



Simon Porter
Board Member



Malcolm Rule
Secretary

STATEMENT OF CHANGES IN RESERVES

	Share capital £'000	Revenue reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2017	0	54,230	287	54,517
Surplus on ordinary activities after tax	-	10,971	-	10,971
Actuarial losses on defined benefit pension schemes	-	(637)	-	(637)
Transfer out of restricted reserve	-	-	(287)	(287)
Shares cancelled during the year	0	-	-	0
At 31 March 2018	0	64,564	-	64,564
Surplus on ordinary activities after tax	-	9,488	-	9,488
Actuarial losses on defined benefit pension schemes	-	(61)	-	(61)
At 31 March 2019	0	73,991	-	73,991

The notes on pages 16 to 44 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. LEGAL STATUS

The Association is registered with the Financial Conduct Authority under the Co-operative and Community Benefits Society Act 2014 and is also registered with the Regulator of Social Housing as a social housing provider.

2. ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Association have been prepared in accordance with applicable law and UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing Statement of Recommended Practice (SORP) 2014 for registered social housing providers and comply with the Accounting Direction for private registered providers of social housing 2015. The financial statements are presented in pounds sterling and have been prepared on the historical cost basis.

Going Concern

The financial statements have been prepared on a going concern basis, details of which can be found in the Directors' Report on page 7.

Disclosure Exemptions

In preparing the financial statements of the Association, advantage has been taken of the disclosure exemption under FRS 102 paragraph 1.12(b) in not preparing a Statement of Cash Flows on the basis that this is included in the consolidated financial statements.

Operating Segments

Segmental information is disclosed in note 3. Information about income, expenditure and assets attributable to material operating segments are presented based on the nature and function of housing assets held by the Association rather than geographic location. As permitted by FRS 102 paragraph 1.5, this is appropriate based on the similarity of the services provided, the nature of the risks associated, the type and class of customer, and the nature of the regulatory environment across all geographical locations in which the Association operates.

Management do not routinely receive segmental information disaggregated by geographical location.

Turnover

Turnover represents rental and service charge income (net of void losses), fee income and revenue grant receivable, proceeds from first tranche sales, other income, and the amortisation of capital grant.

Rental and service charge income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids.

Income from first tranche sales is recognised at the point of legal completion of the sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

2. ACCOUNTING POLICIES (continued)

Turnover (continued)

Other income is recognised as receivable on the delivery of services provided. Deferred Capital Grant is released over the life of the asset structure in accordance with FRS 102

Cost of Sales

Cost of sales relates to first tranche sales and represents those costs, including direct overheads and other incidental costs, incurred during development, construction, and marketing of those properties.

The percentage of equity purchased determines the percentage of total unit costs recognised in the Statement of Comprehensive Income.

Service Charge Income and Expenditure

Where service charge income is identifiable it is recorded separately to rental income. Where service charge income is not identifiable it is recorded within rental income.

Income is predominantly variable, and charges will therefore include an adjustment for the under or over recovery from previous years and will be adjusted for under or over recovery in the current year. Until these balances are returned to or recovered from our tenants they are held as payables or receivables on the Statement of Financial Position.

Service charge expenditure is disclosed separately and includes the cost of all direct services provided, in addition to an allowance for management costs. Expenditure will also include costs of services provided that are not recoverable from tenants.

Surplus/(Deficit) from Disposal of Fixed Assets

Other asset sales are recognised within surplus from disposal of fixed assets.

Staircasing events include both partial and final transactions, where the purchaser increases or fully acquires the equity in their property. Final staircasing events on houses will involve the disposal of the freehold, whereas on flats, the Association will retain the freehold on the property, reclassifying the unit as a leasehold unit in note 3.

The surplus on sales under the Right to Buy and Right to Acquire legislation is the difference between the proceeds received and the carrying value of the properties, subject to any third-party agreements relating back to Large Scale Voluntary Transfers of housing stock.

The surplus recognised on the sale of other housing properties is the difference between the proceeds received and the carrying value of the property.

2. ACCOUNTING POLICIES (continued)

Repairs and Maintenance

The Association capitalises items of expenditure on housing properties if they result in an enhancement to the economic benefits from the property or if they replace an identifiable component.

Works to existing properties which do not meet the above criteria are charged to the Statement of Comprehensive Income.

Finance Income

Interest is earned from cash and cash equivalents.

Finance Costs

Interest costs, issue costs, premiums, and discounts are charged to finance costs over the term of debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount.

Included within finance costs are ongoing servicing fees of loans and borrowings, which are charged to the Statement of Comprehensive Income over the review cycle of each facility.

Value Added Tax (VAT)

The Association is part of the Radian Group Limited VAT group. As a large proportion of its income is rent, which is exempt for VAT purposes, the Group is subject to a partial exemption calculation.

Expenditure is therefore shown inclusive of VAT and the input VAT recovered is credited to the Statement of Comprehensive Income.

Pensions

The Associations' pension arrangements comprise two defined benefit schemes and a defined contribution scheme.

For the defined contribution scheme, the amount charged to income and expenditure in respect of pension costs is the employer contribution payable in the year.

For defined benefit schemes, the amounts charged to staff costs within operating costs are those arising from employee services rendered during the period, benefit changes and settlements. The net interest cost on the net defined benefit liabilities is included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets are recognised immediately in other comprehensive income.

Defined benefit schemes are funded with assets of the scheme held separately from those of the Association and administered by The Pensions Trust or local government. Pension scheme assets are measured at fair value and liabilities on an actuarial basis using the projected unit method. Actuarial valuations are updated at each reporting date and full actuarial valuations are obtained at least triennially.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

2. ACCOUNTING POLICIES (continued)

Tax

As the Association has been granted charitable tax status, any qualifying surpluses are not subject to corporation tax.

Fixed Assets - Housing Properties

Housing properties are held at cost less accumulated depreciation. Cost includes acquisition expenditure, development costs and directly attributable administration costs. Interest costs are not capitalised.

The carrying value of housing properties is split between the land, structure and major components which require periodic replacement.

For Affordable Home Ownership properties, the amount retained in housing properties is the cost of unsold equity (if the first tranche sale has completed) or 60% of the total unit cost (if the first tranche sale is yet to complete).

Housing properties in the course of construction are held at cost and are not depreciated. They are transferred to completed properties upon practical completion.

Land

Land acquired or donated to the Association will be accounted for depending on its intended use.

Land acquired for the provision of social housing, or where no specific intended use exists, will be treated as a fixed asset. When land is held for speculative purposes, for capital gain, or a commercial rental return it will be accounted for as an investment property.

Depreciation

Freehold Buildings and Components

Depreciation is charged on a straight-line basis over the estimated useful economic life of components on the following annual rates:

- Structure:
 - Sheltered housing – 50 years;
 - All other tenures – 100 years;
- Boilers – 15 years;
- Kitchens – 20 years;
- Photovoltaics – 20 years;
- Bathrooms – 30 years;
- Heating – 30 years;
- Windows – 30 years; and

Freehold land and Investment properties are not depreciated.

When components are replaced, the carrying value of existing components is charged to the Statement of Comprehensive Income at the point of disposal.

2. ACCOUNTING POLICIES (continued)

Depreciation (continued)

Other Fixed Assets

Depreciation is charged on a straight-line basis over the expected useful economic lives of the assets at the following annual rates:

- Freehold premises – 50 years;
- Office equipment – 3 to 5 years; and
- Office furniture and development equipment – 10 years.

Investment Properties

Investment properties are commercial properties, housing properties let at market rates or properties held for investment potential or capital appreciation.

Investment properties are measured at cost on acquisition or initial recognition and subsequently revalued to their market value at least annually with gains and losses recognised in the Statement of Comprehensive Income.

Details of the advisers from whom values are obtained and the basis of valuation adopted are included in note 12.

Properties Held for Sale

All unsold affordable home ownership properties are classed as current assets at the reporting date and are valued at the lower of cost or estimated selling price less costs to complete and sell. Deficits on schemes are recognised as soon as they are foreseen.

On affordable home ownership properties where the first tranche sale has yet to complete, 40% of each units' cost will be recognised as a current asset.

Property held for sale comprises both completed properties and property in the course of construction.

Inventories

Inventory represents materials and replacement components held prior to use in repair works. Items are held at the lower of cost and net realisable value and periodic stock counts ensure that damaged and obsolete items are identified and written off.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits, and short-term investments with an original maturity date of three months or less.

Cash and cash equivalents also includes cash in sinking fund accounts to which the Association has access on behalf of the beneficiaries of the account.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

2. ACCOUNTING POLICIES (continued)

Receivables and Payables

Receivables and payables with no stated interest rate, and receivable and payable within one year, are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income within operating income and expense.

Recoverable Amount of Rental and Other Trade Receivables

The Association estimates the recoverable amount of receivables and provides for the balance based on the value and class of the debt.

Receivable balances are reviewed quarterly to determine recoverability; balances deemed irrecoverable are subsequently written off.

Financial Instruments

Financial instruments are recognised when the Association becomes a party to the contractual provisions of the instrument and are classified according to their substance.

Deferred and Recycled Capital Grant

Deferred Capital Grant, predominantly Social Housing Grant, is initially recognised at fair value as a long-term liability and is amortised to the Statement of Comprehensive Income as turnover over the life of the structure of housing properties, except for grant received in respect of HomeBuy loans.

Upon disposal of an asset which has deferred capital grant allocated to it, the cost of the grant is transferred to the Recycled Capital Grant Fund until the grant is reinvested in a replacement property or repaid, reflecting the existing obligation under the Social Housing Grant funding regime. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within liabilities is released to the Statement of Comprehensive Income to cost of sales.

Financial Assets and Liabilities

Loans and Borrowings

The Association's loans and borrowings meet the definition of, and are classified as, basic financial instruments under FRS 102. These instruments are initially recorded at the transaction price. They are subsequently recorded at amortised costs using the effective interest method.

2. ACCOUNTING POLICIES (continued)

Leases

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks or rewards of ownership of the leased assets to the entity. All other leases are classified as operating leases.

Rentals under operating leases are accounted for on a straight-line basis over the lease term even if the payments (where the Association is the lessee) and receipts (where the Association is the lessor) are not made or received on that basis.

The Association has no finance lease commitments.

Sinking Funds

Sinking funds comprise leasehold sinking funds and scheme provisions.

Leasehold sinking funds are unspent amounts collected from leaseholders for major repairs on leasehold schemes, plus any interest received, and are included in payables.

Scheme provisions are scheme funds set aside for major repairs and are also included in payables.

Critical Judgments, Estimates and Uncertainty

Impairment Review

At each reporting date the Association assesses whether an indicator of impairment exists. If such an indicator exists assets affected are subject to an impairment review, and the recoverable amount of the asset or cash generating unit is estimated. An impairment loss occurs when the carrying amount of an asset or cash generating unit exceeds its recoverable amount.

Classification of Loans with Embedded Interest Rate Swaps

We hold loans which carry a variable rate of interest. In some cases, our interest charges have been fixed by the inclusion of embedded interest rate swaps in these agreements for part or the full term of the loan. These loans could be repaid early, and fixes could be broken. This would involve paying a premium to lenders or the lenders paying a discount to us depending on the prevailing interest rate as there are two-way break clauses in our loan agreements.

Considering the requirements and criteria set out in FRS 102, and given our intention and forecasted ability to hold all of these loans to maturity, we consider classification of the loans as 'basic' to be appropriate and recognition at amortised cost to be a fair representation of our liabilities.

Defined Benefit Pension Obligations

Financial and actuarial assumptions underlying accounting estimates of the Association's defined benefit obligations are informed by actuarial advice, based on best estimates according to scheme duration, and applied consistently across accounting periods.

2. ACCOUNTING POLICIES (continued)

Critical Judgments, Estimates and Uncertainty (continued)

Capitalisation of Property Development Costs

The estimate of anticipated costs to complete a development scheme is determined by suitably qualified professionals.

Judgement is involved in determining the appropriate allocation of costs relating to affordable home ownership between current and fixed assets, dependent upon the equity anticipated to be purchased in the first tranche.

Fair Value Measurement

The Association uses external professional advisers to determine the fair value of financial instruments and investment properties.

Whilst the fair value of financial instruments is based on quoted prices, investment properties are valued according to the methodologies and assumptions applied by the adviser.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

3. TURNOVER, COST OF SALES, OPERATING COSTS, SURPLUS FROM DISPOSAL OF FIXED ASSETS AND OPERATING SURPLUS

	2019				2018					
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Surplus from disposal of fixed assets £'000	Operating surplus £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	Surplus from disposal of fixed assets £'000	Operating surplus £'000
Social housing lettings	34,952	-	(20,488)	-	14,464	34,355	-	(20,906)	-	13,449
Other social housing activities										
Development administration	-	-	(102)	-	(102)	-	-	90	-	90
Intercompany recharges	842	-	(842)	-	-	929	-	(929)	-	-
First tranche affordable home ownership sales	2,169	(1,448)	(274)	-	447	6,794	(4,140)	(136)	-	2,518
Surplus from disposal of fixed assets	-	-	-	519	519	-	-	-	511	511
Other social	472	-	(373)	-	99	462	-	(429)	-	33
Total other social housing activities	3,483	(1,448)	(1,591)	519	963	8,185	(4,140)	(1,404)	511	3,152
Non-social housing activities										
Market rent properties	21	-	(10)	-	11	22	-	(5)	-	17
Other non-social	289	-	(169)	-	120	211	-	(139)	-	72
Total non-social housing activities	310	-	(179)	-	131	233	-	(144)	-	89
Total	38,745	(1,448)	(22,258)	519	15,558	42,773	(4,140)	(22,454)	511	16,690

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

3. TURNOVER, COST OF SALES, OPERATING COSTS, SURPLUS FROM DISPOSAL OF FIXED ASSETS AND OPERATING SURPLUS (continued)

	2019					2018				
	General needs housing £'000	Supported / housing for older people £'000	Affordable home ownership £'000	Other social housing £'000	Total £'000	General needs housing £'000	Supported / housing for older people £'000	Affordable home ownership £'000	Other social housing £'000	Total £'000
Turnover										
Rent receivable net of identifiable service charges (net of voids)	27,458	3,381	982	1,646	33,467	26,622	3,378	823	1,695	32,518
Service charge income	165	464	167	14	810	447	521	187	16	1,171
Net rental income	27,623	3,845	1,149	1,660	34,277	27,069	3,899	1,010	1,711	33,689
Amortisation of capital grant	606	26	39	4	675	600	26	36	4	666
Net turnover from social housing lettings	28,229	3,871	1,188	1,664	34,952	27,669	3,925	1,046	1,715	34,355
Operating costs										
Management	(5,743)	(804)	(413)	(299)	(7,259)	(6,484)	(930)	(461)	(345)	(8,220)
Service charge costs	(1,004)	(140)	(72)	(52)	(1,268)	(1,004)	(144)	(71)	(53)	(1,272)
Routine maintenance	(3,379)	(473)	-	(176)	(4,028)	(3,077)	(441)	-	(164)	(3,682)
Planned maintenance	(1,070)	(150)	-	(56)	(1,276)	(1,007)	(144)	-	(54)	(1,205)
Major repairs expenditure	(1,661)	(232)	-	(86)	(1,979)	(1,977)	(284)	-	(105)	(2,366)
Bad debts	(57)	(8)	(4)	(3)	(72)	(14)	(2)	(1)	(1)	(18)
Other costs	(19)	(3)	(1)	(1)	(24)	67	10	5	4	86
Depreciation of housing properties	(3,522)	(392)	(152)	(301)	(4,367)	(3,340)	(388)	(118)	(312)	(4,158)
Loss on disposal of housing components	(176)	(21)	-	(18)	(215)	(178)	(172)	(24)	(24)	(374)
Impairment reversals	-	-	-	-	-	303	-	-	-	303
Operating expenditure on social housing lettings	(16,631)	(2,223)	(642)	(992)	(20,488)	(16,711)	(2,495)	(646)	(1,054)	(20,906)
Operating surplus on social housing lettings	11,598	1,648	546	672	14,464	10,958	1,430	400	661	13,449
Void losses	(124)	(74)	(1)	(29)	(228)	(120)	(77)	-	(16)	(213)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

3. TURNOVER, COST OF SALES, OPERATING COSTS, SURPLUS FROM DISPOSAL OF FIXED ASSETS AND OPERATING SURPLUS (continued)

	2019				Total
	Staircasing £'000	Right to Buy £'000	Other housing sales £'000	HomeBuy redemptions £'000	
Sale proceeds	1,401	316	-	-	1,717
Less: cost of sales	(948)	(250)	-	-	(1,198)
Surplus from disposal of fixed assets	453	66	-	-	519

	2018				Total
	Staircasing £'000	Right to Buy £'000	Other housing sales £'000	HomeBuy redemptions £'000	
Sale proceeds	933	99	82	127	1,241
Less: cost of sales	(618)	(56)	(56)	-	(730)
Surplus from disposal of fixed assets	315	43	26	127	511

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

3. TURNOVER, COST OF SALES, OPERATING COSTS, SURPLUS FROM DISPOSAL OF FIXED ASSETS AND OPERATING SURPLUS (continued)

	2019 Number	2018 Number
HOUSING PROPERTIES		
Owned and managed		
Social		
Social rent general needs housing	3,827	3,828
Affordable rent general needs housing	767	662
Supported / housing for older people	643	644
Affordable home ownership	330	319
Other social housing	239	239
	<u>5,806</u>	<u>5,692</u>
Non-social		
Market rent housing	3	2
	<u>3</u>	<u>2</u>
	<u>5,809</u>	<u>5,694</u>
Owned and not managed		
Leasehold housing	259	249
	<u>259</u>	<u>249</u>
Total	<u>6,068</u>	<u>5,943</u>
NON-HOUSING PROPERTIES		
Owned		
Garages	881	880
Shops / commercial	11	12
Other	2	2
	<u>894</u>	<u>894</u>
Total Units	<u>6,962</u>	<u>6,837</u>
<i>Properties under construction</i>	<u>600</u>	<u>369</u>

Leasehold housing represents those units where the freehold has been retained.

4. FINANCE INCOME

	2019 £'000	2018 £'000
Interest receivable from cash and cash equivalents	<u>142</u>	<u>62</u>

DRUM HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

5. FINANCE COSTS

	2019 £'000	2018 £'000
Interest costs on loans and borrowings	6,096	5,575
Servicing fees of loans and borrowings	112	56
	<u>6,208</u>	<u>5,631</u>
Interest on pension scheme liabilities	179	173
	<u>6,387</u>	<u>5,804</u>

6. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAX

	2019 £'000	2018 £'000
Surplus on ordinary activities before tax is stated after charging/(crediting)		
Depreciation of fixed assets	4,539	4,234
Impairment reversal on housing properties	-	(303)
Operating lease rental		
Land and buildings	28	27
The analysis of auditor's remuneration is as follows		
Fees payable (excluding VAT) to the Association's auditor for the audit of the Association's annual financial statements	18	17
Fees payable (excluding VAT) to the Association's auditor in respect of other services	2	2
	<u>2</u>	<u>2</u>

7. TAX

Due to its charitable status, the Association is not liable to corporation tax.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

8. DIRECTORS' EMOLUMENTS

The Directors are defined as the members of the Group Combined and Executive Boards. Key Management Personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Association either directly or indirectly.

Below are shown the aggregate emoluments (including pensions and benefits in kind but not compensation for loss of office) paid by the Association to:

	2019 £'000	2018 £'000
Board Members	-	12
Key Management Personnel excluding Directors	196	122
	196	134
Emoluments payable to the highest paid Director (excluding pension contributions)	-	12

In 2018/19 the board member remunerated by Drum Housing Association Limited transferred to The Swaythling Housing Society Limited. It is not possible to disaggregate Board Members' remuneration in respect of services performed on behalf of the constituent Group entities.

The Board Members of Drum Housing Association Limited, including details of the other roles they perform on behalf of the constituent Group entities, are shown on the following table:

Name	Appointed	Resigned	Annual Fee	ARC	Committees		
					TIC	RNC	DPRG
Carol Bode (C)	01/10/16		£23,000			M	
Ashley West	16/03/17		£9,000	M		M	
<i>Beverley Anne Costain</i>	<i>01/10/17</i>		<i>N/A</i>		<i>M</i>		<i>M</i>
Jayne Beeson	01/09/11		£9,000	M			
<i>Michael Sweeney</i>	<i>18/08/17</i>	<i>15/10/18</i>	<i>N/A</i>		<i>M</i>		
Simon Porter	25/09/14		£11,500	C	M		
<i>John Gary Orr</i>	<i>15/10/18</i>		<i>N/A</i>		<i>M</i>		<i>C</i>

C: Chair, M: Member, *Italics: Executive Board member*

Committees: ARC – Audit and Risk, TIC – Treasury and Investment, RNC – Remunerations and Nominations, DPRG – Development Programme Review Group

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

9. STAFF COSTS

The average number of employees expressed as full-time equivalents (calculated on standard working hours per week for each employee) during the year was as follows:

	2019	2018
	FTE	FTE
Housing and central services staff	24	27
Maintenance staff	3	2
	<u>27</u>	<u>29</u>
	2019	2018
	£'000	£'000
Staff costs (for the above employees)		
Wages and salaries	989	1,079
Social security costs	97	106
Pension costs	240	287
	<u>1,326</u>	<u>1,472</u>

The Association had the following number of full time equivalent staff with remuneration (including compensation for loss of office and pension contributions) of £60,000 or more, shown in bands of £10,000:

	2019	2018
	£'000	£'000
£60,000 - £69,999	1	2
£70,000 - £79,999	2	-
£80,000 - £89,999	-	1
£120,000 - £129,999	1	1
	<u>4</u>	<u>4</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

10. HOUSING PROPERTIES

	Completed properties			Properties in course of construction			Total housing properties
	Social housing lettings properties	Affordable home ownership properties	Total completed housing properties	Social housing lettings properties in course of construction	Affordable home ownership properties in course of construction	Total housing properties in course of construction	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 April 2018	309,483	22,111	331,594	4,573	1,918	6,491	338,085
Additions	444	-	444	19,355	4,239	23,594	24,038
Additions - works to existing properties	1,622	-	1,622	-	-	-	1,622
Transferred into management	16,694	2,298	18,992	(16,694)	(2,298)	(18,992)	-
Disposals and demolitions	(1,259)	(969)	(2,228)	-	-	-	(2,228)
Intercompany transfers	-	-	-	3,476	-	3,476	3,476
Transfers across tenures	(19)	-	(19)	138	(725)	(587)	(606)
Net movement to current assets	-	8	8	-	-	-	8
At 31 March 2019	326,965	23,448	350,413	10,848	3,134	13,982	364,395
Accumulated depreciation							
At 1 April 2018	(46,883)	(857)	(47,740)	-	-	-	(47,740)
Charge for the year	(4,215)	(152)	(4,367)	-	-	-	(4,367)
Disposals and demolitions	787	44	831	-	-	-	831
Transfers across tenures	3	-	3	-	-	-	3
At 31 March 2019	(50,308)	(965)	(51,273)	-	-	-	(51,273)
Net book value							
At 31 March 2019	276,657	22,483	299,140	10,848	3,134	13,982	313,122
At 31 March 2018	262,600	21,254	283,854	4,573	1,918	6,491	290,345

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

10. HOUSING PROPERTIES (continued)

Property valuation

Social housing land and buildings are shown at historic cost. The value of social housing properties as determined by the 'Existing Use Valuation – Social Housing' method at 31 March 2019 was £425.6m (2018: £350.8m). The valuation was carried out by Jones Lang LaSalle (RICS), 30 Warwick Street, London, W1B 5NH.

Expenditure on works to existing housing properties

	2019 £'000	2018 £'000
Amounts capitalised	1,622	1,951
Amounts charged to the Statement of Comprehensive Income	1,981	2,366

Security

The Association had property with a net book value of £150.8m pledged as security at 31 March 2019 (2018: £152.1m).

11. OTHER FIXED ASSETS

	Freehold land and premises £'000	Vehicles, plant and equipment £'000	Computers, fixtures and fittings £'000	Total £'000
Cost				
At 1 April 2018	1,784	772	171	2,727
Additions	297	-	-	297
Disposals and demolitions	-	(117)	-	(117)
At 31 March 2019	2,081	655	171	2,907
Accumulated depreciation				
At 1 April 2018	(588)	(645)	(100)	(1,333)
Charge for the year	(38)	(117)	(17)	(172)
Disposals and demolitions	-	117	-	117
At 31 March 2019	(626)	(645)	(117)	(1,388)
Net book value				
At 31 March 2019	1,455	10	54	1,519
At 31 March 2018	1,196	127	71	1,394

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

12. INVESTMENT PROPERTIES

	Completed £'000
Value	
At 1 April 2018	446
Revaluation surplus	175
Transfers across tenures	16
At 31 March 2019	637

Completed investment properties are shown at market value of £0.6m (2018: £0.4m), defined as MV-T (market value tenanted) at the reporting date by Jones Lang LaSalle (RICS), 30 Warwick Street, London, W1B 5NH.

If the investment properties had not been revalued they would have been included at the following amounts:

	2019 £'000	2018 £'000
Cost	316	309
Depreciation	(51)	(57)
Net book value	265	252

13. PROPERTIES FOR SALE

	Affordable home ownership properties		
	Completed properties £'000	Properties in course of construction £'000	Total properties for sale £'000
At 1 April 18	348	208	556
Additions	-	3,107	3,107
Completed in year	1,813	(1,813)	-
Net movement from housing properties	(8)	-	(8)
Cost of properties sold	(1,437)	-	(1,437)
Reclassifications	-	586	586
At 31 March 19	716	2,088	2,804

DRUM HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

14. RECEIVABLES

	2019 £'000	2018 £'000
Gross arrears of rent and service charges		
Social	774	854
Non-social	81	73
	855	927
Bad debt provision	(231)	(193)
Net tenant arrears	624	734
Trade receivables	94	164
Amounts due from Group undertakings	-	2,998
Short-term non-liquid assets	978	978
Other receivables and prepayments	489	24
	2,185	4,898

Short-term non-liquid assets comprise cash held in liquidity funds.

15. PAYABLES: AMOUNTS DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Other tax and social security payable	23	26
Trade payables	306	745
Right to buy profit share agreement	532	632
Other payables	506	446
Deferred income	1,109	1,013
Accruals	3,513	862
Contract retentions	513	38
Amounts owed to Group undertakings	2,886	-
Loans and borrowings	626	629
Deferred capital grant due within one year	670	670
	10,684	5,061

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

16. PAYABLES: AMOUNTS DUE AFTER ONE YEAR

	2019 £'000	2018 £'000
Loans and borrowings	187,476	187,482
Contract retentions	335	770
	187,811	188,252

Loans and borrowings are secured by fixed mortgages over housing properties and are repayable or will be released to the Statement of Comprehensive Income as follows:

	2019			2018		
	Bank loan £'000	Bond £'000	Total £'000	Bank loan £'000	Bond £'000	Total £'000
In multiple instalments						
One to two years	1,500	-	1,500	-	-	-
Two to five years	4,500	-	4,500	4,500	-	4,500
Five years or more	144,000	-	144,000	145,500	-	145,500
	150,000	-	150,000	150,000	-	150,000
In a single instalment						
Five years or more	-	33,700	33,700	-	33,700	33,700
	150,000	33,700	183,700	150,000	33,700	183,700

The prior year comparative has been restated to show the capital repayment profile for all loans and borrowings. The total value of all loans and borrowings includes a further £4.4m of capitalised fees and premiums.

A summary of the interest rates charged on loans and borrowings is included within the Capital and Treasury Management section, commencing on page 3.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

17. DEFERRED CAPITAL GRANT DUE

	Completed £'000	In course of construction £'000	Total £'000
Cost			
At 1 April 2018	67,287	69	67,356
Inputs			
Received in year	-	22	22
Transferred from Recycled Capital Grant Fund	-	-	-
Transferred into management	87	-	87
Outputs			
Recycled on disposal	(258)	-	(258)
Transferred into management	-	(87)	(87)
At 31 March 2019	67,116	4	67,120
Accumulated amortisation			
At 1 April 2018	(7,598)	-	(7,598)
Released on disposal	23	-	23
Charge for the year	(675)	-	(675)
At 31 March 2019	(8,250)	-	(8,250)
Amortised deferred capital grant			
At 31 March 2019	58,866	4	58,870
At 31 March 2018	59,735	450	60,185

Deferred capital grant will be recognised in the Statement of Comprehensive Income as follows:

	Completed £'000	In course of construction £'000	Total £'000
Deferred capital grant due within one year	670	-	670
Deferred capital grant due after one year	58,196	4	58,200
	58,866	4	58,870

The Recycled Capital Grant Fund for the Group is held centrally within The Swaythling Housing Society Limited hence transfers from the Recycled Capital Grant Fund will not agree to the Association's Recycled Capital Grant Fund note.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

18. RECYCLED CAPITAL GRANT FUND

	£'000
At 1 April 2018	-
Net inputs to fund	
Grants recycled	258
Recycling of grant	
Transfers to other Group members	(258)
At 31 March 2019	<u>-</u>

19. PENSIONS

Defined Contribution Scheme

The Pensions Trust Flexible Retirement Plan (FRP)

The Association participates in a defined contribution scheme administered by The Pensions Trust. The accounting charge represents the Association's contributions to the plan for the year and amounted to £41k (2018: £13k). There were outstanding contributions as at 31 March 2019 of £4k (2018: £1k).

Defined Benefit Schemes

Radian Group Pension Scheme (RGPS)

On 1 October 2012 all employers within the Group established RGPS, a separate pension scheme administered by The Pensions Trust. At the same time employers in the Group withdrew from the Social Housing Pension Scheme (SHPS) and discharged those liabilities which were not transferred to RGPS. RGPS has the following defined benefit structures for its active members:

- $\frac{1}{60}$ th Final Salary; and
- $\frac{1}{60}$ th CARE (Career Average Revalued Earnings)

RGPS is now closed to new members for all employers within the Group though the Group has retained the ability to admit new members at its discretion.

A full actuarial valuation was carried out at 30 September 2016 and updated to 31 March 2018 by an independent qualified actuary. The valuation showed a deficit of £17.2m which the Group has agreed with the Trustee to aim to eliminate over a period of eight years from 1 April 2018. To this end the Group has paid a lump sum of £796k during the year (2018: £1.0m) of which the Association paid £180k (2018: £nil). Employers also continued to make monthly contributions of 34.6% of members' earnings until 31 March 2019.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

19. PENSIONS (continued)

Defined Benefit Schemes (continued)

Main financial assumptions adopted for FRS 102 purposes:

	2019	2018
	%	%
Increases per annum		
RPI inflation	3.3	3.2
CPI inflation	2.3	2.2
Salary increases	3.3	3.2
Discount rate	2.4	2.6

Radian Group Pension Scheme (RGPS) (continued)

Post retirement mortality assumptions:

	Males	Females
Retiring today	22.1	23.9
Retiring in 20 years	23.5	25.1

Hampshire County Council Pension Fund (HPF)

The Association participates in Local Government Pension Scheme HPF; a multi-employer defined benefit scheme whose deficit can be separately identified.

A full actuarial valuation of HPF was carried out at 31 March 2016 and updated for FRS 102 purposes to 31 March 2019 by an independent qualified actuary. The valuation results show a funding deficit of £5.4m and a funding level of 60.3%. The agreed employer's contribution rate will remain at 31.5% of gross pay from 2018/19 onwards. To contribute to the fund shortfall the Group must pay a capital contribution amount for past service contributions over a recovery period of ten years. These additional contributions have been set at £597k from 2019/20, increased from £577k in 2018/19 as set by the previous valuation. Capital contributions will increase by 3.5% per year from 2018/19 in line with the actuarial salary increase assumptions adopted in the 2016 funding valuation.

Main financial assumptions adopted for FRS 102 purposes:

	2019	2018
	%	%
RPI inflation	3.9	3.8
Salary increases	3.7	3.6
Pension increases (CPI inflation)	2.7	2.7
Discount rate	2.1	2.2

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

19. PENSIONS (continued)

Defined Benefit Schemes (continued)

Hampshire County Council Pension Fund (HPF) (continued)

Post retirement mortality assumptions:

Mortality assumptions are rarely updated between triennial valuations. Those used here are consistent with the 31 March 2016 valuation, are based on the recent mortality experience of members, and allow for expected future mortality improvements. Sample life expectancies at age 65 resulting from these assumptions are shown below:

	Males	Females
Member aged 65 at accounting date	24.1	27.3
Member aged 45 at accounting date	26.3	29.5

At 31 March 2019 the assets in the schemes which the Association participates in were:

	RGPS £'000	HPF £'000	Total £'000
Equities	2,835	7,066	9,901
Government bonds	-	2,655	2,655
Corporate bonds	1,615	608	2,223
Property	109	889	998
Cash	-	269	269
Alternative assets	8	211	219
Total market values of assets	4,567	11,698	16,265

The Association's obligations in respect of its defined benefit retirement schemes are set out below:

	RGPS		HPF		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Fair value of scheme assets	4,567	4,334	11,698	10,375	16,265	14,709
Present value of defined benefit obligation	(5,631)	(5,324)	(18,645)	(17,760)	(24,276)	(23,084)
Association's share of deficit in the scheme	(1,064)	(990)	(6,947)	(7,385)	(8,011)	(8,375)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

19. PENSIONS (continued)

Defined Benefit Schemes (continued)

Movements in the fair value of scheme assets:

	RGPS		HPF		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Opening fair value of scheme assets	4,334	4,889	10,380	9,850	14,714	14,739
Interest income on scheme assets	112	130	230	220	342	350
Expenses	(6)	-	-	-	(6)	-
Actuarial gains/(losses)	50	(640)	789	90	839	(550)
Contributions from employers	227	48	680	700	907	748
Contributions from scheme members	1	39	28	40	29	79
Benefits paid	(151)	(132)	(409)	(520)	(560)	(652)
Closing fair value of scheme assets	4,567	4,334	11,698	10,380	16,265	14,714

Movements in the present value of defined benefit obligations:

	RGPS		HPF		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Opening defined benefit obligation	5,324	5,928	17,760	16,790	23,084	22,718
Service cost	42	119	258	210	300	329
Interest cost	136	158	387	360	523	518
Expenses	-	14	-	-	-	14
Actuarial losses/(gains)	279	(802)	621	880	900	78
Benefits paid net of transfers in	(151)	(132)	(409)	(520)	(560)	(652)
Contributions by scheme members	1	39	28	40	29	79
Closing defined benefit obligation	5,631	5,324	18,645	17,760	24,276	23,084

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

19. PENSIONS (continued)

Defined Benefit Schemes (continued)

Analysis of amounts charged to operating surplus:

	RGPS		HPF		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current service costs	42	119	260	210	302	329
Expenses	6	14	-	-	6	14
	48	133	260	210	308	343
Amounts charged to other finance costs						
Net finance charge	24	28	150	140	174	168

Analysis of amount recognised in Other Comprehensive Income:

	RGPS		HPF		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Actual return less expected return on pension scheme assets	50	(640)	789	86	839	(554)
Changes in financial assumptions underlying the present value of the scheme liabilities	(267)	802	-	-	(267)	802
Experience losses arising on the scheme liabilities	(12)	-	(621)	(885)	(633)	(885)
Actuarial (losses)/gains on pension schemes	(229)	162	168	(799)	(61)	(637)

20. SHARE CAPITAL

	2019 £	2018 £
Shares of £1 each		
Issued and fully paid at 1 April	5	7
Shares cancelled during the year	-	(2)
Shares issued and fully paid at 31 March	5	5

The share capital of the Association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. On ceasing to be a shareholder, the relevant share is cancelled and the amount paid thereon becomes the property of the Association. Therefore, all shareholdings relate to non-equity interests.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

21. CAPITAL AND OTHER COMMITMENTS

	2019 £'000	2018 £'000
Capital expenditure commitments were as follows		
In contract	68,403	38,515
Approved but not contracted	1,222	8,292
Total capital commitments	69,625	46,807
Other commitments	10,949	4,956
Total commitments	80,574	51,763

Capital commitments represent expenditure on housing properties not provided for in the financial statements. Other commitments represent expenditure on properties being developed for sale.

Commitments will be financed by cash and cash equivalents (£18.4m at 31 March 2019). Additional funds will continue to be generated from operations, across rental and sales activity; the Association is also able to receive Gift Aid payments or loans from fellow subsidiaries if required.

22. OPERATING LEASES

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

	Land and buildings	
	2019 £'000	2018 £'000
Amounts payable as lessee		
Not later than one year	27	13
Later than one year and not later than five years	113	-
Later than five years	42	-
	182	13

The total receipts which the Association is committed to receive under operating leases are as follows:

	Tenancy leases	
	2019 £'000	2018 £'000
Amounts receivable as lessor		
Not later than one year	10,769	8,951
Later than one year and not later than five years	30,289	25,038
Later than five years	5,038	5,676
	46,096	39,665

Where a tenancy lease has no fixed end date it has been assumed the Group is committed to receive one month's rent, equal to the default notice period on tenancy agreements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

23. FINANCIAL INSTRUMENTS

	At historic or amortised cost	
	2019 £'000	2018 £'000
Financial assets		
Receivables	1,928	5,067
Cash and cash equivalents	18,430	27,701
	20,358	32,768
Financial liabilities		
Payables: amounts due within one year	(8,948)	(3,419)
Payables: amounts due after one year	(184,038)	(184,471)
Deferred capital grant due after one year	(58,200)	(59,088)
Pension liability	(8,011)	(8,375)
	(259,197)	(255,353)

24. RELATED PARTY TRANSACTIONS

Pension Schemes

The Radian Group Pension Scheme and the Hampshire County Council Pension Fund are considered to be related parties and full disclosure of these schemes is given in note 19.

Transactions with Other Entities or Jointly Controlled Entities

The Association, a subsidiary of Radian Group Limited, has taken advantage of the exemption contained in FRS 102 paragraph 33.1A not to disclose transactions or balances with entities which are wholly owned by the Group.

The Accounting Direction for Social Housing requires registered providers to disclose transactions and balances with the following non-regulated entities which are wholly owned by the Group.

- Radian Support Limited;
- Radian Capital plc; and
- Swaythling Assured Homes plc.

Transactions and balances with subsidiaries are eliminated in the consolidated Group financial statements.

There were no such transactions during the year or balances at the reporting date.

DRUM HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

25. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

At 31 March 2019 the Association's ultimate parent and ultimate controlling party was Radian Group Limited, a company limited by guarantee and incorporated in England.

Radian Group Limited is a registered provider and is the parent of both the largest and smallest Group into which the Association is consolidated.

Group financial statements can be obtained from Radian Group Limited, Collins House, Bishopstoke Road, Eastleigh, Hampshire, SO50 6AD.