HEXAGON HOUSING ASSOCIATION

Report and Consolidated Financial Statements

31 March 2016

Homes and Communities Agency Registration Number: L1538

HEXAGON HOUSING ASSOCIATION

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

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HEXAGON HOUSING ASSOCIATION

EXECUTIVES AND ADVISORS FOR THE YEAR ENDED 31 MARCH 2016

Board of Management

Roy Coulter	(Chair)
Debbie Bankole-Williams	(Vice Chair)
Ian Mansell	(Vice Chair) (Chair of Horniman Housing Association)
Ruth Chambers	
Kellie Elmes	
Dermot Finn	
Jeanette Kenyon	
Martin Large	
Gaius Vincent	(to November 2015)
Rosalind Watson	
Ian Watts	
Tom McCormack	

Audit & Risk Committee

Ian Watts	(Chair)
Debbie Bankole-Williams	
Kellie Elmes	
Martin Large	
Ian Mansell	

Remuneration Committee

Dermot Finn	(Chair)
Roy Coulter	
Jeanette Kenyon	
Ian Mansell	
Ian Watts	

Executive Management

Tom McCormack	Chief Executive
Philippa Newsam	Finance and IT Director
Chris Melville	Operations Director
Kerry Heath	Development and Regeneration Director
Jon Cross	Property Services Director

Secretary & registered office

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Solicitors

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HEXAGON HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2016

The Board has pleasure in presenting its Report and Financial Statements for the year ended 31 March 2016.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Group comprises Hexagon Housing Association, which has charitable status, and Horniman Housing Association, which is non-charitable. The activities of Hexagon Housing Association include the development and management of general needs, supported housing and nursing accommodation in South East London. The activities of Horniman Housing Association are the management of 20 shared ownership / leasehold dwellings in the London Borough of Southwark, together with the freehold of 19 units and development of outright units for sale on the open market. A review of the Group's business and its likely future developments is provided in the Strategic Report on pages 9-16.

The financial performance of the Group, as set out in the statement of comprehensive income, is shown as operating results plus the impact of fair value measurements of longer- term liabilities such as derivative contracts and pensions payments. Settlement of these longer term liabilities are included in the Group's business plan, but the movement in the year is determined by market forces which are outside the Board's control.
The commentary which follows is therefore solely on the operating results of the business.

During the year, Group turnover increased by 8% from £32.1m to £34.7m. This is because of a 15% increase in income from first tranche shared ownership sales, combined with a 7% increase in income from social housing lettings. Operating costs increased by 7% from £19.5 to £20.8m. The operating margin before the effect of fair value adjustments and first tranche shared ownership sales increased from 31.1% to 31.7%. Net financing costs were 6% higher at £4.4m, and £5.2m (2015: £3.2m) was realised through a combination or staircasing sales of shared ownership properties and the sale of housing properties which were uneconomic to repair. The surplus for the year increased to £9.6m from the previous year's loss of £1.5m.

Reserves currently stand at £23.6m (2015: £14.1m). The Board has adopted a policy of using the cash generated by its reserves to fund the improvement and development of housing stock, thereby reducing interest costs and enabling rents to be kept at affordable levels.

The Group spent £21.0m on acquiring and developing properties in the year, of which £2.2m was funded through capital grants. 54 additional units were completed, and a further 152 units are still under development. The Group's loans increased from £144.2m to £151.9m and a further £37m of loan facilities are available, £20m of which can be drawn at 3 days' notice. The weighted average interest rate on the Group's loan portfolio was 3.25% (2015: 3.32%). The Board estimates that the investment value of the Group's properties is £512m, of which £203m is in unsecured properties.

The Board has adopted a policy of converging social rents within the regulatory framework laid down by the regulator. The weighted average weekly rent increase across all the Group's social rented general needs tenancies during the year was 2.7%, which reflects both the guideline set by the Homes & Communities Agency for the financial year, and the impact of properties handed over from the development programme.
During the year 94 tenancies were granted under the government's new affordable rent regime allowing new lets at up to 80% of the market rent, bringing to total number of such tenancies to 368. These brought in £3.2m in rental income.

Turnover and operating surplus by activity is as follows:

£000	**2016**	2015	**2016**	2015
	Turnover		**Operating surplus / (deficit)**	
General needs	**22,752**	21,156	**8,691**	7,705
Supported housing	**1,866**	1,867	**108**	115
Shared ownership	**1,566**	1,440	**1,093**	1,000
Sale of first tranche in shared ownership properties	**4,310**	3,737	**954**	437
Other social housing activities	**2,415**	2,294	**(378)**	(72)
Nursing home lettings	**1,528**	1,501	**91**	29
Other non-social housing activities	**332**	73	**50**	42
Total	**34,769**	32,068	**10,609**	9,256

VALUE FOR MONEY

Value for Money – An Executive Summary
For Hexagon, Value for Money (VFM) is about being effective in how we plan, manage and operate our business. It is important because:

- Residents pay their rent and service charges in the expectation that we will make the best use of them to fulfil Hexagon's objectives;
- Our main source of income (social housing rents) was constrained by a formula that links it to inflation plus 1% in 2015/16 but will then decrease at the rate of 1% a year for the next four years. We have to ensure that our costs our controlled to safeguard Hexagon's long term future; and
- Our regulators place great emphasis on VFM.

Our Board obtains assurance on VFM through a range of means including:

- A triennial Strategy which it approves;
- Approving the annual Self-Assessment, which includes an annual review of performance on the Strategy; and
- A range of quarterly performance data which covers quality issues and annually service costs.

The VFM standard was published as part of the Regulatory Framework in April 2012 and requires Registered Providers to have a strategic approach to achieving VFM in meeting their organisation's objectives. Boards are also required to demonstrate to stakeholders how they are meeting the standard through an annual self-assessment that will

- Enable stakeholders to understand the return on assets measured against the organisation's objectives;
- Set out the absolute and comparative costs of delivering specific services; and
- Evidence the value for money gains that have been and will be made and how these have and will be realised over time.

This summary looks at each of these areas and provides some 'signposts' for further information and data.

Both our full Self-Assessment and the review of the second year of our 2014/17 VFM Strategy will be considered by our Board in September and will be available on our website by 30 September 2016. The details of how to find this are in the 'VFM Achievements – Finding Out More' section below.

VFM Achievements - Our Return on Assets
At the centre of Hexagon's approach to ensuring that we make an appropriate return on our assets is a review which has identified the homes that are the most expensive to maintain both in terms of responsive costs and longer-term component replacement. This has highlighted about 15% of our homes and, when empty, these units receive an options appraisal to determine whether to either retain or sell and reinvest the receipts in new homes.
The options appraisal which includes environmental considerations, effectively asks a number of questions:

- How much the home is worth now?
- How much the work will cost?
- How much the property will be worth after the work?
- Would replacement, as part of our Development programmed be a better option? This includes looking at the Net Present Value of both options.

In the four and a half years to March 2016, 76 homes have been reviewed as part of this process – with 32 (42%) having been approved for sale with the remaining 44 (58%) being brought up to current standards then re-let. We refined the approach in 2014/15 by considering social impact, including elements of the 'letability' of the home.

Hexagon uses the HACT approach to measure the social value of community investment – during 2015/16 our £366,374 investment yielded social value of £694,309.

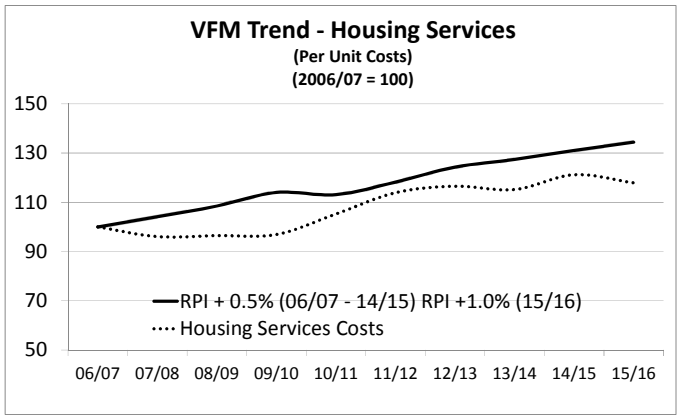
In addition to this as part of our annual Value for Money Self-Assessment (see 'VFM Achievements – Finding out More', below) we review the cost of Hexagon's property assets, net of grant and depreciation and the surplus as reported in our management accounts to derive a financial return on each type of property.

We compare this return with the projected long term interest rate of our current loan portfolio. We also look at the Social Return on assets as part of this review. The table below gives an example of this for our General Needs homes.

Type of property asset	Cost net of grant £'000	2015/16 Surplus before interest £'000	Financial return %	Social return
General needs	171,949	8,691	5.05%	2809 households in properties at social rents 355 households in properties at a discount of at least 20% to market rent 24 households on local authority waiting lists housed in 15/16 143 existing tenant households moved to more appropriate homes

VFM Achievements – The Absolute and Comparative Costs of Delivering Our Services

Hexagon has been systematically using outturn cost data to ensure that our costs per home in management rise by no more than our income, using 2006/07 as a baseline. This will become much more challenging from 2016/17 with rents reducing by 1% per annum. The graph below is an example for Housing Services – although they are available for most parts of our business including central costs in our full Self-Assessment and VFM Strategy - the details of how to find this are in the 'VFM Achievements – Finding Out More' section below.



In almost all areas of our operating costs we have met this target. The exceptions in 2015/16 were:

- Repairs works costs – this is the first time this has happened, but it should be seen in the context of our main contractor going into administration in late 2014. The interim arrangements we put in place proved to be much more costly – something that continued into 2015/16. Costs were closer to budget in the second half of the year.
- Repairs to void properties – these increased slightly in 2015/16 for the same reasons as repair works, after a trend for several years of getting closer to our target; and
- Home improvement works costs per home – part of the reason for this is that there was very low expenditure in 2006/07, followed by an increase relating to Decent Homes Standard work, but more generally Hexagon believes that it is important to invest in our existing homes.

Hexagon makes extensive use of HouseMark data to compare our performance with other associations, both nationally and London-based. We produce a detailed Annual Summary looking at trends in both costs and quality and performance measures. The table below attempts to give some indication of both the breadth of issues covered, which is also a mix of strong performance and some areas where we have plans to improve. The production cycle for HouseMark data is later than that for the financial statements; with meaningful levels of benchmarking data not available until around 9 months after the end of the financial year.

Indicator	**Performance**			**14/15 London Quartile for Hexagon**	**London Top Quartile**
	2015/16 (where available)	**2014/15**	2013/14		
Total housing management cost per property		£384	£370	1	£528
Maintenance (works) cost per property		£589	£492	4	£470
Maintenance (management) cost per property		£216	£199	median	£164
Central & other costs per employee		£6053	£6206	1	£7107
Current tenant arrears	5.0%	4.7%	4.1%	3	3.54%
Satisfaction with landlord	68.4%	75.0%	76.4%	3	81.9%
Operating margin (Housemark definition)		33.0%	35.7%	2	34.3%
Weighted average cost of capital	3.25%	3.32%	3.34%	1	4.0%

It is worth noting that the maintenance costs per property for 2014/15 are an overstatement, as this does not take account of the additional costs incurred after RR Richardson went into administration and were then liquidated. Much of this additional cost is covered by monies that the Association retained for completed work – this was written back during 15/16. Also, it is worth noting that the impact of the RR Richardson administration was felt in the STAR survey results – the main 'driver' for overall satisfaction with the landlord is the repairs service, there were some positive signs after the year end though with 2016 'satisfaction with landlord' figure improving to 74%.

Our HouseMark data is available as a link from our website; while the figures in the 'greyed out' areas, along with much more detail will be in our full Self-Assessment (see 'VFM Achievements – Finding out More' section, below.)

VFM Achievements – VFM Gains in 2015/16 and in the Future

Our Value for Money Strategy for 2014/17 focuses on a number of specific areas relating to cost or performance

- Development and New Business;
- Treasury Management;
- Asset Management , Stock Investment and Cyclical Repairs;
- Responsive, gas safety checks & void repairs;
- Directly managed Supported Housing empty homes; and
- Estate Services.

Our full Self-Assessment (see 'VFM Achievements – Finding out More' below) will look at all the 45 cost and quality targets that we set over three years and see how we performed against them.

The examples below give some flavour of both the targets set and our performance, as with HouseMark data, there is a mixture of strong performance and areas where we still need to make improvements to reach the challenging targets we have set ourselves for the end of the Strategy in 2017.

Target or Indicator	15/16 target	15/16 actual	14/15 actual	Target Met?	Comment
Development Programme 2015/18 - Total scheme costs (excluding interest) as % of that approved by Risk Appraisal Panel at start on site	Less than 100%	106%		No	Only one scheme has been completed so far, and this had an overspend – this was part of two linked schemes where some work had to be done 'up front' which benefited both schemes; there was also a small increase in build costs.
Number of residents satisfied with their new home	89%	100%	92%	Yes	Target met, albeit based on a small number of surveys
Number of homes with SAP rating <65 (excluding residents who refuse work) by 2017	384	710	1094	No	While we achieved a 35% reduction in the number of homes with a SAP rating less than 65, we did not meet the challenging target of reducing these by 65%.
Resident satisfaction with cyclical painting - external contractor	75%	90.7%	81%	Yes	When we developed the VFM Strategy, this was an area where we needed to improve considerably & this has happened in both of the last 2 years.
Residents satisfied with the repair service	74%	59.8%	67.6%	No	Hexagon's repairs main contractor, RR Richardson went into administration towards the end of 2014 and was then liquidated. This caused serious problems with delivering the repairs service and as a consequence resident satisfaction ratings slipped substantially when we carried out the STAR survey in May 2015. The repeat of this survey in May 2016, pointed to some improvement with a satisfaction rating of 64.8%.
Rent loss due to empty supported housing properties which is not 'funded' (this excludes periods where the local authority pays for void periods over 35 days)	4.2%	2.0%	7.5%	Yes	A big improvement in 2015/16
Net interest payable (£'000)	No more than £5,856	£4,881	£4,737	Yes	Low variable interest rates and the rate achieved on a new bond-backed loan have helped to comfortably meet the target.
Residents satisfied with Estate Services	70%	56.2%	62.1%	No	A significant drop, partly as a result of one former contractor struggling to resource service delivery. We have retendered the service and a new contract is in place from early 2016/17 - we expect performance to improve as a result of this.

While our Strategy underpins our approach to Value for Money, we do a lot of work on VFM which is over and above our strategy, and we have made some substantial savings during 2015/16. These have included:

- We have recruited several administrators during the year through our Academy, this saves both in terms of recruitment costs but give the resident transferable skills in the wider job market – in one team alone we saved around £6.2K by doing this;
- We negotiated with contractors installing kitchens and bathrooms to hold prices to their 2013/14 levels – saving a total of £20K which we were able to invest in carrying out more works;
- A new telephone contract which is making savings of £2.5K a year;
- We were able to achieve £35K worth of savings on our roof programme through a cost comparison exercise;
- We have been able to double the Employment and Skills resource available to support residents into employment for the same cost to Hexagon due to 50% European Social Fund funding being secured, this is worth £183K over 3 years.

There were not successes everywhere in terms of VFM – when RR Richardson went into administration in the 2014/15 we were able to get contingency arrangements quickly into place. However this cost the Association both financially and in terms of service delivery – this is something that continued until towards the end of 2015/16 when new tendered contracts started.

VFM Achievements – Finding Out More

Our website has a specific section on VFM and includes

- Our Strategy;
- Our most recent Self-Assessment (the 2015/16 one will be available by 30 September 2016);
- Links to our HouseMark data;
- Sections on VFM aimed specifically at residents including
    - A summary of the strategy and self-assessment;
    - Comparative rent levels;
    - Making best use of assets;
    - Back office costs; and
    - How residents can help.

The website address is http://www.hexagon.org.uk/residents/value-for-money.

COMPLIANCE WITH THE GOVERNANCE AND VIABILITY STANDARD

The Homes and Communities Agency (HCA) have awarded Hexagon a G1 rating for Governance and a V1 rating for Financial Viability. Notwithstanding their own external Regulatory judgement, following the creation of a new Regulatory Standard by the HCA from 1 April 1 2015, Hexagon's Board approved a process and template for a Board self-assessment which was completed and reported to the Board in July 2016. As a result of that self- assessment. the Board has agreed that Hexagon continues to meets both the Governance and Viability Standard in overall terms, with a few minor caveats. As this self- assessment has been more detailed than the process that the Board and indeed the Regulator has followed in the past, this year the Board has concluded that during the financial year 2015/16, we were only partially compliant with the NHF Code of Governance (as outlined on pages 15-16) and therefore in turn with the requirement of the Governance Standard as outlined in Section 2.1. As a result a new process was put in place during 2015-16 which will ensure full compliance for 2016-17. In addition, during 2015-16, as part of the new self- assessment process, the Board took reasonable measures to assure themselves that the Association had adhered to all "relevant law". This process identified a small number of areas where there had been relatively minor/technical breaches. These included a technical breach of a planning condition (Town and Country Planning Act 1990), some work plan delays (from 15-16 to 16-17) to completing a testing programme of temperature testing of water in all our shared housing (Legionella L8 Code of Practice), a failure to destroy some old archived documents (Data Protection Act 1998), and lastly, a technical breach of Copyright Law caused by photocopying a trade journal news article for Board members information. However, none of these minor/technical were deemed by the Board to be incompatible with meeting the Regulatory Governance standard.

ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROLS

The Board is responsible for the Association's system of internal control and for reviewing its effectiveness. The system, which is also used by the Association's subsidiary, is designed to manage rather than eliminate the risk of failure to achieve business objectives and as such can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has carried out a review of the effectiveness of the system of internal control for the year under review. The key processes the Board has adopted in reviewing the effectiveness of the Association's system of internal control are as follows:

Control environment: the Association has an organisational structure with clearly defined lines of responsibility, job descriptions and delegation of authority. These are set out in the Delegated Authorities and Standing Orders and in departmental procedure manuals. The staff handbook sets out standards of professionalism and integrity for operations.

Key policies: within the delegation of authority the Board retains for itself responsibility for approving the key strategies and policies that are designed to provide effective internal control. These include strategies and policies for development projects and new business ventures, fraud, theft and bribery corporate and business planning, risk and treasury management.

Risk management: the Board and senior officers have a clear responsibility for identifying risks facing the Group and for putting in place procedures to mitigate and monitor risks. Risks are formally assessed through a process of reporting to the Audit & Risk Committee and

the Board four times a year, plus an annual report to the Board by the Chief Executive. The system for managing the significant risks faced by the Group is ongoing and it has been in place for the year under review and up to the date of approval of the accounts.

***Performance reporting*:** the Group has a comprehensive system of performance reporting. Key performance indicators are reviewed monthly by senior management and are considered by the Board quarterly. Corrective action is taken by management with respect to areas of adverse performance.

Corporate planning and budgeting: the Board approves the annual budget, 3-year corporate plan and 30-year financial forecast. Monthly financial results are reported against budget and remedial action taken with regard to any significant adverse variances.

Internal audit: the Group's control procedures are subject to review by Mazars, whose work is focused on the areas of greatest risk. The Audit & Risk Committee monitors the work of internal audit on a regular basis.

Service quality: The Association has had an annual programme of Service Quality reviews aimed at improving performance, efficiency, and effectiveness. From 15/16 onwards, a new Business Improvement team has been set up to provide further resources for analysis and management of improvement projects.

Fraud prevention, detection, and reporting: the Group has a whistle-blowing policy in place to enable staff to report suspicious activities to senior management or the Board without fear of reprisal. The Board has adopted a policy for the investigation and reporting of all cases of actual or suspected fraud theft and bribery from the Group. The Audit & Risk Committee receives regular reports on all such cases and actions taken to improve controls where necessary.

The Board has received the Chief Executive's Annual Report on internal controls, has conducted its annual review of the effectiveness of the system of internal control and has taken account of any changes required to maintain the effectiveness of the risk management and control process.

The Board confirms that there is an ongoing process for identifying and managing significant risks faced by the Group. This process has been in place throughout the year under review, up to the date of the approval of the Financial Statements, and is regularly reviewed by the Board.

EFFECTS OF MATERIAL ESTIMATES AND JUDGEMENTS UPON PERFORMANCE

The financial statements have been prepared in accordance with the relevant financial reporting standards and legislation, as set out in note 1 of the financial statements. The key judgements and sources of estimation are set out in note 3. None of these affect the consolidated cashflow statement. The effect on the operating results and the underlying financial position has been limited by disclosing the results before and after fair value adjustments.

GOING CONCERN
The Board has a reasonable expectation that the Group has sufficient resources to continue in operation for the foreseeable future and has accordingly adopted the going concern basis in the preparation of these financial statements.

POST BALANCE SHEET EVENTS
There are no material post balance sheet events.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS
The Group has no qualifying third party indemnity provisions in place for the directors of Hexagon Housing Association Ltd or its subsidiary Horniman Housing Association Ltd.

AUDITORS
All of the current board members have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Association's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue. A resolution to re-appoint BDO LLP as auditors of the Association will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Roy Coulter (Chair) 26th July 2016

HEXAGON HOUSING ASSOCIATION

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2016

Our business model

Hexagon is a charitable not for profit Housing Association which is based in South East London. We are a community based association working primarily in the boroughs of Lewisham, Southwark, Greenwich, Bexley and Croydon. Our local focus means that we are in the business of working with people to build sustainable communities and not just new homes. This focus is reflected in our development, resident involvement and community investment work.

Hexagon was formed in August 1990 from the merger of Shackleton and Solon South East. Since that time, Hexagon has more than doubled in size and today manages 4,137 homes across several London boroughs. Hexagon has a subsidiary company, Horniman Housing Association, which is non-charitable and thus able to undertake commercial activities for the benefit of the Group. Horniman owns and manages a further 20 properties.

Our core business is permanent homes for general needs tenants. Hexagon is unique for its size, however, in that we also provide a wide range of other housing choices for tenants. Hexagon provided 326 supported housing homes for people who need care and support in addition to housing. This includes, amongst other client groups, people with a history of mental illness, people with learning difficulties and young people with support needs.

Hexagon also provides nursing care in a care home for people who have a severe mental illness.

Hexagon is committed to involving our residents in service delivery and this takes many forms. One of the most significant involves the direct management by tenants themselves through housing co-operatives. This currently accounts for approximately 8% of our housing provision.

Today Hexagon employs 131 staff (full time equivalent). Approximately 29% of our staff are involved in the provision of care and support to residents and the remainder are involved in the provision of housing and related services.

The Group has the following mix of housing stock in management:

	2016	2015
General needs	3,500	3,465
Supported housing	326	336
Low cost home ownership	240	238
Other	98	86
Total housing	**4,164**	4,125
Nursing home accommodation	12	22
	4,176	4,147

25% of the housing stock comprises properties largely contained in pre-1930, generally Victorian, street properties. The remainder has been purpose-built over the past 30 years. The state of the stock is considered by external consultants to be good. 100% of the housing stock complies with the Decent Homes Standard.

The Group is regulated by the Homes and Communities Agency (HCA) with whom it is registered. It has to comply with the Authority's Regulatory Framework. Performance is assessed by means of Regulatory Judgements made against two criteria i.e. governance and viability. The Group last received a G1 V1 Regulatory Judgement in February 2016, which means that the Association meets the requirements on governance set out in the Governance and Financial Viability standard and has the capacity to mitigate its exposures effectively.

Hexagon aims to recruit and retain diverse, high quality staff that share our values and are committed to achieving our aims. As an accredited Investor in People (Gold) organisation we are in the top 7% of IIP-recognised organisations. We are committed to ensuring that our staff are trained and developed both to enable them to perform their roles effectively, and to develop their careers. Employees and their representatives are regularly consulted on decisions that are likely to affect employee's interests, through a Staff Consultative Forum, annual staff conference, intranet and other mechanisms.

We endeavor to ensure that we are a family friendly employer and that staff are able to achieve a work life balance, by for example, offering flexible working and job sharing opportunities. Employee information is set out in note 9 to the financial statements. Hexagon offers pension arrangements, participating in the multi-employer Social Housing Pension Scheme (SHPS). Further details are given in note 38 to the financial statements.

Our objectives and strategies to achieve these

The objectives and strategy of the association are set out in a corporate plan that is reviewed every three years and approved by the board. This document is available on the Group's website.

The Group's main objectives and strategies for 2014-17 are as follows:

Objectives	Strategies
To put residents at the heart of what we do	• Show continuous improvement on residents' satisfaction with the repairs and maintenance service, so that we achieve resident satisfaction rates in the top quarter when compared to our London peer group. • Develop our customer contact strategy to drive improvements in the way we engage with residents, including increased use of digital communications. • Get things right first time, or if we don't, to deal better and more efficiently with complaints. • Ensure that all our residents' homes are subject to an ongoing home improvement programme. • Provide excellent care services, which are highly rated by both the service users and the regulators.
To change our ways of working to achieve maximum efficiency	• Minimise our rent arrears and maximise our rent collection, maintaining top quarter performance in this service. • Minimise the number of days it takes to relet out general needs properties, to keep void losses below 0.8%. • Develop alternative plans for any low demand supported housing. • Exercise strong control over day to day repair costs. • Use information technology to enable improvements in service delivery and efficiency across all business activities. • Maximise recovery of eligible services charges. • Carry out an annual programme of service quality improvements which focus on trouble-shooting service areas that require innovation and improvement.
To ensure that Hexagon continues to grow in a sustainable manner	• Provide a range of new subsidised rented housing, using grants from the Greater London Authority (GLA). • Provide new shared ownership homes, using grants from the GLA. • Produce additional cross subsidy for our new build social housing programme by developing housing for outright sale. • To build homes which are environmentally sustainable and provide affordable warmth by meeting the Code for Sustainable Homes Level 4 as a minimum.
Cross cutting work/activities	• Implement our third 3-year Value for Money strategy, making annual assessments to our stakeholders. • Minimise the harm that our business does to the environment, via implementation of our second 3-year environmental sustainability strategy. • Communicate clearly with the wide range of stakeholders that have an interest in Hexagon's business and performance.

Hexagon exerts control over Horniman Housing Association as it has the right to nominate members to the Board of Horniman. Hexagon provides management and maintenance services to its subsidiary, which are charged at a commercial rate. From time to time Horniman donates some of its surplus to Hexagon by way of gift aid, in order to further the charitable objectives of the Group.

How we measure progress

Hexagon's board and senior management team uses a set of key performance indicators to monitor achievement of the Group's objectives. These are listed in the section on performance on pages 13-14, together with the results for the current and previous year.

Development and performance during the financial year and financial position at the year end

Providing new homes
During the year, 54 new homes for rent and 9 for shared ownership were completed and came into management, 57 of which were part funded by the Greater London Authority's Building the Pipeline Programme. The remaining 66 homes in this programme remain on site, two schemes having suffered delays. Our 200 homes in the GLA 2015/18 programme, are making good progress with 6 homes already completed, and nearly 50% of the remainder on site. The remaining sites in the programme are going through the planning stage and are forecast to start on site by December 2016. We also started on site with our first outright sale scheme in 10 years, which will be delivered by our subsidiary – Horniman Housing Association. The seven houses will be completed in the summer of 2017.
In terms of quality, all new homes under construction will meet the Code for Sustainable Homes level 4 and will meet the Mayor's requirements under the London Housing Design Guide.

Maintaining and improving existing homes
We continue to invest in improving our existing homes. In 2015/16, we spent £4.75m on major and cyclical works. These works included major improvements to void properties, energy efficiency improvements (including for example new boilers), and kitchen and bathroom replacements where these components had reached the end of their useful life.

Our responsive repairs expenditure for 2015/16 totalled £2.7m against a budget of £2.5, an overspend of £235k. During 2015/16 we tendered our responsive repairs contracts across two geographic regions, taking care to comply with EU rules. In November 2015, the Board approved the appointment on two main contractors (K&K and P&R). The tender also resulted in the appointment of a third back- up contractor (Laker) who will also carry out void and communal repairs in the future. Under the new contracts, we have now re-established electronic links between our respective IT systems. These are aimed at improving expenditure controls, including for example improving controls over works order variation requests. Our gas servicing compliance continued to be excellent throughout the year, with 100% compliance at year end.

Working in partnership to invest in our communities
Our Community Investment team has been successful in supporting 24 of our residents to get into work during the year. We ran a Business Start up Programme which helped 7 residents to set up their own business and support a further 10 on their journey to becoming self-employed.

We worked in partnership with Building Lives Training Centre in Lewisham, where 6 young residents started Traineeships. On completion the young people will have the opportunity to progress to Apprenticeships.

During the year we joined with 16 housing providers across London as the "Love London Working" partnership to work collaboratively over the next three years. The partnership, led by Affinity Sutton Group has secured funding from the European Social Fund. The partnership has enabled us to effectively double our resources available over the next 3 years to support residents into employment. The project is expected to launch 2016/17.

The Welfare reforms continue to have an impact, directly or indirectly adding pressure to our residents. Universal Credit, the new benefit replacing six current benefits, started to be introduced in some of our areas of operation and about 20 of our household were affected during the year. We expect more residents to be affected during 2016/17 by the transition to Universal Credit. We have plans in place to help support some of our more vulnerable residents through this transition.
We offer a one to one money advice service to help our residents manage their money and in 2015/16, our advisor helped 88 individuals to gain £125,208 of additional income in benefits to which they were entitled.

We continue to provide support to residents to get online, an increasingly essential skill in today's digital age, and 25 residents completed the course we arranged. We also promoted other digital learning opportunities and resources available to help residents to get online.

We worked in partnership with Bell Group UK, one of our Cyclical Redecorations Contractors, and Slade Green Big Local (a Lottery funded, resident led community organisation) to bring a disused office in Rodeo Close, Slade Green back in to use as a Community Hub. The Community Hub offers a shared space where Hexagon and Slade Green Big Local can organise and provide various activities and courses for residents living in the area.

Residents helping us to attain our objectives
We engaged our residents in a wide range of resident involvement initiatives and reviewed the effectiveness and value for money of 22 separate initiatives at the year end, with some changes being made as a result. The main focus has been scrutiny activities - our residents' Performance Review Group scrutinised once a quarter our performance in customer –facing areas and the Repairs group held our contractors to account as well as getting involved in the procurement of new permanent repairs contractors during the year. We have had a drive to improve the upkeep of our estates and this has been aided by a number of resident involvement activities – a group of residents – our "estate graders" - has been involved in assessing the conditions of our blocks and estates; residents on some of our estates are designated as "estate champions" and they keep an eye on the external environment and report regularly to staff on any issues found; and the work of Tenants and Residents Associations is focussed on their estates; these activities are all helping improve the standards of upkeep on our estates.

Residents celebrated Hexagon's 25th anniversary at our Residents' Day event in September.

The Residents Forum has been under review during the year with the conclusion due to be reached in July 2016.

The way in which residents are chosen to go on Hexagon's Board was reviewed during the year and we are now trialling a new system of application and selection of a short-list to go forward for election by residents.

Changes in Care and Support
In Care and Support, we closed after nearly 25 years the Townley Road mental health care home and opened as a replacement the Kirkwood Road Supported Living Service. This service continues to be funded via a grant from Southwark Clinical Commissioning Group. It offers 12 self-contained flats as well as some communal space and a more "person centred" environment in line with the national care agenda on choice and control.

Making Hexagon more planet-friendly
The Board agreed a new three year sustainability strategy in January 2014, building on the achievements of the previous strategy. The strategy addresses the sustainability of Hexagon's new homes, existing homes, and office buildings and incorporates resident involvement and community development activities. An independent assessment by Sustainable Homes Index For Tomorrow (SHIFT), led to Hexagon being recognised for its efforts to reduce environmental impacts by being awarded Gold status in 2014.

Financial performance
The Group's financial performance and financial position at the year end are summarised in the report of the Board of Management on page 3. Further analysis of borrowings and treasury management policies are set out below.

Managing our borrowings

Borrowings at the period end were £151.9m. This debt is mainly borrowed from UK banks and building societies, with around £42.6m from the UK capital market or the European Investment Bank.

Borrowings management is the responsibility of the Finance and IT Director. Strategy is set annually and approved by the Board. Current policy is to maintain a sufficient proportion of borrowings at fixed rates of interest to enable the business plan to withstand interest rate rises within defined parameters.

Maturity profile: The Group ensures that its borrowings are structured so that the maturity profiles are managed with a view to obtaining offer terms for renewing or refinancing, if required, under competitive terms. Refinancing risk is mitigated by staging the maturity dates of the loans to ensure that large proportions of the debt do not mature in the same year. The table below provides an analysis of when the debt falls due for repayment:

	£m
Less than one year	2.6
1-5 years	17.3
6-10 years	18.8
11-15 years	21.2
16-20 years	21.8
21-25 years	37.8
25-30 years	32.4
Total	**151.9**

The Group uses hedging instruments to fix variable rates in accordance with the Treasury Strategy, and after taking advice from treasury advisors. The hedged position at 31 March 2016 is set out in note 19 to the financial statements. The Group borrows only in sterling and so does not have any currency risk. Short term cash surpluses are invested in approved UK institutions.

Managing cash flows

Cash inflows and outflows for the period under review are set out in the cash flow statement. Net cash inflows from operating activities are from the management of housing stock. Returns on investment and servicing of finance are due to interest income and

interest charges. The net cash outflow from capital expenditure is the spend on properties new and existing which has been capitalised, less grant less sale proceeds plus spend on other fixed assets. The net movement on financing is the difference between loans repaid and new loans.

Group policy is to keep cash and bank balances at a minimum consistent with working capital requirements.

Monitoring liquidity and compliance with loan covenants

Cash and bank balances at the year-end were £10.5m. The Group has secured facilities in place to borrow a further £37m, of which £20m is available at three days' notice. Because the Group can draw funds at short notice it has adopted an active cash flow management strategy which aims to minimise cash balances, only drawing funds as and when required. The Board monitors compliance with financial covenants to lenders every quarter and considers the impacts of covenants in all business planning and budgeting decisions.

For the year to March 2016 interest cover was 4.96 which is significantly better than the minimum of 1.10 required. As at 31 March 2016 the gearing ratio was 45.7%, which is significantly lower than the 70% maximum agreed with lenders. Compliance with information covenants is the responsibility of the Finance & IT Director.

Measuring performance - Key financial and non- financial indicators

Objectives & Indicators	2015/6	2014/15	Improving?	Comments
Satisfaction with the last repair	79.8%	Not enough reliable data	-	There was enough survey data for 15/16 to conclude that satisfaction has not yet consistently met the level of 82.9% recorded in 13/14
Customer service calls answered	77.3%	75.9%	✓	After a dip in quarter 2 and quarter 3, performance recovered to meet the target level of 80% in the final quarter. The target is not 100%, as many calls are abandoned in the first few seconds (indicating misdialling).
Gas safety checks completed within target time	100%	100%	-	Performance has been consistently on or very close to the 100% target all year.
Number of complaints	251	539	✓	A sharp reduction in the numbers of complaints overall, particularly about the repairs service.
% of complaints with full response within 15 days	59%	65%	×	Performance was poor. A new system of logging complaints was introduced in Q4, and early indications are that this has helped to improve response times.
Void re-let (days) General needs	34	40	✓	A renewed focus on data collection and reporting has helped to improve performance.
Void re-let (days) Supported Housing	116	114	×	Once again, several long-term voids in schemes for people with learning disabilities and care homes affected the average. Most of these void periods are funded by the service commissioners.
Rent collection % - General needs	99.3%	101.1%	×	A new arrears monitoring tool was introduced in Q4, but this has not yet had a measurable impact on collection rates.
Rent collection % - Supported housing	99.5%	101.9%	×	Although arrears reduced over the year, the collection rate was affected by more evictions for arrears.
% working days lost through staff sickness	2.6%	2.2%	×	A slight deterioration, mainly due to an increase in long-term sickness.
Housing management cost per GN unit	£657	£670	✓	Costs have held steady whilst unit numbers have increased.
% Operating margin excluding all property sales and pension and fair value adjustments	31.7%	31.1%	✓	Margins have increased compared to last year.
Average SAP 9.91 (energy efficiency) Ratings	70.4	67.6	✓	This improvement has been achieved by targeted works to improve the energy efficiency of our homes.
Units failing Decent Homes Standard	0	0	-	

New homes completed	63	106	×	All 2011/15 AHP schemes were completed. 11 homes from the MHC Building the Pipeline programme were completed ahead of forecast.
Loan covenants -interest cover (must be >110%)	496%	416%	✓	An improvement, and substantially above the covenants.
Loan covenants - gearing (must be < 70%)	45.7%	44.9%	✓	This remains substantially under the maximum
% weighted average interest	3.25%	3.32%	✓	Low variable interest rates and the rate achieved on a new bond-backed loan have helped to keep this down.

Future prospects

The board is committed to improving residents' homes in accordance with our stock condition survey and business plan, and to ensure that all homes continue to meet the Government's Decent Homes Standard. This is in addition to the expenditure on day-to-day responsive repairs, gas servicing and cyclical painting which amounted to £4.6m in 2015/6.

In addition to investing in its existing stock the board aims to achieve a new build housing programme of 70 units per year, of which the following are already committed:

Handover year	2016-7	2017-8
General needs	68	27
Shared ownership	-	50
Other	-	7
Total	68	84

Committed expenditure on the above is shown in note 34 to the financial statements, together with an explanation as to how it is to be funded.

Principal risks and uncertainties

This section analyses the main factors and influences that will have an effect on the future performance of the Association irrespective of whether they were significant in the period under review.

The main risks faced by the Group are considered annually by the Audit & Risk Committee as part of the risk management process. Changes which occur between annual reviews are reviewed by the senior management team at monthly Risk Appraisal Panels. The definition of risk for this purpose is an event that could prevent the corporate plan from being achieved if it were to crystallise. Risks are recorded in a suite of risk maps which also record key strategies to manage each risk, who is responsible for the control and what further actions are needed. Risks are analysed according to their impact and probability given the current environment.

The senior management team has assessed that the risks in the next table are those that are most likely to influence future performance.

Risk	Comments and mitigation
Changes to housing benefit	The Government is changing the benefit system by phasing in Universal Credit, and capping benefit payments to workless households. Payment will be made in most cases direct to the claimant and, as a result, Hexagon is likely to suffer a reduction in its rent collection percentage and increased costs of collection and arrears management. Extra staff have been recruited to meet this challenge and increased cost estimates have been included in the 30 year financial plan. The Government has also announced plans to restrict housing benefit to Local Housing Allowance levels for our residents. This would significantly reduce income on 73 of our properties for residents with high level support needs. We may have to re-purpose these properties for general needs, or dispose of them if supported housing is not treated as an exception.
Availability of capital grant	The Greater London Authority's funding regime is likely to include little or no grant for new affordable rented homes, and concentrate instead on flexible home ownership. Hexagon's Board has agreed a modest programme of development for outright sale in order to provide subsidy for new rented homes.
Interest rates	The Group's borrowings are summarised in the financial review (see below). The Group's treasury policy is to ensure that the 30 year financial plan can withstand both a 1% increase in real interest rates and a 1% drop in inflation beyond those already forecast. Sensitivity analysis is undertaken each time the financial plan is updated to assess the impact of adverse movements in interest rates on the Group.
Reliance on maintenance contractors	One contractor is responsible for servicing, and undertaking gas safety checks upon, gas boilers. Three contractors are responsible for the delivery of all day-to-day repairs. Failure of one of these key contractors to perform would have a detrimental impact on the services to residents. This is monitored

	via monthly meetings with each contractor.
Demand and cost of responsive repairs	The Group's financial plan assumes that the rise in cost per home of responsive repairs can be limited to CPI inflation plus 1.7%. There is a risk that costs rise more quickly than assumed, despite a programme of competitive tendering.
Extension of right to buy to housing association tenants	The housing association sector has agreed with the Government that it will implement a programme to allow tenants the right to buy their home at a discount of up to £103,900 in London, with housing associations compensated for the discount. Until further details are published, it is not possible to assess the impact on Hexagon's finances, and whether this will be positive or negative.
Reliance on shared ownership and outright sales	At March 2016, the Group part-owned 240 shared ownership homes. A further 31 shared ownership homes are in development, plus another 7 for outright sale. The 30-year plan also assumes that in each year up to 3% of the retained equity is sold to shared owners who are staircasing. Were this level of sales not to be achieved due to reductions in property prices or non availability of mortgage finance, the financial plan would be at risk.

How we are governed

Hexagon Housing Association's rules, which are based upon National Housing Federation model rules, form the governing document of the Association. The Association may not trade for profit, may not transfer any profit to its shareholders and may not receive money on deposit. The funds of the Association may be invested by the Board as it determines.

Structure and membership of the Board

The Association has a unitary Board structure with 12 members, of which up to one third may be tenant members. Other than the Chief Executive, all of the board members are non-executive. An Audit & Risk Committee and Remuneration Committee report directly to the Board. The Board meets 6 times a year and the Audit & Risk Committee 4 times a year. The Association operates a system of lead board members, who cover the main strategic areas of the Association; this gives members a greater understanding of particular areas of activity and informs decision making.

Board members are paid. Total payments to non- executive board members in 2015/6 were £47k (2015: £47k). Each board member, with the exception of the Chief Executive, holds a £1 share in the Association.

Horniman Housing Association, its wholly owned subsidiary, is managed by a Board of Management composed of 4 non-executive members and 2 senior management team members.

Compliance with the NHF Code of Governance

The Board's aim is to achieve the highest standards of governance, accountability and probity. With this in mind the Hexagon Board adopted the National Housing Federation's Code of Governance in 2004, and the revised version of the Code from 1 April 2015. During the year, the Group complied with all elements of the Code, bar one. The area where we were not fully complaint relates to Section D of the Code which states that Board vacancies should be filled with reference to the "skills, qualifications and attributes" required to discharge the Board's functions. During the year, two Board vacancies, which the Board had specifically reserved for tenants, were filled via an election process in which Hexagon's residents elected two tenant Board members. That process did not involve any scrutiny by the Board of the skills qualifications, and attributes of the candidates who ran in that election. When the Board adopted the new NHF Code in April 2015, it was aware that the long established tenant election process fell short of the new and more rigorous standards as outlined in the revised 2015 Code. The Board therefore agreed an action plan in 2015-16 to ensure that a new process be introduced to ensure compliance with the Code in the future. This new process, agreed by the Board, has been designed to ensure that any new tenant Board members appointed have the skills, qualifications, and attributes the Board require. That new and improved recruitment process was introduced in 2016-17. This now involves a transparent and open advert, followed by shortlisting and interviews by the Board , before any candidates are put forward by the Board for election by tenants. Whilst the Board is confident that we are now fully compliant with the new Code, we recognise that the election process held in this financial year (July 2015) did not meet the requirements of the Code whilst we worked to make this transition to full compliance.

Role of the Board

The essential functions of the Board include the following:

- to define and ensure compliance with the values and objectives of the Association;
- to consider and approve policies and plans to achieve those objectives;
- to consider and approve each year's budget and accounts prior to publication;
- to establish and oversee a framework of delegation and systems of control;
- to agree policies and make decisions on all matters that might create significant financial or other risk to the Association, or which raise material issues of principle;

- to monitor the Association's performance in relation to these plans, budgets, controls and decisions;
- to appoint and, should the occasion arise, dismiss the Chief Executive and be represented in the appointment of Directors;
- to satisfy itself that the Association's affairs are conducted lawfully and in accordance with generally accepted standards of performance and propriety and the requirements of relevant regulatory bodies.

Executive Management
The Group is managed by a senior management team headed by a chief executive and supported by directors of finance, operations, development and property services. Senior management team members attend board meetings. Remuneration of the senior management team is set out in note 10.

THE BOARD'S STATUTORY FINANCIAL RESPONSIBILITY
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 and social housing legislation require the board members to prepare financial statements for each financial year 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 and the Statement of Recommended Practice: Accounting by registered social housing providers 2014 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and association will continue in business.

The board members are responsible for keeping adequate accounting records that are sufficient to show and explain the [group and] association's transactions and disclose with reasonable accuracy at any time the financial position of the group and association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are also responsible for safeguarding the assets of the [group and] association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board is responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2014.

Financial statements are published on the group and association'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 and association'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.

By order of the Board

Roy Coulter (Chair) 26th July 2016

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

We have audited the financial statements of Hexagon Housing Association Limited for the year ended 31 March 2016 which comprise the consolidated and association statements of comprehensive income, the consolidated and association statement of changes in reserve, the consolidated and association balance sheets, the consolidated statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with the Housing and Regeneration Act 2008 and section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and auditors

As explained more fully in the statement of board member responsibilities, the board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent association's affairs as at 31 March 2016 and of the group's and parent association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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 to report to you if, in our opinion:

- the information given in the Report of the Board and the Strategic Report for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the parent association, or returns adequate for our audit have not been received from branches not visited by us; or
- a satisfactory system of control has not been maintained over transactions; or
- the parent 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.

BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom
Date:

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

HEXAGON HOUSING ASSOCIATION

Statement of Comprehensive Income
for the year ended 31 March 2016

Group				**2016**			2015
	Notes	**Operating results**	**Fair value and pension adjustments**	**Total**	Operating results	Fair value and pension adjustments	Total
		£000	**£000**	**£000**	£000	£000	£000
Turnover	4	**34,769**	**-**	**34,769**	32,068	-	32,068
Cost of sales	4	**(3,356)**	**-**	**(3,356)**	(3,300)	-	(3,300)
Operating costs	4	**(20,804)**	**(1,250)**	**(22,054)**	(19,512)	314	(19,198)
Operating surplus	4,8	**10,609**	**(1,250)**	**9,359**	9,256	314	9,570
Surplus on disposal of fixed assets	12	**5,230**	-	**5,230**	3,325	-	3,325
Interest receivable	13	**83**	-	**83**	23	-	23
Interest payable and finance costs	14	**(4,323)**	**(90)**	**(4,413)**	(4,000)	(147)	(4,147)
Movement in fair value of financial instruments	14	-	**(359)**	**(359)**	-	(4,440)	(4,440)
Surplus for the year		**11,599**	**(1,699)**	**9,900**	8,604	(4,273)	4,331
Tax	15	**(3)**	**-**	**(3)**	(18)	-	(18)
Change in fair value of hedged financial instrument	14	**-**	**(336)**	**(336)**	-	(5,775)	(5,775)
Total comprehensive income for the year	14	**11,596**	**(2,035)**	**9,561**	8,586	(10,048)	(1,462)

All amounts relate to continuing activities.

Statement of Changes in Reserves

				2016			2015
Group		**Income and expenditure reserve**	**Cashflow hedge reserve**	**£000 Total Reserves**	Income and expenditure reserve	Cashflow hedge reserve	£000 Total Reserves
Balance at 1 April 2015 / 1 April 2014		**28,686**	**(14,378)**	**14,308**	24,373	(8,603)	15,770
Total comprehensive income		**9,897**	**(336)**	**9,561**	4,313	(5,775)	(1,462)
Balance at 31 March 2016/ 31 March 2015		**38,583**	**(14,714**	**23,869**	28,686	(14,378)	14,308

The notes on pages 23 to 58 form part of these Financial Statements

Statement of Comprehensive Income
for the year ended 31 March 2016

Association				**2016**			2015
	Notes	**Operating results**	**Fair value and pension adjustments**	**Total**	Operating results	Fair value and pension adjustments	Total
		£000	**£000**	**£000**	£000	£000	£000
Turnover	4	**34,703**	**-**	**34,703**	32,022	-	32,022
Cost of sales	4	**(3,356)**	**-**	**(3,356)**	(3,300)	-	(3,300)
Operating expenditure	4	**(20,756)**	**(1,250)**	**(22,006)**	(19,470)	314	(19,156)
Operating surplus	4,8	**10,591**	**(1,250)**	**9,341**	9,252	314	9,566
Surplus on disposal of fixed assets	12	**5,230**	**-**	**5,230**	3,224	-	3,224
Interest receivable	13	**93**	**-**	**93**	26	-	26
Interest payable and finance costs	14	**(4,331)**	**(90)**	**(4,421)**	(4,000)	(147)	(4,147)
Change in fair value of financial instruments	14	**-**	**(359)**	**(359)**	-	(4,440)	(4,440)
Surplus for the year		**11,583**	**(1,699)**	**9,884**	8,502	(4,273)	4,229
Change in fair value of hedged financial instrument	14	**-**	**(336)**	**(336)**	-	(5,775)	(5,775)
Total comprehensive income for the year	14	**11,583**	**(2,035)**	**9,548**	8,502	(10,048)	(1,546)

All amounts relate to continuing activities.

Statement of Changes in Reserves

Association				**2016**			2015
		Income and expenditure reserve	**Cashflow hedge reserve**	**£000 Total Reserves**	Income and expenditure reserve	Cashflow hedge reserve	£000 Total Reserves
Balance at 1 April 2015/ 1 April 2014		**28,439**	**(14,378)**	**14,061**	24,210	(8,603)	15,607
Total comprehensive income		**9,884**	**(336)**	**9,548**	4,229	(5,775)	(1,546)
Balance at 31 March 2016/ 31 March 2015		**38,323**	**(14,714)**	**23,609**	28,439	(14,378)	14,061

The notes on pages 23 to 58 form part of these Financial Statements

HEXAGON HOUSING ASSOCIATION

Balance Sheet as at 31 March 2016

Group				**2016**			2015
	Notes	**Before fair value and pension measurements**	**Fair value and pension measurements**	**Total**	Before fair value and pension measurements	Fair value and pension measurements	Total
		£000	**£000**	**£000**	£000	£000	£000
Tangible fixed assets							
Housing properties	16	**412,270**		**412,270**	395,107		395,107
Other	17	**2,977**		**2,977**	2,621		2,621
		415,247		**415,247**	397,728		397,728
Current assets							
Stock – properties developed for sale	18	**4,799**		**4,799**	3,593		3,593
Debtors	19	**2,843**		**2,843**	4,265		4,265
Cash and cash equivalents	20	**10,690**		**10,690**	9,913		9,913
Less: creditors – amounts falling due within one year	21	**(11,590)**		**(11,590)**	(11,471)		(11,471)
Net current assets/liabilities		**6,742**		**6,742**	6,300		6,300
Total assets less current liabilities		**421,989**		**421,989**	404,028		404,028
Creditors: amounts falling due after one year	22	**(367,521)**	**(24,805)**	**(392,326)**	(360,979)	(24,110)	(385,089)
Pension deficit liability	30	**-**	**(5,565)**	**(5,565)**	-	(4,419)	(4,419)
Provisions for liabilities	30	**(229)**	**-**	**(229)**	(212)	-	(212)
Net assets		**54,239**	**(30,370)**	**23,869**	42,837	(28,529)	14,308
Capital and reserves							
Income and expenditure reserve		**54,239**	**(15,656)**	**38,583**	42,837	(14,151)	28,686
Cash flow hedge reserve		**-**	**(14,714)**	**(14,714)**	-	(14,378)	(14,378)
		54,239	**(30,370)**	**23,869**	42,837	(28,528)	14,308

The Financial Statements were approved and authorised for issue by the Board of Management on 26th July 2016 and were signed on its behalf by:

R. Coulter, Chair Ian Mansell, Vice Chair T. McCormack, Secretary

The notes on pages 23 to 58 form part of these Financial Statements.

HEXAGON HOUSING ASSOCIATION

Balance Sheet as at 31 March 2016

Association				**2016**			2015
	Notes	**Before fair value measurements**	**Fair value measurements**	**Total**	Before fair value measurements	Fair value measurements	Total
		£000	**£000**	**£000**	£000	£000	£000
Tangible fixed assets							
Housing properties	16	**411,301**		**411,301**	394,130		394,130
Other	17	**2,977**		**2,977**	2,621		2,621
		414,278		**414,278**	396,751		396,751
Current assets							
Stock – properties developed for sale	18	**3,000**		**3,000**	3,593		3,593
Debtors – receivable within one year	19	**2,891**		**2,891**	4,253		4,253
Debtors – receivable after one year	19	**1,825**		**1,825**	124		124
Cash	20	**10,485**		**10,485**	9,696		9,696
Less: creditors – amounts falling due within one year	21	**(11,536)**		**(11,536)**	(11,431)		(11,431)
Net current assets/liabilities		**6,665**		**6,665**	6,235		6,235
Total assets less current liabilities		**420,943**		**420,943**	402,986		402,986
Creditors: amounts falling due after one year	22	**(366,735)**	**(24,805)**	**(391,540)**	(360,184)	(24,110)	(384,294)
Pension deficit liability	30	**-**	**(5,565)**	**(5,565)**	-	(4,419)	(4,419)
Provisions for liabilities	30	**(229)**	**-**	**(229)**	(212)	-	(212)
Net assets		**53,979**	**(30,370)**	**23,609**	42,590	(28,529)	14,061
Capital and reserves							
Income and expenditure reserve		**53,979**	**(15,656)**	**38,323**	42,590	(14,151)	28,439
Cash flow hedge reserve		**-**	**(14,714)**	**(14,714)**	-	(14,378)	(14,378)
		53,979	**(30,370)**	**23,609**	42,590	(28,529)	14,061

The Financial Statements were approved and authorised for issue by the Board of Management on 26th July 2016 and were signed on its behalf by:

R. Coulter, Chair Ian Mansell, Vice Chair T. McCormack, Secretary

The notes on pages 23 to 58 form part of these Financial Statements.

HEXAGON HOUSING ASSOCIATION

Consolidated Statement of Cash Flows for the year ended 31 March 2016

Group

	Notes				**2016**				2015
			£000's		**£000's**		£000's		£000's
Cash flows from operating									
activities									
Surplus/ (deficit) for the year			**9,561**				(1,462)		
Adjustments for:									
Depreciation of fixed assets – housing			**5,469**				5,210		
Depreciation of fixed assets – other			**286**				236		
Amortised grant			**(1,925)**				(1,727)		
Net fair value losses/ (gains recognised in income statement			**695**				10,215		
Interest payable and finance costs			**4,413**				4,148		
Interest receivable			**(83)**				(23)		
Surplus on the sale of fixed assets			**(5,230)**				(3,325)		
Decrease/(increase) in stocks			**(1,297)**				679		
Decrease/(increase) in trade and other debtors			**427**				(864)		
Decrease/(increase) in trade creditors			**(1,562)**				2,871		
Decrease/ (increase) in provisions			**1,163**				(172)		
Net cash generated from operating activities					**11,917**				15,786
Cash flows from investing activities									
Proceeds from sale of fixed assets			**7,877**				6,576		
Purchase of fixed assets - housing			**(24,041)**				(20,503)		
Purchase of fixed assets –other			**(647)**				(318)		
Receipt of grant			**3,301**				3,356		
Interest received			**83**				23		
Net cash from investing activities					**(13,427)**				(10,866)
Cash flows from financing activities									
Interest paid			**(5,120)**				(4,927)		
New loans			**17,000**				17,300		
Debt issue costs incurred			**(276)**				(65)		
Repayment of loans			**(9,317)**				(10,722)		
Net cash from financing activities					**2,287**				1,586
Net increase/decrease in cash and cash equivalents					**777**				6,506
Cash and cash equivalents at beginning of year					**9,913**				3,407
Cash and cash equivalents at end of year					**10,690**				9,913

The notes on pages 23 to 58 form part of these Financial Statements.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

1 Legal Status

The Association and its subsidiary undertaking are registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014. They are both registered with the Homes and Communities Agency as social housing providers.

2 Accounting policies

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Hexagon includes the Co-operative and Community Benefit Societies Act 2014, FRS102 "the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland", the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014, "Accounting by registered social housing providers" 2014, the Accounting Direction for Private Registered Providers of Social Housing 2015.

FRS102 is mandatory for accounting periods beginning on or after 1 January 2015. Information on the impact of first-time adoption of FRS102 is given in note 37. The preparation of financial statements in compliance with FRS102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in the applying the Group's accounting policies.

In preparing the separate financial statements of the parent, advantage has been taken of the following disclosure exemptions available in FRS102:

- No cash flow statement has been presented for the parent
- Disclosures in respect of the parent's financial instruments have not been presented as equivalent disclosures have been provided for the Group as a whole
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent as their remuneration is the same as for the Group as a whole

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Financial Statements.

Basis of consolidation

The consolidated financial statements present the results of Hexagon Housing Association and its subsidiary ("the Group") as if they formed a single entity. Intercompany transactions and balances between the two are therefore eliminated in full.

Income

Income is measured at the fair value of the consideration received or receivable. The group generates the following material income streams:

- rental income receivable (after deducting lost rent from void properties available for letting)
- service charges receivable
- net rental income from properties managed by agents and co-operatives
- revenue grants for the operation of nursing homes
- first tranche sales of shared ownership housing properties developed for sale
- proceeds from the sale of land and property

Rental income is recognised from the point when properties under development reach practical completion and are formally let. Agents and co-operatives manage a number of properties owned by the Association. Where the agent or co-operative carries the financial risk the income and expenditure arising from these properties is excluded from these financial statements. Grants for the operation of nursing homes is recognised in the year for which the grant is given. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

Supported housing schemes and nursing homes

The Group received Supporting People grants from a number of London Boroughs and other grants for nursing care from a local Health Authority. The grants received in the period as well as costs incurred by the Group in the provision of support services have been included in the consolidated statement of comprehensive income. Any excess of cost over the grant is borne by the Group.

2 Principal accounting policies (continued)

Service charges
The Group adopts the fixed method for calculating and charging service charges to its tenants and the variable method for leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

Value added tax
The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

Finance costs
Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount.

Pension costs
Contributions to the Social Housing Pension Scheme ("SHPS") defined contribution scheme are charge to the Statement of Comprehensive Income in the year in which they become payable.
Until 31st March 2016, Hexagon participated in the SHPS defined benefit scheme. Employer contributions towards current pension accruals have been charged to the Statement of Comprehensive Income in the year in which they became payable. The fair value of Hexagon's agreed payments towards the past deficit on the scheme have been included in the balance sheet, and the movement in fair value is included in operating costs.

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.

Tangible fixed assets – housing properties
Housing properties constructed or acquired (including land) are stated at cost less depreciation and impairment (where applicable). The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which includes an appropriate amount for staff costs and other costs of managing development. Directly attributable costs include capitalised interest calculated, on a proportionate basis, using finance costs on drawn loans. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Expenditure on major refurbishment to properties, other than installation or replacement of major components, is charged to the Statement of Comprehensive Income.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in the first tranche, are included in housing properties and held at the cost less any impairment, and are transferred to completed properties when ready for letting.

Depreciation of housing property
Housing land and property for rent is split between land, structure and other major components that are expected to require replacement over time. The portion of shared ownership property retained is split between land and property. Land is not depreciated on account of its indefinite useful economic life. Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

The cost of all other freehold and long leasehold housing property is depreciated over the useful economic lives of the structure and major components as follows:

	Years		Years
Structure	125	Bathroom	30
Roof	60	Mechanical systems	25
Windows and external doors	30	Electrics	30
Boiler	15	Aids and adaptations	10
Kitchen	20		

2 Principal accounting policies (continued)

Where individual components of a property are replaced the costs are capitalised and the cost of the replaced components is written off.

Shared ownership properties and staircasing
Under low cost home ownership arrangements, the Group disposes of a long lease on shared ownership homes for a share ranging between 25% and 75% of value. The buyer has the right to purchase further proportions up to 100% based on the market value of the property at the time each purchase transaction is completed. This is known as staircasing.
Shared ownership properties under construction or awaiting first tranche sale are split proportionately between current and fixed assets based on the element related to expected first tranche sale. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover. The remaining element is classed as a fixed asset and is included in completed housing property at cost less depreciation and any provision for impairment. Sales of subsequent tranches are treated as a part disposal of housing properties. Such staircasing sales may result in capital grant being deferred or abated and any abatement is credited to the sale account in arriving at the surplus or deficit.

Maintenance of shared ownership properties is the responsibility of the shared owners, who pay for repairs to common parts and for major repairs via service charges. Any impairment in value of such properties is charged to the Statement of Comprehensive Income.

Allocation of costs for mixed tenure and shared ownership developments
Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where this is not possible, build costs are allocated on a floor area basis.

Tangible fixed assets – other
Other tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Group adds to the carrying amount of fixed assets the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is de-recognised. Repairs and maintenance are charge to the Statement of Comprehensive Income during the period in which they are incurred.

Depreciation of other tangible fixed assets
Depreciation of other fixed assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives are range as follows:

	Years
Office buildings	40-60
Office fittings	10-25
Motor vehicles	4
IT hardware and software	5
Housing furniture and equipment	5-10

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within other operating income in the Statement of Comprehensive Income.

Government and other capital grants
Grants received for the construction of housing properties is accounted for using the accrual method set out in FRS102 and the Housing SORP 2014. Grant is carried as deferred income in the balance sheet and released to the Statement of Comprehensive Income on a systematic basis over the useful economic life of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected.

Where a property funded by Social Housing Grant (SHG) is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property.

SHG and other grants due from government organisations or received in advance are included as current assets or liabilities.

Turnover includes an element of Social Housing Grant to cover the proportion of the development administration and overhead costs that are not capitalised.

2 Principal accounting policies (continued)

Recycled capital grant fund (RCGF)
On the occurrence of certain events, primarily the sale of homes, the GLA can direct the Group to recycle capital grants or to make repayments of the recoverable amount. The Group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the GLA with interest. Any unused recycled grant held with the RCGF which it is anticipated will not be used within one year is disclosed in the balance sheet under creditors due within one year. The remainder is disclosed under creditors due within one year

Disposals Proceeds Fund (DPF)
Receipts from Right to Acquire (RTA) sales are required to be retained in a ring fenced fund that can only be used for providing replacement housing. The sales receipts less eligible expenses are held within a disposals proceeds fund. Any unused recycled grant held with the DPF which it is anticipated will not be used within one year is disclosed in the balance sheet under creditors due within one year. The remainder is disclosed under creditors due within one year.

Investment Properties
Investment properties consist of commercial properties not held for social benefit. The difference between the fair value and historic cost of such properties is considered to be immaterial, so such properties are included in tangible fixed assets – housing at cost less depreciation.

Impairment of fixed assets
The housing property portfolio of the Group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. The recoverable amount is taken to be the higher of the fair value less costs to sell or the value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets/cash generating units.

The Group defines cash generating units as individual schemes for properties in use, and as individual development programmes for properties under construction. Where the recoverable amount of an asset/ cash generating unit is lower than its carrying value an impairment is recorded through a charge to the Statement of Comprehensive Income.

Stock
Stock represents work in progress and completed properties, including properties developed for shared ownership or for outright sale. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche. Stock is stated at the lower of cost and net realisable value. Cost comprises land, materials, direct staff and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

Debtors and creditors
Debtors and creditors with no stated interest rate and receivable and payable within one year are recorded at transaction price. Any losses from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

Recoverable amount of rental and other trade receivables
The Group estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair it considers the class of debt and the amounts collected after the balance sheet date. The Group has made arrangements with individuals and households for arrears payments of rent and service charges. The arrangements are effectively loans granted at nil interest rates.

Loans and short term deposits
All loans and short term deposits held by the Group are classified as basic financial instruments in accordance with FRS102. These instruments are initially recorded at the transaction price less any transactions costs (historical cost). FRS102 requires that basic financial instruments are subsequently measured at amortised cost. However, the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans that are payable or receivable within one year are not discounted.

Financial liabilities
Financial liabilities are classified according to the substance if the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Cash and cash equivalents
Cash and cash equivalents in the Group's balance sheet consists of cash at bank, in hand and bank deposits with an original maturity of less than 3 months.

2 Principal accounting policies (continued)

Derivative instruments and hedge accounting
The Group holds floating rate loans which expose the Group to interest rate risk. To mitigate against this risk the Group uses interest rate swaps. These instruments are measured at fair value at each reporting date and carried as assets where the fair value is positive and as liabilities when the fair value is negative.

The Group has designated each of the swaps against existing drawn floating rate debt. To the extent the hedge is effective movements in fair value, other than adjustments for own or counter party credit risk, are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any movements in fair value relating to ineffectiveness (ie cancellable swaps) and adjustments for our own or counterparty credit risk are recognised in the surplus for the year.

Leased assets
Where assets are financed by leasing arrangements that give rights approximately to ownership (finance leases), the assets are treated as if they have been purchased outright and are included in tangible assets – housing property at cost less depreciation and any impairment.

All other leases are treated as operating leases. Their annual rentals are charged as operating costs

Provision for liabilities
The Group has recognised provisions for liabilities of uncertain timing or amounts. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material the amount expected to be required to settle the obligation is recognised at the present value using a discount rate. The unwinding of the discount is recognised as a finance cost in income and expenditure in the period it arises.

Repairs and Equipment Replacement Funds
Unexpended amounts collected from third parties for major repairs or equipment replacement under contractual arrangements are included in creditors.

Contingent liabilities
A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation that exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made.

3 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the key judgements have been made in respect of the following:

- Whether there are indicators of impairment of the Group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. Management has considered the measurement basis to determine the recoverable amount of assets where they are indicators if impairment based on EUV-SH or depreciated replacement cost.
- What constitutes a cash generating unit when indicators or impairment require there to be an impairment review
- The anticipated costs to complete on a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on costs to complete management then determines the recoverability of the cost of properties developed for shared ownership or outright sale. The judgement is also based on management's best estimate of sales values based on economic conditions in Hexagon's area of operation.
- The discount rate applied in calculating the fair value of Hexagon's liability with regards to the past service deficit in the SHPS defined benefit pension scheme
- Whether leases entered into by the Group are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- The appropriate allocation of costs for mixed tenure developments, and the allocation of costs relating to shared ownership between current and fixed assets.
- Whether loans are basic or other.
- The exemptions to be taken on transitions to FRS102.
- The categorisation of housing properties as investment properties or property plant and equipment based on the use of the asset.

Other key sources of estimation uncertainty

- *Tangible fixed assets*
  Tangible fixed assets are depreciated over their useful lives. The actual lives of the assets are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as whether an IT system is still being used are taken into account. For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful *economic lives are assigned to these components.*
- *Rental and other trade receivables*
  The estimate for receivables relates to the recoverability of the balances outstanding at the year end. A full provision is made for debt on which a court possession order has been issued.
- *Fair value measurement of derivatives*
  The fair value of interest rate swaps is assessed as the value calculated by the counter party at or close to the reporting date. If this is not available, than an estimate provided by the Group's treasury advisors is used.
- *Provisions*
  Pensions: The association must assess the underlying discount rate in relation to the SHPS pension deficit obligation. Variations in this assumption will affect the value of the liability recorded and the annual pension expense.

  Dilapidation: for properties leased by Hexagon, dilapidation provision is built up over the term of the lease to the estimated value of repair works required at the end of the lease term.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

4 Turnover and operating surplus

Group

				2016		2015
	Turnover	**Cost of sales**	**Operating costs**	**Operating surplus**	Turnover	Operating surplus
	£000's	**£000's**	**£000's**	**£000's**	£000's	£000's
Directly managed social housing activities (note 5)						
General needs lettings	**22,752**	**-**	**(14,061)**	**8,691**	21,156	7,705
Supported housing lettings	**1,866**	**-**	**(1,758)**	**108**	1,867	115
Low cost home ownership lettings	**1,566**	**-**	**(473)**	**1,093**	1,440	1,000
	26,184	**-**	**(16,292)**	**9,892**	24,463	8,820
Other social housing activities						
First tranche shared ownership sales	**4,310**	**(3,356)**	**-**	**954**	3,737	437
Accommodation managed by agents	**1,735**	**-**	**(1,099)**	**636**	1,723	900
Development administration	**73**	**-**	**(820)**	**(747)**	63	(677)
Charges for support services under contract	**485**	**-**	**(408)**	**77**	473	59
Other	**122**	**-**	**(466)**	**(344)**	35	(354)
	6,725	**(3,356)**	**(2,793)**	**576**	6,031	365
Non-social housing activities						
Nursing home lettings	**1,528**	**-**	**(1,437)**	**91**	1,501	29
Other	**332**	**-**	**(282)**	**50**	73	42
	1,860	**-**	**(1,719)**	**141**	1,574	71
Total before fair value and pension adjustments						
	34,769	**(3,356)**	**(20,804)**	**10,609**	32,068	9,256
Pensions deficit contribution paid				**572**		549
Impact of changes to pension assumptions				**(1,822)**		(235)
Total after fair value and pension adjustments				**9,359**		9,570

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

4 Turnover and operating surplus

Association

				2016		2015
	Turnover	**Cost of sales**	**Operating costs**	**Operating surplus**	Turnover	Operating surplus
	£000's	**£000's**	**£000's**	**£000's**	£000's	£000's
Directly managed social housing activities (note 5)						
General needs lettings	**22,752**	**-**	**(14,061)**	**8,691**	21,156	7,705
Supported housing lettings	**1,866**	**-**	**(1,758)**	**108**	1,867	115
Low cost home ownership lettings	**1,456**	**-**	**(425)**	**1,031**	1,345	948
	26,074	**-**	**(16,244)**	**9,830**	24,368	8,768
Other social housing activities						
First tranche shared ownership sales	**4,310**	**(3,356)**	**-**	**954**	3,737	437
Accommodation managed by agents	**1,735**	**-**	**(1,099)**	**636**	1,723	900
Development administration	**73**	**-**	**(820)**	**(747)**	63	(677)
Charges for support services under contract	**485**	**-**	**(408)**	**77**	473	59
Other	**122**	**-**	**(466)**	**(344)**	35	(354)
	6,725	**(3,356)**	**(2,793)**	**576**	6,031	365
Non-social housing activities						
Nursing home lettings	**1,528**	**-**	**(1,437)**	**91**	1,501	29
Other	**376**	**-**	**(282)**	**94**	122	90
	1,904	**-**	**(1,719)**	**185**	1,623	119
Total before fair value and pension adjustments	**34,703**	**(3,356)**	**(20,756)**	**10,591**	32,022	9,252
Pensions deficit contribution paid				**572**		549
Impact of changes to pension assumptions				**(1,822)**		(235)
Total after fair value and pension adjustments				**9,341**		9,566

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

5 Income and expenditure from directly managed social housing lettings

Group

						2016		2015
		General needs lettings		**Supported housing lettings**	**Low cost home ownership**	**Total**		Total
		£000's		**£000's**	**£000's**	**£000's**		£000's
Income								
Rent receivable net of identifiable service charges		**20,312**		**1,111**	**1,164**	**22,587**		20,964
Service charge income		**840**		**623**	**301**	**1,764**		1,653
Amortised government grants		**1,563**		**85**	**100**	**1,748**		1,717
Net rents receivable		**22,715**		**1,819**	**1,565**	**26,099**		24,334
Other revenue grants		**-**		**46**	**-**	**46**		100
Other income		**37**		**1**	**1**	**39**		29
Turnover from social housing lettings		**22,752**		**1,866**	**1,566**	**26,184**		24,463
Expenditure								
Management		**2,080**		**693**	**14**	**2,787**		2,753
Service charge costs		**1,114**		**481**	**216**	**1,811**		1,748
Routine maintenance		**2,979**		**166**	**6**	**3,151**		3,363
Planned maintenance		**1,383**		**99**	**2**	**1,484**		1,349
Major repairs expenditure		**1,335**		**8**	**-**	**1,343**		778
Bad debts		**55**		**42**	**-**	**97**		87
Lease charges		**-**		**14**	**-**	**14**		14
Depreciation of housing properties								
– annual charge		**4,691**		**211**	**175**	**5,077**		5,307
– accelerated on disposal of components		**305**		**-**	**-**	**305**		
Other costs		**119**		**44**	**60**	**223**		244
Operating costs on social housing lettings		**14,061**		**1,758**	**473**	**16,292**		15,643
Operating surplus on social housing lettings		**8,691**		**108**	**1,093**	**9,892**		8,820
Void losses		**155**		**36**	**21**	**212**		287

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

5 Income and expenditure from directly managed social housing lettings

Association

						2016		2015
		General needs lettings		**Supported housing lettings**	**Low cost home ownership**	**Total**		Total
		£000's		**£000's**	**£000's**	**£000's**		£000's
Income								
Rent receivable net of identifiable service charges		**20,312**		**1,111**	**1,109**	**22,532**		20,908
Service charge income		**840**		**623**	**252**	**1,715**		1,620
Amortised government grants		**1,563**		**85**	**95**	**1,743**		1,712
Net rents receivable		**22,715**		**1,819**	**1,456**	**25,990**		24,240
Other revenue grants		**-**		**46**	**-**	**46**		100
Other income		**37**		**1**	**-**	**38**		28
Turnover from social housing lettings		**22,752**		**1,866**	**1,456**	**26,074**		24,368
Expenditure								
Management		**2,080**		**693**	**-**	**2,773**		2,742
Service charge costs		**1,114**		**481**	**202**	**1,797**		1,740
Routine maintenance		**2,979**		**166**	**-**	**3,145**		3,347
Planned maintenance		**1,383**		**99**	**-**	**1,482**		1,348
Major repairs expenditure		**1,335**		**8**	**-**	**1,343**		778
Bad debts		**55**		**42**	**-**	**97**		87
Lease charges		**-**		**14**	**-**	**14**		14
Depreciation of housing properties								
– annual charge		**4,690**		**211**	**168**	**5,069**		5,065
– accelerated on disposal of components		**305**		**-**	**-**	**305**		235
Other costs		**120**		**44**	**55**	**219**		244
Operating costs on social housing lettings		**14,061**		**1,758**	**425**	**16,244**		15,600
Operating surplus on social housing lettings		**8,691**		**108**	**1,031**	**9,830**		8,768
Void losses		**155**		**36**	**21**	**212**		287

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

6 Housing Stock

	Group		Association	
Social housing units in management	**2016**	2015	**2016**	2015
Owned by Hexagon				
General needs accommodation				
Social	**2,809**	2,875	**2,809**	2,875
Affordable	**355**	254	**355**	254
Low cost home ownership accommodation	**240**	238	**220**	218
Other leasehold properties	**78**	65	**65**	52
Intermediate rent	**13**	14	**13**	14
Supported housing accommodation				
Social	**197**	189	**197**	189
Affordable	**13**	20	**13**	20
Managed by other housing associations	**404**	415	**404**	415
and agencies				
Not owned by Hexagon				
General needs accommodation	**18**	18	**18**	18
Supported housing accommodation	**6**	6	**6**	6
Managed by other housing associations	**24**	24	**24**	24
and agencies				
Non-social housing units in management				
Nursing home accommodation	**12**	22	**12**	22
Freehold held on outright sale units	**7**	7	**1**	1
Total units in management	**4,176**	4,147	**4,137**	4,108

Units in development	**Group**		**Association**	
	2016	2015	**2016**	2015
Social Housing:				
General needs	**95**	155	**95**	155
Shared ownership	**50**	22	**50**	22
Other				
Housing for sale	**7**	-	**-**	-
Total units in development	**152**	177	**145**	177

7 Accommodation managed by agents

Group and Association

	2016	2015
The Association owns property managed by other bodies as follows:		
General needs units and bedspaces	**294**	294
Supported housing units and bedspaces	**110**	121
	404	415

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

8 Surplus for the year

		Group				Association		
		2016		2015		**2016**		2015
		£000's		£000's		**£000's**		£000's
Operating surplus is stated after charging:								
Depreciation on housing assets								
- Annual charge		**5,470**		5,210		**5,463**		5,200
- Accelerated depreciation of on replaced components		**305**		270		**305**		270
Depreciation on other tangible fixed assets		**286**		236		**286**		236
Operating lease rental on land and buildings		**155**		154		**155**		154
Auditors remuneration (*excluding VAT):*								
- Fees payable for the audit of the annual accounts		**59**		35		**49**		29
- Fees payable for the audit of service charges		**5**		2		**4**		2
- Fees for tax computations		**3**		3		**-**		-
- Fees for tax advice		**-**		2		**-**		2
Pension costs (see note 9 below)		**532**		555		**532**		555
Overall surplus is stated after charging:								
Pension adjustments (see note 30):		**1,822**		235		**1,822**		235
Change in fair value of financial instruments (see note 24):								
- Not treated as hedges		**359**		4,440		**359**		4,440
- Treated as hedges		**336**		5,775		**336**		5,775

9 Employees

Group and Association

		2016		2015
The average number of employees (including the Executive Directors) during the year, expressed as full time equivalents at 35 hours a week was as follows:		**number**		number
Office staff		**93**		85
Other staff		**38**		47
		131		132
		2016		2015
		£000's		£000's
Staff costs (for the above persons)				
Wages and salaries		**4,448**		4,274
Social security costs		**384**		368
Cost of defined benefit scheme (excluding contribution to past service deficits)		**432**		472
Cost of defined contribution scheme		**100**		83
		5,364		5,197

See note 38 for further information the Group's pension schemes

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

10 Directors' and senior staff emoluments

Group and Association

The directors and key management personnel, as defined in FRS102 are defined as members of the Board, the Chief Executive and other Directors as set out on page 2.

		2016		2015	
		£000's		£000's	
Executive directors' emoluments		**625**		611	
Amounts paid to non-executive directors		**47**		47	
Contributions to the SHPS defined benefit scheme		**81**		78	
Contributions to the SHPS defined contribution scheme		**2**		2	
Total expenses re-imbursed to Directors (including Board members) not chargeable to United Kingdom income tax		**2**		1	

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments was £134k (2015: £131k). Pension contributions of £27k (2015: £26k) were made to the SHPS defined benefit scheme on his behalf. The Chief Executive is an ordinary member of that scheme. No enhanced or special terms apply, and the Chief Executive has no individual pension arrangement to which the Group makes a contribution.

There were 3 directors in the defined benefit pension scheme (2015: 3), and 1 in the defined contribution scheme (2015: 1).
The remuneration paid to staff (including the Directors earning over £60,000 was as follows:

		2016 Number		2015 Number	
£60,001 to £70,000		**-**		1	
£70,001 to £80,000		**1**		1	
£80,001 to £90,000		**2**		2	
£90,001 to £100,000		**1**		1	
£100,001 to £110,000		**1**		-	
£110,001 to £120,000		**-**		-	
£120,001 to £130,000		**-**		1	
£130,001 to £140,000		**1**		-	

11 Board members

		Member of:			
Board member	**Remuneration £**	**Hexagon Board**	**Audit & Risk Committee**	**Remuneration Committee**	**Horniman Board**
Roy Coulter	8,707	X		X	X
Ian Mansell	4,436	X	X	X	X
Debbie Bankole- Williams	4,433	X	X		X
Ruth Chambers	3,593	X			
Kellie Elmes	3,593	X	X		
Dermot Finn	3,593	X		X	
Jeanette Kenyon	3,593	X		X	
Martin Large	3,593	X	X		
Rosalind Watson	3,593	X			
Ian Watts	4,911	X	X	X	
Gaius Vincent (to November 2015)	2,397	X			
Tom McCormack	(see note 10)	X			X

11 Board members (continued)

Four of the Board members are also tenants of the Association. Their tenancies, including policies on rent arrears, are on the same terms as those for other tenants and they cannot use their position to their advantage.

The Chief Executive is also a member of the Board.

12 Surplus on disposal of fixed assets

Group

		Shared ownership		**Other housing properties**	**2016 Total**		2015 Total
		£000's		**£000's**	**£000's**		£000's
Housing properties:							
Disposal proceeds		**2,291**		**5,557**	**7,848**		6,391
Cost of disposals		**(1,489)**		**(1,306)**	**(2,795)**		(4,412)
Selling costs		**(9)**		**(73)**	**(82)**		(29)
Depreciation eliminated		**60**		**337**	**397**		380
Grant abated		**(92)**		**(40)**	**(132)**		1,151
		761		**4,475**	**5,236**		3,481
Surplus on disposal of other tangible fixed assets					**(6)**		(156)
Surplus		**761**		**4,475**	**5,230**		3,325

Association

		Shared ownership		**Other housing properties**	**2016 Total**		2015 Total
		£000's		**£000's**	**£000's**		£000's
Housing properties:							
Disposal proceeds		**2,291**		**5,557**	**7,848**		6,256
Cost of disposals		**(1,489)**		**(1,306)**	**(2,795)**		(4,377)
Selling costs		**(9)**		**(73)**	**(82)**		(29)
Depreciation eliminated		**60**		**337**	**397**		379
Grant abated		**(92)**		**(40)**	**(132)**		1,151
		761		**4,475**	**5,236**		3,380
Surplus on disposal of other tangible fixed assets					**(6)**		(156)
Surplus		**761**		**4,475**	**5,230**		3,224

13 Interest receivable and income from financial instruments

		Group		**Association**	
		2016	2015	**2016**	2015
		£000's	£000's	**£000's**	£000's
Interest receivable from subsidiary		**-**	-	**10**	3
Interest receivable and similar income		**83**	23	**83**	23
Total		**83**	23	**93**	26

See note 24 for more information on derivative instruments

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

14 Interest payable and finance costs

		Group				Association		
		2016		2015		**2016**		2015
		£000's		£000's		**£000's**		£000's
Bank and capital market loans		**4,972**		4,676		**4,972**		4,676
Recycled capital grants fund		**9**		4		**9**		4
Disposal proceeds fund		**1**		1		**1**		1
Total		**4,982**		4,681		**4,982**		4,681
Indexation of loan principal		**29**		89		**29**		89
Amortisation of deferred financing costs		**50**		50		**50**		50
Amortisation of loan premium		**(34)**		(33)		**(34)**		(33)
Interest capitalised		**(704)**		(787)		**(696)**		(787)
		4,323		4,000		**4,331**		4,000
Net interest on net defined benefit liability		**90**		147		**90**		147
Total		**4,413**		4,147		**4,421**		4,147
Other financing costs through comprehensive income								
Loss on fair value of hedged derivative instruments		**336**		5,775		**336**		5,775
Loss on fair value of unhedged derivative instruments		**359**		4,440		**359**		4,440

The weighted average rate of interest on borrowings of 3.25% (2015: 3.32%) was used for calculating capitalised interest.

15 Taxation on surplus on ordinary activities

The Association is an exempt Charity and its activities in the year did not give rise to a tax liability. Horniman Housing Association is non charitable and is liable to Corporation Tax. A tax liability of £3k (2015: £18k) existed at 31 March 2016.

UK Corporation Tax - Group	**2016**	2015
	£'000	£'000
Current tax on profits of the year	**3**	18
Adjustments in respect of previous/current periods	**-**	-
Total current tax	**3**	18
The tax assessed for the year differs to the standard rate of corporation tax in the UK applied to the surplus before tax		
	2016	2015
Profit on ordinary activities before tax	**9,900**	4,331
Profit on ordinary activities at the standard rate of corporation tax in the UK of 20% (2015: 20%)	**1,980**	866
Effects of:		
Income not taxable	**(6,941)**	(6,404)
Expenses not deductible	**4,963**	5,558
Fixed asset differences	**1**	(20)
Chargeable gains / (losses)	**-**	17
Adjustments to tax charge in respect of previous	**-**	1
Current tax charge	**3**	18

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

16 Tangible fixed assets - Housing Property

Group

	Tenanted property held for social housing letting	Tenanted property under construction	Shared ownership property held for letting	Shared ownership property under construction	Tenanted property held for non-social housing letting	Shortlife property	2016 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost							
At 1 April	396,232	19,393	32,108	2,175	1,544	1,580	453,032
Transfer to properties held for sale	-	-	52	-	-	-	52
Additions – construction costs	-	17,469	-	3,666	-	-	21,135
Additions – new components	3,775	-	-	-	-	-	3,775
Additions – other works to existing properties	79	-	283	-	-	-	362
Schemes completed	22,085	(22,085)	3,041	(3,041)	-	-	-
Disposals:							
- Property sales	(1,056)	-	(1,489)	-	(250)	-	(2,795)
- Replaced components	(901)	-		-	-	-	(901)
At 31 March	420,214	14,777	33,995	2,800	1,294	1,580	474,660
Depreciation							
At 1 April	55,154	-	951	-	248	1,572	57,925
Charge for the year	5,274	-	175	-	19	2	5,470
Eliminated on disposal:							
- Property sales	(337)	-	(72)	-	-	-	(409)
- Replaced components	(596)	-	-	-	-	-	(596)
At 31 March	59,495	-	1,054	-	267	1,574	62,390
Net book value							
At 31 March 16	360,719	14,777	32,941	2,800	1,027	6	412,270
At 31 March 15	341,078	19,393	31,157	2,175	1,296	8	395,107
The net book value of housing properties comprises:							2016 £000's
Freeholds							393,438
Long leasehold							18,826
Short leasehold							6
Total							412,270

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

16 Tangible fixed assets - Housing Property

Association

	Tenanted property held for social housing letting	Tenanted property under construction	Shared ownership property held for letting	Shared ownership property under construction	Tenanted property held for non-social housing letting	Shortlife property	2016 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost							
At 1 April	**396,232**	**19,393**	**31,023**	**2,175**	**1,544**	**1,580**	**451,947**
Transfer to properties held for sale	**-**	**-**	**52**	**-**	**-**	**-**	**52**
Additions – construction costs	**-**	**17,469**	**-**	**3,665**	**-**	**-**	**21,134**
Additions – new components	**3,775**	**-**	**-**	**-**	**-**	**-**	**3,775**
Additions – other works to existing properties	**79**	**-**	**283**	**-**	**-**	**-**	**362**
Schemes completed	**22,085**	**(22,085)**	**3,041**	**(3,041)**	**-**	**-**	**-**
Disposals:							
- Property sales	**(1,056)**	**-**	**(1,489)**	**-**	**(250)**	**-**	**(2,795)**
- Replaced components	**(901)**	**-**		**-**	**-**	**-**	**(901)**
At 31 March	**420,214**	**14,777**	**32,910**	**2,799**	**1,294**	**1,580**	**473,574**
Depreciation							
At 1 April	**55,154**	**-**	**843**	**-**	**248**	**1,572**	**57,817**
Charge for the year	**5,274**	**-**	**166**	**-**	**19**	**2**	**5,461**
Eliminated on disposal:							
- Property sales	**(337)**	**-**	**(72)**	**-**	**-**	**-**	**(409)**
- Replaced components	**(596)**	**-**	**-**	**-**	**-**	**-**	**(596)**
At 31 March	**59,495**	**-**	**937**	**-**	**267**	**1,574**	**62,273**
Net book value							
At 31 March 16	**360,719**	**14,777**	**31,973**	**2,799**	**1,027**	**6**	**411,301**
At 31 March 15	341,078	19,393	30,180	2,175	1,296	8	394,130

The net book value of housing properties comprises:	**2016 £000's**
Freeholds	**392,469**
Long leasehold	**18,826**
Short leasehold	**6**
Total	**411,301**

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

16 Tangible fixed assets - Housing Property (continued)

	Group	Group	**Association**	Association
	2016	2015	**2016**	2015
	£000's	£000's	**£000's**	£000's
Interest capitalisation				
Interest capitalised in the year	**636**	681	**636**	681
(Weighted average rate of interest on borrowings of 3.25% (2015: 3.32%) was used for calculating capitalised interest.)				
Works to properties				
New components capitalised	**3,775**	3,428	**3,775**	3,428
Major repairs expenditure charged to comprehensive income account	**1,327**	778	**1,327**	778
Total expenditure	**5,102**	4,206	**5,102**	4,206
Total Social Housing Grant received or receivable to date is as follows:				
Capital grant for housing properties	**217,856**	218,672	**217,228**	218,038
Revenue element taken to comprehensive income	**2,971**	2,899	**2,971**	2,899
Recycled to Recycled Capital Grant Fund	**2,465**	1,287	**2,426**	1,249
Recycled to Disposals Proceeds Fund	**(17)**	(17)	**(17)**	(17)
Total	**223,275**	222,841	**222,608**	222,169

Due to housing property development dating back many years, it has not been possible to determine the cumulative amount of capitalised interest included in the cost of housing properties.

Finance Leases
The net book value of housing properties for the Group includes an amount of £18,826k (2015 – £18,826k) in respect of assets held under finance leases. Such assets are generally classified as finance leases as the lease period amounts to the estimated useful economic life of the assets concerned.

The Group considers individual tenanted and shared ownership properties to represent separate cash generating units when assessing for impairment in accordance with the requirements of FRS102 and SORP 2014. For properties in development, the group treats each development programme as a cash generating unit.

Impairment Review

On 8 July 2015, the Summer Budget included the announcement that the Government will reduce rents in social housing in England by 1% a year for four years from April 2016. The Government indicated that this will result in a 12% reduction in average rents by 2020/21. This triggered an indication of impairment and a full review was performed. Almost all general needs and supported housing properties were considered to be providing a social housing service. For these, the cost to replace was calculated using rebuilding cost figure for which each property is insured. In all cases, the depreciated replacement cost is more than the carrying value, so no impairment charge was booked. For two care and support properties where high void levels indicated possible reduction in social housing service, the sales value less cost to sell was estimated and confirmed to be more than the carrying value. For properties in the course of construction calculation was undertaken to show that the projected cost of the completed programmes is less than the cost of replacing by either rebuild or by purchase on the open market, so no impairment charge was booked.

Properties held for security – Association & Group

	2016 £m	**2015 £m**
Carrying value of properties charged as security for loans and derivatives		
Estimated tenanted open market value of properties so charged	**309**	306
Estimated tenanted open market value of unsecured properties	**203**	164

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

17 Other fixed assets

Group & Association

								2016
		Freehold		Office		Motor		Total
		offices		equipment		vehicles		
		£000's		£000's		£000's		£000's
Cost								
At 1 April		**3,450**		**2,133**		**25**		**5,608**
Additions		**132**		**516**		**-**		**648**
Disposals		**-**		**(222)**		**-**		**(222)**
At 31 March		**3,582**		**2,427**		**25**		**6,034**
Depreciation								
At 1 April		**936**		**1,550**		**25**		**2,511**
Charge for year		**58**		**228**		**-**		**286**
Disposals		**-**		**(216)**		**-**		**(216)**
At 31 March		**994**		**1,562**		**25**		**2,581**
Impairment								
At 1 April		**476**		**-**		**-**		**476**
Charge for year		**-**		**-**		**-**		**-**
At 31 March		**476**		**-**		**-**		**476**
Net book value								
At 31 March 2016		**2,112**		**865**		**-**		**2,977**
At 31 March 2015		2,038		583		-		2,621

18 Properties developed for sale		Group				Association		
		2016		2015		**2016**		2015
		£000's		£000's		**£000's**		£000's
Completed		**1,076**		1,769		**1,076**		1,769
Under construction		**3,723**		1,824		**1,924**		1,824
		4,799		3,593		**3,000**		3,593

Properties developed for sale include capitalised interest as follows:

		Group				Association		
		2016		2015		**2016**		2015
		£000's		£000's		**£000's**		£000's
Completed		**14**		75		**14**		75
Under construction		**52**		45		**45**		45
		66		119		**59**		119

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

19 Debtors

		Group				Association		
		2016		2015		**2016**		2015
		£000's		£000's		**£000's**		£000's
Amounts receivable within one year:								
Rent arrears		**1,109**		856		**1,089**		844
Less: Provision for bad debts		**(277)**		(265)		**(278)**		(264)
Net rent arrears		**832**		591		**811**		580
Amounts owed by subsidiary		**-**		-		**79**		4
Other debtors		**1,387**		1,837		**1,456**		1,835
Prepayments and accrued income		**310**		528		**231**		525
Social housing grant receivable		**314**		1,309		**314**		1,309
		2,843		4,265		**2,891**		4,253
Amounts receivable in more than one year:								
Amounts owed by subsidiary		**-**		-		**1,825**		124
Total debtors		**2,843**		4,265		**4,716**		4,377

20 Cash at bank and short term deposits

		Group				Association		
		2016		2015		**2016**		2015
		£000's		£000's		**£000's**		£000's
Cash at bank: charged to lenders		**1,280**		782		**1,280**		782
: held in trust for shared		**591**		483		**443**		361
ownership leaseholders								
: unencumbered		**8,819**		8,648		**8,762**		8,553
		10,690		9,913		**10,485**		9,696

21 Creditors: Amounts falling due within one year

		Group				Association		
		2016		2015		**2016**		2015
		£000's		£000's		**£000's**		£000's
Loans and borrowings – note 23		**2,624**		1,523		**2,624**		1,523
Deferred capital grant – note 25		**1,958**		1,925		**1,952**		1,920
Trade creditors		**1,360**		2,964		**1,360**		2,964
Rent and service charges received in advance		**552**		504		**552**		504
Amounts owed to subsidiary		**-**		-		**-**		-
Taxation and social security payable		**111**		124		**108**		107
Other creditors		**1,344**		1,192		**1,338**		1,180
Recycled Capital Grant Fund – note 26		**179**		1		**161**		-
Disposals Proceeds Fund – note 27		**80**		-		**80**		-
Accruals and deferred income		**2,545**		2,398		**2,524**		2,393
Accrued interest		**837**		840		**837**		840
		11,590		11,471		**11,536**		11,431

Included in other creditors is £119k (2015: £119k) SHG repayable to a local authority.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

22 Creditors: Amounts falling due after more than one year

		Group				Association		
		2016		2015		**2016**		2015
		£000's		£000's		**£000's**		£000's
Loans and borrowings – note 23		**148,356**		142,050		**148,356**		142,050
Deferred capital grant – note 25		**215,898**		216,747		**215,276**		216,118
Recycled Capital Grant Fund - note 26		**2,352**		1,344		**2,328**		1,302
Disposal Proceeds Fund - note 27		**11**		90		**11**		90
Repairs and equipment replacement funds - note 28		**904**		748		**764**		624
Total before fair value adjustments		**367,521**		360,979		**366,735**		360,184
Financial liabilities measured at fair value of (see note 24):								
- Interest rate swaps designated as hedges		**14,714**		14,379		**14,714**		14,379
- Interest rate swaps not designated as hedges		**10,091**		9,731		**10,091**		9,731
Total fair value adjustments		**24,805**		24,110		**24,805**		24,110
Total after fair value adjustments		**392,326**		385,089		**391,540**		384,294

23 Loans and borrowing – Group and Association

Maturity of debt		**Bank loans**		**Other loans**		**Total**
		2016		**2016**		**2016**
		£000's		**£000's**		**£000's**
In one year or less, or on demand		**624**		**2,000**		**2,624**
Due between one and two years		**769**		**444**		**1,213**
Due between two and five years		**9,259**		**6,776**		**16,035**
Due in five years or more		**98,620**		**33,405**		**132,025**
Total of all loans		**109,272**		**42,625**		**151,897**
Short term creditors		**(624)**		**(2,000)**		**(2,624)**
Deferred Finance Charges		**(511)**		**(541)**		**(1,052)**
HSL loan premium		**-**		**135**		**135**
		108,137		**40,219**		**148,356**

Maturity of debt		Bank loans		Other loans		Total
		2015		2015		2015
		£000's		£000's		£000's
In one year or less, or on demand		950		573		1,523
Due between one and two years		950		1,983		2,933
Due between two and five years		7,959		6,767		14,726
Due in five years or more		108,266		16,737		125,003
Total of all loans		118,125		26,060		144,185
Short term creditors		(950)		(573)		(1,523)
Deferred Finance Charges		(537)		(245)		(782)
HSL loan premium		-		170		170
		116,638		25,412		142,050

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

23 Loans and borrowing – Group and Association (continued)

Details of borrowings, which are secured by fixed charges on some of the Group's housing properties, are set out below

Loans are secured by fixed charges on the Group's housing properties and are repayable with varying terms as follows:					
Bank loans:	**Repayment type**	**Year of final repayment**	**Interest rate**	**2016 £000's**	2015 £000's
Bank of Scotland	Amortising	2029/30	Variable	**4,022**	12,375
Abbey National Treasury Services	Amortising	2042/43	Variable	**57,000**	57,000
Newcastle Building Society	Bullet	2036/37	Variable	**25,000**	25,000
Lloyds TSB	Amortising	2034/35	Variable	**23,250**	23,750
Other loans:					
The Housing Finance Corporation	Bullet	2016/17	11.5%	**1,500**	1,500
The Housing Finance Corporation	Amortising	2019/20	RPI + 5.65%	**146**	171
The Housing Finance Corporation	Amortising	2024/25	RPI + 5.50%	**3,409**	3,666
Housing Securities Ltd	Bullet	2018/19	9.31%	**5,500**	5,500
Orchardbrook Ltd	Amortising	2016/17	11.48%	**70**	223
AHF EIB Loan 2014	Amortising	2043/44	3.29%	**7,500**	7,500
AHF Bond Loan 2014	Bullet	2041/42	3.8%	**7,500**	7,500
AHF Bond Loan 2015	Bullet	2043/44	2.89%	**17,000**	-
Total				**151,897**	**144,185**

During the year, the Group agreed and drew a new loan of £17m from Affordable Housing Finance (AHF), as well as agreeing a further £17m loan from AHF which was undrawn at year end. At 31 March 2016 the Group had loan facilities available of £37m (2015: £20m) £20m of which was available at 3 days' notice.

24 Interest rate swaps

Interest rate swaps		**Nominal amount**		Nominal amount		**Fair value**		Fair value
		2016		2015		**2016**		2015
		£000's		£000's		**£000's**		£000's
Treated as hedges:								
LIBOR to fixed (fixed leg ranges from 3.043% to 4.96%)		**30,000**		35,000		**(10,999)**		(10,801)
LIBOR to RPI plus margin (of up to 1.19%)		**9,500**		9,500		**(3,715)**		(3,578)
Not treated as hedges as can be cancelled by the counter party before the full term (fixed leg ranges from 4.035% to 4.44%)		**20,000**		20,000		**(10,091)**		(9,731)
Total		**59,500**		64,500		**(24,805)**		(24,110)

24 Interest rate swaps (continued)

To hedge the potential volatility in further interest cash flows arising from movements in LIBOR, the Group has entered into floating to fixed interest or inflation-linked swaps with a nominal value less than borrowings. The interest re-pricing dates are identical to those of the matching variable rate loans, and the terms are the same as or less than the matching loans. These result in the Association paying up to 4.96% and receiving LIBOR (though cash flows are settled on a net basis) and effectively fix the total interest cost on the matching loans. These derivatives are accounted for as a hedge of variable rate interest risks, in accordance with FRS102 and had a fair value of £14.8m (2015 :- £14.4m) at the balance sheet date. The change in fair value in the period was £336k with the charge being recognised in other comprehensive income as the swaps were 100% effective hedges.

A further three interest swaps which result in the Association paying up to 4.44% and receiving LIBOR cannot be accounted for as a hedges in accordance with FRS102, as the counterparty has at least one opportunity to cancel the swap at a future date. These derivatives had a fair value of £10.1m (2015: - 9.3m) at the balance sheet date. The change in fair value in the period was £359k with the charge being recognised as part of the surplus for the year.

The fair value of interest rate swaps has been determined by reference to market rates at the balance sheet date.

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25 Deferred Capital Grants

Group	**Tenanted property held for social housing letting**	**Tenanted property under construction**	**Shared ownership property held for letting**	**Shared ownership property under construction**	**Tenanted property held for non-social housing letting**	**Shortlife property**	**2016 Total**	2015 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**225,465**	**5,283**	**12,650**	**355**	**790**	**1,755**	**246,298**	243,831
Additions	**216**	**1,484**	**209**	**269**	**-**	**-**	**2,178**	4,727
Schemes completed	**4,133**	**(4,133)**	**619**	**(619)**	**-**	**-**	**-**	-
Recycled to RCGF	**(420)**	**-**	**(781)**	**-**	**-**	**-**	**(1,201)**	(2,260)
Recycled to DPF	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
At 31 March	**229,394**	**2,634**	**12,697**	**5**	**790**	**1,755**	**247,275**	246,298
Amortisation								
At 1 April	**25,196**	**-**	**580**	**-**	**95**	**1,755**	**27,626**	25,899
Charge for the year	**1,826**	**-**	**93**	**-**	**6**	**-**	**1,925**	1,903
Eliminated on disposal:	**(92)**	**-**	**(40)**	**-**	**-**	**-**	**(132)**	(176)
At 31 March	**26,930**	**-**	**633**	**-**	**101**	**1,755**	**29,419**	27,626
Amortised value								
At 31 March 2016	**202,464**	**2,634**	**12,065**	**5**	**689**	**-**	**217,856**	218,672
At 31 March 2015	200,269	5,283	12,069	355	695	-	218,672	
Association	**Tenanted property held for social housing letting**	**Tenanted property under construction**	**Shared ownership property held for letting**	**Shared ownership property under construction**	**Tenanted property held for non-social housing letting**	**Shortlife property**	**2016 Total**	2015 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**225,465**	**5,283**	**11,925**	**355**	**790**	**1,755**	**245,573**	243,082
Additions	**216**	**1,484**	**209**	**269**	**-**	**-**	**2,178**	4,727
Schemes completed	**4,133**	**(4,133)**	**619**	**(619)**	**-**	**-**	**-**	-
Recycled to RCGF	**(420)**	**-**	**(781)**	**-**	**-**	**-**	**(1,201)**	(2,237)
Recycled to DPF								
At 31 March	**229,394**	**2,634**	**11,972**	**5**	**790**	**1,755**	**246,550**	245,572
Amortisation								
At 1 April	**25,196**	**-**	**488**	**-**	**95**	**1,755**	**27,534**	25,808
Charge for the year	**1,826**	**-**	**88**	**-**	**6**	**-**	**1,920**	1,897
Eliminated on disposal:	**(92)**	**-**	**(40)**	**-**	**-**	**-**	**(132)**	(171)
At 31 March	**26,930**	**-**	**536**	**-**	**101**	**1,755**	**29,322**	27,534
Amortised value								
At 31 March 2016	**202,464**	**2,634**	**11,436**	**5**	**689**	**-**	**217,228**	
At 31 March 2015	200,269	5,283	11,404	355	694	-	218,038	

HEXAGON HOUSING ASSOCIATION

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26 Recycled Capital Grant Fund

			Group				Association		
			2016		2015		**2016**		2015
			£000's		£000's		**£000's**		£000's
At 1 April			**1,343**		225		**1,302**		207
Inputs to fund:	Grants recycled		**1,201**		1,131		**1,201**		1,107
	Interest accrued		**9**		4		**9**		4
	Transfer from subsidiary		**1**		-		**1**		-
Recycling of grant:	New build		**(24)**		(16)		**(24)**		(16)
At 31 March			**2,531**		1,344		**2,489**		1,302
Amount due within one year			**179**		1		**161**		-
Amount due after more than one year			**2,352**		1,343		**2,328**		1,302
			2,531		1,344		**2,489**		1,302

No amounts are repayable to the Greater London Authority. Withdrawals from the recycled capital grant fund were used for the development of new housing schemes for letting.

27 Disposal Proceeds Fund

Group and Association

		2016		2015
		£000's		£000's
At 1 April		**90**		188
Inputs to fund:	Grants recycled	**-**		9
	Interest accrued	**1**		1
Recycling of grant:	New build	**-**		(108)
At 31 March		**91**		90
Amount due within one year		**80**		-
Amount due after more than one year		**11**		90
		91		90

No amounts are repayable to the Greater London Authority.

28 Repairs and equipment replacement funds

Group	**Leaseholders sinking fund**	**Equipment replacement**		**Total**
	£000's	**£000's**		**£000's**
At 1 April 2015	**452**	**296**		**748**
Additions	**86**	**70**		**156**
Used in year	**-**	**-**		
31 March 2016	**538**	**366**		**904**
Association				
At 1 April 2015	**328**	**296**		**624**
Additions	**70**	**70**		**140**
Used in year	**-**	**-**		**-**
31 March 2016	**398**	**366**		**764**

These funds represent the unused contributions paid by leaseholders or supported housing agents towards future major repairs or replacement of equipment.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

29 Financial instruments

The Group's and Association's financial instruments may be analysed as follows:

	Group	Group	Association	Association
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Financial assets measured at historical cost				
Debtors receivable in one year	2,843	4,265	2,891	4,253
- Debtors receivable after one year	-	-	-	-
- Cash and cash equivalents	10,690	9,913	10,485	9,696
- Financial assets that are debt instruments measured at amortised cost				
Intercompany loan	-	-	1,825	124
- **Total financial assets**	13,533	14,178	15,201	14,073
Financial liabilities				
Financial liabilities measured at amortised costs				
- Loans payable in one year	2,624	1,523	2,624	1,523
- Loans payable after one year	148,356	142,050	148,356	142,050
Financial liabilities measured at fair value				
- Interest rate swaps designated as hedges	14,714	14,379	14,714	14,379
- Interest rate swaps not designated as hedges	10,091	9,731	10,091	9,731
Financial liabilities measured at historical cost				
Creditors receivable in one year				
- Other creditors	6,750	8,023	6,720	7,988
Total financial liabilities	182,535	175,706	182,505	175,671

30 Provisions for liabilities - Group and Association

Group	SHPS pension deficit contribution	Dilapidations		Total
	£000's	£000's		£000's
At 1 April 2015	4,419	212		4,631
Charged to comprehensive income:				
- additions	-	17		17
- remeasurement	1,822	-		1,822
Unwinding of discount	90	-		90
Contribution paid	(766)	-		(766)
Used in year				
31 March 2016	5,565	229		5,794

30 Provisions for liabilities - Group and Association (continued)

Hexagon participates in the SHPS pension scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Hexagon to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK. The scheme is classified as a 'last-man standing arrangement'. Therefore Hexagon is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out at 30 September 2011. This actuarial valuation showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid to the scheme as follows:

-From 1 April 2013 to 30 September 2020: A cash amount1 equivalent to 7.5% of members' earnings per annum (payable monthly and increasing by 4.7% each year on 1st April)

- From 1 October 2020 to 30 September 2023: A cash amount1 equivalent to 3.1% of members' earnings per annum (payable monthly and increasing by 4.7% each year on 1st April)

- From 1 April 2013 to 30 September 2026: £30.64m per annum2 (payable monthly and increasing by 3.0% each year on 1st April)

Because the scheme is in deficit and Hexagon has agreed to a deficit funding arrangement and recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate as set out below. The unwinding of the discount rate is recognised as a finance cost.

Date	March 2016	March 2015	March 2014
Rate of discount % per annum	2.06	1.92	3.02

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions. Please see note 38 for more detail on the SHPS pension.

The dilapidations provision is for repair obligations for short term leases, primarily for supported housing schemes, ending between 2018 and 2020.

31 Non-equity Share Capital

	Group		**Association**	
	2016	2015	**2016**	2015
	£	£	**£**	£
Allotted issued and fully paid				
At 1 April	**17**	17	**17**	17
Issued during the year	**-**	3	**-**	3
Surrendered during the year	**(1)**	(3)	**(1)**	(3)
At 31 March	**16**	17	**16**	17

Each share has a nominal value of £1 and carries no right to interest, dividend, bonus or distribution on winding up. When a shareholder ceases to be a member, their share is cancelled and the amount paid up becomes the property of the Association. Shareholders have the right to vote at general meetings of the Association, subject to the rules of the Association.

32 Contingent Liabilities

There is a potential claim against the group at one of its newly developed schemes. No claim has yet been made and we estimate the value of the claim to be no more than £110k. The Group and Association had no other material contingent liabilities at the balance sheet date.

33 Operating leases

The Group had minimum lease payments under non-cancellable operating leases as set out below:

	Group				**Association**		
	2016		2015		**2016**		2015
	£000's		£000's		**£000's**		£000's
Not later than one year	**-**		-		**-**		-
Later than one year and not later than five years	**124**		13		**124**		13
Later than five years	**-**		110		**-**		110
Total	**124**		123		**124**		123

The Group had minimum lease income under non-cancellable operating leases as set out below:

	Group				**Association**		
	2016		2015		**2016**		2015
	£000's		£000's		**£000's**		£000's
Not later than one year	**1,300**		1,164		**1,245**		1,108
Later than one year and not later than five years	**5,199**		4,501		**4,978**		4,280
Later than five years	**138,721**		129,950		**133,003**		124,176
Total	**145,220**		135,615		**139,226**		129,564

The minimum lease income includes shared ownership which have standard 125 year lease and commercial units up until lease break clause dates.

34 Capital Commitments – Group and Association

	Group		**Association**	
	2016	2015	**2016**	2015
	£000's	£000's	**£000's**	£000's
Commitments contracted for but not provided for:				
Construction	**22,843**	18,211	**21,203**	18,211
Maintenance	**-**	-	**-**	-
Other	**-**	-	**-**	-
Capital expenditure approved by the board but not contracted for:				
Construction	**18,930**	38	**18,930**	38
Maintenance	**-**	-	**-**	-
Other	**-**	-	**-**	-
	41,773	18,249	**40,133**	18,249
These commitments to be financed as follows:				
Social Housing Grant	**6,685**	2,860	**6,685**	2,860
Proceeds from the sales of properties	**7,960**	5,889	**7,960**	5,889
Committed loan facilities	**10,128**	9,500	**8,488**	9,500
Loan committed after year end	**17,000**	-	**17,000**	-
	41,773	18,249	**40,133**	18,249

35 Related party disclosures

The association provides management services, development agency services and loans to its subsidiary, Horniman Housing Association, which is a non-charitable registered provider. The quantum and basis for these charged is set out below:

Management charges		**Development agency charges**		**Interest charges**	
2016	2015	**2016**	2015	**2016**	2015
£'000	£'000	**£'000**	£'000	**£'000**	£'000
34	32	**30**	-	**9**	3

The management charges and development agency fees receivable by the Association are to cover the running costs incurred to manage Horniman. The management fee is calculated on the basis of staff time to manage both subsidiary and its properties. The development agency fee is calculated on the basis of development and new business staff time to manage development schemes for the subsidiary**.**

Horniman can draw on two intercompany loans from Hexagon, and interest is charged on the amount drawn as per the signed loan agreements.

In Hexagon Housing Association's Financial Statements is the sum of £1,825k (2015: £134k) owed by Horniman Housing Association. This is made up of two loans of £114k (2015: £124k) and £1,711k (2015:nil). The first loan was taken out in 2004 in accordance with commercial lending terms. The second loan was taken out in 2016 also with commercial lending terms. Hexagon Housing Association received Gift Aid from Horniman Housing Association during the year £22k (2015: £21k).

The directors and key management personnel, as defined in FRS102 are defined as members of the Board, the Chief Executive and other Directors as set out on page 2 (see note 10 for Directors and senior staff emoluments). Members of the Governing Board received payment totalling £46k in the year (2015: £47k). Expenses paid to Board members during the year amounted to £1k (2015: £1k). Four of the Board members (one resigned) are also tenants of the Association. Their tenancies, including policies on rent arrears, are on the same terms as those for other tenants and they cannot use their position to their advantage. The total rental income from board members for the year was £18k and there were no arrears at the end of the financial year.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

36 First time adoption of FRS102

Group	Note	Reserves as at 1 April 2014	Surplus for the year ended 31 March 2015	Reserves as at 31 March 2015
		£'000	£'000	£'000
As previously stated under UK GAAP		**43,990**	**9,121**	**53,111**
Increase in depreciation of housing properties	**16**	**(35,330)**	**(2,346)**	**(37,676)**
Amortisation of social housing grant	**25**	**25,892**	**1,728**	**27,620**
Interest rate swaps at fair value	**24**	**(13,895)**	**(10,215)**	**(24,110)**
Provision for pension deficit contributions	**30**	**(5,158)**	**167**	**(4,991)**
Change to method of estimating provision for rental debtors	**19**	**358**	**86**	**444**
Accrual for holiday pay	**21**	**(84)**	**(6)**	**(90)**
As stated in accordance with FRS 102		**15,773**	**(1,465)**	**(14,308)**

Association	Note	Reserves as at 1 April 2014	Surplus for the year ended 31 March 2015	Reserves as at 31 March 2015
		£'000	£'000	£'000
As previously stated under UK GAAP		**43,851**	**9,040**	**52,891**
Increase in depreciation of housing properties (a)	**16**	**(35,272)**	**(2,345)**	**(37,617)**
Amortisation of social housing grant (a)	**25**	**25,808**	**1,727**	**27,535**
Interest rate swaps at fair value (b)	**24**	**(13,895)**	**(10,215)**	**(24,110)**
Provision for pension deficit contributions (c)	**30**	**(5,158)**	**167**	**(4,991)**
Change to method of estimating provision for rental debtors (d)	**19**	**358**	**86**	**444**
Accrual for holiday pay (e)	**21**	**(84)**	**(6)**	**(90)**
As stated in accordance with FRS 102		**15,608**	**(1,546)**	**(14,062)**

36 First time adoption of FRS102 (continued)

Explanation of changes to previously reported profit and reserves

a. Social Housing Grant can no longer be offset against housing property within fixed assets and under section 24 of FRS102 grants are measured using the 'accrual model' with the grant amortised over the life of the structure and components of the property. As a result the structure and component elements of housing properties can no longer be depreciated net of grant, which serves to increase the annual depreciation charge and the accumulated depreciation. The effect on the 1 April 2015 balance sheet is to reduce reserves by £10,082k, being the net impact of the increased depreciation and the amortisation of grant.

b. Section 12 requires derivative instruments such as interest rate swaps to be measured at fair value with any gains or losses going through comprehensive income. Section 12 also allows for any change in the fair value of hedged financial instruments to be recognised within other comprehensive income, rather than in the surplus for the year. The effect on the 1 April 2015 balance sheet is to reduce reserves by £13,895k. £10,215k was recognised as expenditure within the surplus for the year to 31 March 2015 as this is related to the ineffectiveness of the hedged instrument (the swaps had a cancellable element). A further £4,440k is included within other comprehensive income relating to the change in fair value of hedged derivative instruments.

c. Section 28 requires that multi-employer defined benefit pension schemes must be accounted for as defined contribution schemes where, as in cash of the SHPS scheme, there is insufficient information available to account for the plan as defined benefit. But where there is a contractual agreement that determines how any past service deficit is to be funded, a liability must be recognised. The effect on the 1 April 2015 balance sheet is to increase provisions and reduce reserves by £4,991k.

d. Section 21 requires objective evidence of impairment of any financial assets. The method of estimating the bad debt provision for rent accounts in arrears has been amended so that full provision is made for all former tenant arrears and current tenant arrears where a court order is in place. The effect on the 1 April 2015 balance sheet is to increase debtors and reserves by £444k.

e. Section 28 requires that short term employee benefits that are expected to be settled within 12 months of the balance sheet date should be recognised in the financial statements. Holiday entitlements that have not been taken at 31 March have been valued with reference to the salary of each employee, and included in short term creditors. The effect on the 1 April 2015 balance sheet is to reduce reserves by £90k.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2016

37 Restatement of loan covenant elements under pre FRS102 accounting policies

The loan agreements between Hexagon and its funding banks require the Association to meet certain financial covenants on income cover and gearing. All of the loan agreements allow Hexagon to report such compliance under the accounting policies at the date of the loan agreement, ie under "frozen GAAP". The information needed to calculate each element of the covenants under previous UK GAAP is set out below.

Income covenant element		**2016**	2015
	Note	**£'000**	£'000
Operating surplus before fair value adjustments per consolidated income statement		**10,609**	9,256
Add back housing depreciation		**5,768**	5,440
Deduct SHG amortisation		**(1,920)**	(1,727)
Add back movement in accrued holiday pay		**13**	6
Add back movement in bad debt provision under FRS102		**12**	(5)
Deduct movement in bad debt provision under frozen GAAP		**(12)**	(81)
Add back major repair costs charged to comprehensive income		**1,343**	778
Add surplus on disposal of assets		**5,230**	3,325
Operating surplus per loan agreements under frozen GAAP		**21,043**	16,992

Net interest payable and receivable under frozen GAAP is as per the comprehensive income statements before fair value measurements.

Gearing element		**2016**	2015
	Note	**£'000**	£'000
Social Housing Grant per balance sheet		**217,864**	218,679
Add back cumulative SHG amortisation		**29,411**	27,619
Social Housing Grant under frozen GAAP		**247,275**	246,298
Reserves before pensions and fair value adjustments per balance sheet		**53,978**	42,589
Add back cumulative property depreciation under FRS102		**62,273**	57,817
Deduct cumulative property depreciation as at 1 April 2015 under frozen GAAP		**(20,945)**	(18,559)
Deduct cumulative property depreciation under frozen GAAP since 1 April 2015		**(5,645)**	(2,386)
Deduct cumulative SHG amortisation		**(29,322)**	(27,567)
Add back accrued holiday pay creditor		**102**	90
Add bad debt provision under FRS102		**276**	264
Deduct bad debt provision under frozen GAAP		**(276)**	(708)
Reserves per loan agreements under frozen GAAP		**60,441**	51,540

Total borrowings and cash are the same under FRS102 and frozen GAAP.

38 Pension Obligations

Hexagon participates in the Social Housing Pension Scheme (SHPS). The Scheme is funded and is contracted out of the state scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the "SHPS House Policies and Rules Employer Guide".

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate until 31 March 2007. From April 2007 there are three benefit structures available, namely:

1.1 Final salary with a 1/60th accrual rate.
1.2 Final salary with a 1/70th accrual rate.
1.3 Career average revalued earnings with a 1/60th accrual rate.

From April 2010 there are a further two benefit structures available, namely:

1.4 Final salary with a 1/80th accrual rate
1.5 Career average revalued earnings with a 1/80th accrual rate

A defined contribution option was made available from 1 October 2010.

An employer can elect to operate different benefit structures for their active members and their new entrants. An employer can only operate one open defined benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Hexagon elected to operate the final salary with a 1/60th accrual rate benefit structure for active members as at 30/09/2010 and a defined contribution scheme for new entrants from 1/10/2010.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period Hexagon paid contributions at the rate of 7.4% to the defined benefit scheme and a maximum of 7.4% to the defined contribution scheme. Member contributions varied between 10.4% and 11.4% for those members in the defined benefit scheme and up to 8% in the defined contribution scheme.

As at the balance sheet date there were 54 (2015: 58) active members of the Scheme employed by Hexagon. The annual pensionable payroll in respect of these members was £3,925,580 (2015: £2,051,000). From 1/10/2010 new employees have only been eligible to join the defined contribution scheme.

38 Pension Obligations (continued)

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from total scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30 September 2014 by a professionally qualified Actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £3,123 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,323 million, equivalent to a past service funding level of 70.0%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2015. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The market value of the Scheme's assets at the date of the Actuarial Report was £3,465 million. The Actuarial Report revealed a shortfall of assets compared with the value of liabilities of £1,660 million, equivalent to a past service funding level of 68%.

The financial assumptions underlying the valuation as at 30 September 2014 were as follows:

	% pa
Valuation discount rates	
Pre retirement	5.9
Non pensioner post retirement	3.3
Pensioner post retirement	3.3
Pensionable earnings growth	4.2
Price inflation	3.1 (RPI)
	2.2 (CPI)

The long-term joint contribution rates required from April 2013 from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit structure	Long-term joint contribution rate (% of pensionable salaries)
Final salary with a 1/60th accrual rate	20.6

38 Pension Obligations (continued)

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £1,323 million would be dealt with by the payment of deficit contributions as shown in the table below:

From 1 April 2013 to 30 September 2020	A cash amount(*) equivalent to 7.5% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 April)
From 1 October 2020 to 30 September 2023	A cash amount(*) equivalent to 3.1% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 April)
From 1 April 2013 to 30 September 2026	£30,640,000 per annum (payable monthly and increasing by 3% per annum each 1 April; first increase on 1 April 2014)
From 1 April 2016 to 30 September 2026	£31,690,000 per annum (payable monthly and increasing by 3% per annum each 1 April; first increase on 1 April 2017)

(*) The contributions of 7.5% are expressed in nominal pound terms (for each Employer), increasing each year in line with the Earnings growth assumption used in the 30 September 2008 valuation (i.e. 4.7% per annum). The contributions of 3.1% will be calculated by proportioning the nominal pound payment at the time of the change. Earnings at 30 September 2008 (for each Employer) have been used as the reference point for calculating these contributions.

Hexagon paid £549k in deficit contributions in the year to March 2015, and will pay deficit contributions of £6,460k in the period from April 2016 to September 2026 under the above recovery plan.

These deficit contributions are in addition to the long-term joint contribution rates as set out above.

The next formal valuation of the Scheme is due as at 30 September 2017. The results of this valuation will be available in Spring 2018.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

Employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 2.5% to reflect the higher costs of a closed arrangement.

38 Pension Obligations (continued)

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme.

New employers that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and new employers joining the Scheme between valuations up until 1 April 2010 do not contribute towards the deficit until two valuations have been completed after their date of joining. New employers joining the Scheme after 1 April 2010 will be liable for past service deficit contributions from the valuation following joining. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

A copy of the Recovery Plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to The Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or Recovery Plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Scheme liabilities and hence impact on the Recovery Plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the Recovery Plan).

As a result of pension scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

Hexagon has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the Scheme as at 30 September 2014. As of this date the estimated employer debt for Hexagon was £29,448,743.