HEXAGON HOUSING ASSOCIATION

Report and Consolidated Financial Statements

31 March 2018

Regulator of Social Housing Registration Number: L1538

HEXAGON HOUSING ASSOCIATION

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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HEXAGON HOUSING ASSOCIATION

EXECUTIVES AND ADVISORS FOR THE YEAR ENDED 31 MARCH 2018

Board of Management

Roy Coulter	(Chair)
Debbie Bankole-Williams	(Vice Chair) (Chair of Horniman Housing Association)
Ian Mansell	To May 2017
Martin Large	(Vice Chair)
Ruth Chambers	
Ranna McArdle	
Dermot Finn	
Jeanette Kenyon	
Mark Allan	
Rosalind Watson	To September 2017
Ian Watts	
Carol Bernstein	From September 2017
Denise Senner	From September 2017
Tom McCormack	

Audit & Risk Committee

Ian Watts	(Chair)
Debbie Bankole-Williams	
Ranna McArdle	
Martin Large	
Ian Mansell	To May 2017
Ruth Chambers	

Remuneration Committee

Dermot Finn	(Chair)
Roy Coulter	
Jeanette Kenyon	
Ian Mansell	To May 2017
Ian Watts	
Martin Large	

Performance Management Committee

Mark Allan	(Chair)
Martin Large	
Ian Watts	
Ranna McArdle	
Carol Bernstein	

Executive Management

Tom McCormack	Chief Executive
Philippa Newsam	Finance and IT Director
Andrew Green	Housing Services Director
Kerry Heath	Development and Sales Director
David Collick	Property Services Director

Secretary & registered office

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Internal auditors

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HEXAGON HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2018

The Board has pleasure in presenting its Report and Financial Statements for the year ended 31 March 2018.

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 19 shared ownership / leasehold dwellings in the London Borough of Southwark, together with the freehold of 20 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.

Group turnover increased by 5.3% (from £31.9m to £33.5m), compared to 16/17, £1.7m of this increase is in income from first tranche shared ownership sales, as there were more shared ownership units ready for sale this year. The main source of turnover – income from social housing lettings – increase by 1%, as income from newly developed units outweighed rent decreases for general needs tenancies. Operating costs excluding fair value and pension adjustments increased by 10.7% from £22.1 to £24.5m. This includes £2.7m uninsured costs from the ground collapse at Brickfield Cottages. The operating margin before the effect of fair value adjustments, surplus on disposal of fixed assets and first tranche shared ownership sales decreased from 28.3% to 20.6%. However, operating margin excluding Brickfield Cottages cost is 29.4% (2017: 31.4%). Net financing costs were 1.6% lower at £3.9m, and £1.7m (2017: £2.1m) was realised through a combination or staircasing sales of shared ownership properties and the sale of housing properties which were uneconomic to repair. The total comprehensive income for the year increased to £8.5m from the previous year's total comprehensive income of £6m.

Group reserves currently stand at £38.4m (2017: £29.9m). 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 £24.1m on acquiring and developing properties in the year, of which £5.3m was funded through capital grants. 64 additional units were completed, and a further 190 units are still under development. The Group's loans increased from £166.4m to £194.1m and a further £48.2m of loan facilities are available. The weighted average interest rate on the Group's loan portfolio was 2.92% (2017: 2.97%). The Board estimates that the investment value of the Group's properties is £692m, of which £208m is in unsecured properties.

The Board has adopted a policy of converging social rents within the regulatory framework laid down by the regulator. Rents for the Group's social rented general needs tenancies were reduced by 1% during the year, in compliance with regulation.

During the year 41 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 451. These brought in £4.2m in rental income.

Turnover and operating surplus by activity is as follows:

£000	**2018**	2017	**2018**	2017
	Turnover		**Operating surplus / (deficit)**	
General needs	**23,666**	23,476	**6,144**	8,259
Supported housing	**1,904**	1,928	**5**	7
Shared ownership	**1,638**	1,598	**1,195**	1,141
Sale of first tranche in shared ownership properties	**2,682**	976	**273**	102
Other social housing activities	**2,886**	2,954	**(573)**	(670)
Nursing home lettings	**764**	769	**65**	87
Other non-social housing activities	**(13)**	152	**(491)**	(79)
Surplus on disposal of fixed assets	**-**	-	**1,659**	2,068
Total	**33,527**	31,853	**8,277**	10,915

VALUE FOR MONEY

Hexagon's Broad Approach to Value for Money

Hexagon's Corporate Plan sets out our strategic approach to Value for Money (VFM) which has six themes. Each of the themes has at least one high-level measure which allows our progress to tracked. These measures have been chosen because they encompass everything that the Association spends, but also include the most readily available measures of outcome (new homes, resident satisfaction and social value).

The definitions are where possible the same as those used by the Regulator of Social Housing (RSH) or through Sector Scorecard[1]. There are a few exceptions to this in the data we use internally.

The themes, measures and our performance during 2017/18 are outlined in the table below.

Theme	Measure	Target	Actual	Whether Met	Comment
Restricting operating costs (including major repairs and void losses) per social housing unit	Operating cost per social housing unit	<£4,460	£4,343	Y	This indicator excludes expenditure on Brickfield Cottages, which we aim to recover through legal means.
Restricting growth of interest costs per social housing unit	Interest paid as a percentage of average borrowings	<3.71%	2.92%	Y	
Effective asset management	Return on capital employed	>2.10%	1.94%	N	Investigation work at Brickfields Cottages progressed more quickly than planned. Without this extra £700k of expenditure, actual return on capital employed would have been close to target at 2.08%.
Maximising development (within our capacity)	Units developed as a percentage of units owned	>3.00%	1.71%	N	The target set in March 16 was to deliver 33 homes for rent and 88 for shared ownership in 17/18. We achieved 56 for rent but only 8 for shared ownership, as 82 units are still on site at 5 schemes.
	£m distance from an interest cover breach	>£11.5m	£10.95m	N	This has also been affected by the extra spend on Brickfields Cottages.
	Cumulative surplus on outright sales	>728	0	N	The surplus planned for 17/18 has been deferred to 18/19, as none of the 7 units developed reached sales completion by March 18.
Improving resident satisfaction	% satisfied with last repair	>88%	87.4%	N	This is slowly improving and is almost at target.
Delivering social value	Average SAP rating of properties	>71.9	72.18	Y	
	Annual social value delivered per £ spent on employment initiatives	>£2.50	£9.39	Y	

[1] Sector Scorecard aims to provide an agreed set of metrics for housing associations to compare their performance and check they are providing value for money.

We have an annual VFM Strategy which the Board approves each year; this builds on the broad themes highlighted in our Corporate Plan, and uses the performance measure outlined above, plus our HouseMark and Sector Scorecard data to develop a series of VFM initiatives for the year. There are over twenty of these – the table below gives some flavour of these initiatives, both in terms of their breadth as well as the successes and those areas that we need to carry out further work on.

Team	Theme	Activity	Progress to 31 March 2018
Community Investment	Delivering social value	Provide one to one support for a caseload of more vulnerable residents - including 50 new residents - to help maximise income	Achieved - 91 vulnerable residents supported for the first time
New Business	Maximising development	Secure grant funding to develop homes under the 2016-2021 GLA funded development programme, generating cross subsidy of £3.7m through outright sales.	Funding was secured for the 2016-21 programme
Customer Services	Improving resident satisfaction	Develop a process to put regularly used schedule of rates codes into the repairs diagnostic tool used to improve accuracy of repairs ordering.	List developed & will be included in the diagnostic tool in 2018/19
Housing Services	Restricting operating costs	Achieve some challenging targets on arrears & rent collection in relation to all the business streams - including rent collection rates of 99.5% & General Needs arrears target of 5.6%	The challenging rent collection target was bettered by 0.2% although we just missed the arrears target - the end of year figure was 0.1% above the 5.6% target.
IT	Restricting operating costs	Replace Email filtering solution to reduce spam volume and false positives and improve protection against key threats (inc ransomware) and system availability as a result	The spam filter has been changed
Responsive Repairs	Improving resident satisfaction	Introduce PDA based surveys for repairs work to give more immediate feedback and allow us to deal with problems earlier	These have been piloted and will be rolled out to all the major contractors in early 2018/19.
Business Improvement	Restricting operating costs	Implementation of Cx computer system to replace existing housing management and maintenance system	While the implementation started on time, there have been delays due to inadequate Civica resources which will mean that phase 1 is unlikely to be implemented until late 2018.
Community Investment	Delivering social value	Ensure effective delivery of Love London Working Project, including - enrolling 200 participants (at least 100 of which are residents)	While we enrolled over 200 residents - only 43 of these were Hexagon residents

Our Regulator's Expectations

Our regulator, the RSH, issued some specific expectations to Registered Providers, like Hexagon, in relation to VFM in April 2018. Included within this is a requirement to publish evidence in these accounts to enable stakeholders to understand Hexagon's :

- Performance against its own value for money targets and any metrics set out by the regulator, and how that performance compares to peers;
- Measurable plans to address any areas of underperformance, including clearly stating any areas where improvements would not be appropriate and the rationale for this.

Meeting the Regulator's Expectations

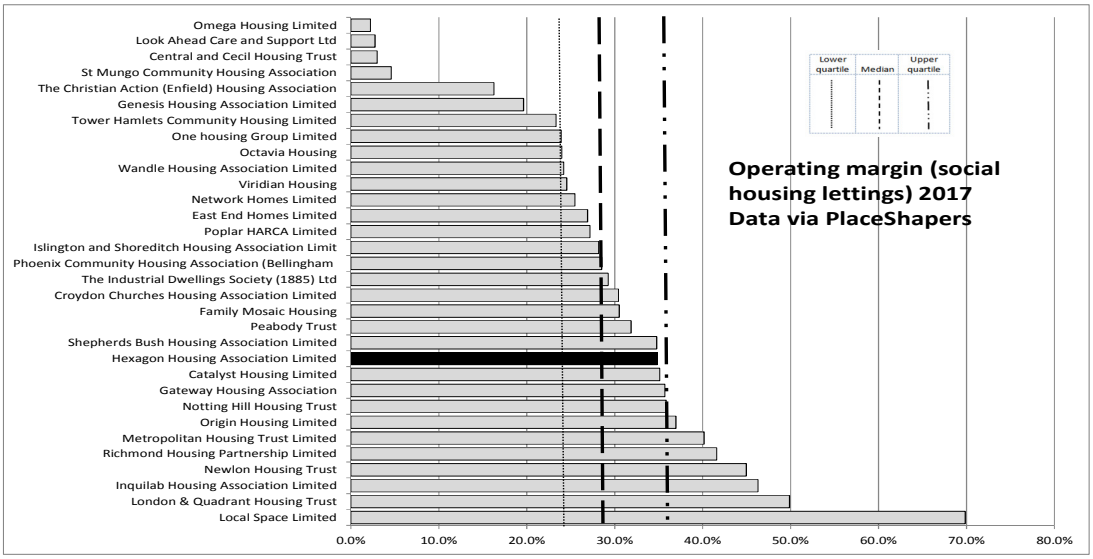
While our own value for money targets and performance are set out above, the RSH requires from April 2018 performance against seven key metrics in relation to VFM that are part of the Sector Scorecard. At the time of writing, Sector Scorecard data for 2018 has no benchmarks available, so comparisons have been made with the 2017 data for both associations nationally and in London based on data supplied by the PlaceShapers[2].

	HHA 2017	HHA 2018	England Top Quartile 2017	England Median 2017	Hexagon Quartile England	London Top Quartile 2017	London Median 2017	Hexagon Quartile London
Reinvestment	6.72%	6.29%	8.5%	5.6%	2	6.7%	5.7%	2
New supply delivered (social housing units)	1.32%	1.51%	2.21%	1.24%	2	2.4%	1.27%	2
New supply delivered (non-social housing units)	0.00%	0.16%	0.00%	0.00%	-	1.9%	0%	-
Gearing	36.6%	41.8%	33.0%	43.2%	2	43.5%	34.1%	2
EBITDA MRI interest cover	340%	293%	282%	217%	1	278%	213.7%	1
Headline social housing cost per unit (£s)	£4,965	£5,017	£2,925	£3,297	4	£4,632	£5,075	2
Operating margin (social housing lettings)	34.8%	27.1%	39.3%	34.3%	4	35.8%	28.3%	3
Operating margin (overall)	29.7%	22.4%	35.9%	31.2%	4	34.8%	28.7%	3
Return on capital employed	2.59%	1.94%	5.69%	4.38%	4	4.53%	4.02%	4

Hexagon's performance is above the median for half of the RSH's indicators both nationally and in 5 out of 8 for London, with one above the top quartile. It is worth explaining the reasons for those within the bottom quartile:

- **Return of Capital Employed** – we have done some work in trying to understand this. Hexagon does not deliver a low surplus per unit, but we do have a high cost of assets (predominately property costs) per unit. When we looked at PlaceShapers data we found that almost all the associations with the highest cost of assets less liabilities per social housing unit were medium sized developing London HAs like Hexagon. We will do some more work on this during 2018/19 to try to understand this better.
- **Headline social housing unit costs -** appears to have London factors as while our performance is in the bottom quartile nationally it is in the top half of London associations and within the top quartile if the non-current costs of Brickfields Cottages are stripped out.
- **Operating Margin – Social Housing Lettings & Overall** - while this has a London factor too, we have drifted down from 2nd to 3rd quartile with both these indicators, the fall with both relates to the impact of Brickfields Cottages which will not impact on the results in 2018/19.

[2] PlaceShapers is a national network of more than 100 community based housing associations owning 850,000 homes.



COMPLIANCE WITH THE GOVERNANCE AND VIABILITY STANDARD

In November 2017, our Regulator (then known as The Homes and Communities Agency or HCA) awarded Hexagon a G1 rating for Governance and a V1 rating for Financial Viability. This followed both an In Depth Assessment (IDA) which took place at the end of 2016/17, and a further stability check during 2017/18 that resulted in a confirmation we had retained our G1/V1 ratings.

Notwithstanding their own Regulatory judgement, following the creation of the new Regulatory Standard by the HCA from 1 April 1 2015, Hexagon's Board approved a process and template for a Board self-assessment. This was completed and reported to the Board in July 2018. 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.

During 2017-18, as part of the self- assessment process, the Board took reasonable measures to assure themselves that the Association had adhered to all "relevant law". This process concluded that there had been three technical breaches of relevant laws, though none were material enough to impact negatively on the overall judgement that we had met the Regulatory Standard. The three technical breaches of law are as follows: 1.a building contractor on one of our development schemes was served a notice by LB Croydon in July 2017 that there had been a breach of a planning condition in that works were progressing without a formal sign off of a land contamination condition. The sign off was later provided by the Borough so the breach was temporary and no sanctions were applied. 2. We report on compliance with gas safety regulations on a regular basis to the Board. For most of the year, we reported 100% compliance, but in quarter 4 we reported that 2 properties were outstanding due to access refusals, both of which we were progressing diligently. 3. Hexagon has a thorough anti- money laundering procedure that up until June 2017 was fully compliant with the then Anti Money Laundering law. Revised money laundering regulations were introduced in 26 June 2017. Our analysis on the new regulations concluded that we needed to make some alterations to our current practice to ensure compliance. We have yet to complete these changes, so one might argue this constitutes a technical breach.

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. During 2017/18, Hexagon's Board established a sub-committee known as the Performance Management Committee to provide even greater scrutiny to the performance information reported to the main Board. The sub-committee reports back to the main Board via its minutes, including any corrective action it would like the main Board to take in response to performance issues. The Committee met twice during the financial year and we expect to see a strengthening of internal controls in relation to Key Performance Indicators over time.

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.

Business Improvement: Hexagon has a Business Improvement team which provides analysis and management of improvement projects. During 2017/18, their main project was to oversee the implementation of the new Cx system provided by Civica. The Board has received regular reports during the year on progress in implementing the new system and remedial actions being taken to respond to delays in implementing the new system. In the meantime, the long standing Genero housing management system remains in place.

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. The Board approves the 30 year financial plan annually, which forms the basis for a report to the Regulator in the form of a Financial Forecast Return (FFR) annual regulatory return. The Board is, to the best of its knowledge, satisfied that covenant compliance is maintained throughout the life of the plan, as the financial plan has been stress tested to withstand significant composite risks.

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.

KPMG were appointed as auditors for the year end 31st March 2018 and have expressed their willingness to continue. A resolution to re-appoint KPMG as auditors of the Association will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Roy Coulter (Chair) 31st July 2018

HEXAGON HOUSING ASSOCIATION

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2018

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 4,259 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 39 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 333 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 7% of our housing provision.

Today Hexagon employs 132 staff (full time equivalent). Approximately 25% 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:

	2018	2017
General needs	3,608	3,553
Supported housing	333	335
Low cost home ownership	252	238
Other	105	104
Total housing	**4,298**	**4,230**
Nursing home accommodation	12	12
	4,310	**4,242**

35% of the housing stock comprises properties originally built pre-1930, generally Victorian street properties, with some converted into flats, post construction. Less than 10% were originally constructed between 1930 & 1990. The remaining 55% have been purpose-built since 1991. 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 Regulator of Social Housing (RSH), formerly known as The Homes and Communities Agency or HCA, with whom it is registered. It has to comply with the Agency's Regulatory Framework. Performance is assessed by means of Regulatory Judgements made against two criteria, namely Governance and Financial Viability. The Group last received a G1/V1 Regulatory Judgement in November 2017, giving the highest possible ratings in both areas. This followed the Group's first In Depth Assessment (IDA) carried out by the HCA in late 2016/17 as well as a further stability check carried out during 2017/18. This most recent rating confirmed a previous rating judgement from April 2017, namely that that the Association continues to meets the requirements 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 organization, we are one of a relatively small group of IIP recognised organisations assessed as having achieved the Gold Standard. 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 2017-20 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. • Get things right first time, or if we don't, to deal better and more efficiently with complaints, so that at least 90% of complaints are responded to on time and do not escalate. • Implement the Asset Management Strategy, and ensure compliance with all statutory and best practice regulations relating to landlord health and safety requirements. • Work closely with our residents to ensure a smooth transition for Welfare Reforms, including Universal Credit. • Provide excellent services to all leaseholders, including compliance with all statutory requirements and best practice.
To change our ways of working to achieve maximum value for money by working smarter	• Minimise our rent arrears and maximise our rent collection, so that we achieve top quarter performance in this service. • Minimise the number of days it takes to relet out general needs properties, to keep void losses below 0.7%. • Minimise the number of days it takes to relet out supported housing by streamlining the referral process and by building strong relationships with referral agencies. • Exercise strong control over day to day repair costs. • Implement a new housing IT system to improve communication with residents and to improve efficiency and effectiveness in our processes. • Improve our service charge processes so as to maximise recovery of eligible service costs • Keep our IT infrastructure up to date to support the demands of the business and maintain resilience against threats.
To ensure that Hexagon continues to grow in a sustainable manner	• Provide new subsidised rented housing to those for whom home ownership or market renting is not financially possible. • Provide new shared ownership homes, for those who wish to become home owners, but who cannot afford to purchase outright in the open market. • Produce additional cross subsidy for our new build social housing programme by developing housing for outright sale with clear reference to new risk exposures. • To build homes which are environmentally sustainable and provide affordable warmth by achieving the GLA carbon reduction target.
Cross cutting work/activities	• Maximise Value for Money via an annual VFM Strategy with clear objectives and measures. • Minimise the harm that our business does to the environment, by improved energy efficiency of our housing properties and by installing low energy lighting in our main office. • Ensure full compliance with GDPR requirements.

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, 45 new homes for rent and 8 for shared ownership were completed and came into management. 3 of the shared ownership homes were outside of the GLA's grant programme. An additional 34 homes (the last remaining of the GLA's' Building the Pipeline programme were completed but not ready for occupation at the end of year. The 200 homes which are part funded by the GLA's 2015/18 programme are progressing on site with two schemes suffering delays which prevented completions happening when planned. 24 rented and 8 shared ownership homes completed during the year. We secured an additional 6 homes over and above the GLA programme. Our outright sale scheme of 7 houses completed during the year and after securing Help to Buy status, sales are progressing, with 2 homes reserved and strong interest in the rest of the scheme. We expect all sales to be complete by December 2018.

We secured a GLA grant allocation for £8.548m to deliver 138 affordable homes (72 for London Affordable Rent and 151 for London Shared Ownership). We plan to deliver circa 300 homes including a small number of outright sale to provide cross subsidy for the rented element of the programme. We have so far identified / secured nearly 90% of the programme, of which 18% (38 homes) are progressed on-site. As part of this programme, we have bought a flagship site in a major regeneration area which we plan to redesign to maximise the number of homes it can deliver. We hope to procure more land lead development opportunities in the future.
In terms of quality, all new homes in the 2016/2021 programme will meet the Mayor's London Housing Design Guide standards and the requirements under the London Plan, with much of the 15/18 schemes also meeting Code for Sustainable Homes Level 4 (which is no longer a design requirement).

Maintaining and improving existing homes
We continue to invest in improving our existing homes. In 2017/18, we spent £5.51m on major and cyclical works. These works included major improvements to void properties, energy efficiency improvements (including new energy efficient boilers), together with kitchen, bathroom, roof and window replacements where these components had reached the end of their useful life, as well as external and internal communal area decoration programmes.

Our responsive repairs expenditure for 2017/18 totalled £3.26m, an overspend of £115k. During 2017/18 we entered into the 2nd year of our 5 year contract with our responsive repairs contracts, with two main contractors (K&K and P&R) and a further back- up contractor (Laker) who carries out void and communal repairs. Under the contracts, we have improved electronic links between our respective IT systems which improve communication and expenditure controls.
Our gas servicing compliance continued to be excellent, with 99.98% compliance at year end through our relationship with BSW (see page 7 for more detail on gas safety regulation compliance).

The Board approved a new 4 year Asset Management Strategy in March 2017 which sets out the objectives for Hexagon's properties until 2021.

Managing a difficult situation
On 2nd May 2016 there was a significant ground collapse on the driveway to one of the houses at our newly built, scheme at Brickfield Cottages in Plumstead. No-one was hurt and there was minimal property damage. An immediate repair was carried out the following day, all affected properties were decanted, and the residents rehoused.

On the advice of our insurers we engaged the services of Peter Brett Associates who are leading experts in this field. Their investigations identified the cause of the collapse to be as a result of historic collapsed chalk mine workings. On their advice we successfully procured the temporary rehousing of 40 households to enable estate wide investigations and remedial works to be undertaken. Those works were nearing completion at the end of March 2018, with further voids found and remedied. Apart from in two areas, no indications of further chalk mine workings were identified and so residents are able to safely return to their homes.

In the year to March 2018 we have spent £2,712k on this incident, net of insurance recoveries.

We expect the investigations and reinstatement works to be concluded in the summer of 2018, and have allowed a potential further £653k in financial plans to complete the investigations, reinstate the development and enable our residents to return to their homes.

We have retained the services of our corporate lawyers to provide legal advice throughout and a claim against the contractor who built the scheme is progressing.

Working in partnership to invest in our communities

Our Community Investment team has continued to focus on getting our residents into work. The Love London Working Partnership of 16 housing providers across London started its programme of supporting residents into employment. The partnership – funded via the EU Social Fund - has enabled us to effectively double our resources available over the 2016-18 period to support residents into employment. We enrolled 196 people onto the programme during the year and 55 people had found jobs by the year end. This work generates considerable "social value" which we have estimated using the HACT methodology in common use in the sector at £9.39 for every £ we have spent.

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, was introduced in Croydon and Southwark and by the year end about 400 households were on this benefit. We have offered support to all residents affected by the new lower Benefit Cap.

We offer a one to one money advice service to help our residents manage their money and in 2017/18, our advisor helped 90 individuals to gain £143,000.00 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 66 residents completed the course we arranged. We also promoted other digital learning opportunities and resources available to help residents to get online.

Residents helping us to attain our objectives

We engaged our residents in a wide range of resident involvement initiatives with the main focus being on 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. Our resident inspectors carried out an inspection of our Customer Services Centre.

A review of the Residents Forum was completed and a new Forum focussed on policy matters recruited under a new constitution. A new programme of locally based Neighbourhood Events was started during 17/18.

We have restructured our Resident Involvement team with a view to being better geared up to using social media and other digital channels for communicating with our residents.

Changes in Care and Support

Hexagon continued to provide care and support to residents with mental health issues through our schemes at Woodcote Road, Kirkwood Road and Newstead Road. Following a change in management, an internal review of the service was carried out and the decision made that Hexagon should continue to deliver these services. However, as commissioners seek to reduce costs we are aware that services will continue to change.

Making Hexagon more planet-friendly

The Board approved a new Sustainability Strategy in November 2017, building on the achievements of the previous strategy. The strategy focuses on People, Property & Partners by addressing the sustainability of Hexagon's new & existing homes, 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, and retaining this in 2016. In 2017 Hexagon were also awarded the 'Most Improved Landlord Ever' in SHIFT's awards ceremony in November.

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 £194.1m. This debt is mainly borrowed from UK banks and building societies, with £66.2m 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	9.7
1-5 years	19
6-10 years	25.2
11-15 years	29.6
16-20 years	51.7
21-25 years	28.4
25-30 years	30.5
Total	**194.1**

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 2018 is set out in note 25 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 £5.5m. The Group has secured facilities in place to borrow a further £48.2m. 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 2018 interest cover was 4.36 which is significantly better than the minimum of 1.10 required. As at 31 March 2018 the gearing ratio was 59.5%, 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	2017/18	2016/17	Improving?	Comments
Satisfaction with the last repair	87.4%	80.9%	✓	A significant improvement on the previous year, and almost at the target of 88%.
Customer service calls answered	82%	78%	✓	Our target of 80% has been met.
Gas safety checks completed within target time	99.9%	100%	-	Only one property had an outstanding safety check, due to access issues (the resident is in prison).
Number of complaints	308	243	×	The vast majority of complaints are about repairs. We have implemented a call-back system in April 2018 which we hope will help us to resolve repairs issues before they give rise to complaints.
% of complaints with full response within 15 days	93%	94%	-	Despite the increase in the number of complaints, the number responded to within 15 days has hardly changed.
Void re-let (days) General needs	44	28	×	There have only been 21 simple voids but they have taken longer to turn around. Changes were introduced in the last quarter of the year to reduce the time to let once works have been completed.
Void re-let (days) Supported Housing	82	86	✓	An improved position over the 25 voids we dealt with. Slow referrals are the main issue.
Rent collection % - General	99.7%	99.8%	-	Little change in collection rate, despite more tenants now

needs				moving onto Universal Credit.
Rent collection % - Supported housing	100.8%	101.3%	✓	A slight deterioration in collection rate, which has had little impact on arrears.
% working days lost through staff sickness	1.9%	3.3%	✓	A significant improvement, mainly through the reduction of long-term sickness absence.
Housing management cost per GN unit	£786	£710	×	Costs per unit has increased mainly due to increased insurance premium post Brickfield and increased staff cost.
% Operating margin excluding all property sales and pension and fair value adjustments	20.6%	28.3%	×	Margins have decreased compared to last year due to costs relating to Brickfield Cottages.
Average SAP 9.93 (energy efficiency) Ratings	72.18	71.44	✓	This improvement has been achieved by targeting works to improve the energy efficiency of our homes.
Units failing Decent Homes Standard	0	4	✓	9 residents have refused work that require upgrade to meet DH standard. The work is listed as required but the properties are classified as 'Decent' in accordance with the requirements,
New homes completed	53	43	✓	There has been a delay to 89 homes (across three schemes) reaching completion and going into management by March 2018.
Loan covenants -interest cover (must be >110%)	436.1%	444.2%	✓	An improvement this year because of increased asset sales.
Loan covenants - gearing (must be < 70%)	59.5%	52.3%	×	Gearing has increased because of increased borrowing but this remains substantially under the maximum.
% weighted average interest	2.92%	2.97%	✓	Average cost of funds has reduced as new fixed rate loans have been drawn.

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 £4.98m in 2017/18.

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	2018-19	2019-20	2020-21
General needs	109	-	26
Shared ownership	65	16	6
Other	-	-	10
Total	174	16	42

Committed expenditure on the above is shown in note 35 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 (UC), and capping benefit payments to workless households. Payment of UC is being made 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. Increased cost estimates have been included in the 30 year financial plan. By the end of 2018/19, all Hexagon's stock will be in UC areas. Mitigations for the risks arising include a restructure to create a dedicated revenue team and increase resources around

	financial inclusion. The Government has also announced that while providers will not be held to the LHA cap, that they are changing how supported housing is funded, with a distinction between long and short term housing. During 2017/18 the Government announced that it does not intend to proceed with the single room rate for under 35's, removing a significant risk.
Availability of capital grant	The Greater London Authority in its' 2016/2021 programme has allocated grant on fixed rates per unit (£28k for shared ownership and £60k for rent). These grant levels remain low compared to pre-2010 levels. Whilst the GLA has recently confirmed an additional £1.67bn of funding for rented housing, it is not yet clear what the per unit grant rates will be or the rent levels or the amount available for RPs. 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%. There is a risk that costs rise more quickly than assumed, despite a programme of competitive tendering.
Reliance on shared ownership and outright sales	At March 2018, the Group part-owned 252 shared ownership homes and 7 outright sale units. A further 81 shared ownership homes are in development. The 30-year plan also assumes that in each year 4% 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 2017/18 were £50k (2017: £49k). 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.

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 is responsible for preparing the Board's Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Association and of their income and expenditure for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the Group and Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the Group and Association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and Association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. It is responsible for
such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and Association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Group and Association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Roy Coulter (Chair) 31st July 2018

Independent auditor's report to the Members of Hexagon Housing Association

Opinion

We have audited the financial statements of Hexagon Housing Association ("the Group and Association") for the year ended 31 March 2018 which comprise the Group and Association Statements of Comprehensive Income, the Group and Association Balance Sheets, the Group Statement of Cash Flows, the Group and Association Statement of Changes in Reserves and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the Group and Association as at 31 March 2018 and of their income and expenditure for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group and Association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Group and Association's Board is responsible for the other information, which comprises of the Report of the Board and the Strategic Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

We have nothing to report in these respects.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the Group and Association have not kept proper books of account; or
- the Group and Association have not maintained a satisfactory system of control over transactions; or
- the financial statements are not in agreement with the Group and Association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

Board's responsibilities

As more fully explained in their statement set out on page 16, the Group and Association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the Group and Association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Group and Association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Group and Association those matters we are required to state to it 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 Group and Association as a body, for our audit work, for this report, or for the opinions we have formed.

Harry Mears
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
Canary Wharf
London
E14 5GL

HEXAGON HOUSING ASSOCIATION

Statement of Comprehensive Income
for the year ended 31 March 2018

Group				**2018**			2017
	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	**33,527**	**-**	**33,527**	31,853		31,853
Cost of sales	4	**(2,409)**	**-**	**(2,409)**	(874)		(874)
Operating costs	4	**(24,500)**	**866**	**(23,634)**	(22,132)	601	(21,531)
Surplus on disposal of fixed assets	12	**1,659**	**-**	**1,659**	2,068		2,068
Operating surplus	4,8	**8,277**	**866**	**9,143**	10,915	601	11,516
Interest receivable	13	**9**	**-**	**9**	51		51
Interest payable and finance costs	14	**(3,862)**	**(73)**	**(3,935)**	(3,877)	(122)	(3,999)
Movement in fair value of financial instruments	14	**-**	**1,103**	**1,103**	-	(594)	(594)
Surplus for the year		**4,424**	**1,896**	**6,320**	7,089	(115)	6,974
Tax	15	**-**	**-**	**-**	-	-	-
Change in fair value of hedged financial instrument	14	**-**	**2,219**	**2,219**	-	(948)	(948)
Total comprehensive income for the year	8,14	**4,424**	**4,115**	**8,539**	7,089	(1,063)	6,026

All amounts relate to continuing activities.

Statement of Changes in Reserves

				2018			2017
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 2017 / 1 April 2016		**45,557**	**(15,662)**	**29,895**	38,583	(14,714)	23,869
Total comprehensive income		**6,320**	**2,219**	**8,539**	6,974	(948)	6,026
Balance at 31 March 2018/ 31 March 2017		**51,877**	**(13,443)**	**38,434**	45,557	(15,662)	29,895

The Financial Statements were approved and authorised for issue by the Board of Management on 31st July 2018 and were signed on its behalf by:

R. Coulter, Chair Debbie Bankole-Williams, Vice Chair T. McCormack, Secretary

HEXAGON HOUSING ASSOCIATION

Statement of Comprehensive Income
for the year ended 31 March 2018

Association				**2018**			2017
	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	**33,457**	**-**	**33,457**	31,928	-	31,928
Cost of sales	4	**(2,409)**	**-**	**(2,409)**	(874)	-	(874)
Operating expenditure	4	**(24,448)**	**866**	**(23,582)**	(22,075)	601	(21,474)
Surplus on disposal of fixed assets	12	**1,659**	**-**	**1,659**	1,927	-	1,927
Operating surplus	4,8	**8,259**	**866**	**9,125**	10,906	601	11,507
Interest receivable	13	**293**	**-**	**293**	269	-	269
Interest payable and finance costs	14	**(4,000)**	**(73)**	**(4,073)**	(4,093)	(122)	(4,215)
Change in fair value of financial instruments	14	**-**	**1,103**	**1,103**	-	(594)	(594)
Surplus for the year		**4,552**	**1,896**	**6,448**	7,082	(115)	6,967
Change in fair value of hedged financial instrument	14	**-**	**2,219**	**2,219**	-	(948)	(948)
Total comprehensive income for the year	8,14	**4,552**	**4,115**	**8,667**	7,082	(1,063)	6,019

All amounts relate to continuing activities.

Statement of Changes in Reserves

Association				**2018**			2017
		Income and expenditure reserve	**Cashflow hedge reserve**	**£000 Total Reserves**	Income and expenditure reserve	Cashflow hedge reserve	£000 Total Reserves
Balance at 1 April 2017 / 1 April 2016		**45,290**	**(15,662)**	**29,628**	38,323	(14,714)	23,609
Total comprehensive income		**6,448**	**2,219**	**8,667**	6,967	(948)	6,019
Balance at 31 March 2018/ 31 March 2017		**51,738**	**(13,443)**	**38,295**	45,290	(15,662)	29,628

The Financial Statements were approved and authorised for issue by the Board of Management on 31st July 2018 and were signed on its behalf by:

R. Coulter, Chair Debbie Bankole-Williams, Vice Chair T. McCormack, Secretary

HEXAGON HOUSING ASSOCIATION

Balance Sheet as at 31 March 2018

Group				**2018**			2017
	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
Fixed assets							
Intangible assets	16	**446**		**446**	-		-
Housing properties	17	**453,562**		**453,562**	433,058		433,058
Other	18	**2,737**		**2,737**	2,767		2,767
		456,745		**456,745**	435,825		435,825
Current assets							
Stock – properties developed for sale	19	**16,739**		**16,739**	10,804		10,804
Debtors – receivable within one year	20	**3,282**		**3,282**	2,995		2,995
Debtors – receivable after one year	20	**10,694**		**10,694**	1,583		1,583
Cash and cash equivalents	21	**5,515**		**5,515**	6,532		6,532
Less: creditors – amounts falling due within one year including short term pension deficit liability	22	**(19,884)**	**(827)**	**(20,711)**	(12,591)	(796)	(13,387)
Net current assets		**16,346**	**(827)**	**15,519**	9,323	(796)	8,527
Total assets less current liabilities		**473,091**	**(827)**	**472,264**	445,148	(796)	444,352
Creditors: amounts falling due after one year	23	**(406,292)**	**(23,025)**	**(429,317)**	(382,784)	(26,347)	(409,131)
Pension deficit liability	31	**-**	**(4,232)**	**(4,232)**	-	(5,056)	(5,056)
Provisions for liabilities	31	**(281)**		**(281)**	(270)		(270)
Net assets		**66,518**	**(28,084)**	**38,434**	62,094	(32,199)	29,895
Capital and reserves							
Income and expenditure reserve		**66,518**	**(14,641)**	**51,877**	62,094	(16,537)	45,557
Cash flow hedge reserve		**-**	**(13,443)**	**(13,443)**		(15,662)	(15,662)
		66,518	**(28,084)**	**38,434**	62,094	(32,199)	29,895

The Financial Statements were approved and authorised for issue by the Board of Management on 31st July 2018 and were signed on its behalf by:

R. Coulter, Chair Debbie Bankole-Williams, Vice Chair T. McCormack, Secretary

HEXAGON HOUSING ASSOCIATION

Balance Sheet as at 31 March 2018

Association				**2018**			2017
	Notes	**Before fair value measurements**	**Fair value measurements**	**Total**	Before fair value measurements	Fair value measurements	Total
		£000	**£000**	**£000**	£000	£000	£000
Fixed assets							
Intangible assets	16	**446**		**446**	-	-	-
Housing properties	17	**452,621**		**452,621**	432,113		432,113
Other	18	**2,737**		**2,737**	2,767		2,767
		455,804		**455,804**	434,880		434,880
Current assets							
Stock – properties developed for sale	19	**13,136**		**13,136**	7,753		7,753
Debtors – receivable within one year	20	**7,078**		**7,078**	6,094		6,094
Debtors – receivable after one year	20	**10,694**		**10,694**	1,583		1,583
Cash	21	**5,275**		**5,275**	6,283		6,283
Less: creditors – amounts falling due within one year including short term pension deficit liability	22	**(19,832)**	**(827)**	**(20,659)**	(12,497)	(796)	(13,293)
Net current assets		**16,351**	**(827)**	**15,524**	9,216	(796)	8,420
Total assets less current liabilities		**472,155**	**(827)**	**471,328**	444,096	(796)	443,300
Creditors: amounts falling due after one year	23	**(405,495)**	**(23,025)**	**(428,520)**	(381,999)	(26,347)	(408,346)
Pension deficit liability	31	**-**	**(4,232)**	**(4,232)**	-	(5,056)	(5,056)
Provisions for liabilities	31	**(281)**	**-**	**(281)**	(270)	-	(270)
Net assets		**66,379**	**(28,084)**	**38,295**	61,827	(32,199)	29,628
Capital and reserves							
Income and expenditure reserve		**66,379**	**(14,641)**	**51,738**	61,827	(16,537)	45,290
Cash flow hedge reserve		**-**	**(13,443)**	**(13,443)**	-	(15,662)	(15,662)
		66,379	**(28,084)**	**38,295**	61,827	(32,199)	29,628

The Financial Statements were approved and authorised for issue by the Board of Management on 31st July 2018 and were signed on its behalf by:

R. Coulter, Chair Debbie Bankole-Williams, Vice Chair T. McCormack, Secretary

HEXAGON HOUSING ASSOCIATION

Consolidated Statement of Cash Flows for the year ended 31 March 2018

Group

	Notes				**2018**				2017
			£000's		**£000's**		£000's		£000's
Cash flows from operating									
activities									
Surplus for the year			**8,539**				6,026		
Adjustments for:									
Depreciation of fixed assets – housing			**6,102**				5,842		
Depreciation of fixed assets – other			**337**				333		
Amortised grant			**(1,950)**				(1,934)		
Net fair value losses/ (gains recognised in income statement			**(3,322)**				1,542		
Interest payable and finance costs			**3,935**				3,999		
Interest receivable			**(9)**				(51)		
Surplus on the sale of fixed assets			**(1,659)**				(2,068)		
Decrease/(increase) in stocks			**(5,436)**				(6,070)		
Decrease/(increase) in trade and other debtors			**(9,705)**				(461)		
(Decrease)/increase in trade creditors			**161**				2,228		
(Decrease)/increase in provisions			**(813)**				(468)		
Net cash generated from operating activities					**(3,820)**				8,918
Cash flows from investing activities									
Proceeds from sale of fixed assets			**3,130**				4,056		
Purchase of fixed assets - housing			**(27,360)**				(28,296)		
Purchase of fixed assets –other			**(754)**				(157)		
Receipt of grant			**3,001**				3,042		
Interest received			**8**				51		
Net cash from investing activities					**(21,975)**				(21,304)
Cash flows from financing activities									
Interest paid			**(4,934)**				(4,722)		
New loans			**28,800**				24,700		
Debt issue costs incurred			**2,129**				(235)		
Repayment of loans			**(1,217)**				(10,235)		
Net cash from financing activities					**24,778**				9,508
Net increase/(decrease) in cash and cash equivalents					**(1,017)**				(2,878)
Cash and cash equivalents at beginning of year					**6,532**				9,410
Cash and cash equivalents at end of year					**5,515**				6,532

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

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 Regulator of Social Housing as social housing providers.

2 Accounting policies

The financial statements have been prepared on a going concern basis.

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, and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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. Details of key judgement and sources of estimation are set out in note 3.

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
- properties built for sale
- amortisation of social housing grant

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.

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.

2 Principal accounting policies (continued)

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.

Tax
The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable 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. 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.

Intangible fixed assets - *software licence and development*
Acquired computer software licences that are not an integral part to a related hardware are initially capitalised at cost plus direct expenditure including employee costs, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives.

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 (i.e. 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 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.
- *Pension liabilities*
  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.
- *Provisions*
  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.

- *Expenditure to rectify ground conditions at Brickfield Cottages*
  It is too soon to determine how much of Hexagon's uninsured costs can be recovered by legal action against a third party. All costs incurred to temporarily rehouse residents and to investigate and rectify ground conditions at the scheme therefore have been charged to the statement of comprehensive income, unless they are covered by Hexagon's insurers.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

4 Turnover and operating surplus

Group

					2018		2017
	Turnover	**Cost of sales**	**Operating costs**	**Surplus on disposal of Fixed Assets**	**Operating Surplus/(deficit)**	Turnover	Operating Surplus/(deficit)
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	£000's	£000's
Directly managed social housing activities (note 5)							
General needs lettings	**23,666**	**-**	**(17,522)**	**-**	**6,144**	23,476	8,259
Supported housing lettings	**1,904**	**-**	**(1,899)**	**-**	**5**	1,928	7
Low cost home ownership lettings	**1,638**	**-**	**(443)**	**-**	**1,195**	1,598	1,141
	27,208	**-**	**(19,864)**	**-**	**7,344**	27,002	9,407
Other social housing activities							
First tranche shared ownership sales	**2,682**	**(2,409)**	**-**	**-**	**273**	976	102
Surplus on disposal of fixed assets	**-**	**-**	**-**	**1,659**	**1,659**	-	2,068
Accommodation managed by agents	**1,693**	**-**	**(1,212)**	**-**	**481**	1,653	466
Development administration	**58**	**-**	**(838)**	**-**	**(780)**	54	(903)
Charges for support services under contract	**1,072**	**-**	**(968)**	**-**	**104**	1,092	114
Other	**63**	**-**	**(441)**	**-**	**(378)**	155	(347)
	5,568	**(2,409)**	**(3,459)**	**1,659**	**1,359**	3,930	1,500
Non-social housing activities							
Nursing home lettings	**764**	**-**	**(699)**	**-**	**65**	769	87
Other	**(13)**	**-**	**(478)**	**-**	**(491)**	152	(79)
	751	**-**	**(1,177)**	**-**	**(426)**	921	8
Total before fair value and pension adjustments	**33,527**	**(2,409)**	**(24,500)**	**1,659**	**8,277**	31,853	10,915
Pensions deficit contribution paid					**796**		766
Impact of changes to pension assumptions					**70**		(165)
Total after fair value and pension adjustments					**9,143**		11,516

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

4 Turnover and operating surplus

Association

					2018		2017
	Turnover	**Cost of sales**	**Operating costs**	**Surplus on disposal of Fixed Assets**	**Operating Surplus/(deficit)**	Turnover	Operating Surplus/(deficit)
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	£000's	£000's
Directly managed social housing activities (note 5)							
General needs lettings	**23,666**	**-**	**(17,522)**	**-**	**6,144**	23,476	8,259
Supported housing lettings	**1,904**	**-**	**(1,899)**	**-**	**5**	1,928	7
Low cost home ownership lettings	**1,546**	**-**	**(391)**	**-**	**1,155**	1,501	1,101
	27,116	**-**	**(19,812)**	**-**	**7,304**	26,905	9,367
Other social housing activities							
First tranche shared ownership sales	**2,683**	**(2,409)**	**-**	-	**274**	976	102
Surplus on disposal of fixed assets	-	**-**	-	**1,659**	**1,659**	-	1,927
Accommodation managed by agents	**1,692**	**-**	**(1,212)**	**-**	**480**	1,653	466
Development administration	**58**	**-**	**(838)**	**-**	**(780)**	54	(903)
Charges for support services under contract	**1,072**	**-**	**(968)**	**-**	**104**	1,092	114
Other	**63**	**-**	**(441)**	**-**	**(378)**	155	(347)
	5,568	**(2,409)**	**(3,459)**	**1,659**	**1,359**	3,930	1,359
Non-social housing activities							
Nursing home lettings	**764**	**-**	**(699)**	**-**	**65**	769	88
Other	**9**	**-**	**(478)**	**-**	**(469)**	324	92
	773	**-**	**(1,177)**	**-**	**(404)**	1,093	180
Total before fair value and pension adjustments	**33,457**	**(2,409)**	**(24,448)**	**1,659**	**8,259**	31,928	10,906
Pensions deficit contribution paid					**796**		766
Impact of changes to pension assumptions					**70**		(165)
Total after fair value and pension adjustments					**9,125**		11,507

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

5 Income and expenditure from directly managed social housing lettings

Group

						2018		2017
		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		**21,050**		**1,071**	**1,258**	**23,379**		23,220
Service charge income		**997**		**545**	**289**	**1,831**		1,849
Amortised government grants		**1,595**		**85**	**91**	**1,771**		1,753
Net rents receivable and amortised government grant		**23,642**		**1,701**	**1,638**	**26,981**		26,822
Other revenue grants		**-**		**203**	**-**	**203**		148
Other income		**24**		**-**	**-**	**24**		32
Turnover from social housing lettings		**23,666**		**1,904**	**1,638**	**27,208**		27,002
Expenditure								
Management		**2,543**		**803**	**133**	**3,479**		3,183
Service charge costs		**1,066**		**511**	**108**	**1,685**		1,863
Routine maintenance		**3,510**		**192**	**5**	**3,707**		3,338
Planned maintenance		**1,264**		**102**	**-**	**1,366**		1,352
Major repairs expenditure		**1,012**		**33**	**-**	**1,045**		1,243
Major repairs – Brickfield Cottages ground collapse		**2,711**		**-**	**-**	**2,711**		941
Bad debts		**71**		**2**	**-**	**73**		139
Lease charges		**-**		**15**	**-**	**15**		14
Depreciation of housing properties								
– annual charge		**5,161**		**241**	**189**	**5,591**		5,311
– accelerated on disposal of components		**184**		**-**	**-**	**184**		159
Other costs		**-**		**-**	**8**	**8**		52
Operating costs on social housing lettings		**17,522**		**1,899**	**443**	**19,864**		17,595
Operating surplus on social housing lettings		**6,144**		**5**	**1,195**	**7,344**		9,407
Void losses		**141**		**31**	**49**	**221**		210

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

5 Income and expenditure from directly managed social housing lettings

Association

						2018		2017
		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		**21,050**		**1,071**	**1,204**	**23,325**		23,165
Service charge income		**997**		**545**	**256**	**1,798**		1,813
Amortised government grants		**1,595**		**85**	**86**	**1,766**		1,747
Net rents receivable and amortised government grant		**23,642**		**1,701**	**1,546**	**26,889**		26,725
Other revenue grants		**-**		**203**	**-**	**203**		148
Other income		**24**		**-**	**-**	**24**		32
Turnover from social housing lettings		**23,666**		**1,904**	**1,546**	**27,116**		26,905
Expenditure								
Management		**2,543**		**803**	**120**	**3,466**		3,172
Service charge costs		**1,066**		**511**	**86**	**1,663**		1,834
Routine maintenance		**3,510**		**192**	**-**	**3,702**		3,332
Planned maintenance		**1,264**		**102**	**-**	**1,366**		1,352
Major repairs expenditure		**1,012**		**33**	**-**	**1,045**		1,243
Major repairs – Brickfield Cottages ground collapse		**2,711**		**-**	**-**	**2,711**		941
Bad debts		**71**		**2**	**-**	**73**		139
Lease charges		**-**		**15**	**-**	**15**		14
Depreciation of housing properties								
– annual charge		**5,161**		**241**	**185**	**5,587**		5,307
– accelerated on disposal of components		**184**		**-**	**-**	**184**		159
Other costs		**-**		**-**	**-**	**-**		45
Operating costs on social housing lettings		**17,522**		**1,899**	**391**	**19,812**		17,538
Operating surplus on social housing lettings		**6,144**		**5**	**1,155**	**7,304**		9,367
Void losses		**141**		**31**	**49**	**221**		210

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

6 Housing Stock

	Group		Association	
Social housing units in management	**2018**	2017	**2018**	2017
Owned by Hexagon				
General needs accommodation				
Social	**2,837**	2,820	**2,837**	2,820
Affordable	**436**	397	**436**	397
Low cost home ownership accommodation	**252**	238	**232**	218
Other leasehold properties	**80**	88	**67**	75
Intermediate rent	**-**	10	**-**	10
Supported housing accommodation				
Social	**189**	193	**189**	193
Affordable	**15**	13	**15**	13
Managed by other housing associations	**416**	417	**416**	417
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**	12	**12**	12
Freehold held on outright sale units	**25**	6	**19**	-
Total units in management	**4,310**	4,242	**4,271**	4,203

Units in development	**Group**		**Association**	
	2018	2017	**2018**	2017
Social Housing:				
General needs	**109**	118	**109**	118
Shared ownership	**81**	102	**81**	102
Other				
Housing for sale	**-**	7	**-**	-
Total units in development	**190**	227	**190**	220

7 Accommodation managed by agents

Group and Association

	2018	2017
The Association owns property managed by other bodies as follows:		
General needs units and bedspaces	**293**	294
Supported housing units and bedspaces	**123**	123
	416	417

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

8 Operating Surplus and Total Comprehensive Income

	Group		Association	
	2018	2017	**2018**	2017
	£000's	£000's	**£000's**	£000's
Total comprehensive income is stated after charging:				
Depreciation on housing assets				
- Annual charge	**5,918**	5,683	**5,914**	5,680
- Accelerated depreciation of on replaced components	**184**	159	**184**	159
Depreciation on other tangible fixed assets	**337**	333	**337**	333
Operating lease rental on land and buildings	**164**	159	**164**	159
Auditors remuneration (*excluding VAT):*				
- Fees payable for the audit of the annual accounts	**34**	33	**28**	27
- Fees payable for the audit of service charges	**5**	5	**5**	4
- Fees for tax computations	**3**	3	**-**	-
- Fees for tax advice				
Pension costs (see note 9 below)	**458**	439	**458**	439
Overall surplus is stated after charging:				
Pension adjustments (see note 31):	**(70)**	165	**(70)**	165
Change in fair value of financial instruments (see note 25):				
- Not treated as hedges	**(1,103)**	594	**(1,103)**	594
- Treated as hedges	**(2,219)**	948	**(2,219)**	948

9 Employees

Group and Association

	2018	2017
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	**98**	94
Other staff	**33**	32
Total	**132**	126
	2018	2017
	£000's	£000's
Staff costs (for the above persons)		
Wages and salaries	**4,586**	4,395
Social security costs	**451**	430
Cost of defined benefit scheme (excluding contribution to past service deficits)	**-**	-
Cost of defined contribution scheme	**458**	439
	5,495	5,264

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 2018

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.

		2018		2017	
		£000's		£000's	
Executive directors' emoluments		**505**		489	
Amounts paid to non-executive directors		**50**		49	
Contributions to the SHPS defined benefit scheme		**-**		-	
Contributions to the SHPS defined contribution scheme		**73**		69	
Total expenses re-imbursed to Directors (including Board members) not chargeable to United Kingdom income tax		**2**		2	

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments was £136k (2017: £135k). In addition, pension contributions of £27k (2017: £27k) were made to the SHPS defined contribution 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 5 directors in the defined contribution scheme.

The remuneration paid to staff (including the Directors) earning over £60,000 was as follows:

		2018 Number	**2018 Number**	2017 Number	2017 Number
		Including Pension	**Excluding Pension**	Including Pension	Excluding Pension
£60,001 to £70,000		**6**	**-**	6	-
£70,001 to £80,000		**3**	**1**	2	1
£80,001 to £90,000		**1**	**1**	1	1
£90,001 to £100,000		**1**	**1**	-	1
£100,001 to £110,000		**2**	**1**	2	1
£110,001 to £120,000		**-**	**-**	1	-
£120,001 to £130,000		**-**	**-**	-	-
£130,001 to £140,000		**-**	**1**	-	1
£140,001 to £150,000		**-**	**-**	-	-
£150,001 to £160,000		**-**	**-**	-	-
£160,001 to £170,000		**1**	**-**	1	-

11 Board members

		Member of:				
Board member	**Remuneration £**	**Hexagon Board**	**Audit & Risk Committee**	**Remuneration Committee**	**Performance Management**	**Horniman Board**
Roy Coulter	9,000	X		X		X
Ian Mansell (to May 2017)	750	X	X	X		X
Debbie Bankole- Williams	4,799	X	X			X
Ruth Chambers	3,750	X	X			
Dermot Finn	3,750	X		X		
Jeanette Kenyon	3,750	X		X		
Martin Large	4,125	X	X	X	X	
Rosalind Watson (to Sep 2017)	1,875	X				
Ian Watts	5,250	X	X	X	X	
Ranna McArdle	3,750	X	X		X	
Mark Allan	3,750	X				
Carol Bernstein (from Sept 2017)	1,933	X			X	
Denise Senner (from Sept 2017)	1,933	X				
Christopher Lloyd (from Mar 2018)	639					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**	**2018 Total**		2017 Total
		£000's		**£000's**	**£000's**		£000's
Housing properties:							
Disposal proceeds		**2,320**		**810**	**3,130**		4,056
Cost of disposals		**(1,340)**		**(172)**	**(1,512)**		(2,855)
Selling costs		**(3)**		**2**	**(1)**		8
Depreciation eliminated		**49**		**39**	**88**		315
Grant abated		**(31)**		**(15)**	**(46)**		578
		995		**664**	**1,659**		2,102
Surplus on disposal of other tangible fixed assets		**-**		**-**	**-**		(34)
Surplus		**995**		**664**	**1,659**		2,068

Association

		Shared ownership		**Other housing properties**	**2018 Total**		2017 Total
		£000's		**£000's**	**£000's**		£000's
Housing properties:							
Disposal proceeds		**2,320**		**810**	**3,130**		3,890
Cost of disposals		**(1,340)**		**(172)**	**(1,512)**		(2,831)
Selling costs		**(3)**		**2**	**(1)**		8
Depreciation eliminated		**49**		**39**	**88**		311
Grant abated		**(31)**		**(15)**	**(46)**		583
		995		**664**	**1,659**		1,961
Surplus on disposal of other tangible fixed assets		**-**		**-**	**-**		(34)
Surplus		**995**		**664**	**1,659**		1,927

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

13 Interest receivable and income from financial instruments

		Group		Associati on	
		2018	2017	**2018**	2017
		£000's	£000's	**£000's**	£000's
Interest receivable from subsidiary		**-**	-	**285**	218
Interest receivable and similar income		**9**	51	**8**	51
Total		**9**	51	**293**	269

See note 25 for more information on derivative instruments

14 Interest payable and finance costs

		Group				Association		
		2018		2017		**2018**		2017
		£000's		£000's		**£000's**		£000's
Bank and capital market loans		**5,002**		4,813		**5,002**		4,813
Recycled capital grants fund		**17**		15		**17**		15
Disposal proceeds fund		**2**		1		**2**		1
Total		**5,021**		4,829		**5,021**		4,829
Indexation of loan principal		**110**		65		**110**		65
Amortisation of deferred financing costs		**152**		59		**152**		59
Amortisation of loan premium		**(37)**		(34)		**(37)**		(34)
Interest capitalised		**(1,410)**		(1,042)		**(1,272)**		(826)
		3,836		3,877		**3,974**		4,093
Net interest on net defined benefit liability		**73**		122		**73**		122
Other		**26**		-		**26**		-
Total		**3,935**		3,999		**4,073**		4,215
Other financing costs through comprehensive income								
Loss on fair value of hedged derivative instruments		**(2,219)**		948		**(2,219)**		948
Loss on fair value of unhedged derivative instruments		**(1,103)**		594		**(1,103)**		594

The weighted average rate of interest on borrowings of 2.92% (2017: 2.97%) was used for calculating capitalised interest.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

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 £nil (2017: £2k) existed at 31 March 2018.

UK Corporation Tax - Group	**2018**	2017
	£'000	£'000
Current tax on profits of the year	**-**	-
Adjustments in respect of previous/current periods	**-**	-
Total current tax	**-**	-
The tax assessed for the year differs to the standard rate of corporation tax in the UK applied to the surplus before tax		
	2018	2017
Profit on ordinary activities before tax	**1708**	1205
Profit on ordinary activities at the standard rate of corporation tax in the UK of 20% (2017: 20%)	**-**	-
Effects of:		
Income not taxable	**(1734)**	(1204)
Expenses not deductible		
Fixed asset differences	**1**	-1
Chargeable gains / (losses)		
Adjustments to tax charge in respect of previous year	**3**	
Deferred tax not recognised	**22**	-
Current tax charge	**-**	-

16 Intangible fixed assets

Group & Association

		Software	
		Development costs	
		2018	
		£000's	
Cost			
At 1 April		**-**	
Additions		**446**	
At 31 March		**446**	
Depreciation			
At 1 April		**-**	
Charge for year		**-**	
At 31 March		**-**	
Net book value			
At 31 March 2018		**446**	
At 31 March 2017		-	

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

17 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	Tenanted property held for non-social housing Letting under construction	Shortlife property	2018 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost								
At 1 April	**424,653**	**26,329**	**32,802**	**14,333**	**441**	**-**	**1,583**	**500,141**
Transfer from properties held for sale	**-**	**-**	**(533)**	**-**	**-**	**-**	**-**	**(533)**
Additions – construction costs	**-**	**12,415**	**-**	**11,678**	**-**	**-**	**-**	**24,093**
Additions – new components	**3,487**	**-**	**-**	**-**	**5**	**-**	**8**	**3,500**
Additions – other works to existing properties	**326**	**-**	**166**	**-**	**-**	**-**	**-**	**492**
Schemes completed	**24,062**	**(24,062)**	**1,120**	**(1,120)**	**-**	**443**	**-**	**443**
Disposals:								
- Property sales	**(172)**	**-**	**(1,340)**	**-**	**-**	**-**	**-**	**(1,512)**
- Replaced components	**(983)**	**-**	**-**	**-**	**(2)**	**-**	**-**	**(985)**
At 31 March	**451,373**	**14,682**	**32,215**	**24,891**	**444**	**443**	**1,591**	**525,639**
Depreciation								
At 1 April	**64,202**	**-**	**1,190**	**-**	**116**	**-**	**1,575**	**67,083**
Charge for the year	**5,716**	**-**	**188**	**-**	**7**	**-**	**7**	**5,918**
Transfer from properties held for sale	**-**	**-**	**(34)**	**-**	**-**	**-**	**-**	**(34)**
Eliminated on disposal:								
- Property sales	**(40)**	**-**	**(49)**	**-**	**-**	**-**	**-**	**(89)**
- Replaced components	**(801)**	**-**	**-**	**-**	**-**	**-**	**-**	**(801)**
At 31 March	**69,077**	**-**	**1,295**	**-**	**123**	**-**	**1,582**	**72,077**
Net book value								
At 31 March 18	**382,296**	**14,682**	**30,920**	**24,891**	**321**	**443**	**9**	**453,562**
At 31 March 17	360,451	26,329	31,612	14,333	325	-	8	433,058
The net book value of housing properties comprises:								**2018 £000's**
Freeholds								**429,345**
Long leasehold								**24,207**
Short leasehold								**10**
Total								**453,562**

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

17 Tangible fixed assets - Housing Property (continued)

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	Tenanted property held for non-social housing Letting under construction	Shortlife property	2018 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost								
At 1 April	424,653	26,329	31,742	14,332	441	-	1,583	499,080
Transfer from properties held for sale	-	-	(533)	-	-	-	-	(533)
Additions – construction costs	-	12,415	-	11,678	-	-	-	24,093
Additions – new components	3,487	-	-	-	5	-	8	3,500
Additions – other works to existing properties	326	-	166	-	-	-	-	492
Schemes completed	24,062	(24,062)	1,120	(1,120)	-	443	-	443
Disposals:								
- Property sales	(172)	-	(1,340)	-	-	-	-	(1,512)
- Replaced components	(983)	-	-	-	(2)	-	-	(985)
At 31 March	451,373	14,682	31,155	24,890	444	443	1,591	524,578
Depreciation								
At 1 April	64,202	-	1,074	-	116	-	1,575	66,967
Charge for the year	5,716	-	184	-	7	-	7	5,914
Transfer from properties held for sale	-	-	(34)	-	-	-	-	(34)
Eliminated on disposal:								
- Property sales	(40)	-	(49)	-	-	-	-	(89)
- Replaced components	(801)	-	-	-	-	-	-	(801)
At 31 March	69,077	-	1,175	-	123	-	1,582	71,957
Net book value								
At 31 March 18	382,296	14,682	29,980	24,890	321	443	9	452,621
At 31 March 17	360,451	26,329	30,668	14,332	325	-	8	432,113

The net book value of housing properties comprises:	2018 £000's
Freeholds	428,404
Long leasehold	24,207
Short leasehold	10
Total	452,621

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

17 Tangible fixed assets - Housing Property (continued)

	Group	Group	**Association**	Association
	2018	2017	**2018**	2017
	£000's	£000's	**£000's**	£000's
Interest capitalisation				
Interest capitalised in the year	**1,032**	688	**1,032**	688
Works to properties				
New components capitalised	**3,501**	3,234	**3,501**	3,234
Major repairs expenditure charged to comprehensive income account	**2,730**	1,352	**2,730**	1,352
Total expenditure	**6,231**	4,586	**6,231**	4,586
Total Social Housing Grant received or receivable to date is as follows:				
Capital grant for housing properties	**220,179**	217,378	**219,581**	216,774
Revenue element taken to comprehensive income	**3,082**	3,025	**3,082**	3,025
Recycled to Recycled Capital Grant Fund	**1,239**	3,162	**1,239**	3,140
Recycled to Disposals Proceeds Fund	**(107)**	(17)	**(107)**	(17)
Total	**224,393**	223,548	**223,795**	222,922

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 £24,207k (2017 – £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.

Impairment Review

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.

In May 2016, a sinkhole appeared in a newly built estate of 40 properties at Brickfield Cottages (see page 11) for further information. This triggered an indication of impairment for the scheme and a full review was performed. As the intention is to repair and make safe, the 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. As this depreciated replacement cost is more than the carrying value, no impairment charge was booked.

Properties held for security – Association & Group

	2018 £m	2017 £m
Carrying value of properties charged as security for loans and derivatives		
Estimated tenanted open market value of properties so charged	**484**	360
Estimated tenanted open market value of unsecured properties	**208**	193

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

18 Other fixed assets

Group & Association

								2018
		Freehold		Office		Motor		Total
		offices		equipment		vehicles		
		£000's		£000's		£000's		£000's
Cost								
At 1 April		**3,553**		**2,579**		**25**		**6,157**
Additions		**30**		**277**		**-**		**307**
Disposals		**-**		**-**		**-**		**-**
At 31 March		**3,583**		**2,856**		**25**		**6,464**
Depreciation								
At 1 April		**1,052**		**1,837**		**25**		**2,914**
Charge for year		**59**		**278**		**-**		**337**
Disposals		**-**		**-**		**-**		**-**
At 31 March		**1,111**		**2,115**		**25**		**3,251**
Impairment								
At 1 April		**476**		**-**		**-**		**476**
Charge for year		**-**		**-**		**-**		**-**
At 31 March		**476**		**-**		**-**		**476**
Net book value								
At 31 March 2018		**1,996**		**741**		**-**		**2,737**
At 31 March 2017		2,025		742		-		2,767

19 Properties developed for sale		**Group**				**Association**		
		2018		2017		**2018**		2017
		£000's		£000's		**£000's**		£000's
Completed		**3,603**		397		**-**		397
Under construction		**13,136**		10,407		**13,136**		7,356
		16,739		10,804		**13,136**		7,753

Properties developed for sale include capitalised interest as follows:

		Group				**Association**		
		2018		2017		**2018**		2017
		£000's		£000's		**£000's**		£000's
Completed		**138**		-		**-**		-
Under construction		**240**		362		**240**		138
		378		362		**240**		138

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

20 Debtors

		Group				Association		
		2018		2017		**2018**		2017
		£000's		£000's		**£000's**		£000's
Amounts receivable within one year:								
Rent arrears		**1,607**		1,316		**1,585**		1,297
Less: Provision for bad debts		**(430)**		(374)		**(430)**		(374)
Net rent arrears		**1,177**		942		**1,155**		923
Amounts owed by subsidiary		**-**		-		**3,802**		3,097
Other debtors		**1,633**		1,361		**1,649**		1,382
Prepayments and accrued income		**472**		385		**472**		385
Social housing grant receivable		**-**		307		**-**		307
		3,282		2,995		**7,078**		6,094
Amounts receivable in more than one year:								
Amounts owed by subsidiary		**-**		-		**-**		-
Other debtors: Cash charged to lenders		**10,694**		1,583		**10,694**		1,583
Total debtors		**13,976**		4,578		**17,772**		7,677

21 Cash at bank and short term deposits

		Group				Association		
		2018		2017		**2018**		2017
		£000's		£000's		**£000's**		£000's
Cash at bank:								
: held in trust for shared ownership leaseholders		**784**		668		**597**		503
: unencumbered		**4,732**		5,864		**4,678**		5,780
		5,515		6,532		**5,275**		6,283

22 Creditors: Amounts falling due within one year

		Group				Association		
		2018		2017		**2018**		2017
		£000's		£000's		**£000's**		£000's
Loans and borrowings – note 24		**9,673**		1,200		**9,673**		1,200
Deferred capital grant – note 26		**1,995**		1,953		**1,989**		1,948
Trade creditors		**1,435**		2,250		**1,435**		2,250
Rent and service charges received in advance		**774**		637		**774**		637
Amounts owed to subsidiary		**-**		-		**-**		-
Taxation and social security payable		**121**		117		**121**		116
Other creditors		**1,985**		1,797		**1,959**		1,791
Recycled Capital Grant Fund – note 27		**6**		1,267		**-**		1,226
Disposals Proceeds Fund – note 28		**-**		90		**-**		90
Accruals and deferred income		**3,025**		2,462		**3,011**		2,421
Short term pension deficit liability – note 31		**827**		796		**827**		796
Accrued interest		**870**		818		**870**		818
		20,711		13,387		**20,659**		13,293

Included in other creditors is £119k (2017: £119k) SHG repayable to a local authority.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

23 Creditors: Amounts falling due after more than one year

		Group				Association		
		2018		2017		**2018**		**2017**
		£000's		£000's		**£000's**		**£000's**
Loans and borrowings – note 24		**185,252**		164,012		**185,252**		**164,012**
Deferred capital grant – note 26		**218,184**		215,425		**217,591**		**214,826**
Recycled Capital Grant Fund - note 27		**1,335**		2,014		**1,318**		**1,992**
Disposal Proceeds Fund - note 28		**236**		234		**236**		**234**
Repairs and equipment replacement funds - note 29		**1,285**		1,099		**1,098**		**935**
Total before fair value adjustments		**406,292**		382,784		**405,495**		**381,999**
Financial liabilities measured at fair value of (see note 25):								
- Interest rate swaps designated as hedges		**13,443**		15,662		**13,443**		**15,662**
- Interest rate swaps not designated as hedges		**9,582**		10,685		**9,582**		**10,685**
Total fair value adjustments		**23,025**		26,347		**23,025**		**26,347**
Total after fair value adjustments		**429,317**		409,131		**428,520**		**408,346**

24 Loans and borrowing – Group and Association

Maturity of debt		Bank loans		Other loans		Total
		2018		**2018**		**2018**
		£000's		**£000's**		**£000's**
In one year or less, or on demand		**3,752**		**5,921**		**9,673**
Due between one and two years		**3,897**		**421**		**4,318**
Due between two and five years		**13,490**		**1,264**		**14,754**
Due in five years or more		**108,540**		**56,843**		**165,383**
Total of all loans		**129,679**		**64,449**		**194,128**
Short term creditors		**(3,752)**		**(5,921)**		**(9,673)**
Deferred Finance Charges		**(875)**		**(613)**		**(1,488)**
HSL loan premium		**-**		**2,285**		**2,285**
		125,052		**60,200**		**185,252**

Maturity of debt		Bank loans		Other loans		Total
		2017		2017		2017
		£000's		£000's		£000's
In one year or less, or on demand		769		431		1,200
Due between one and two years		2,982		5,931		8,913
Due between two and five years		9,446		1,242		10,688
Due in five years or more		95,450		50,183		145,633
Total of all loans		108,647		57,787		166,434
Short term creditors		(769)		(431)		(1,200)
Deferred Finance Charges		(785)		(539)		(1,324)
HSL loan premium		-		102		102
		107,093		56,919		164,012

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

24 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**	**2018 £000's**	2017 £000's
Bank of Scotland	Amortising	2029/30	Variable	**3,754**	3,898
Abbey National Treasury Services	Amortising	2042/43	Variable	**77,000**	57,000
Newcastle Building Society	Bullet	2036/37	Variable	**25,000**	25,000
Lloyds TSB	Amortising	2034/35	Variable	**22,125**	22,750
Other loans:					
The Housing Finance Corporation	Amortising	2019/20	RPI + 5.65%	**-**	118
The Housing Finance Corporation	Amortising	2024/25	RPI + 5.50%	**2,949**	3,168
Housing Securities Ltd	Bullet	2018/19	9.31%	**5,500**	5,500
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**	17,000
AHF EIB Loan 2016	Amortising	2046/47	1.72%	**17,000**	17,000
The Housing Finance Corporation	Bullet	2042/43	5.2%	**7,000**	-
Yorkshire Building Society	Amortising	2021/22	Variable	**1,800**	-
Total				**194,128**	166,434

During the year, the Group drew a new loan of £7m from The Housing Finance Corporation (THFC), as well as agreeing a further £20m loan from Yorkshire Building Society which was undrawn at year end. At 31 March 2018 the Group had loan facilities available of £48.2m (2017: £50m).

25 Interest rate swaps

Group and Association

Interest rate swaps		**Nominal amount**		Nominal amount		**Fair value**		Fair value
		2018		2017		**2018**		2017
		£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**		30,000		**(9,413)**		(11,082)
LIBOR to RPI plus margin (of up to 1.19%)		**9,500**		9,500		**(4,031)**		(4,581)
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		**(9,581)**		(10,684)
Total		**59,500**		59,500		**(23,025)**		(26,347)

25 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 £13.4 m (2017: £15.6m) at the balance sheet date. The change in fair value in the period was -£2,219k with the credit 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 £9.6m (2016: £10.7m) at the balance sheet date. The change in fair value in the period was -£1,103k with the credit 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.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

26 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**	**2018 Total**	2017 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**229,786**	**3,504**	**12,017**	**1,481**	**-**	**1,755**	**248,543**	247,276
Additions	**-**	**3,942**	**-**	**1,375**	**-**	**-**	**5,317**	3,106
Schemes completed	**4,294**	**(4,294)**	**120**	**(120)**	**-**	**-**	**-**	-
Recycled to RCGF	**(74)**	**-**	**(539)**	**-**	**-**	**-**	**(613)**	(1,839)
Recycled to DPF	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
At 31 March	**234,006**	**3,152**	**11,599**	**2,736**	**-**	**1,755**	**253,247**	248,543
Amortisation								
At 1 April	**28,716**	**-**	**694**	**-**	**-**	**1,755**	**31,165**	29,420
Charge for the year	**1,858**	**-**	**86**	**-**	**-**	**-**	**1,944**	1,934
Eliminated on disposal:	**(15)**	**-**	**(31)**	**-**	**-**	**-**	**(46)**	(189)
At 31 March	**30,559**	**-**	**755**	**-**	**-**	**1,755**	**33,067**	31,165
Amortised value								
At 31 March 2018	**203,447**	**3,152**	**10,844**	**2,736**	**-**	**-**	**220,179**	217,378
At 31 March 2017	201,070	3,504	11,323	1,481	-	-	217,378	

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**	**2018 Total**	2017 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**229,786**	**3,504**	**11,314**	**1,481**	**-**	**1,755**	**247,840**	246,550
Additions	**-**	**3,942**	**-**	**1,375**	**-**	**-**	**5,317**	3,106
Schemes completed	**4,294**	**(4,294)**	**120**	**(120)**	**-**	**-**	**-**	-
Recycled to RCGF	**(74)**	**-**	**(539)**	**-**	**-**	**-**	**(613)**	(1,816)
Recycled to DPF	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
At 31 March	**234,006**	**3,152**	**10,895**	**2,736**	**-**	**1,755**	**252,544**	247,840
Amortisation								
At 1 April	**28,716**	**-**	**595**	**-**	**-**	**1,755**	**31,066**	29,322
Charge for the year	**1,858**	**-**	**86**	**-**	**-**	**-**	**1,944**	1,928
Eliminated on disposal:	**(15)**	**-**	**(31)**	**-**	**-**	**-**	**(46)**	(184)
At 31 March	**30,559**	**-**	**650**	**-**	**-**	**1,755**	**32,964**	31,066
Amortised value								
At 31 March 2018	**203,447**	**3,152**	**10,245**	**2,736**	**-**	**-**	**219,580**	
At 31 March 2017	201,070	3,504	10,719	1,481	-	-	216,774	

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2018

27 Recycled Capital Grant Fund

			Group				Association		
			2018		2017		**2018**		2017
			£000's		£000's		**£000's**		£000's
At 1 April			**3,281**		2,531		**3,217**		2,489
Inputs to fund:	Grants recycled		**625**		781		**625**		760
	Interest accrued		**17**		15		**17**		15
	Transfer from subsidiary		**-**		-		**41**		-
Recycling of grant:	New build		**(2,582)**		(46)		**(2,582)**		(46)
At 31 March			**1,341**		3,281		**1,318**		3,218
Amount due within one year			**6**		1,267		**-**		1,226
Amount due after more than one year			**1,335**		2,014		**1,318**		1,992
			1,341		3,281		**1,318**		3,218

£nil (2017: 114k) is repayable to the Greater London Authority. Withdrawals from the recycled capital grant fund were used for the development of new housing schemes for letting.

28 Disposal Proceeds Fund

Group and Association

		2018		2017
		£000's		£000's
At 1 April		**324**		91
Inputs to fund:	Grants recycled	**-**		232
	Interest accrued	**2**		1
Recycling of grant:	New build	**(90)**		-
At 31 March		**236**		324
Amount due within one year		**-**		90
Amount due after more than one year		**236**		234
		236		324

£80k (2016: nil) is repayable to the Greater London Authority.

29 Repairs and equipment replacement funds

Group	**Leaseholders sinking fund**	**Equipment replacement**		**Total**
	£000's	**£000's**		**£000's**
At 1 April 2017	**669**	**430**		**1,099**
Additions	**124**	**73**		**197**
Used in year	**-**	**(11)**		**(11)**
31 March 2018	**793**	**492**		**1,285**
Association				
At 1 April 2017	**505**	**430**		**935**
Additions	**101**	**73**		**174**
Used in year	**-**	**(11)**		**(11)**
31 March 2018	**606**	**492**		**1,098**

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 2018

30 Financial instruments

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

	Group	Group	Association	Association
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Financial assets measured at historical cost				
Debtors receivable in one year	**3,282**	2,995	**7,095**	6,094
- Debtors receivable after one year	**10,694**	1,583	**10,694**	1,583
- Cash and cash equivalents	**5,515**	6,532	**5,275**	6,283
- Financial assets that are debt instruments measured at amortised cost				
Intercompany loan	**-**	-	**3,818**	3,097
- **Total financial assets**	**19,491**	11,110	**26,882**	17,057
Financial liabilities				
Financial liabilities measured at amortised costs				
- Loans payable in one year	**9,673**	1,200	**9,673**	1,200
- Loans payable after one year	**185,252**	164,012	**185,252**	164,012
Financial liabilities measured at fair value				
- Interest rate swaps designated as hedges	**13,443**	15,662	**13,443**	15,662
- Interest rate swaps not designated as hedges	**9,582**	10,685	**9,582**	10,685
Financial liabilities measured at historical cost				
Creditors receivable in one year				
- Other creditors	**9,037**	8,877	**8,997**	8,829
Total financial liabilities	**226,625**	200,436	**226,585**	200,388

31 Pension Liabilities and Provisions for Other Liabilities - Group and Association

	SHPS pension	Dilapidations		Total
	deficit contribution			
	£000's	**£000's**		**£000's**
At 1 April 2017	**5,056**	**270**		**5,326**
Charged to comprehensive income:				
- additions	**-**	**11**		**11**
- remeasurement	**(70)**	**-**		**(70)**
Unwinding of discount	**73**	-		**73**
Contribution to be paid within less than 1 year	**(827)**	-		**(827)**
Used in year	**-**	**-**		**-**
31 March 2018	**4,232**	**281**		**4,513**

31 Pension Liabilities and Provisions for Other 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 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 with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Tier 1 From 1 April 2016 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 2 From 1 April 2016 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 3 From 1 April 2016 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)
Tier 4 From 1 April 2016 to 30 September 2026:	£31.7m per annum (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 2018	March 2017	March 2016	March 2015	March 2014
Rate of discount % per annum	1.72	1.33	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.

32 Non-equity Share Capital

	Group		**Association**	
	2018	2017	**2018**	2017
	£	£	**£**	£
Allotted issued and fully paid				
At 1 April	**17**	16	**17**	16
Issued during the year	**2**	2	**2**	2
Surrendered during the year	**(2)**	(1)	**(2)**	(1)
At 31 March	**17**	17	**17**	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.

33 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 (2017: £110k). The Group and Association had no other material contingent liabilities at the balance sheet date.

34 Operating leases

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

	Group				**Association**		
	2018		2017		**2018**		2017
	£000's		£000's		**£000's**		£000's
Not later than one year	**44**		-		**44**		-
Later than one year and not later than five years	**127**		137		**127**		165
Later than five years	**-**		28		**-**		
Total	**171**		165		**171**		165

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

	Group				**Association**		
	2018		2017		**2018**		2017
	£000's		£000's		**£000's**		£000's
Not later than one year	**1,395**		1,309		**1,338**		1,255
Later than one year and not later than five years	**5,429**		5,238		**5,201**		5,018
Later than five years	**147,807**		138,811		**142,026**		133,190
Total	**154,631**		145,358		**148,565**		139,463

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

35 Capital Commitments – Group and Association

	Group		**Association**	
	2018	2017	**2018**	2017
	£000's	£000's	**£000's**	£000's
Commitments contracted for but not provided for:				
Construction	**16,691**	29,209	**16,691**	28,670
Maintenance	**-**	-	**-**	-
Other	**905**	12	**905**	12
Capital expenditure approved by the board but not contracted for:				
Construction	**36,849**	2,488	**36,849**	2,488
Maintenance	**3,237**	3,307	**3,237**	3,307
Other	**-**	485	**-**	485
	57,682	35,501	**57,682**	34,962
These commitments to be financed as follows:				
Social Housing Grant	**4,634**	7,030	**4,634**	7,030
Proceeds from the sales of properties	**26,756**	13,677	**26,756**	13,677
Committed loan facilities	**26,292**	14,794	**26,292**	14,255
Loan committed after year end	**-**	-	**-**	-
	57,682	35,501	**57,682**	34,962

36 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**	
2018	2017	**2018**	2017	**2018**	2017
£'000	£'000	**£'000**	£'000	**£'000**	£'000
28	28	**9**	18	**301**	218

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 £3,818k (2017: £3,097k) owed by Horniman Housing Association. This is made up of two loans of £91k (2017: £102k) and £3,727k (2017: £2,995k). 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 £nil (2017: £150k).

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 £50k in the year (2017: £49k). Expenses paid to Board members during the year amounted to £2k (2017: £2k). 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 total rental income from board members for the year was £23k and there were no arrears at the end of the financial year.

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, i.e. under "frozen GAAP". The information needed to calculate each element of the covenants under previous UK GAAP is set out below.

Income covenant element		**2018**	2017
	Note	**£'000**	£'000
Operating surplus before fair value adjustments per consolidated income statement	**4**	**8,259**	10,906
Add back housing depreciation	**17**	**6,098**	5,839
Deduct SHG amortisation	**26**	**(1,944)**	(1,928)
Add back movement in accrued holiday pay		**(5)**	(9)
Add back major repair costs charged to comprehensive income (including works to Brickfield Cottages)	**5**	**3,756**	2,184
Operating surplus per loan agreements under frozen GAAP		**16,164**	16,992

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

Gearing element		**2018**	2017
	Note	**£'000**	£'000
Social Housing Grant per balance sheet	**26**	**219,580**	216,774
Add back cumulative SHG amortisation	**26**	**32,964**	31,066
Social Housing Grant under frozen GAAP	**26**	**252,544**	247,840
Reserves before pensions and fair value adjustments per balance sheet		**65,552**	61,827
Add back cumulative property depreciation under FRS102	**17**	**71,957**	66,967
Deduct cumulative property depreciation as at 1 April 2015 under frozen GAAP		**(18,559)**	(18,559)
Deduct cumulative property depreciation under frozen GAAP since 1 April 2015		**(12,366)**	(8,918)
Deduct cumulative SHG amortisation	**26**	**(32,964)**	(31,066)
Add back accrued holiday pay creditor		**87**	92
Reserves per loan agreements under frozen GAAP		**73,707**	70,343

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

38 Pension Obligations Defined Benefit Scheme

Hexagon has participated in the Social Housing Pension Scheme (SHPS), but there are now no active members of the scheme at Hexagon. 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 no contributions to the defined benefit scheme and a maximum of 7.4% to the defined contribution scheme.

As at the balance sheet date there were no active members of the Scheme employed by Hexagon. 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 £766k in deficit contributions in the year to March 2016, and will pay deficit contributions of £6,175k 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 Autumn 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 2016. As of this date the estimated employer debt for Hexagon was £42,082,126.