HEXAGON HOUSING ASSOCIATION

Report and Consolidated Financial Statements

31 March 2019

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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EXECUTIVES AND ADVISORS FOR THE YEAR ENDED 31 MARCH 2019

Board of Management

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

Audit & Risk Committee

Ian Watts	(Chair)
Debbie Bankole-Williams	
Ranna McArdle	
Martin Large	
Ruth Chambers	

Remuneration Committee

Dermot Finn	(Chair)
Roy Coulter	
Jeanette Kenyon	
Ian Watts	
Martin Large	

Performance Management Committee

Mark Allan	(Chair)
Martin Large	To September 2018
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

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HEXAGON HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2019

The Board has pleasure in presenting its Report and Financial Statements for the year ended 31 March 2019.

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 18 shared ownership / leasehold dwellings in the London Borough of Southwark together with the freehold of 21 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 10-17.

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 23.9% (from £33.5m to £41.6m), compared to 18/19, £2.4m of this increase is in income from first tranche shared ownership sales, as there were more shared ownership units ready for sale this year. Another £4m of this increase is from the sale of units developed for sale. The main source of turnover – income from social housing lettings – increased by 3%, as income from newly developed units outweighed rent decreases for general needs tenancies.

Operating costs (excluding fair value and pension adjustments) increased by 1.5% from £24.5m to £24.9m. The operating margin excluding fair value adjustments and property sales increased from 20.6% to 31.9%. This is partly because of less expenditure arising from the May 2016 ground collapse at Brickfield Cottages (£1.1m compared to £2.7m in 2017/18).

Net financing costs were 21.4% higher at £4.8m. £3.1m (2018: £1.7m) was realised through a combination of staircasing sales of shared ownership properties and the sale of housing properties which were uneconomic to repair.

The total comprehensive income for the year decreased to £2.2m from the previous year's total comprehensive income of £8.5m. £4.3m of the decrease arises from the initial recognition and actuarial losses in the year of SHPS multi-employer defined benefit pension scheme. There was a change in the value of financial instruments of - £0.6m (2018: + £3.3m).

Group reserves currently stand at £40.6m (2018: £38.4m). 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 £27.3m on acquiring and developing properties in the year, of which £6.7m was funded through capital grants. 140 additional units were completed, and a further 152 units are still under development. The Group's loans increased from £194.1m to £194.7m and a further £38.2m of loan facilities are available. The weighted average interest rate on the Group's loan portfolio was 2.95% (2018: 2.92%). The Board estimates that the investment value of the Group's properties is £760m, of which £371m 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 59 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 516. These brought in £4.8m of rental income.

Turnover and operating surplus by activity is as follows:

£000	**2019**	2018	**2019**	2018
	Turnover		**Operating surplus / (deficit)**	
General needs	**24,335**	23,666	**6,998**	6,144
Supported housing	**1,845**	1,904	**18**	5
Shared ownership	**1,924**	1,638	**1,442**	1,195
Sale of first tranche in shared	**5,052**	2,682	**30**	273

ownership properties				
Sale of outright units	**3,965**	-	**300**	-
Other social housing activities	**2,942**	2,886	**(775)**	(573)
Nursing home lettings	**766**	764	**(296)**	65
Other non-social housing activities	**726**	(13)	**285**	(491)
Surplus on disposal of fixed assets	**-**	-	**3,088**	1,659
Total	**41,555**	33,527	**11,090**	8,277

The first tranche sale of shared ownership properties provides on a small surplus as most of the sales are on mixed tenure schemes, where surpluses on shared ownership are not recognised but are used to subsidise the rented units at the same scheme.

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 be 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 2018/19 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	<£4,534	£4,576	N	The target was missed by £42 per unit. Although operating costs as a whole were less than planned, there were fewer units than had been planned, as some development schemes have suffered delays.
Restricting growth of interest costs per social housing unit	Interest paid as a percentage of average borrowings	<3.57%	2.95%	Y	The Association is taking advantage of low variable interest rates on 31% of its debt.
Effective asset management	Return on capital employed	>2.0%	2.4%	Y	Target met
Maximising development (within our capacity)	Units developed as a percentage of units owned	>2.3%	3.3%	Y	Target met
	£m distance from an interest cover breach	>£11.2m	£11.7m	Y	Target met
	Cumulative surplus on outright sales	>£1046k	£300k	N	The target assumed completion of all sales at two schemes. The actual reflects partial sales at one scheme – the other did not proceed. Two further schemes are now in progress.
Improving resident satisfaction	% satisfied with last repair	>89%	94.2%	Y	Target met
Delivering social value	Average SAP rating of properties	>72.6	72.73	Y	Target met
	Annual social value delivered per £ spent on employment initiatives	>£3	£7	Y	The expansion of employment related training, and the partnership with LLC has enabled considerably increased return.

[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. We also use HouseMark and Sector Scorecard data to develop a series of VFM initiatives for the year and to look at areas where we would focus on improving performance.

For 2018/19 these focussed on reducing rent arrears and void turnaround times (see Measuring Performance - Key Financial and Non- Financial Indicators below) and on improving resident satisfaction with responsive repairs.

As far as the initiatives are concerned, there are 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.

Theme	**Initiative**	**Team(s)**	**Progress to 31 March 2019**
Restricting operating costs	(Responsive Repairs team to) work with the Service Charge Review Team to ensure that service chargeable repairs are correctly raised and the process is successfully transferred to new housing system	Responsive repairs and Stock Improvement	While some work was done on this, a bug was found in the Cx service charges module which halted progress; work will now be picked up on this after Phase 1 of Cx goes live in Oct 2019.
Restricting operating costs	Improve communication to ensure strong performance and efficient turnaround of void properties to minimise rent loss, via weekly meetings and a shared spreadsheet.	Responsive Repairs	Spreadsheet updates and meetings take place weekly and this helped to improve by 9 days from 44 to 35 days. This wasn't enough to meet the target of 28 days, so this will continue to be an area of focus for 19/20.
Restricting operating costs	Implement measures to reduce the rate of data growth, including email and file quotas and photo management	IT	Proposal presented & agreed in March 2019, but not actioned until 2019/20
Restricting interest costs	Monitor the costs of each development scheme every month, and mitigate any cost overruns	Development	Most schemes have a minimal variance (under 2%). There were exceptions where one contractor filed for insolvency and another where the contract was terminated, along with two others where we are in negotiation with contractors over delays and cost claims - we expect the position to improve when these two are resolved.
Effective asset management	Complete implementation of Stock Profiler tool to enable asset profiling and more efficient decisions on disposals; support enhancements and revised dataset definitions	IT	This was completed in July 2018
Maximising development (within our capacity)	Identify and secure land for outright sales homes to generate cross subsidy for rented programme	Development	This has been largely met through two for sale schemes; due to restrictions on overall outright sale spend (£12.6m cap) and cash flow some expenditure will be later than intended.

Theme	Initiative	Team(s)	Progress to 31 March 2019
Improving resident satisfaction	Implement Cx computer system to replace existing housing management and maintenance system – Phase 1 to include rents, repairs and service charges – this should provide the Customer Service Centre with quicker access to information with which to answer queries from residents	Business Improvement	There have been serious delays with the project due to both bugs and resourcing work on a complex interface with our repairs contractor 'hub.' There have been updates on progress to each Board meeting.
Improving resident satisfaction	Carry out a review of the current term contract to investigate the possibility of moving to a Price Per Property model which takes into account both the quality of work and resident satisfaction	Responsive repairs	An initial review concluded that we need first to improve the quality and range of data that we hold on our repairs service, costs and performance. An improvement project is in progress and should be finished by the end of Q2 2019/20.
Improving resident satisfaction	Plan and deliver neighbourhood events to listen to residents views	Resident Involvement and Community Investment	All 3 parts of the target/outcome were met- the actions all related to individual residents rather than anything corporate or strategic.
Delivering social value	Achieve overall average SAP (energy efficiency) rating of 85 on new schemes handing over in 18/19	Development	The target was just missed due to a S106 scheme in Walworth Road; we have much less influence on design performance on such schemes - this one was just 82, reducing the average.

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.

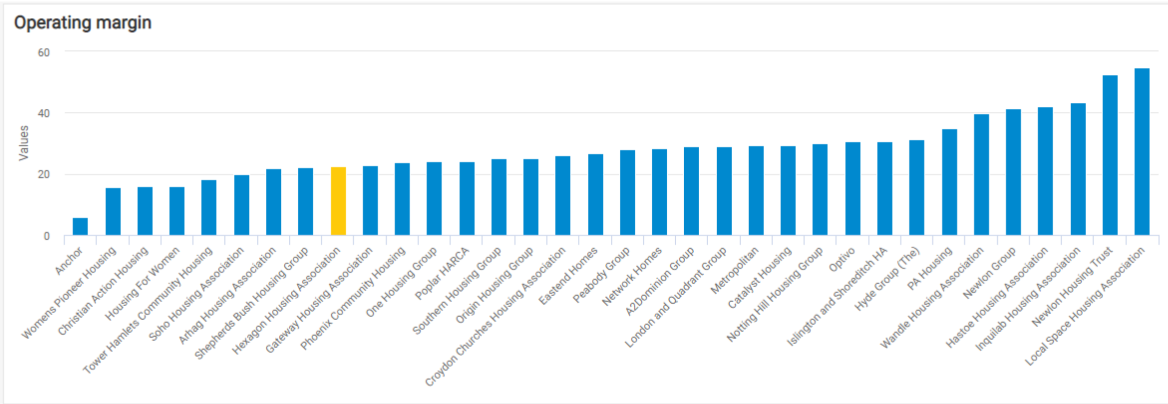
Meeting the Regulator's Expectations
While our own value for money targets and performance are set out above, the RSH requires from April 2018 performance against seven key metrics in relation to VFM that are part of the Sector Scorecard. At the time of writing, Sector Scorecard data for 2019 was in validation and no benchmarks are available, so comparisons have been made with the 2018 data for both associations nationally and in London based on data analysed by HouseMark.

	HHA 2019	HHA 2018	England Top Quartile 2018	England Median 2018	Hexagon Quartile England 2018	London Top Quartile 2018	London Median 2018	Hexagon Quartile London 2018
Reinvestment	6.52%	6.29%	8.40%	6.08%	2	6.46%	50.50%	2
New supply delivered (social housing units)	3.2%	1.30%	2.34%	1.10%	2	1.87%	1.19%	2
New supply delivered (non-social housing units)	0.0%	0.0%	0.11%	0.00%	-	1.03%	0.3%	-
Gearing	40.08%	41.76%	28.78%	39.40%	3	48.08%	38.92%	2
EBITDA MRI interest cover	170.9%	162%	280%	204%	3	213%	181.31%	3
Headline social housing cost per unit (£s)	£4,841	£5,020	£2,986	£3,311	4	£4,375	£4,840	3
Operating margin (social housing lettings)	30.1%	27.05%	36.40%	31.32%	4	36.24%	28.00%	3
Operating margin (overall)	21.25%	22.35%	34.00%	28.40%	4	30.77%	27.31%	3
Return on capital employed	2.43%	1.94%	5.14%	4.00%	4	4.53%	4.02%	4

Hexagon's relative performance has changed little since the 2017 data – there were slight falls in the quartile position in relation to Gearing (nationally) and Headline Social Housing Costs per unit (London) – with both of these related more to changes in the boundaries rather than any significant change in performance from the Association. Four of the indicators show performance in the bottom quarter for England, but three of these are because of the spend during the year to remedy a ground collapse at Brickfield Cottages (see page 12 for more on this):

- **Return on Capital Employed** – Hexagon does not deliver a low surplus per unit, but we do have a high cost of assets (predominately property costs) per unit. We think this may be driven by the source and type of our properties – we have no properties transferred at low initial value from a local authority, only 7% of our properties are shared ownership, and we have few properties (2%) developed using S106. However, this cannot be proved as equivalent data is not available from other providers.

- **Headline social housing unit costs -** appears to have London factors as while our performance is in the bottom quarter nationally it is in the third quarter of London associations and within the top quarter if the costs of reinstating 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 quarter with both these indicators. For 2017/8, if our expenditure on Brickfield Cottages were excluded, our margins would have been 37% and 30.4% respectively (which would be above the median on both measures)



Our performance on EBITDAMTRI cover would also have been above median for 2018, were it not for the spend at Brickfield Cottages.

COMPLIANCE WITH THE GOVERNANCE AND VIABILITY STANDARD

In December 2018, following a stability check, the Social Housing Regulator awarded Hexagon a G1 rating for Governance and a V1 rating for Financial Viability. This followed on from a stability check carried out in November 2017 and an In Depth Assessment (IDA) at the end of 2016/17, both of which also resulted in G1/V1 ratings.

Notwithstanding this Regulatory judgement, Hexagon's Board also carried out its own self-assessment of compliance with the Governance and Viability Standard. This was completed and reported to the Board in July 2019. 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 2018-19, 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 identified that there had been two technical breaches of relevant law. First, during the financial year, the Board identified that a total of 11 registered fair rents had not been decreased by 1% as mandated by the Welfare and Reform Act 2016. This was identified via an internal control check that had been introduced to ensure full compliance with the Rent Standard. Upon discovery, all residents were informed and refunds were made. The Board received a full report explaining the cause, along with proposals to minimise the chance of any recurrence. The Chair also informed the Regulator to ensure full transparency about this breach of the Rent Standard. Second, we identified that there may have been a technical breach of the Corporation Tax 2010 law. Hexagon has never paid Corporation tax, given that we are a charitable entity, nor do we receive an annual request from HMRC to complete a corporation tax return. In late March 2019, however, Hexagon received a reminder letter from HMRC that a return was due by 31 March. This letter referenced an earlier request dated 22 April 2018, though we had no record of having received this letter. At that point, to ensure full compliance, we instructed KPMG, in their capacity as our tax advisors, to undertake this work on our behalf, but given the late notification, the return was completed after the formal deadline of 31 March, incurring a penalty notice of £100. As per usual, Hexagon had no corporation tax liabilities arising from the return submitted. Although it can be argued that both are technically breaches of relevant law, the Board has taken the view that neither breach was material enough to result in a self- assessment of non-compliance with either the Governance or Financial Viability Standard established by the Regulator for Social Housing.

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 Board and the Audit & Risk Committee 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 on-going 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 four times during 2018/19 leading to a strengthening of internal controls in relation to Key Performance Indicators.

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 2018/19, 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 2019 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) 30th July 2019

HEXAGON HOUSING ASSOCIATION

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2019

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 4,379 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 326 supported housing homes for people who need care and support in addition to housing. This includes, amongst other client groups, people with a history of mental illness, people with learning difficulties and young people with support needs.

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

Hexagon is committed to involving our residents in service delivery and this takes many forms. One of the most significant involves the direct management by tenants themselves through housing co-operatives. This currently accounts for approximately 7% of our housing provision.

Today Hexagon employs 135 staff (full time equivalent). Approximately 30% 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:

	2019	**2018**
General needs	3,668	3,608
Supported housing	326	333
Low cost home ownership	305	252
Other	119	105
Total housing	**4,418**	**4,298**
Nursing home accommodation	12	12
	4,430	**4,310**

37% of the rented housing stock comprises properties originally built pre-1944, generally Victorian street properties, with some converted into flats, post construction. 6% were originally constructed between 1935 & 1990. The remaining 57% 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 December 2018, 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 further stability checks carried out during 2017 and 2018. This most recent rating confirmed 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 endeavour 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 14-15, 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, 72 new homes for rent and 68 for shared ownership were completed and came into management. An additional 7 homes were completed but not ready for occupation at the end of year.

Two sites (45 homes) funded from the legacy grant programme of 2015/18, suffered delays and are now expected to complete in the first quarter of next year.

During the year we secured additional GLA grant funding of £3.164m to deliver a further 57 affordable homes. This increases our current programme to 299 affordable homes (184 for London Shared Ownership and 115 for London Affordable Rent). We have already secured over 75% of this programme with over 190 homes on-site. We expect to comfortably meet the GLA's March 2021 and March 2022 start targets for the remainder of the programme with a strong focus on land led development opportunities where we have direct control of the site and its' design.

Six of seven outright sale houses were sold during the year after securing Help to Buy status. The last home is expected to complete by June 2019. The predicted surplus will be used to provide cross subsidy for circa 4 rented homes. There are another 2 outright sale projects (21 homes) underway which will financially support delivery of circa 14 rented homes.

In terms of quality, we have improved our inspection regime and we are also updating our contractual terms and design guidance to reinforce the importance of effective fire protection measures during construction. We anticipate further changes to working practices will be required as part of the Government's legislation on building regulations arising from the Hackitt review.

Maintaining and improving existing homes

We continue to invest in improving our existing homes. In 2018/19, we spent £5.4m 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 2018/19 totalled £4.3m, including works to bring voids back to lettable standard. During 2018/19 we entered into the 3rd 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 100% compliance at year end through our relationship with BSW (see page 8 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. The collapse was as a result of historic collapsed chalk mine workings. No-one was hurt and there was minimal property damage. Following extensive investigations and localised repairs, followed by reinstatement works across the entire estate, the 40 households were safely returned and settled in to their homes by January 2019.

In the year to March 2019 we have spent £1,095k on this incident, net of insurance recoveries.

We have retained the services of our corporate lawyers to provide legal advice throughout, and claims against the Geotechnical Consultants and 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 131 people this year against a target of 128 onto the programme during the year and 71 people had found jobs against at target of 66 by the year end.

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 financial inclusion service to help our residents manage their money and in 2018/19, our advisor helped 159 individuals to gain £210,890 of additional income in benefits to which they were entitled. Of the £180,000 was in the form of Housing related benefits. This is a significant increase from 17/18, reflecting the growth in this team in the second half of the year.

Overall using the HACT tool, Hexagon generated £7 for every £1 spent in Community Investment.

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. Our resident inspectors carried out an inspection of our Customer Services Centre.

A review of the Residents Forum was completed in 18/19 with the Board approving proposals that will facilitate stronger resident engagement. A program of 4 Neighbourhoods were delivered in 18/19 allowing staff to meet previously uninvolved residents in an informal environment.

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 in 2017/18 and the decision made that Hexagon should continue to deliver these services. However, due to changing priorities from commissioners Woodcote was decommissioned in May 2019.

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 our 3rd successive Gold status in 2018. In 2017 Hexagon were also awarded the 'Most Improved Landlord Ever' in SHIFT's annual awards ceremony.

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 £194.7m. This debt is mainly borrowed from UK banks and building societies, with £58.7m 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	4.3
1-5 years	29.7
6-10 years	26.2
11-15 years	29.8
16-20 years	49.9
21-25 years	52.5
25-30 years	2.3
Total	**194.7**

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 2019 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 £4.7m. The Group has secured facilities in place to borrow a further £38.2m. 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 2019 interest cover was 4.08 which is significantly better than the minimum of 1.10 required. As at 31 March 2019 the gearing ratio was 57.40%, which is significantly lower than the 70% maximum agreed with lenders. Compliance with covenants is the responsibility of the Finance & IT Director.

Measuring performance - Key financial and non- financial indicators

Objectives & Indicators	2018/19	2017/18	Improving?	Comments
Satisfaction with the last repair	95.8%	87.4%	✓	A significant improvement, albeit that the survey methodology was changed during 18/19
Customer service calls answered	82%	82%	-	Our target of 80% has been met.
Gas safety checks completed within target time	100%	99.9%	✓	Full compliance
Number of complaints	355	308	x	Significant increase in number of complaints, the majority remain related to repairs. The 17/18 number was in itself a significant increase on the prior year.
% of complaints with full response within 15 days	75%	93%	x	There was a substantial drop in Q2 and Q3 2018/19, in the greater part due to changes in structures and staffing in Responsive Repairs and Housing. Q4 performance was stronger but improvement needs to continue in 19/20
Void re-let (days) General needs	35	44	✓	Strong performance in Q4 following the implementation of a range of process improvements meant that we made a major step forward.
Void re-let (days) Supported Housing	122	82	x	Though void levels were low, referrals for a number of learning disability schemes were slow. The viability of schemes is kept under close review at Director level.
Rent collection % - General needs	99.15%	99.7%	x	Rent collection has been impacted by the migration to universal credit, especially on new handovers where all new claimants are on UC.
Rent collection % - Supported housing	99.6%	100.8%	x	A slight deterioration in collection rate, which has had little impact on arrears.
% working days lost through staff sickness	3.6%	2.9%	x	Overall sickness absence for the year was above target predominately due to long-term absence - which accounted for 50% of days lost.

Housing management cost per GN unit	£814	£786	x	The housing service has been developed to better respond to the challenges of welfare reform, especially universal credit. This has led to additional resources being deployed in both revenue recovery and financial inclusion.
% Operating margin excluding all property sales and pension and fair value adjustments	23.6%	15.9%%	✓	Spending less at Brickfield Cottages this year has helped to improve the margin on lettings.
Average SAP 9.93 (energy efficiency) Ratings	72.73	72.18	✓	This improvement has been achieved by targeting works to improve the energy efficiency of our homes.
Units failing Decent Homes Standard	0	0	-	10 residents have refused work required to 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	140	53	✓	There has been a delay to 64 homes (across five schemes) reaching completion and going into management by March 2019.
Loan covenants -interest cover (must be >110%)	412.5%	436.1%	✓	Performance is well within the loan covenant
Loan covenants - gearing (must be < 70%)	57.39%	59.5%	✓	Performance is well within the loan covenant
% weighted average interest	2.95%	2.92%	x	LIBOR, the interbank variable rate, has risen since last year.

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 £4.78m in 2018/19.

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	**2019-20**	**2020-21**	**2021-22**
General needs	44	48	36
Shared ownership	36	37	43
Other	-	-	-
Total	80	85	79

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 and rising arrears have been included in the 30 year financial plan. In order to mitigate the risk, Hexagon has restructured its housing management operations to create a dedicated revenue team and to increase resources around financial inclusion.
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 have been increased to £30k / £70k for the 21/22 addendum programme. These grant levels remain low compared to pre-2010

	levels, and do not fully subsidise the rent levels mandated by the grant. Hexagon's Board has agreed a modest programme of development for outright sale in order to provide further 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 once a quarter 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 2019, the Group part-owned 306 shared ownership homes. A further 73 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, a Performance Management Committee, and a Remuneration Committee are the three sub-committees that report directly to the Board. The Board meets six times a year, the Audit & Risk Committee and Performance Management Committee both meet four times a year, and the Remuneration Committee meets twice per 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 2018/19 were £54k (2018: £50k). 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 5 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 revised National Housing Federation's Code of Governance 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.

STATEMENT OF BOARD'S RESPONSIBILITIES IN RESPECT OF THE BOARD'S REPORT AND THE FINANCIAL STATEMENTS

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 the association and of the income and expenditure of the group and the association 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 the 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 or the 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 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 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 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) 30th July 2019

Independent auditor's report to 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 2019 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 the association as at 31 March 2019 and of the income and expenditure of the group and the association 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 the 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as those related to the development programme and the Social Housing Pension Scheme, and related disclosures, and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group and association's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group and association's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The group's and association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the association or to cease their operations, and as they have concluded that the group and the association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the Board's conclusions, we considered the inherent risks to the group and association's business model, including the impact of Brexit, and analysed how those risks might affect the group and association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the association will continue in operation.

Other information

The group and association's Board is responsible for the other information, which comprises 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's or 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 17 , 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 the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the 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 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 association as a body, for our audit work, for this report, or for the opinions we have formed.

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

DATE:

HEXAGON HOUSING ASSOCIATION

Statement of Comprehensive Income
for the year ended 31 March 2019

Group				**2019**			2018
	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	**41,555**		**41,555**	33,527	-	33,527
Cost of sales	4	**(8,687)**		**(8,687)**	(2,409)	-	(2,409)
Operating costs	4	**(24,866)**	**827**	**(24,039)**	(24,500)	866	(23,634)
Surplus on disposal of fixed assets	12	**3,088**		**3,088**	1,659	-	1,659
Operating surplus	4,8	**11,090**	**827**	**11,917**	8,277	866	9,143
Interest receivable	13	**39**		**39**	9	-	9
Interest payable and finance costs	14	**(4,597)**	**(178)**	**(4,775)**	(3,862)	(73)	(3,935)
Movement in fair value of financial instruments	14	**-**	**(414)**	**(414)**	-	1,103	1,103
Surplus for the year		**6,532**	**235**	**6,767**	4,424	1,896	6,320
Tax	15	**-**	**-**	**-**	-	-	-
Initial recognition of multi-employer defined benefit scheme	38	**-**	**(2,349)**	**(2,349)**	-	-	-
Actuarial gains/(losses) on defined benefit pension scheme	38	**-**	**(1,997)**	**(1,997)**	-	-	-
Change in fair value of hedged financial instrument	14	**-**	**(185)**	**(185)**	-	2,219	2,219
Total comprehensive income for the year	8,14	**6,532**	**(4,296)**	**2,236**	4,424	4,115	8,539

All amounts relate to continuing activities.

Statement of Changes in Reserves

				2019			2018
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 2018 / 1 April 2017		**51,877**	**(13,443)**	**38,434**	45,557	(15,662)	29,895
Surplus for the year		**6,767**	**-**	**6,767**	6,320	-	6,320
Initial recognition of multi-employer defined benefit scheme		**(2,349)**	**-**	**(2,349)**	-	-	-
Actuarial gains/(losses) on defined benefit pension scheme		**(1,997)**	**-**	**(1,997)**	-	-	-
Change in fair value of hedged financial instrument			**(185)**	**(185)**	-	2,219	2,219
Balance at 31 March 2019/ 31 March 2018		**54,298**	**(13,628)**	**40,670**	51,877	(13,443)	38,434

The Financial Statements were approved and authorised for issue by the Board of Management on 30th July 2019 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 2019

Association				**2019**			2018
	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	**38,109**		**38,109**	33,457	-	33,457
Cost of sales	4	**(5,444)**		**(5,444)**	(2,409)	-	(2,409)
Operating expenditure	4	**(24,824)**	**827**	**(23,997)**	(24,448)	866	(23,582)
Surplus on disposal of fixed assets	12	**2,908**		**2,908**	1,659	-	1,659
Operating surplus	4,8	**10,749**	**827**	**11,576**	8,259	866	9,125
Interest receivable	13	**344**	**-**	**344**	293	-	293
Interest payable and finance costs	14	**(4,597)**	**(178)**	**(4,775)**	(4,000)	(73)	(4,073)
Change in fair value of financial instruments	14	**-**	**(414)**	**(414)**	-	1,103	1,103
Surplus for the year		**6,496**	**235**	**6,731**	4,552	1,896	6,448
Initial recognition of multi-employer defined benefit scheme	38	**-**	**(2,349)**	**(2,349)**	-	-	-
Actuarial gains/(losses) on defined benefit pension scheme	38	**-**	**(1,997)**	**(1,997)**	-	-	-
Change in fair value of hedged financial instrument	14	**-**	**(185)**	**(185)**	-	2,219	2,219
Total comprehensive income for the year	8,14	**6,496**	**(4,296)**	**2,200**	4,552	4,115	8,667

All amounts relate to continuing activities.

Statement of Changes in Reserves

Association				**2019**			2018
		Income and expenditure reserve	**Cashflow hedge reserve**	**£000 Total Reserves**	Income and expenditure reserve	Cashflow hedge reserve	£000 Total Reserves
Balance at 1 April 2018 / 1 April 2017		**51,738**	**(13,443)**	**38,295**	45,290	(15,662)	29,628
Surplus for the year		**6,731**	**-**	**6,731**	6,448	-	6,448
Initial recognition of multi-employer defined benefit scheme		**(2,349)**	**-**	**(2,349)**	-	-	-
Actuarial gains/(losses) on defined benefit pension scheme		**(1,997)**	**-**	**(1,997)**	-	-	-
Change in fair value of hedged financial instrument		**-**	**(185)**	**(185)**	-	2,219	2,219
Balance at 31 March 2019/ 31 March 2018		**54,123**	**(13,628)**	**40,495**	51,738	(13,443)	38,295

The Financial Statements were approved and authorised for issue by the Board of Management on 30th July 2019 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 2019

Group				**2019**			2018
	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	**953**		**953**	446		446
Housing properties	17	**476,018**		**476,018**	453,562		453,562
Other	18	**2,638**		**2,638**	2,737		2,737
		479,609		**479,609**	456,745		456,745
Current assets							
Stock – properties developed for sale	19	***14,490***		***14,490***	16,739		16,739
Debtors – receivable within one year	20	***3,365***		***3,365***	3,282		3,282
Debtors – receivable after one year	20	***1,982***		***1,982***	10,694		10,694
Cash and cash equivalents	21	***4,705***		***4,705***	5,515		5,515
Less: creditors – amounts falling due within one year including short term pension deficit liability	22	***(14,680)***		***(14,680)***	(19,884)	(827)	(20,711)
Net current assets		***9,862***		***9,862***	16,346	(827)	15,519
Total assets less current liabilities		***489,471***		***489,471***	473,091	(827)	472,264
Creditors: amounts falling due after one year	23	**(416,128)**	**(23,624)**	**(439,752)**	(406,292)	(23,025)	(429,317)
Pension deficit liability	31	**-**		**-**	-	(4,232)	(4,232)
Provisions for liabilities	31	**(293)**		**(293)**	(281)		(281)
Net assets excluding pension liability		**73,050**	**(23,624)**	**49,426**	66,518	(28,084)	38,434
Pension liability			**(8,756)**	**(8,756)**			
Net assets		**73,050**	**(32,380)**	**40,670**	66,518	(28,084)	38,434
Capital and reserves							
Income and expenditure reserve		**73,050**	**(18,752)**	**54,298**	66,518	(14,641)	51,877
Cash flow hedge reserve			**(13,628)**	**(13,628)**	-	(13,443)	(13,443)
		73,050	**(32,380)**	**40,670**	66,518	(28,084)	38,434

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HEXAGON HOUSING ASSOCIATION

Balance Sheet as at 31 March 2019

Association				**2019**			2018
	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	**953**		**953**	446		446
Housing properties	17	**475,117**		**475,117**	452,621		452,621
Other	18	**2,638**		**2,638**	2,737		2,737
		478,708		**478,708**	455,804		455,804
Current assets							
Stock – properties developed for sale	19	**14,021**		**14,021**	13,136		13,136
Debtors – receivable within one year	20	**4,550**		**4,550**	7,078		7,078
Debtors – receivable after one year	20	**2,050**		**2,050**	10,694		10,694
Cash	21	**4,047**		**4,047**	5,275		5,275
Less: creditors – amounts falling due within one year including short term pension deficit liability	22	**(14,869)**		**(14,869)**	(19,832)	(827)	(20,659)
Net current assets		**9,799**		**9,799**	16,351	(827)	15,524
Total assets less current liabilities		**488,507**		**488,507**	472,155	(827)	471,328
Creditors: amounts falling due after one year	23	**(415,339)**	**(23,624)**	**(438,963)**	(405,495)	(23,025)	(428,520)
Pension deficit liability	31	**-**		**-**	-	(4,232)	(4,232)
Provisions for liabilities	31	**(293)**		**(293)**	(281)	-	(281)
Net assets excluding pension liability		**72,875**	**(23,624)**	**49,251**	66,379	(28,084)	38,295
Pension liability	38	**-**	**(8,756)**	**(8,756)**			
Net assets		**72,875**	**(32,380)**	**40,495**	66,379	(28,084)	38,295
Capital and reserves							
Income and expenditure reserve		**72,875**	**(18,752)**	**54,123**	66,379	(14,641)	51,738
Cash flow hedge reserve		**-**	**(13,628)**	**(13,628)**	-	(13,443)	(13,443)
		72,875	**(32,380)**	**40,495**	66,379	(28,084)	38,295

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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 2019

Group

	Notes				2019				2018
			£000's		**£000's**		£000's		£000's
Cash flows from operating activities									
Surplus for the year			**2,236**				8,539		
Adjustments for:									
Depreciation of fixed assets – housing			**6,594**				6,102		
Depreciation of fixed assets – other			**371**				337		
Amortised grant			**(1,976)**				(1,950)		
Net fair value losses/ (gains recognised in income statement			**598**				(3,322)		
Interest payable and finance costs			**4,775**				3,935		
Interest receivable			**(39)**				(9)		
Surplus on the sale of fixed assets			**(3,088)**				(1,659)		
Decrease/(increase) in stocks			**1,645**				(5,436)		
Decrease/(increase) in trade and other debtors			**9,157**				(9,705)		
(Decrease)/increase in trade creditors			**(586)**				161		
(Decrease)/increase in provisions			**4,536**				(813)		
Net cash generated from operating activities					**24,223**				(3,820)
Cash flows from investing activities									
Proceeds from sale of fixed assets			**5,740**				3,130		
Purchase of fixed assets - housing			**(29,903)**				(27,360)		
Purchase of fixed assets –other			**(777)**				(754)		
Receipt of grant			**5,199**				3,001		
Interest received			**39**				8		
Net cash from investing activities					**(19,702)**				(21,975)
Cash flows from financing activities									
Interest paid			**(5,893)**				(4,934)		
New loans			**10,050**				28,800		
Debt issue costs incurred			**123**				2,129		
Repayment of loans			**(9,611)**				(1,217)		
Net cash from financing activities					**(5,331)**				24,778
Net increase/(decrease) in cash and cash equivalents					**(810)**				(1,017)
Cash and cash equivalents at beginning of year					**5,515**				6,532
Cash and cash equivalents at end of year					**4,705**				5,515

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

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 high support 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.

Notes to the Financial Statements for the year ended 31 March 2019

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. A liability for its obligations under the scheme net of scheme assets has been included in the balance sheet and the net change in that liability during the accounting period as the cost of the Defined Benefit scheme during the period .

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

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)
Until April 2017, receipts from Right to Acquire (RTA) sales were 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.

Notes to the Financial Statements for the year ended 31 March 2019

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.
- Assumptions that apply to SHPS defined benefit scheme including,
    - The discount rate used to value the SHPS defined benefit obligation
    - The assumption for price inflation which impacts the liability calculation for pensions in payment whose increases are linked to inflation, along with the revaluation of deferred pensions. It is also used as the basis for setting the earnings growth assumption.
    - Increases to pensions in payment are typically either at a fixed rate, or in line with inflation subject to certain caps and collars.
    - The earnings growth assumption is used to project accrued pensions for current active members.
    - Mortality rates
    - Commutation allowance
    - GMB equalisation
- 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.

Notes to the Financial Statements for the year ended 31 March 2019

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*
  Key assumptions used to calculate the Group's net pension liability for the SHPS defined benefit scheme are set out at the end of note 38.
- *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. Therefore, costs incurred to rectify ground conditions at the scheme and move residents back to their homes, 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 2019

4 Turnover and operating surplus

Group

					2019		2018
	Turnover	**Cost of**	**Operating**	**Surplus on disposal of**	**Operating**	Turnover	Operating
		sales	**costs**	**Fixed Assets**	**Surplus/(deficit)**		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	**24,335**	**-**	**(17,337)**	**-**	**6,998**	23,666	6,144
Supported housing lettings	**1,845**	**-**	**(1,827)**	**-**	**18**	1,904	5
Low cost home ownership lettings	**1,924**	**-**	**(482)**	**-**	**1,442**	1,638	1,195
	28,104	**-**	**(19,646)**	**-**	**8,458**	27,208	7,344
Other social housing activities							
First tranche shared ownership sales	**5,052**	**(5,022)**	**-**	**-**	**30**	2,682	273
Outright sales	**3,965**	**(3,665)**	**-**	**-**	**300**		
Surplus on disposal of fixed assets	**-**	**-**	**-**	**3,088**	**3,088**	-	1,659
Accommodation managed by agents	**1,718**	**-**	**(1,321)**	**-**	**397**	1,693	481
Development administration	**72**	**-**	**(969)**	**-**	**(897)**	58	(780)
Charges for support services under contract	**1,072**	**-**	**(987)**	**-**	**85**	1,072	104
Other	**80**	**-**	**(440)**	**-**	**(360)**	63	(378)
	11,959	**(8,687)**	**(3,717)**	**3,088**	**2,643**	5,568	1,359
Non-social housing activities							
Nursing home lettings	**766**	**-**	**(1,062)**	**-**	**(296)**	764	65
Other	**726**	**-**	**(441)**	**-**	**285**	(13)	(491)
	1,492	**-**	**(1,503)**	**-**	**(11)**	751	(426)
Total before fair value and pension adjustments	**41,555**	**(8,687)**	**(24,866)**	**3,088**	**11,090**	33,527	8,277
Pensions deficit contribution paid					**827**		796
Impact of changes to pension assumptions					**-**		70
Total after fair value and pension adjustments					**11,917**		9,143

Notes to the Financial Statements for the year ended 31 March 2019

4 Turnover and operating surplus

Association

	Turnover	Cost of sales	Operating costs	Surplus on disposal of Fixed Assets	2019 Operating Surplus/ (deficit)	Turnover	2018 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	**24,335**	**-**	**(17,337)**	**-**	**6,998**	23,666	6,144
Supported housing lettings	**1,845**	**-**	**(1,827)**	**-**	**18**	1,904	5
Low cost home ownership lettings	**1,797**	**-**	**(440)**	**-**	**1,357**	1,546	1,155
	27,977	**-**	**(19,604)**	**-**	**8,373**	27,116	7,304
Other social housing activities							
First tranche shared ownership sales	**5,052**	**(5,022)**	**-**	**-**	**30**	2,683	274
Outright sale	**422**	**(422)**	**-**	**-**	**-**		
Surplus on disposal of fixed assets	**-**	**-**	**-**	**2,908**	**2,908**	-	1,659
Accommodation managed by agents	**1,718**	**-**	**(1,321)**	**-**	**397**	1,692	480
Development administration	**72**	**-**	**(969)**	**-**	**(897)**	58	(780)
Charges for support services under contract	**1,072**	**-**	**(987)**	**-**	**85**	1,072	104
Other	**80**	**-**	**(440)**	**-**	**(360)**	63	(378)
	8,416	**(5,444)**	**(3,717)**	**2,908**	**2,163**	5,568	1,359
Non-social housing activities							
Nursing home lettings	**766**	**-**	**(1,062)**	**-**	**(296)**	764	65
Other	**950**	**-**	**(441)**	**-**	**509**	9	(469)
	1,716	**-**	**(1,503)**	**-**	**213**	773	(404)
Total before fair value and pension adjustments	**38,109**	**(5,444)**	**(24,824)**	**2,908**	**10,749**	33,457	8,259
Pensions deficit contribution paid					**827**		796
Impact of changes to pension assumptions					**-**		70
Total after fair value and pension adjustments					**11,576**		9,125

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

5 Income and expenditure from directly managed social housing lettings

Group

	General needs lettings	Supported housing lettings	Low cost home ownership	2019 Total	2018 Total
	£000's	£000's	£000's	£000's	£000's
Income					
Rent receivable net of identifiable service charges	**21,620**	**1,016**	**1,400**	**24,036**	23,379
Service charge income	**1,081**	**637**	**400**	**2,118**	1,831
Amortised government grants	**1,615**	**86**	**96**	**1,797**	1,771
Net rents receivable and amortised government grant	**24,316**	**1,739**	**1,896**	**27,951**	26,981
Other revenue grants	**-**	**106**	**-**	**106**	203
Other income	**19**	**-**	**28**	**47**	24
Turnover from social housing lettings	**24,335**	**1,845**	**1,924**	**28,104**	27,208
Expenditure					
Management	**2,731**	**731**	**94**	**3,556**	3,479
Service charge costs	**1,090**	**536**	**164**	**1,790**	1,685
Routine maintenance	**4,075**	**235**	**3**	**4,313**	3,707
Planned maintenance	**1,430**	**57**	**-**	**1,487**	1,366
Major repairs expenditure	**1,138**	**15**	**-**	**1,153**	1,045
Major repairs – Brickfield Cottages ground collapse	**1,095**	**-**	**-**	**1,095**	2,711
Bad debts	**153**	**(7)**	**-**	**146**	73
Lease charges	**-**	**23**	**-**	**23**	15
Depreciation of housing properties					
– annual charge	**5,346**	**236**	**218**	**5,800**	5,591
– accelerated on disposal of components	**220**	**-**	**-**	**220**	184
Other costs	**59**	**1**	**3**	**63**	8
Operating costs on social housing lettings	**17,337**	**1,827**	**482**	**19,646**	19,864
Operating surplus on social housing lettings	**6,998**	**18**	**1,442**	**8,458**	7,344
Void losses	**148**	**76**	**91**	**315**	221

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

5 Income and expenditure from directly managed social housing lettings

Association

	General needs lettings	Supported housing lettings	Low cost home ownership	2019 Total	2018 Total
	£000's	£000's	£000's	£000's	£000's
Income					
Rent receivable net of identifiable service charges	21,620	1,016	1,346	23,982	23,325
Service charge income	1,081	637	362	2,080	1,798
Amortised government grants	1,615	86	89	1,790	1,766
Net rents receivable and amortised government grant	24,316	1,739	1,797	27,852	26,889
Other revenue grants	-	106	-	106	203
Other income	19	-	-	19	24
Turnover from social housing lettings	24,335	1,845	1,797	27,977	27,116
Expenditure					
Management	2,731	731	77	3,539	3,466
Service charge costs	1,090	536	146	1,772	1,663
Routine maintenance	4,075	235	-	4,310	3,702
Planned maintenance	1,430	57	-	1,487	1,366
Major repairs expenditure	1,138	15	-	1,153	1,045
Major repairs – Brickfield Cottages ground collapse	1,095	-	-	1,095	2,711
Bad debts	153	(7)	-	146	73
Lease charges	-	23	-	23	15
Depreciation of housing properties					
– annual charge	5,346	236	214	5,796	5,587
– accelerated on disposal of components	220	-	-	220	184
Other costs	59	1	3	63	-
Operating costs on social housing lettings	17,337	1,827	440	19,604	19,812
Operating surplus on social housing lettings	6,998	18	1,357	8,373	7,304
Void losses	148	76	91	315	221

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

6 Housing Stock

	Group		Association	
Social housing units in management	**2019**	2018	**2019**	2018
Owned by Hexagon				
General needs accommodation Social	**2,840**	2,837	**2,840**	2,837
Affordable	**499**	436	**499**	436
Low cost home ownership accommodation	**305**	252	**287**	232
Other leasehold properties	**94**	80	**79**	67
Intermediate rent	**-**	-	**-**	-
Supported housing accommodation Social	**189**	189	**189**	189
Affordable	**15**	15	**15**	15
Managed by other housing associations and agencies	**415**	416	**415**	416
Not owned by Hexagon				
General needs accommodation	**18**	18	**18**	18
Supported housing accommodation	**-**	6	**-**	6
Managed by other housing associations and agencies	**18**	24	**18**	24
Non-social housing units in management				
Nursing home accommodation	**12**	12	**12**	12
Freehold held on outright sale units	**25**	25	**19**	19
Total units in management	**4,430**	4,310	**4,391**	4,271

Units in development	**Group**		**Association**	
	2019	2018	**2019**	2018
Social Housing:				
General needs	**79**	109	**79**	109
Shared ownership	**73**	81	**73**	81
Other				
Housing for sale	**-**	-	**-**	-
Total units in development	**152**	190	**152**	190

7 Accommodation managed by agents

Group and Association

	2019	2018
The Association owns property managed by other bodies as follows:		
General needs units and bedspaces	**293**	293
Supported housing units and bedspaces	**122**	123
	415	416

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

8 Operating Surplus and Total Comprehensive Income

	Group		Association	
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Total comprehensive income is stated after charging:				
Depreciation on housing assets				
- Annual charge	**6,374**	5,918	**6,370**	5,914
- Accelerated depreciation of on replaced components	**220**	184	**220**	184
Depreciation on other tangible fixed assets	**371**	337	**371**	337
Operating lease rental on land and buildings	**180**	164	**180**	164
Auditors remuneration (*excluding VAT):*				
- Fees payable for the audit of the annual accounts	**39**	34	**32**	28
- Fees payable for the audit of service charges	**5**	5	**5**	5
- Fees for tax computations	**23**	3	**-**	-
- Fees for tax advice				
Pension costs (see note 9 below)	**521**	458	**521**	458
Overall surplus is stated after charging:				
Pension adjustments (see note 31):	**-**	(70)	**-**	(70)
Initial recognition of multi-employer defined benefit scheme	**2,349**	-	**2,349**	-
Actuarial gains/(losses) on defined benefit pension scheme	**1,997**	-	**1,997**	-
Change in fair value of financial instruments (see note 25):				
- Not treated as hedges	**414**	(1,103)	**414**	(1,103)
- Treated as hedges	**185**	(2,219)	**185**	(2,219)

9 Employees

Group and Association

	2019	2018
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	**103**	98
Other staff	**31**	33
Total	**135**	132
	2019	2018
	£000's	£000's
Staff costs (for the above persons)		
Wages and salaries	**4,889**	4,586
Social security costs	**464**	451
Cost of defined benefit scheme (excluding contribution to past service deficits)	**-**	-
Cost of defined contribution scheme	**521**	458
	5,873	5,495

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 2019

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.

	Group		**Association**	
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Executive directors' emoluments	**518**	505	**518**	505
Amounts paid to non-executive directors	**54**	50	**50**	50
Contributions to the SHPS defined benefit scheme	**-**	-	**-**	-
Contributions to the SHPS defined contribution scheme	**78**	73	**78**	73
Total expenses re-imbursed to Directors (including Board members) not chargeable to United Kingdom income tax	**1**	2	**1**	2

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments was £147k (2018: £136k). Pension contributions of £28k (2018: £27k), of which he contributes half, 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 4 directors in the defined contribution scheme.

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

	2019 Number	**2019 Number**	2018 Number	2018 Number
	Including Pension	**Excluding Pension**	Including Pension	Excluding Pension
£60,001 to £70,000	**5**	**1**	6	-
£70,001 to £80,000	**3**	**1**	3	1
£80,001 to £90,000	**1**	**2**	1	1
£90,001 to £100,000	**-**	**1**	1	1
£100,001 to £110,000	**4**	**1**	2	1
£110,001 to £120,000	**-**	**-**	-	-
£120,001 to £130,000	**-**	**-**	-	-
£130,001 to £140,000	**-**	**-**	-	1
£140,001 to £150,000	**-**	**1**	-	-
£150,001 to £160,000	**-**	**-**	-	-
£160,001 to £170,000	**-**	**-**	1	-
£170,001 to £180,000	**1**	**-**		

11 Board members

		Member of:				
Board member	**Remuneration £**	**Hexagon Board**	**Audit & Risk Committee**	**Remuneration Committee**	**Performance Management**	**Horniman Board**
Roy Coulter	9,761	X		X		X
Debbie Bankole- Williams	4,500	X	X			X
Ruth Chambers	3,750	X	X			
Dermot Finn	3,750	X		X		
Jeanette Kenyon	3,750	X		X		
Martin Large	4,500	X	X	X		X
Ian Watts	5,250	X	X	X	X	
Ranna McArdle	3,750	X	X		X	
Mark Allan	3,750	X			X	
Carol Bernstein	3,750	X			X	
Denise Senner	3,750	X				
Christopher Lloyd	3,750					X
Tom McCormack	(see note 10)	X				X

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

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	2019 Total		2018 Total
		£000's		£000's	£000's		£000's
Housing properties:							
Disposal proceeds		3,499		1,830	5,329		3,130
Cost of disposals		(2,021)		(293)	(2,314)		(1,512)
Selling costs		16		(6)	10		(1)
Depreciation eliminated		75		75	150		88
Grant abated		(49)		(38)	(87)		(46)
		1,520		1,568	3,088		1,659
Surplus on disposal of other tangible fixed assets		-		-	-		-
Surplus		1,520		1,568	3,088		1,659

Association

		Shared ownership		Other housing properties	2019 Total		2018 Total
		£000's		£000's	£000's		£000's
Housing properties:							
Disposal proceeds		3,278		1,830	5,108		3,130
Cost of disposals		(1,981)		(293)	(2,274)		(1,512)
Selling costs		16		(6)	10		(1)
Depreciation eliminated		70		75	145		88
Grant eliminated		(43)		(38)	(81)		(46)
		1,340		1,568	2,908		1,659
Surplus on disposal of other tangible fixed assets		-		-	-		-
Surplus		1,340		1,568	2,908		1,659

13 Interest receivable and income from financial instruments

		Group		Association	
		2019	2018	**2019**	2018
		£000's	£000's	**£000's**	£000's
Interest receivable from subsidiary		**-**	-	**305**	285
Interest receivable and similar income		**39**	9	**39**	8
Total		**39**	9	**344**	293

See note 25 for more information on derivative instruments

14 Interest payable and finance costs

	Group		Association	
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Bank and capital market loans	**5,845**	5,002	**5,845**	5,002
Recycled capital grants fund	**6**	17	**6**	17
Disposal proceeds fund	**-**	2	**-**	2
Total	**5,851**	5,021	**5,851**	5,021
Indexation of loan principal	**89**	110	**89**	110
Amortisation of deferred financing costs	**188**	152	**188**	152
Amortisation of loan premium	**(116)**	(37)	**(116)**	(37)
Interest capitalised	**(1,415)**	(1,410)	**(1,415)**	(1,272)
	4,597	3,836	**4,597**	3,974
Net interest on net defined benefit liability	**178**	73	**178**	73
Other	**-**	26	**-**	26
Total	**4,775**	3,935	**4,775**	4,073
Other financing costs through comprehensive income				
Loss on fair value of hedged derivative instruments	**185**	(2,219)	**185**	(2,219)
Loss on fair value of unhedged derivative instruments	**414**	(1,103)	**414**	(1,103)

The weighted average rate of interest on borrowings of 2.95% (2018: 2.92%) was used for calculating capitalised interest.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

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 (2018: nil) existed at 31 March 2019.

UK Corporation Tax - Group	**2019**	2018
	£'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		
	2019	2018
Profit on ordinary activities before tax	**229**	1,708
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2018: 19%)	**43**	-
Effects of:		
Income not taxable	**-**	(1,734)
Expenses not deductible		
Fixed asset differences	**(8)**	1
Amounts transferred to STRGL or otherwise transferred	**(10)**	
Adjustments to tax charge in respect of previous year		3
Deferred tax not recognised	**(25)**	22
Current tax charge	**-**	-

16 Intangible fixed assets

Group & Association

		Software Development costs	
		2019	
		£000's	
Cost			
At 1 April		**446**	
Additions		**507**	
At 31 March		**953**	
Depreciation			
At 1 April		**-**	
Charge for year		**-**	
At 31 March		**-**	
Net book value			
At 31 March 2019		**953**	
At 31 March 2018		446	

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

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 constru ction	Shortlife property	2019 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost								
At 1 April	451,373	14,682	32,215	24,891	444	443	1,591	525,639
Transfer from properties held for sale	-	-	(553)	-	-	-	-	(553)
Additions – construction costs	-	17,751	-	9,587	-	-	-	27,338
Transfer between tenure	-	7	-	1,143	-	-	-	1,150
Additions – new components	3,455	-	4	-	-	-	-	3,459
Additions – other works to existing properties	225	-	32	-	-	-	-	257
Schemes completed	13,249	(13,249)	14,459	(14,459)	-	-	-	-
Disposals:								
- Property sales	(293)	-	(2,020)	-	-	(443)	-	(2,756)
- Replaced components	(951)	-	-	-	-	-	-	(951)
At 31 March	467,058	19,191	44,137	21,162	444	-	1,591	553,583
Depreciation								
At 1 April	69,077	-	1,295	-	123	-	1,582	72,077
Charge for the year	6,009	-	219	-	142	-	4	6,374
Transfer from properties held for sale	-	-	(5)	-	-	-	-	(5)
Eliminated on disposal:								
- Property sales	(75)	-	(75)	-		-	-	(150)
- Replaced components	(731)	-	-	-		-	-	(731)
At 31 March	74,280	-	1,434	-	265	-	1,586	77,565
Net book value At 31 March 19	392,778	19,191	42,703	21,162	179	-	5	476,018
At 31 March 18	382,296	14,682	30,920	24,891	321	443	9	453,562
The net book value of housing properties comprises:								2019 £000's
Freeholds								450,129
Long leasehold								25,884
Short leasehold								5
Total								476,018

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	2019 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost								
At 1 April	451,373	14,682	31,155	24,890	444	443	1,591	524,578
Transfer from properties held for sale	-	-	(553)	-	-	-	-	(553)
Additions – construction costs	-	17,751	-	9,587	-	-	-	27,338
Transfer between tenure	-	7	-	1,144	-	-	-	1,151
Additions – new components	3,455	-	4	-	-	-	-	3,459
Additions – other works to existing properties	225	-	32	-	-	-	-	257
Schemes completed	13,249	(13,249)	14,459	(14,459)	-	-	-	-
Disposals: - **Property sales**	(293)	-	(1,981)	-	-	(443)	-	(2,717)
- **Replaced components**	(951)	-	-	-	-	-	-	(951)
At 31 March	467,058	19,191	43,116	21,162	444	-	1,591	552,562
Depreciation								
At 1 April	69,077	-	1,175	-	123	-	1,582	71,957
Charge for the year	6,009	-	214	-	142	-	4	6,369
Transfer from properties held for sale	-	-	(5)	-	-	-	-	(5)
Eliminated on disposal:							-	
- **Property sales**	(75)	-	(70)	-		-	-	(145)
- **Replaced components**	(731)	-	-	-		-	-	(731)
At 31 March	74,280	-	1,314	-	265	-	1,586	77,445
Net book value At 31 March 19	392,778	19,191	41,802	21,162	179	-	5	475,117
At 31 March 18	382,296	14,682	29,980	24,890	321	443	9	452,621
The net book value of housing properties comprises:								**2019 £000's**
Freeholds								449,228
Long leasehold								25,884
Short leasehold								5
Total								475,117

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

17 Tangible fixed assets - Housing Property (continued)

	Group	Group	**Association**	Association
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Interest capitalisation				
Interest capitalised in the year	**1,086**	1,032	**1,086**	1,032
Works to properties				
New components capitalised	**3,459**	3,501	**3,459**	3,501
Major repairs expenditure charged to comprehensive income account	**1,270**	2,730	**1,270**	2,730
Total expenditure	**4,279**	6,231	**4,279**	6,231
Total Social Housing Grant received or receivable to date is as follows:				
Capital grant for housing properties	**224,141**	220,179	**223,570**	219,581
Revenue element taken to comprehensive income	**3,154**	3,082	**3,154**	3,082
Recycled to Recycled Capital Grant Fund	**1,353**	1,239	**1,324**	1,239
Recycled to Disposals Proceeds Fund	**(342)**	(107)	**(342)**	(107)
Total	**228,306**	224,393	**227,706**	223,795

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 £25,884k (2018 – £24,207k) 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 December 2018, the Government published new guidance on fire safety requirements for residential properties in blocks over 18m high. Hexagon owns two such blocks, and has leasehold interests at a further scheme. It is not yet clear whether work will be required to the external wall systems at any of these properties. Nevertheless, the new guidance triggered an indication of impairment for the three schemes 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

	2019 £m	2018 £m
Carrying value of properties charged as security for loans and derivatives		
Estimated tenanted open market value of properties so charged	**389**	484
Estimated tenanted open market value of unsecured properties	**371**	208

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

18 Other fixed assets

Group & Association

	Freehold offices	Office equipment	Motor vehicles	2019 Total
	£000's	£000's	£000's	£000's
Cost				
At 1 April	**3,583**	**2,856**	**25**	**6,464**
Additions	**21**	**251**	**-**	**272**
Disposals	**-**	**-**	**-**	**-**
At 31 March	**3,604**	**3,107**	**25**	**6,736**
Depreciation				
At 1 April	**1,111**	**2,115**	**25**	**3,251**
Charge for year	**65**	**306**	**-**	**371**
Disposals	**-**	**-**	**-**	**-**
At 31 March	**1,176**	**2,421**	**25**	**3,622**
Impairment				
At 1 April	**476**	**-**	**-**	**476**
Charge for year	**-**	**-**	**-**	**-**
At 31 March	**476**	**-**	**-**	**476**
Net book value				
At 31 March 2019	**1,952**	**686**	**-**	**2,638**
At 31 March 2018	1,996	741	-	2,737

19 Properties developed for sale	**Group**		**Association**	
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Completed	**3,928**	3,603	**3,459**	-
Under construction	**10,562**	13,136	**10,562**	13,136
	14,490	16,739	**14,021**	13,136

Properties developed for sale include capitalised interest as follows:

	Group		**Association**	
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Completed	**98**	138	**98**	-
Under construction	**231**	240	**231**	240
	329	378	**329**	240

20 Debtors

	Group		Association	
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Amounts receivable within one year:				
Rent arrears	**1,932**	1,607	**1,901**	1,585
Less: Provision for bad debts	**(481)**	(430)	**(481)**	(430)
Net rent arrears	**1,451**	1,177	**1,420**	1,155
Amounts owed by subsidiary	**-**	-	**1,213**	3,802
Other debtors	**976**	1,633	**979**	1,649
Prepayments and accrued income	**411**	472	**411**	472
Social housing grant receivable	**527**	-	**527**	-
	3,365	3,282	**4,550**	7,078
Amounts receivable in more than one year:				
Amounts owed by subsidiary	**-**	-	**68**	-
Other debtors: Cash charged to lenders	**1,982**	10,694	**1,982**	10,694
Total debtors	**5,347**	13,976	**6,600**	17,772

21 Cash at bank and short term deposits

	Group		Association	
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Cash at bank:				
: held in trust for shared ownership leaseholders	**891**	784	**696**	597
: unencumbered	**3,814**	4,732	**3,351**	4,678
	4,705	5,515	**4,047**	5,275

22 Creditors: Amounts falling due within one year

	Group		Association	
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Loans and borrowings – note 24	**4,344**	9,673	**4,344**	9,673
Deferred capital grant – note 26	**2,010**	1,995	**2,005**	1,989
Trade creditors	**1,810**	1,435	**1,810**	1,435
Rent and service charges received in advance	**866**	774	**866**	774
Amounts owed to subsidiary	**-**	-	**-**	-
Taxation and social security payable	**125**	121	**125**	121
Other creditors	**2,308**	1,985	**2,298**	1,959
Recycled Capital Grant Fund – note 27	**-**	6	**-**	-
Disposals Proceeds Fund – note 28	**-**	-	**-**	-
Accruals and deferred income	**2,373**	3,025	**2,577**	3,011
Short term pension deficit liability – note 31	**-**	827	**-**	827
Accrued interest	**844**	870	**844**	870
	14,680	20,711	**14,869**	20,659

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23 Creditors: Amounts falling due after more than one year

	Group		Association	
	2019	2018	**2019**	2018
	£000's	£000's	**£000's**	£000's
Loans and borrowings – note 24	**191,143**	185,252	**191,143**	185,252
Deferred capital grant – note 26	**222,128**	218,184	**221,564**	217,591
Recycled Capital Grant Fund - note 27	**1,406**	1,335	**1,377**	1,318
Disposal Proceeds Fund - note 28	**-**	236	**-**	236
Repairs and equipment replacement funds - note 29	**1,451**	1,285	**1,255**	1,098
Total before fair value adjustments	**416,128**	406,292	**415,339**	405,495
Financial liabilities measured at fair value of (see note 25):				
- Interest rate swaps designated as hedges	**13,628**	13,443	**13,628**	13,443
- Interest rate swaps not designated as hedges	**9,996**	9,582	**9,996**	9,582
Total fair value adjustments	**23,624**	23,025	**23,624**	23,025
Total after fair value adjustments	**439,752**	429,317	**438,963**	428,520

24 Loans and borrowing – Group and Association

Maturity of debt	**Bank loans**	**Other loans**	**Total**
	2019	**2019**	**2019**
	£000's	**£000's**	**£000's**
In one year or less, or on demand	**3,897**	**446**	**4,343**
Due between one and two years	**3,918**	**446**	**4,364**
Due between two and five years	**23,978**	**1,339**	**25,317**
Due in five years or more	**104,185**	**56,446**	**160,631**
Total of all loans	**135,978**	**58,677**	**194,655**
Short term creditors	**(3,898)**	**(446)**	**(4,344)**
Deferred Finance Charges	**(860)**	**(478)**	**(1,338)**
Loan premium	**-**	**2,170**	**2,170**
	131,220	**59,923**	**191,143**

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)
Loan premium	-	2,285	2,285
	125,052	60,200	185,252

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**	**2019 £000's**	2018 £000's
Bank of Scotland	Amortising	2029/30	Variable	**3,589**	3,754
Abbey National Treasury Services	Amortising	2042/43	Variable	**74,038**	77,000
Newcastle Building Society	Bullet	2036/37	Variable	**25,000**	25,000
Lloyds TSB	Amortising	2034/35	Variable	**21,500**	22,125
Other loans:					
The Housing Finance Corporation	Amortising	2024/25	RPI + 5.50%	**2,678**	2,949
Housing Securities Ltd	Bullet	2018/19	9.31%	**-**	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**	7,000
Yorkshire Building Society	Amortising	2021/22	Variable	**11,850**	1,800
Total				**194,655**	194,128

During the year, the Group drew on its revolving credit facility from Yorkshire Building Society. It also repaid loans from Housing Securities Ltd. at the end of their term. At 31 March 2019 the Group had loan facilities available of £38.2m (2018: £48.2m).

25 Interest rate swaps

Group and Association

Interest rate swaps		**Nominal amount**		Nominal amount		**Fair value**		Fair value
		2019		2018		**2019**		2018
		£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		**(9,403)**		(9,413)
LIBOR to RPI plus margin (of up to 1.19%)		**9,500**		9,500		**(4,225)**		(4,031)
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		**(9,996)**		(9,581)
Total		**59,500**		59,500		**(23,624)**		(23,025)

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 £13.6 m (2018: £13.4m) at the balance sheet date. The change in fair value in the period was £414k with the cost 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 £10m (2018: £9.6m) at the balance sheet date. The change in fair value in the period was £185k with the cost being recognised as part of the surplus for the year.

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

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Notes to the Financial Statements for the year ended 31 March 2019

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**	**2019 Total**	2018 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**234,006**	**3,152**	**11,599**	**2,736**	**-**	**1,755**	**253,248**	248,543
Additions	**(26)**	**5,687**	**(8)**	**1,091**	**-**	**-**	**6,744**	5,317
Schemes completed	**2,932**	**(2,932)**	**1,746**	**(1,746)**	**-**	**-**	**-**	-
Recycled to RCGF	**(153)**	**-**	**(740)**	**-**	**-**	**-**	**(893)**	(613)
Recycled to DPF	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
At 31 March	**236,759**	**5,907**	**12,597**	**2,081**	**-**	**1,755**	**259,099**	253,247
Amortisation								
At 1 April	**30,559**	**-**	**755**	**-**	**-**	**1,755**	**33,069**	31,165
Charge for the year	**1,882**	**-**	**96**	**-**	**-**	**-**	**1,978**	1,944
Eliminated on disposal:	**(36)**	**-**	**(50)**	**-**	**-**	**-**	**(86)**	(46)
At 31 March	**32,405**	**-**	**801**	**-**	**-**	**1,755**	**34,961**	33,067
Amortised value					**-**			
At 31 March 2019	**204,354**	**5,907**	**11,796**	**2,081**	**-**	**-**	**224,138**	220,179
At 31 March 2018	203,447	3,152	10,844	2,736	-	**-**	220,179	

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**	**2019 Total**	2018 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**234,006**	**3,152**	**10,895**	**2,736**	**-**	**1,755**	**252,544**	247,840
Additions	**(26)**	**5,687**	**(8)**	**1,091**	**-**	**-**	**6,744**	5,317
Schemes completed	**2,932**	**(2,932)**	**1,746**	**(1,746)**	**-**	**-**	**-**	-
Recycled to RCGF	**(153)**	**-**	**(710)**	**-**	**-**	**-**	**(863)**	(613)
Recycled to DPF	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
At 31 March	**236,759**	**5,907**	**11,923**	**2,081**	**-**	**1,755**	**258,425**	252,544
Amortisation								
At 1 April	**30,559**	**-**	**650**	**-**	**-**	**1,755**	**32,964**	31,066
Charge for the year	**1,882**	**-**	**89**	**-**	**-**	**-**	**1,971**	1,944
Eliminated on disposal:	**(36)**	**-**	**(43)**	**-**	**-**	**-**	**(79)**	(46)
At 31 March	**32,405**	**-**	**696**	**-**	**-**	**1,755**	**34,856**	32,964
Amortised value								
At 31 March 2019	**204,354**	**5,907**	**11,227**	**2,081**	**-**	**-**	**223,569**	219,580
At 31 March 2018	203,447	3,152	10,245	2,736	-	-	219,580	

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Notes to the Financial Statements for the year ended 31 March 2019

27 Recycled Capital Grant Fund

		Group		Association	
		2019	2018	**2019**	2018
		£000's	£000's	**£000's**	£000's
At 1 April		**1,341**	3,281	**1,318**	3,217
Inputs to fund:	Grants recycled	**926**	625	**897**	625
	Interest accrued	**6**	17	**6**	17
	Transfer from subsidiary	**-**	-	**23**	41
Recycling of grant:	New build	**(867)**	(2,582)	**(867)**	(2,582)
At 31 March		**1,406**	1,341	**1,377**	1,318
Amount due within one year		**-**	6	**-**	-
Amount due after more than one year		**1,406**	1,335	**1,377**	1,318
		1,406	1,341	**1,377**	1,318

28 Disposal Proceeds Fund

Group and Association

		2019	2018
		£000's	£000's
At 1 April		**236**	324
Inputs to fund:	Grants recycled	**-**	-
	Interest accrued	**-**	2
Recycling of grant:	New build	**(236)**	(90)
At 31 March		**-**	236
Amount due within one year		**-**	-
Amount due after more than one year		**-**	236
		-	236

29 Repairs and equipment replacement funds

Group	**Leaseholders sinking fund**	**Equipment replacement**	**Total**
	£000's	**£000's**	**£000's**
31 March 2018	**793**	**492**	**1,285**
Additions	**111**	**77**	**188**
Used in year	**(8)**	**(14)**	**(22)**
31 March 2019	**896**	**555**	**1,451**
Association			
31 March 2018	**606**	**492**	**1,098**
Additions	**94**	**77**	**171**
Used in year	**-**	**(14)**	**(14)**
31 March 2019	**700**	**555**	**1,255**

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

30 Financial instruments

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

	Group	Group	**Association**	Association
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Financial assets measured at historical cost				
Debtors receivable in one year	**3,365**	3,282	**3,337**	7,095
- Debtors receivable after one year	**1,982**	10,694	**1,982**	10,694
- Cash and cash equivalents	**4,705**	5,515	**4,047**	5,275
- Financial assets that are debt instruments measured at amortised cost				
Intercompany loan	**-**	-	**1,281**	3,818
- **Total financial assets**	**10,052**	19,491	**10,647**	26,882
Financial liabilities				
Financial liabilities measured at amortised costs				
- Loans payable in one year	**4,344**	9,673	**4,344**	9,673
- Loans payable after one year	**191,143**	185,252	**191,143**	185,252
Financial liabilities measured at fair value				
- Interest rate swaps designated as hedges	**13,628**	13,443	**13,628**	13,443
- Interest rate swaps not designated as hedges	**9,996**	9,582	**9,996**	9,582
Financial liabilities measured at historical cost				
Creditors receivable in one year				
- Other creditors	**8,326**	9,037	**8,520**	8,997
Total financial liabilities	**227,437**	226,987	**227,630**	226,947

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

	SHPS pension	**Dilapidations**		**Total**
	deficit contribution			
	£000's	**£000's**		**£000's**
31 March 2018	**4,232**	**281**		**4,513**
Charged to comprehensive income:				
- additions	**-**	**12**		**12**
- De-recognise deficit funding agreement liability	**(4,232)**			**(4,232)**
Used in year	**-**	**-**		
31 March 2019	**-**	**293**		**293**

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. For previous financial years, it was not possible for Hexagon to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounted for the scheme as a defined contribution scheme.

It is now possible to obtain sufficient information to enable Hexagon to account for the Scheme as a defined benefit scheme, see note 38.

The dilapidations provision is for repair obligations for short term leases, primarily for supported housing schemes, ending between 2019 and 2020.

32 Non-equity Share Capital

	Group 2019 £	2018 £	Association 2019 £	2018 £
Allotted issued and fully paid				
At 1 April	**17**	17	**17**	17
Issued during the year	**-**	2	**-**	2
Surrendered during the year	**-**	(2)	**-**	(2)
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 currently an invoice of £55k that is in dispute and discussions with the other party are ongoing. We estimate a settlement value of £42k. The Group and Association had no other material contingent liabilities at the balance sheet date.
The Group and Association had no 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 2019 £000's	2018 £000's	Association 2019 £000's	2018 £000's
Not later than one year	**143**	44	**143**	44
Later than one year and not later than five years	**-**	127	**-**	127
Total	**143**	171	**143**	171

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

	Group 2019 £000's	2018 £000's	Association 2019 £000's	2018 £000's
Not later than one year	**1,455**	1,395	**1,399**	1,338
Later than one year and not later than five years	**5,574**	5,429	**5,356**	5,201
Later than five years	**154,211**	147,807	**148,690**	142,026
Total	**161,240**	154,631	**155,445**	148,565

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

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35 Capital Commitments – Group and Association

	Group 2019 £000's	2018 £000's	**Association 2019 £000's**	2018 £000's
Commitments contracted for but not provided for:				
Construction	**29,916**	16,691	**29,916**	16,691
Maintenance	**-**	-	**-**	-
Other	**584**	905	**584**	905
Capital expenditure approved by the board but not contracted for:				
Construction	**30,320**	36,849	**26,447**	36,849
Maintenance	**3,512**	3,237	**3,512**	3,237
Other		-		-
	64,332	57,682	**56,947**	57,682
These commitments to be financed as follows:				
Social Housing Grant	**3,175**	4,634	**3,175**	4,634
Proceeds from the sales of properties	**35,340**	26,756	**27,955**	26,756
Committed loan facilities	**25,817**	26,292	**25,817**	26,292
	64,332	57,682	**56,947**	57,682

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**	
2019	2018	**2019**	2018	**2019**	2018
£'000	£'000	**£'000**	£'000	**£'000**	£'000
31	28	**9**	9	**272**	285

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

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

In Hexagon Housing Association's Financial Statements is the sum of £1,249k (2018: £3,802k) owed by Horniman Housing Association. This is made up of two loans of £79k (2018: £91k) and £1,170k (2018: £3,711k). 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 £193k (2018: £nil).

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 £54k in the year (2018: £50k). Expenses paid to Board members during the year amounted to £1k (2018: £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 £22k 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		**2019**	2018
	Note	**£'000**	£'000
Operating surplus before fair value adjustments per consolidated income statement	**4**	**10,749**	8,259
Add back housing depreciation	**17**	**6,439**	6,098
Deduct SHG amortisation	**26**	**(1,892)**	(1,944)
Add back movement in accrued holiday pay		**4**	(5)
Add back major repair costs charged to comprehensive income (including works to Brickfield Cottages)	**5**	**2,248**	3,756
Operating surplus per loan agreements under frozen GAAP		**17,548**	16,164

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

Gearing element		**2019**	2018
	Note	**£'000**	£'000
Social Housing Grant per balance sheet	**26**	**223,569**	219,580
Add back cumulative SHG amortisation	**26**	**34,856**	32,964
Social Housing Grant under frozen GAAP	**26**	**258,425**	252,544
Reserves before pensions and fair value adjustments per balance sheet		**72,875**	65,552
Add back cumulative property depreciation under FRS102	**17**	**77,445**	71,957
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		**(16,229)**	(12,366)
Deduct cumulative SHG amortisation	**26**	**(34,856)**	(32,964)
Add back accrued holiday pay creditor		**91**	87
Reserves per loan agreements under frozen GAAP		**80,767**	73,707

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

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2019

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.

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 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)

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

The Scheme is classified as a 'last-man standing arrangement'. Therefore the company 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.

For financial years ending on or before 28 February 2019, it has not been possible for the company to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the company has accounted for the Scheme as a defined contribution scheme.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the company to account for the Scheme as a defined benefit scheme.

For accounting purposes, two actuarial valuations for the scheme were carried out with effective dates of 31 March 2018 and 30 September 2018. The liability figures from each valuation are rolled forward to the relevant accounting dates, if applicable, and are used in conjunction with the company's fair share of the Scheme's total assets to calculate the company's net deficit or surplus at the accounting period start and end dates.

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

	31 March 2019	**31 March 2018**
	(£000s)	**(£000s)**
Fair value of plan assets	26,371	25,353
Present value of defined benefit obligation	35,127	32,761
Surplus (deficit) in plan	(8,756)	(7,408)
Unrecognised surplus	-	-
Defined benefit asset (liability) to be recognised	(8,756)	(7,408)
Deferred tax	-	-
Net defined benefit asset (liability) to be recognised	(8,756)	(7,408)

38 Pension Obligations (continued)

RECONCILIATION OF THE IMPACT OF THE ASSET CEILING

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

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE DEFINED BENEFIT OBLIGATION

	Period ended 31 March 2019 (£000s)
Defined benefit obligation at start of period	32,761
Current service cost	-
Expenses	22
Interest expense	828
Contributions by plan participants	-
Actuarial losses (gains) due to scheme experience	(108)
Actuarial losses (gains) due to changes in demographic assumptions	99
Actuarial losses (gains) due to changes in financial assumptions	2,058
Benefits paid and expenses	(533)
Liabilities acquired in a business combination	-
Liabilities extinguished on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Exchange rate changes	-
Defined benefit obligation at end of period	35,127

38 Pension Obligations (continued)

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

	Period ended 31 March 2019 (£000s)
Fair value of plan assets at start of period	25,353
Interest income	650
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	52
Contributions by the employer	849
Contributions by plan participants	-
Benefits paid and expenses	(533)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rate changes	-
Fair value of plan assets at end of period	26,371

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £702,000.

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

	Period from 31 March 2018 to 31 March 2019 (£000s)
Current service cost	-
Expenses	22
Net interest expense	178
Losses (gains) on business combinations	-
Losses (gains) on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Defined benefit costs recognised in statement of comprehensive income (SoCI)	200

38 Pension Obligations (continued)

DEFINED BENEFIT COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME	**Period ended 31 March 2019 (£000s)**
Experience on plan assets (excluding amounts included in net interest cost) - gain (loss)	52
Experience gains and losses arising on the plan liabilities - gain (loss)	108
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	(99)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	(2,058)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	(1,997)
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in other comprehensive income - gain (loss)	(1,997)

ASSETS	**31 March 2019 (£000s)**	**31 March 2018 (£000s)**
Global Equity	4,437	5,008
Absolute Return	2,282	3,097
Distressed Opportunities	479	245
Credit Relative Value	483	-
Alternative Risk Premia	1,521	961
Fund of Hedge Funds	119	835
Emerging Markets Debt	910	1,022
Risk Sharing	796	235
Insurance-Linked Securities	756	666
Property	594	1,167
Infrastructure	1,383	650
Private Debt	354	226
Corporate Bond Fund	1,230	1,041
Long Lease Property	388	-
Secured Income	944	940
Over 15 Year Gilts	-	-
Liability Driven Investment	9,644	9,236
Net Current Assets	51	24
Total assets	26,371	25,353

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

38 Pension Obligations (continued)

KEY ASSUMPTIONS

	31 March 2019 **% per annum**	**31 March 2018** **% per annum**
Discount Rate	2.30%	2.55%
Inflation (RPI)	3.30%	3.20%
Inflation (CPI)	2.30%	2.20%
Salary Growth	3.30%	3.20%
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

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

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