

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

DRUM HOUSING ASSOCIATION LIMITED

Annual Report and Financial Statements

Year Ended 31 March 2020

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GENERAL INFORMATION

BOARD OF DIRECTORS

Jane Alderman
Mandy Clarke
Joanna Makinson
Caroline Moore
Wayne Morris
John Gary Orr
Simon Porter
Ashley West

SECRETARY

Gemma Burton-Connolly

REGISTERED OFFICE

Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

BANKERS

Lloyds Bank
25 Gresham Street
London
EC2V 7HN

AUDITOR

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

STRATEGIC REPORT (continued)

STRATEGIC REPORT

Organisational Overview

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

Business Model

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

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

Performance Highlights

The Association has adopted a range of revised accounting policies and estimates in the year, mirroring those in place for the Group, generating the need to restate the prior year comparatives. An overview of the Association's result has been presented below on this basis.

Financial Performance

Turnover has increased by 11% in the year, up to £43.2m, driven by a £2.9m increase in first tranche sales relative to the prior year. A 4% increase in rental income, primarily from general needs units, accounts for the remainder of the increase.

Cost of sales relate solely to first tranche activity and have increased as expected in line with sales volumes, with margins consistent at 20%.

Operating costs also increased accordingly, up from £22.3m in the prior year to £28.2m, including a provision of £1.8m to remove certain defective cladding on a high-rise block in our portfolio. The Association was also allocated its share of Group overheads as determined by housing stock levels, which has increased by 5%, but also saw a £0.5m increase in depreciation charges as identifiable components of housing properties and their useful economic lives were aligned across the Group.

The disposal of fixed assets generated a surplus of £0.8m, an increase of £0.3m, driven by higher Right to Buy surpluses and additional income from the sale of existing stock.

As a consequence of the increased operating costs, operating surpluses have reduced from £15.5m to £12.1m, 40% and 28% respectively; excluding the exceptional replacement cladding provision, our operating surplus increases to 32%.

With net interest costs consistent year on year, surpluses before tax increased to £26.6m, principally due to the £20m Gift Aid receipt in the year. Net margins increased from 26% to 62% accordingly; excluding the exceptional replacement cladding provision, our net margin increases to 66%.

The Association has also registered a small tax charge in the year, owing to income generated from photovoltaic panels.

STRATEGIC REPORT (continued)

Performance Highlights (continued)

Financial Position

Housing Properties increased by 8% to close at £341m, following £36.7m capitalised spend in the year, before depreciation and disposals. The Association also disposed of one of its three Investment Properties in the year.

Properties for sale at the reporting date were £3.2m, with £2.5m relating to shared ownership properties in the course of construction, a small increase from the prior year. Current assets were £2.4m lower overall, principally due to a reduction in cash, reflecting the investments in housing properties in the year, despite the Association receiving £20m in Gift Aid contributions from a fellow group subsidiary in March 2020.

Payables overall remained similar to the prior year, with a reduction in long term and increase in short term payables reflecting the aging profile of loans and borrowings. The Association did not take on any new debt in the year.

Driven by significant reductions in the present value of obligations in the schemes in which it participates, pension scheme liabilities reduce by a third, from £8.0m to £5.2m at the reporting date.

The Association saw its funds increase by 38%, from £75.7m to £104.4m, principally from Gift Aid receipts and the surplus generated in the year.

Our Performance

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

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

Principal Risks and Uncertainties

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

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

STRATEGIC REPORT (continued)**Our Developments**

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

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

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

Scheme name and Location	Status at 31 March 2020	Actual/ expected PC	Units	Affordable rent	Shared ownership
Leyland Walk, Bursledon, Hampshire	On site	Mar-20	58	X	
Fen Meadow, Nursling, Southampton	On site	May-20	65	X	
Heritage Place, Gosport, Hampshire	On site	Apr-21	80		X
Forest Chase, Yateley, Hampshire	On site	Jul-21	60	X	X
Minster Gate, Wimborne, Dorset	On site	Dec-21	77	X	
Kingsgate Phase 1 & 2, Amesbury, Wiltshire	On site	Jun-24	155	X	X

Value for Money

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

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

Section 172 Compliance

The Directors place paramount attention to their legal duties under section 172 of the Companies Act 2006, acting in good faith to promote the success of the Group whilst considering the long-term implications of decisions made.

Whilst the directors recognise their duties relate to the individual entities they are legally associated with, as a member of the Group, it is normal practice that engagement with stakeholders takes place simultaneously on behalf of all Group members. Where legally necessary however, decisions are enacted by the relevant entity board and are documented as such.

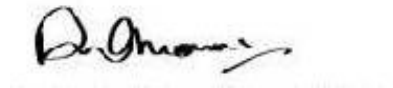
On overview of the ways in which the members of the Association have demonstrated their compliance with Section 172 is included in our Group statutory accounts.

STRATEGIC REPORT (continued)

Statement of Compliance

The Board confirms that this strategic report has been prepared in accordance with the principles set out in the 'Statement of Recommended Practice for registered social housing providers 2018'.

The strategic report was approved by the Board on 16 September 2020 and signed on its behalf by the Chair:

A handwritten signature in black ink, appearing to read 'Wayne Morris', is positioned above a horizontal line.

Wayne Morris
Chair

DIRECTORS' REPORT

The Directors present their report for the year ended 31 March 2020.

Group Combined and Executive Board Members

Group Combined Board

Following the completion of the partnership, as a regulated registered provider in the Radian Group, the legal Directors of Drum Housing Association Limited are consistent with the Directors of the five other registered providers and sit as the Group Combined Board.

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

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

Executive Board and Senior Leadership Team

As a member of the Radian Group, the Association is directed by the Executive Board and a Senior Leadership Team. The Executive Board primarily focuses on the delivery of the corporate strategy and are responsible for day to day operations, which are overseen by the Senior Leadership Team, who themselves lead the various functions of the organisation.

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

Executive and Senior Leadership Team Service Contracts

The members of the Executive Board and Senior Leadership Team are employed on the same terms as other staff, except for a contractual annual bonus scheme and the provision of a company car or payment of a car allowance.

Remuneration decisions are overseen by the People and Culture Committee. The Group Combined Board is responsible for approving any bonus awards or changes in the Chief Executive's remuneration or contract. Details of the benefits received by Executive Directors are set out on page 31.

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

Capital and Treasury Management

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

Radian has a comprehensive treasury policy with tests that apply to the Group as a whole. The policy requires the Group to maintain a minimum level of liquidity such that there is:

- sufficient cash & cash equivalents to cover the next six months forecast cash requirement;
- sufficient liquidity to cover the next 18 months net cash requirement before funding (including uncommitted but not aspirational development or any staircasing cashflows); and
- no over-reliance placed on any one counterparty, whether through cash holdings or available facilities.

Capital and Treasury Management (continued)

Capital structure

At 31 March 2020 the Associations' borrowings amounted to £183.7m nominal (2019: £183.7m) of which £1.5m (2019: nil) is due to be repaid within the next year.

Risks

- **Interest rate risk** is the risk that the Association is unable to service its loans and borrowings due to rises in interest rates. The Association manages interest rate risk through the requirements laid out in the Group treasury policy, including entering into interest rate swaps to fix a proportion of floating rate debt;
- **Liquidity risk** is the risk that the Association is unable to service its loans and borrowings, or meet repayment liabilities as they fall due, owing to insufficient cash. The Association manages liquidity risk through the requirements laid out in the Group treasury policy, including requirements for minimum levels of cash or immediately available facilities;
- **Counterparty credit risk** is the risk that the Association is unable to access cash deposits due to failure of counterparties. The Association manages counterparty credit risk by regularly monitoring and reviewing the credit rating of counterparties through the requirements laid out in the Group treasury policy;
- **Market risk** is the risk that the Association is unable to refinance loans and borrowings at an acceptable interest rate as they mature. The Association manages market risk by modelling the impact of interest rate rises in its long-term forecast and identifying mitigating actions; and
- **Currency risk** is not applicable as the Association borrows and invests surplus funds only in sterling.

Interest rate management

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

Total debt of £183.7m at 31 March 2020 consisted of 70% fixed and 30% variable rate debt. Of our 70% fixed rate debt, £95.0m was made up of embedded interest rate swaps running and £33.7m was the fixed interest bond. There are no options in our portfolio.

Financial loan covenant compliance

Financial loan covenants are primarily measured by interest cover, debt per home limits, asset cover based on property asset values, intra-group support and income tests. Covenants are continually monitored and reported to the Executive Board and Treasury and Investment Committee. There were no breaches of financial covenants during the year.

Capital and Treasury Management (continued)

Surplus assets for future debt security

As at 31 March 2020 the Association had 1,506 unsecured completed housing properties not required for charging to existing debt facilities. These are sufficient to raise approximately £128.9m of future new debt on an asset cover ratio of 105% for Existing Use Value as Social Housing (EUV-SH) properties.

Based on our current development programme, we also expect to complete more than 150 properties in the period to 31 March 2021, which will in turn provide additional security.

Future funding options

As at 31 March 2020, the Association had sufficient funds for its current and medium-term needs.

As at 31 March 2020, we did not experience any material impact from the current Covid-19 pandemic, and we consider our financial strength and high levels of liquidity puts us in a strong position to navigate through the impact that may arise from the global pandemic.

Moody's Credit Rating

Moody's review Radian's credit rating as a Group as a whole.

In November 2019, following their review, Moody's confirmed our credit rating remained unchanged at A3 stable. In their review Moody's highlighted our strong operating performance and healthy liquidity position, which we consider has us well placed to achieve our Corporate Objectives and navigate through the current Global Pandemic.

Governance and Regulation

The operations of the Association are subject to the governance and management structures in place across the Group, in common with all fellow subsidiaries.

An overview of the approach to governance and regulatory compliance, as determined by the Group Combined Board, is included in our Group statutory accounts.

Employees

The Association directly employed an average of 27 full time equivalent employees during the year (2019: 27), calculated on standard working hours per week for each employee.

There are multiple employers in the Group from a contractual perspective, a legacy of previous combinations and recent partnership activity. However, on a day to day basis all employees serve the interests of all group entities simultaneously depending on the specifics of their roles and responsibilities.

Consequently, an overview of the communication to and engagement with all colleagues, irrespective of employer, is included in our Group accounts.

DIRECTORS' REPORT (continued)

Post Balance Sheet Events

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

Going Concern

The appropriateness of preparing the accounts of the entity on a going concern basis is intrinsically linked to the going concern of the Group as a whole, due to the role the entity plays in the wider context of the Group.

The length of the Covid-19 pandemic and the measures taken by the Government to contain this are outside of our control and increases uncertainty when planning for the future.

In response, the Executive Board identified numerous indicators which formed part of weekly dashboards to monitor the impact on our financial performance and position, as well as our stakeholders.

The organisation extended its usual stress testing, considering a range of macro-economic factors, to include areas particularly impacted by Covid-19. From a financial perspective, the impact on tenant arrears and on property sales were of a particular focus in the short term, whilst the longer-term impact of restrictions to development activity and repair and maintenance work and associated recovery plans was considered in significant detail.

During the first quarter of 2020/21, the budget for the year which was prepared during 2019/20, before the outbreak of Covid-19, was also revised to encompass the known impact on the organisation to date and reflect agreed recovery plans.

Given the strength of the balance sheet and availability and liquidity of undrawn loan facilities, the board believe that, while uncertainty exists, this does not pose a material uncertainty that would cast doubt on the Group's ability to continue as a going concern. The board, therefore, consider it appropriate for the accounts to be prepared on a going concern basis.

Disclosure of Information to Auditor

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

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

External Auditor

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

DIRECTORS' REPORT (continued)

Approval of the Board

The Directors' Report was approved by the Board on 16 September 2020 and signed on its behalf by the Chair:

A handwritten signature in black ink, appearing to read 'Wayne Morris', is positioned above a faint, light-grey rectangular stamp. The stamp contains some illegible text and a circular emblem.

Wayne Morris
Chair

STATEMENT OF THE BOARD'S RESPONSIBILITIES

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

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

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

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

The Board Members are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board members are responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2018.

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

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

Opinion

We have audited the financial statements of Drum Housing Association Limited ("the Association") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- Give a true and fair view of the state of the Association's affairs as at 31 March 2020 and of the Association's surplus for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

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

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

Other information (continued)

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

Responsibilities of the Board

As explained more fully in the board responsibilities statement set out on page 11, the board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Use of our report

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



Philip Cliftlands
BDO LLP
Statutory Auditor
Gatwick, United Kingdom

22 September 2020

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

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2020

	Note	2020 £'000	Restated 2019 £'000
Turnover	3	43,179	38,745
Cost of sales	3	(3,662)	(1,489)
Operating costs	3	(28,169)	(22,258)
Surplus from disposal of fixed assets	3	784	516
Operating surplus	3	12,132	15,514
Finance income	4	54	142
Finance costs	5	(5,617)	(5,800)
Fair value movement on investment properties		(19)	175
Gift Aid	20	20,000	-
Surplus on ordinary activities before tax	6	26,550	10,031
Tax charge for the year	7	(71)	-
Surplus on ordinary activities after tax		26,479	10,031
Other comprehensive income			
Actuarial gains/(losses) on defined benefit pension schemes	19	2,252	(61)
Total comprehensive income		28,731	9,970

All activities derive from continuing operations.

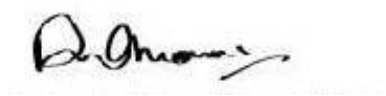
The notes on pages 18 to 47 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 March 2020

	Note	2020 £'000	Restated 2019 £'000
Fixed assets			
Housing properties	10	341,382	314,874
Other fixed assets	11	1,434	1,519
Investment properties	12	405	637
		343,221	317,030
Current assets			
Properties for sale	0	3,171	2,844
Receivables	14	4,225	2,185
Cash and cash equivalents		13,704	18,430
		21,100	23,459
Payables: amounts due within one year	0	(11,158)	(10,763)
Net current assets		9,942	12,696
Total assets less current liabilities		353,163	329,726
Payables: amounts due after one year	16	(186,298)	(187,811)
Deferred capital grant due after one year	0	(57,239)	(58,201)
Pension liability	19	(5,192)	(8,011)
Net assets		104,434	75,703
Capital and reserves			
Share capital	20	0	0
Revenue reserve		104,434	75,703
Association's funds		104,434	75,703

The notes on pages 18 to 47 form part of these financial statements.

The financial statements of Drum Housing Association Limited, registered association number 28156R on pages 15 to 47, were approved by the Board and authorised for issue on 16 September 2020 and signed on its behalf by:



Wayne Morris
Chair

Ashley West
Board Member

Gemma Burton-Connolly
Secretary

STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Revenue reserve £'000	Total £'000
At 1 April 2018 – restated	0	65,733	65,733
Surplus on ordinary activities after tax - restated	-	10,031	10,031
Actuarial losses on defined benefit pension schemes	-	(61)	(61)
At 31 March 2019 - restated	0	75,703	75,703
Surplus on ordinary activities after tax	-	26,479	26,479
Actuarial gains on defined benefit pension schemes	-	2,252	2,252
At 31 March 2020	0	104,434	104,434

The notes on pages 18 to 47 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

1. LEGAL STATUS

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

2. ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Association have been prepared in accordance with applicable law and UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing Statement of Recommended Practice (SORP) 2018 for registered social housing providers and comply with the Accounting Direction for private registered providers of social housing 2019. The financial statements are presented in pounds sterling and have been prepared on the historical cost basis.

Going Concern

The appropriateness of preparing the accounts of the entity on a going concern basis is intrinsically linked to the going concern of the Group as a whole, due to the role the entity plays in the wider context of the Group.

The length of the Covid-19 pandemic and the measures taken by the Government to contain this are outside of our control and increases uncertainty when planning for the future.

In response, the Executive Board identified numerous indicators which formed part of weekly dashboards to monitor the impact on our financial performance and position, as well as our stakeholders.

The organisation extended its usual stress testing, considering a range of macro-economic factors, to include areas particularly impacted by Covid-19. From a financial perspective, the impact on tenant arrears and on property sales were of a particular focus in the short term, whilst the longer-term impact of restrictions to development activity and repair and maintenance work and associated recovery plans was considered in significant detail.

During the first quarter of 2020/21, the budget for the year which was prepared during 2019/20, before the outbreak of Covid-19, was also revised to encompass the known impact on the organisation to date and reflect agreed recovery plans.

Given the strength of the balance sheet and availability and liquidity of undrawn loan facilities, the board believe that, while uncertainty exists, this does not pose a material uncertainty that would cast doubt on the Group's ability to continue as a going concern. The board, therefore, consider it appropriate for the accounts to be prepared on a going concern basis.

Disclosure Exemptions

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

2. ACCOUNTING POLICIES (continued)

Operating Segments

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

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

Turnover

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

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

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

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

Cost of Sales

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

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

Service Charge Income and Expenditure

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

2. ACCOUNTING POLICIES (continued)

Surplus/(Deficit) from Disposal of Fixed Assets

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

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

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

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

Repairs and Maintenance

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

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

Finance Income

Interest is earned from cash and cash equivalents.

Finance Costs

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

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

Capitalisation of Finance Costs

The Association capitalises interest costs incurred because of development activities, with the amounts presented net of finance costs in the Statement of Comprehensive Income and included within the carrying value of assets in the Statement of Financial Position.

The amount capitalised is calculated in accordance with FRS 102 paragraph 25.2 and disclosure of the calculation basis and amounts capitalised is included in note 5.

The capitalisation of finance costs represents a revision to the accounting policy to ensure consistency between all subsidiaries in the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

2. ACCOUNTING POLICIES (continued)

Value Added Tax (VAT)

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

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

Gift Aid

Gift Aid represents receipts from fellow Group subsidiaries in the year, with receipts disclosed as investment income as required by the SORP 2018.

Pensions

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

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

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

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

Tax

The Association benefits from charitable tax status and any surpluses generated from activities relating to its primary charitable purpose are exempt from corporation tax. Surpluses from other activities are subject to corporation tax.

Current tax is recognised for tax payable in respect of the taxable surplus for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Fixed Assets - Housing Properties

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

2. ACCOUNTING POLICIES (continued)

Fixed Assets - Housing Properties (continued)

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

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

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

Land

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

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

Depreciation

Freehold Buildings and Components

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

- 100 years – structure
- 70 years – roofs
- 40 years – electrical wiring
- 30 years – bathrooms, heating systems and windows
- 20 years – kitchens and photovoltaic panels
- 15 years – boilers

Freehold land and Investment properties are not depreciated.

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

Other Fixed Assets

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

2. ACCOUNTING POLICIES (continued)

Investment Properties

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

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

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

Properties Held for Sale

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

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

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

Inventories

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

Cash and Cash Equivalents

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

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

Receivables and Payables

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

2. ACCOUNTING POLICIES (continued)

Recoverable Amount of Rental and Other Trade Receivables

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

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

Financial Instruments

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

Deferred and Recycled Capital Grant

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

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

Financial Assets and Liabilities

Loans and Borrowings

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

Leases

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

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

The Association has no finance lease commitments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

2. ACCOUNTING POLICIES (continued)

Sinking Funds

Sinking funds comprise leasehold sinking funds and scheme provisions.

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

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

Critical Judgments, Estimates and Uncertainty

Impairment Review

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

Classification of Loans with Embedded Interest Rate Swaps

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

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

Defined Benefit Pension Obligations

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

Capitalisation of Property Development Costs

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

2. ACCOUNTING POLICIES (continued)

Critical Judgments, Estimates and Uncertainty (continued)

Fair Value Measurement

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

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

Recognition of cladding provisions

A provision for the replacement of cladding and/or insulation in high rise blocks has been included in accounts where the following criteria has been met.

- tests have confirmed the materials used in construction were defective; and
- our intention to remedy the situation has been clearly communicated to affected residents; and
- The value of remedial works is reliable and informed by quotes from independent third parties.

In aggregate, these factors give rise to a constructive obligation, the value of which can be reliably measured, at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

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

	2020					2019				
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Disposal of fixed assets £'000	Operating surplus £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	Disposal of fixed assets £'000	Operating surplus £'000
Social housing lettings	36,437	-	(24,410)	-	12,027	34,952	-	(20,488)	-	14,464
Other social housing activities										
Development administration	-	-	(173)	-	(173)	-	-	(102)	-	(102)
Intercompany recharges	819	-	(819)	-	-	842	-	(842)	-	-
First tranche affordable home ownership sales	5,053	(3,662)	(390)	-	1,001	2,169	(1,489)	(274)	-	406
Disposal of fixed assets	-	-	-	784	784	-	-	-	516	516
Cladding replacement provision	-	-	(1,765)	-	(1,765)	-	-	-	-	-
Other social	42	-	(98)	-	(56)	43	-	(92)	-	(49)
Total other social housing activities	5,914	(3,662)	(3,245)	784	(209)	3,054	(1,489)	(1,310)	516	771
Non-social housing activities										
Market rent properties	26	-	(8)	-	18	21	-	(10)	-	11
Garages	458	-	(101)	-	357	373	-	(91)	-	282
Photovoltaics	113	-	(19)	-	94	117	-	(19)	-	98
Other non-social	231	-	(386)	-	(155)	228	-	(340)	-	(112)
Total non-social housing activities	828	-	(514)	-	314	739	-	(460)	-	279
Total	43,179	(3,662)	(28,169)	784	12,132	38,745	(1,489)	(22,258)	516	15,514

The prior year restatement relates to the capitalisation of development fees prior to schemes entering contract and the impact on cost of sales of capitalising interest costs on development of housing properties, following the revision to the Group accounting policies, adopted by the Association, in the year. The format of the note has also been revised to better represent the income streams of the Association.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

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

	2020					2019				
	General needs housing £'000	Supported / housing for older people £'000	Affordable home ownership £'000	Other social housing £'000	Total £'000	General needs housing £'000	Supported / housing for older people £'000	Affordable home ownership £'000	Other social housing £'000	Total £'000
Turnover										
Rent receivable net of identifiable service charges (net of voids)	28,702	3,318	1,095	1,656	34,771	27,458	3,381	982	1,646	33,467
Service charge income	317	491	167	18	993	165	464	167	14	810
Net rental income	29,019	3,809	1,262	1,674	35,764	27,623	3,845	1,149	1,660	34,277
Amortisation of capital grant	603	25	41	4	673	606	26	39	4	675
Net turnover from social housing lettings	29,622	3,834	1,303	1,678	36,437	28,229	3,871	1,188	1,664	34,952
Operating costs										
Management	(7,268)	(969)	(544)	(363)	(9,144)	(5,743)	(804)	(413)	(299)	(7,259)
Service charge costs	(1,144)	(152)	(86)	(57)	(1,439)	(1,004)	(140)	(72)	(52)	(1,268)
Routine maintenance	(4,314)	(575)	-	(216)	(5,105)	(3,379)	(473)	-	(176)	(4,028)
Planned maintenance	(1,141)	(152)	-	(57)	(1,350)	(1,070)	(150)	-	(56)	(1,276)
Major repairs expenditure	(1,821)	(243)	-	(92)	(2,156)	(1,661)	(232)	-	(86)	(1,979)
Bad debts	(140)	(19)	(10)	(7)	(176)	(57)	(8)	(4)	(3)	(72)
Other costs	8	1	1	-	10	(19)	(3)	(1)	(1)	(24)
Depreciation of housing properties	(3,987)	(359)	(176)	(328)	(4,850)	(3,522)	(392)	(152)	(301)	(4,367)
Loss on disposal of housing components	(138)	(52)	-	(10)	(200)	(176)	(21)	-	(18)	(215)
	(19,945)	(2,520)	(815)	(1,130)	(24,410)	(16,631)	(2,223)	(642)	(992)	(20,488)
Operating surplus on social housing lettings	8,185	1,115	487	474	12,027	11,598	1,648	546	672	14,464
Void losses	(187)	(107)	(8)	(24)	(326)	(124)	(74)	(1)	(29)	(228)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

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

	2020			Restated 2019		
	Sales Proceeds	Cost of sales	Disposal of fixed assets	Sales Proceeds	Cost of sales	Disposal of fixed assets
	£'000	£'000	£'000	£'000	£'000	£'000
Staircasing	1,552	(1,074)	478	1,401	(951)	450
Right to Buy	310	(135)	175	316	(250)	66
Other Housing Sales	350	(219)	1	-	-	-
Total	2,212	(1,428)	784	1,717	(1,201)	516

The prior year restatement relates to the impact on cost of sales of capitalising interest costs on development of housing properties, following the revision to the Group accounting policies, adopted by the Association, in the year.

	2020 Number	2019 Number
HOUSING PROPERTIES		
Social Housing Properties - Owned and managed		
General needs housing	4,800	4,594
Supported / housing for older people	637	643
Affordable home ownership	358	330
Other social housing	239	239
	6,034	5,806
Non-social Housing Properties - Owned and managed		
Market rent housing	2	3
	6,036	5,809
Other		
Owned/Not Managed - Leasehold housing *	269	259
Total	6,305	6,068
Non-Housing Properties	892	894
Total Units	7,197	6,962
<i>Properties under construction</i>	<i>258</i>	<i>600</i>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

4. FINANCE INCOME

	2020 £'000	2019 £'000
Interest receivable from cash and cash equivalents	54	142

5. FINANCE COSTS

	2020 £'000	Restated 2019 £'000
Interest costs on loans and borrowings	5,982	6,097
Servicing fees of loans and borrowings	95	111
Capitalised Interest	(623)	(587)
	5,454	5,621
Interest on pension scheme liabilities	163	179
	5,617	5,800

The prior year restatement relates to the capitalisation of interest on assets under construction, following the revision to the Group accounting policy, adopted by the Association, in the year.

The weighted average cost of capital for the period is 3.89% with reference to its effective interest costs on loans and borrowings against the carrying value of loans and borrowings during the year at a Group level.

6. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAX

Surplus on ordinary activities before taxation is stated after charging/(crediting):

	2020 £'000	2019 £'000
Depreciation of fixed assets	4,935	4,539
Amortisation	(673)	(675)
Government revenue grant	(48)	(64)
Defined contribution pension cost	99	41
Defined benefit service cost	160	199
Operating lease rental:		
Land and buildings	28	28
Fees payable to the Association's auditor for:		
Audit of the annual financial statements (excluding VAT)	18	18
For other services (excluding VAT)	2	2
	4,617	4,088

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)**7. TAX**

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom at 19%. The differences are explained as follows:

	2020	Restated
	£'000	2019
		£'000
Total tax reconciliation		
Surplus on ordinary activities before tax	26,550	10,031
Tax on surplus on ordinary activities at 19%	5,045	1,906
Effects of		
Prior year adjustments	53	-
Charitable exemptions	(5,027)	(1,906)
Total tax charge	71	-

The prior year has been restated following the revision to accounting policies and the associated impact on accounting surpluses.

8. DIRECTORS' EMOLUMENTS

The Directors of the Association are defined as the board members, who sit as the Group Combined Board, and the Executive Board. All Directors are remunerated by The Swaythling Housing Society Limited. It is not possible to disaggregate their remuneration in respect of services performed on behalf of the constituent Group entities.

Key Management Personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity either directly or indirectly.

Below are shown the aggregate emoluments (including pensions and benefits in kind, excluding compensation for loss of office) paid by the Association to:

	2020	2019
	£'000	£'000
Key Management Personnel excluding Directors	117	196

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

8. DIRECTORS' EMOLUMENTS (continued)

The board members of Drum Housing Association Limited, including details of the other roles they perform on behalf of the constituent Group entities as at 31 March 2020 are shown below:

Name	Appointed	Resigned	Annual Fee	Committees				
				ARC	TIC	PACC	DAC	ITC
Jayne Beeson	01/09/2011	04/11/2019	9,000					
Carol Bode	01/10/2016	18/12/2019	26,000					
Beverley Anne Costain	01/10/2017	19/09/2019	N/A					
Jane Alderman	04/11/2019		11,000		M		M	
Mandy Clarke	04/11/2019		13,000			C		M
Joanna Makinson	04/11/2019		13,000	M	C			
Lindy Morgan (C)	04/11/2019		26,000			M		M
Wayne Morris	04/11/2019		13,125			M	C	
Simon Porter	25/09/2014		13,000	M	M			
Ashley West	16/03/2017		13,000	C				
<i>John Gary Orr</i>	<i>15/10/2018</i>		<i>N/A</i>			<i>M</i>	<i>M</i>	<i>M</i>
<i>Caroline Moore</i>	<i>04/11/2019</i>		<i>N/A</i>		<i>M</i>			<i>C</i>

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

Committees: ARC – Audit and Risk, TIC – Treasury and Investment, PACC – People and Culture, DAC – Development and Assets, ITC – Integration and Technology

9. STAFF COSTS

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

	2020 FTE	2019 FTE
Central office and support staff	3	3
Development and asset management	1	-
Housing and customer services staff	19	21
Repairs and maintenance staff	4	3
	27	27
	2020 £'000	2019 £'000
Staff costs (for the above employees)		
Wages and salaries	943	989
Social security costs	93	97
Pension costs	259	240
	1,295	1,326

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

9. STAFF COSTS (continued)

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

	2020	2019
	£'000	£'000
£60,000 - £69,999	1	1
£70,000 - £79,999	2	2
£120,000 - £129,999	-	1
£130,000 - £139,999	1	-
	4	4

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

10. HOUSING PROPERTIES

	Completed properties			Properties in course of construction			
	Social housing	Affordable	Total housing	Social housing	Affordable	Total housing	Total housing
	lettings	home	properties	lettings	home	properties	properties
	£'000	ownership	£'000	£'000	ownership	£'000	£'000
Cost							
At 1 April 2019 - restated	327,984	23,935	351,919	11,063	3,165	14,228	366,147
Additions	177	-	177	22,621	5,526	28,147	28,324
Additions - works to existing properties	1,197	-	1,197	-	-	-	1,197
Transferred into management	31,259	5,006	36,265	(31,260)	(5,006)	(36,266)	(1)
Disposals and demolitions	(752)	(1,105)	(1,857)	-	-	-	(1,857)
Intercompany transfers	-	-	-	3,497	-	3,497	3,497
Net movement to current assets	-	(286)	(286)	-	-	-	(286)
At 31 March 2020	359,865	27,550	387,415	5,921	3,685	9,606	397,021
Accumulated depreciation							
At 1 April 2019 - restated	(50,308)	(965)	(51,273)	-	-	-	(51,273)
Charge for the year	(4,675)	(176)	(4,851)	-	-	-	(4,851)
Disposals and demolitions	423	62	485	-	-	-	485
At 31 March 2020	(54,560)	(1,079)	(55,639)	-	-	-	(55,639)
Net book value							
At 31 March 2020	305,305	26,471	331,776	5,921	3,685	9,606	341,382
At 31 March 2019 - restated	277,676	22,970	300,646	11,063	3,165	14,228	314,874

The prior year restatement relates to the capitalisation of development fees prior to schemes entering contract and the impact on cost of sales of capitalising interest costs on development of housing properties, following the revision to the Group accounting policies, adopted by the Association, in the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

10. HOUSING PROPERTIES (continued)

Property valuation

Social housing land and buildings are shown at historic cost. The value of social housing properties as determined by the 'Existing Use Valuation – Social Housing' method at 31 March 2020 was £447m (2019: £425.6m). The valuation was carried out by Jones Lang LaSalle (RICS), 30 Warwick Street, London, W1B 5NH.

Expenditure on works to existing housing properties

	2020 £'000	2019 £'000
Amounts capitalised	1,197	1,622
Amounts charged to the Statement of Comprehensive Income	3,921	1,979

Security

The Association had property with a net book value of £148.3m pledged as security at 31 March 2020 (2019: £150.8m).

11. OTHER FIXED ASSETS

	Freehold land and premises £'000	Vehicles, plant and equipment £'000	Computers, fixtures and fittings £'000	Total £'000
Cost				
At 1 April 2019	2,081	655	171	2,907
At 31 March 2020	2,081	655	171	2,907
Accumulated depreciation				
At 1 April 2019	(626)	(645)	(117)	(1,388)
Charge for the year	(58)	(10)	(17)	(85)
At 31 March 2020	(683)	(655)	(134)	(1,473)
Net book value				
At 31 March 2020	1,398	-	37	1,434
At 31 March 2019	1,455	10	54	1,519

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

12. INVESTMENT PROPERTIES

	Completed £'000
Value	
At 1 April 2019	637
Revaluation surplus	(19)
Disposals and demolitions	(213)
At 31 March 2020	405

Completed investment properties are shown at market value of £0.4m (2019: £0.6m), defined as MV-T (market value tenanted) at the reporting date by Jones Lang LaSalle (RICS), 30 Warwick Street, London, W1B 5NH.

At the reporting date, the valuations provided by JLL contained a “material valuation uncertainty” clause, due to the evolving impact of Covid-19. The clause emphasises the fact that valuations can be relied upon, but with less certainty than would otherwise be the case.

Since only a significant variation would lead to a material misstatement in the accounts, and in the absence of any information to the contrary up to the date of signing, the Association determined the valuations provided at the time to be appropriate for use.

The clause was subsequently removed from valuations for social units on 26 May 2020 and for market rented units on 11 July 2020

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

	2020 £'000	2019 £'000
Cost	302	316
Depreciation	(40)	(51)
Net book value	262	265

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

13. PROPERTIES FOR SALE

	Affordable home ownership properties		
	Completed properties	Properties in course of construction	Total properties for sale
	£'000	£'000	£'000
At 1 April 2019 - restated	735	2,109	2,844
Additions	-	3,684	3,684
Completed in year	3,332	(3,332)	-
Net movement from housing properties	287	-	287
Cost of properties sold	(3,644)	-	(3,644)
At 31 March 2020	710	2,461	3,171

14. RECEIVABLES

	2020 £'000	2019 £'000
Gross arrears of rent and service charges		
Social	1,067	774
Non-social	115	81
	1,182	855
Bad debt provision	(342)	(231)
Net tenant arrears	840	624
Trade receivables	26	94
Amounts due from Group undertakings	1,956	-
Short-term non-liquid assets	987	978
Other receivables and prepayments	416	489
	4,225	2,185

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

15. PAYABLES: AMOUNTS DUE WITHIN ONE YEAR

	2020 £'000	Restated 2019 £'000
Other tax and social security payable	24	23
Trade payables	1,676	306
Right to buy profit share agreement	424	532
Other payables	2,304	505
Deferred income	1,186	1,109
Accruals	2,343	3,513
Contract retentions	371	513
Amounts owed to Group undertakings	-	2,966
Loans and borrowings	2,091	626
Deferred capital grant due within one year	668	670
Corporation tax	71	-
	11,158	10,763

The prior year comparative has been restated to increase amounts owed to Group undertakings, which increased following the capitalisation of interest costs on development activity.

16. PAYABLES: AMOUNTS DUE AFTER ONE YEAR

	2020 £'000	2019 £'000
Loans and borrowings	185,849	187,476
Contract retentions	449	335
	186,298	187,811

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

	2020			2019		
	Bank loan £'000	Bond £'000	Total £'000	Bank loan £'000	Bond £'000	Total £'000
In multiple instalments						
One year or less	1,500	-	1,500	-	-	-
One to two years	1,500	-	1,500	1,500	-	1,500
Two to five years	4,500	-	4,500	4,500	-	4,500
Five years or more	142,500	-	142,500	144,000	-	144,000
	150,000	-	150,000	150,000	-	150,000
In a single instalment						
Five years or more	-	33,700	33,700	-	33,700	33,700
	150,000	33,700	183,700	150,000	33,700	183,700

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)**16. PAYABLES: AMOUNTS DUE AFTER ONE YEAR (continued)**

The total value of all loans and borrowings includes a further £4.2m of capitalised fees, premiums and accrued interest.

A summary of the interest rates charged on loans and borrowings is included within the Capital and Treasury Management section, commencing on page 6.

17. DEFERRED CAPITAL GRANT DUE

	Completed £'000	In course of construction £'000	Total £'000
Cost			
At 1 April 2019	67,116	5	67,121
Outputs			
Recycled on disposal	(319)	-	(319)
At 31 March 2020	66,797	5	66,802
Accumulated amortisation			
At 1 April 2019	(8,250)	-	(8,250)
Released on disposal	28	-	28
Charge for the year	(673)	-	(673)
At 31 March 2020	(8,895)	-	(8,895)
Amortised deferred capital grant			
At 31 March 2020	57,902	5	57,907
At 31 March 2019	58,866	5	58,871

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

	Completed £'000	In course of construction £'000	Total £'000
Deferred capital grant due within one year	668	-	668
Deferred capital grant due after one year	57,234	5	57,239
	57,902	5	57,907

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

18. RECYCLED CAPITAL GRANT FUND

	£'000
At 1 April 2019	-
Net inputs to fund	
Grants recycled	319
Recycling of grant	
Transfers to other Group members	(319)
At 31 March 2020	<u>-</u>

19. PENSIONS

Defined Contribution Scheme

The Pensions Trust Flexible Retirement Plan (FRP)

The Association participates in a defined contribution scheme administered by The Pensions Trust. The accounting charge represents the Association's contributions to the plan for the year and amounted to £57k (2019: £41k). There were outstanding contributions as at 31 March 2020 of £5k (2019: £4k).

Defined Benefit Schemes

Radian Group Pension Scheme (RGPS)

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

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

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

A full actuarial valuation was carried out at 30 September 2016 and updated to 31 March 2020 by an independent qualified actuary. The valuation showed a deficit of £17.2m which the Group has agreed with the Trustee to aim to eliminate over a period of eight years from 1 April 2018. To this end the Group has paid a lump sum of £2,084k during the year (2019: £796k) of which the Association paid £185k (2019: £180k). Employers also continued to make monthly contributions of 34.6% of members' earnings until 31 March 2020.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

19. PENSIONS (continued)

Defined Benefit Schemes (continued)

Radian Group Pension Scheme (RGPS) (continued)

Main financial assumptions adopted for FRS 102 purposes:

	2020	2019
	%	%
Increases per annum		
RPI inflation	2.5	3.3
CPI inflation	1.5	2.3
Salary increases	2.5	3.3
Discount rate	2.4	2.4

Post retirement mortality assumptions:

	Males	Females
Retiring today	21.8	23.9
Retiring in 20 years	23.1	25.1

Hampshire County Council Pension Fund (HPF)

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

A full actuarial valuation of HPF was carried out at 15 November 2019 and updated for FRS 102 purposes to 31 March 2019 by an independent qualified actuary. The valuation results show a funding deficit of £4.3m and a funding level of 72.8%. The agreed employer's contribution rate remained at 31.5% of gross pay from in 2019/20. To contribute to the fund shortfall the Group must pay a capital contribution amount for past service contributions over a recovery period of ten years. These additional contributions have been set at £562k for 2020/21, decreased from £597k in 2019/20 as set by the previous valuation. Capital contributions will increase by 3.5% per year from 2018/19 in line with the actuarial salary increase assumptions adopted in the 2016 funding valuation.

Main financial assumptions adopted for FRS 102 purposes:

	2020	2019
	%	%
RPI inflation	3.2	3.9
Salary increases	3.1	3.7
Pension increases (CPI inflation)	2.5	2.8
Discount rate	2.0	2.1

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

19. PENSIONS (continued)

Defined Benefit Schemes (continued)

Hampshire County Council Pension Fund (HPF) (continued)

Mortality assumptions are based on the recent mortality experience of members and allow for expected future mortality improvements. Sample life expectancies at age 65 resulting from these assumptions are shown below:

	Males	Females
Member aged 65 at accounting date	23.0	25.5
Member aged 45 at accounting date	24.7	27.2

At 31 March 2020 the assets in the schemes which the Association participates in were:

	RGPS £'000	HPF £'000	Total £'000
Equities	101	5,968	6,069
Bonds	295	2,469	2,764
Property	18	827	845
Cash	-	226	226
Alternative assets	259	1,834	2,093
Total market values of assets	673	11,324	11,997

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

	RGPS		HPF		Total	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Fair value of scheme assets	673	4,567	11,324	11,698	11,997	16,265
Present value of defined benefit obligation	(701)	(5,631)	(16,488)	(18,645)	(17,189)	(24,276)
Association's share of deficit in the scheme	(28)	(1,064)	(5,164)	(6,947)	(5,192)	(8,011)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

19. PENSIONS (continued)

Defined Benefit Schemes (continued)

Movements in the fair value of scheme assets:

	RGPS		HPF		Total	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Opening fair value of scheme assets	4,567	4,334	11,698	10,380	16,265	14,714
Interest income on scheme assets	110	112	247	230	357	342
Expenses	(12)	(6)	-	-	(12)	(6)
Actuarial gains/(losses)	(4,087)	50	(747)	789	(4,834)	839
Contributions from employers	217	227	685	680	902	907
Contributions from scheme members	-	1	23	28	23	29
Benefits paid	(122)	(151)	(582)	(409)	(704)	(560)
Closing fair value of scheme assets	673	4,567	11,324	11,698	11,997	16,265

Movements in the present value of defined benefit obligations:

	RGPS		HPF		Total	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Opening defined benefit obligation	(5,631)	(5,324)	(18,645)	(17,760)	(24,276)	(23,084)
Service cost	(7)	(42)	(153)	(258)	(160)	(300)
Interest cost	(134)	(136)	(386)	(387)	(520)	(523)
Actuarial gains/(losses)	4,949	(279)	2,137	(621)	7,086	(900)
Benefits paid net of transfers in	122	151	582	409	704	560
Contributions by scheme members	-	(1)	(23)	(28)	(23)	(29)
Closing defined benefit obligation	(701)	(5,631)	(16,488)	(18,645)	(17,189)	(24,276)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

19. PENSIONS (continued)

Defined Benefit Schemes (continued)

Analysis of amounts charged to operating surplus:

	RGPS		HPF		Total	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Service costs	7	42	153	260	160	302
Expenses	12	6	-	-	12	6
	19	48	153	260	172	308

Amounts charged to other finance costs

Net finance charge	24	24	139	150	163	174
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Analysis of amount recognised in Other Comprehensive Income:

	RGPS		HPF		Total	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Actual return less expected return on pension scheme assets	(4,088)	50	(747)	789	(4,835)	839
Changes in financial assumptions underlying the present value of the scheme liabilities	842	(267)	-	-	842	(267)
Experience losses arising on the scheme liabilities	4,108	(12)	2,136	(621)	6,244	(633)
Actuarial gains/(losses) on pension schemes	862	(229)	1,388	168	2,251	(61)

20. GIFT AID

The Association received Gift Aid payments from the following contributors:

	2020	2019
	£'000	£'000
The Swaythling Housing Society	20,000	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

21. SHARE CAPITAL

	2020	2019
	£	£
Shares of £1 each		
Issued and fully paid at 1 April	5	5
Shares issued during the year	5	-
Shares cancelled during the year	(2)	-
Shares issued and fully paid at 31 March	8	5

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

22. CAPITAL AND OTHER COMMITMENTS

	2020	2019
	£'000	£'000
Capital expenditure commitments were as follows:		
In contract	34,051	68,403
Approved but not contracted	2,089	1,222
Total capital commitments	36,140	69,625
Other commitments	7,542	10,949
Total commitments	43,682	80,574

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

Commitments will be financed by existing cash balances and retained surpluses, including property sales. The Association also benefits from charitable tax status and is eligible to receive Gift Aid contributions from fellow Group subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)**23. OPERATING LEASES**

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

	Land and buildings	
	2020	2019
	£'000	£'000
Amounts payable as lessee		
Not later than one year	28	27
Later than one year and not later than five years	113	113
Later than five years	14	42
	155	182

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

	Leases with		Tenancy leases	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Amounts receivable as lessor				
Not later than one year	26	-	13,087	10,769
Later than one year and not later than five years	104	-	36,499	30,289
Later than five years	54	-	5,385	5,038
	184	-	54,971	46,096

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

24. RELATED PARTY TRANSACTIONS**Pension Schemes**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)**24. RELATED PARTY TRANSACTIONS (continued)****Transactions with Other Entities or Jointly Controlled Entities**

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

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

- Radian Support Limited;
- Radian Capital plc;
- Radian Developments Limited;
- Swaythling Assured Homes plc;
- Yarlington Homes Limited;
- Yarlington Property Management Limited;
- Yarlington Treasury Services Limited; and
- Inspired to Achieve Limited

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

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

25. PRIOR YEAR RESTATEMENTS

Following the partnership between the Radian Group, the parent of the Association, and the Yarlington Housing Group, several accounting policies and estimates have been revised in the combined group. The revisions have been adopted by the Association in the year, with the prior year comparatives restated accordingly.

The table below outlines the balances as included in the statutory accounts at 31 March 2019, the restatement required per each change in policy and the restated prior year balance subsequently included in these accounts.

	Per 2018/19 accounts £'000	Capitalised interest £'000	Per 2019/20 accounts £'000
Statement of comprehensive income:			
Cost of sales	(1,448)	(41)	(1,489)
Disposal of fixed assets	519	(3)	516
Finance costs	(6,387)	587	(5,800)
Statement of financial position:			
Housing properties	313,122	1,752	314,874
Properties for sale	2,804	40	2,844
Payables: amounts due within one year	(10,684)	(80)	(10,764)
Revenue reserve	73,991	1,713	75,704

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

26. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

At 31 March 2020 the Association's ultimate parent and ultimate controlling party was Radian Group Limited, a company limited by guarantee and incorporated in England.

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

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