

# Financial Statements

For the year ended March 2020

Company Name: Connexus Housing Two Limited  
Company Number: Registered Society 8376  
Regulator Registration Number: LH4353



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**Executive Directors, Advisor and Banker**

<p><b>Company registration number</b> <b>IP30269R</b>          Registered as a Cooperative and Community Benefit Society</p>	<p><b>Registered office</b> <b>The Gateway          The Auction Yard          Craven Arms          Shropshire          SY7 9BW</b></p>	<p>Duncan Forbes (appointed April 2019, resigned June 2019)          Peter Donovan (appointed June 2019, redeployed October 2019)</p>
<p><b>Financial Conduct Authority Registration number</b> <b>8376</b></p>	<p><b>Independent Auditor</b> <b>KPMG LLP          One Snowhill          Snow Hill Queensway          Birmingham          B4 6GH</b></p>	
<p><b>Executive Directors Interim Chief Executive</b> <b>Duncan Forbes (appointed September 2018, resigned April 2019)</b></p>	<p><b>Solicitor</b> <b>Anthony Collins          134 Edmund Street          Birmingham          B3 2ES</b></p>	
<p><b>Chief Executive</b> <b>Richard Woolley (appointed April 2019)</b></p>	<p><b>Banker</b> <b>Barclays Bank Plc          P O Box 3333          One Snowhill          Snow Hill Queensway          Birmingham          B3 2WN</b></p>	
<p><b>Company Secretary</b> <b>Nicola Griffiths (appointed March 2019)</b></p>		
<p><b>Executive Directors</b> <b>Andrew Cooke (appointed October 2019)          Christine Duggan BSc (Hons) (appointed July 2017)          Richard Woolley FCCA, BA (Hons) (appointed July 2017, promoted April 2019)          Victoria Tomlinson (appointed June 2019)</b></p>		
<p><b>Interim Directors</b> <b>Rowan Kirk (appointed July 2018, resigned June 2019)          Vivien Knibbs (appointed July 2018, resigned June 2019)          Greg Van Enk Bones (appointed March 2019, resigned June 2019)</b></p>		

## Chair's Foreword

It was an enormous privilege to be appointed as Chair of Connexus in September 2019 and I am enjoying working with the Board and Executive team to help us achieve our ambitions to be well run, deliver excellent landlord services and more homes across Herefordshire and Shropshire.

It has been a year full of challenges for Connexus, concluding with the Covid 19 pandemic. The organisation has shown great resilience in responding to this crisis, seeking to ensure the safety of residents and staff; colleagues have dealt with a difficult situation with decisiveness and creativity. Many residents will face greater hardship as a result of the pandemic, and Connexus will, together with partners, look to ways to respond to this.

The Board's focus has been on improving the organisation's governance and its compliance with all health and safety requirements. Following a regulatory downgrade in 2019, and as part of a plan agreed with the Regulator, Connexus has undertaken a thorough review of compliance work using external advisors to ensure that our standards are above that required by regulation and comply with a standard that the Board has approved. Once we are confident that these parts of our business are working well, we shall look to the regulator to return Connexus to a top G1 governance rating later in 2020.

During the year there were some notable achievements including:

- The opening of the Foyer redevelopment in Ludlow providing accommodation, training and help in getting work for

16-25 year olds, together with the associated Grainloft development providing homes for 18-55 year olds with low level support needs.

- Completion of 200 new homes across Herefordshire and Shropshire including 92 for affordable rent.
- Launch of our "Together with Tenants" initiative to improve our customer engagement.

The continuing uncertainty around the final form of Brexit and the Coronavirus pandemic mean that the Government's priorities for housing are uncertain at this time. Nevertheless, with a strong majority in the House of Commons, the Conservative government is expected to follow through a policy of encouraging home ownership and incentives for people to get on the "housing ladder". Prior to the pandemic, priorities included improving safety of homes, particularly fire safety and this is likely to continue to be the case, as it will be for Connexus.

This year the Board has undertaken a review of the Corporate plan with the Executive team and agreed the direction for the next three years, whilst acknowledging that because of the Coronavirus pandemic, specific outcomes may need to be reconsidered. The revised Corporate Plan is available to view on our website.

The Board has reaffirmed our priority to the affordable rented sector and has narrowed our geographical remit to the counties of Shropshire and Herefordshire, with a reduced exposure to market sales risk; and to prioritise expenditure on existing homes and their energy efficiency. Development of new affordable homes for tenants and shared owners will continue as an important contribution to meeting housing needs. However, our

existing outright sale development at Radbrook in Shrewsbury continues to be popular with sales progressing strongly despite the Coronavirus pandemic.

Five other new non-executive Directors who bring a wealth of experience from the housing sector and elsewhere joined me on the Board in September 2019. Already they have played a major role in reinforcing good governance for Connexus and I am sure that their appointments will continue to be positive for Connexus.

I am grateful to Allison Taylor, John Cross and David Lincoln, three non-executive Directors for their contribution to Connexus as they will be retiring from the Board at the September AGM. Together with staff colleagues, they have helped realise the benefits a merger in 2017 and to ensure that we are equipped to use the full potential of the organisation to work with residents and partners to achieve our ambitions for the future. Thank you!



**John Barker**  
Chair

## **Chief Executive's Foreword to the Financial Statements**

My first year as a Chief Executive has been an incredibly eventful one with external factors such as extreme weather conditions causing severe flooding in our counties and the Coronavirus pandemic impacting on our ability to provide our usual range of services. I am nevertheless proud of all my colleagues who have continued to provide a dedicated service to our customers.

The challenges arising from the Coronavirus pandemic will continue to impact on our communities over the medium term at least and the safety of our customers and staff remains our priority.

Our operational focus for 2020 has been to continue to deliver the goals set out in the merger business case that brought Shropshire Housing and Herefordshire Housing Groups together in 2018 as well as resolving the regulatory issues highlighted in last year's accounts.

This year saw the recruitment of a new executive management team following a largely interim structure in 2019 and the appointment of a new Chair, John Barker. John has a wealth of experience from both non-executive Chair roles and as a successful Chief Executive of housing organisations. More details of the non-executive appointments are included in the Chair's report.

With the new management structure in place we have been working through an improvement plan agreed by the Regulator of Social Housing in September 2019 following our governance downgrade to G2. The Regulator defines G2 as compliant but "the provider needs to improve some aspects of its governance arrangements to support continued compliance".

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As part of bringing our organisations together and aligning our service offer, after allowing for the costs of merger, we aimed to create efficiencies of around 5% of turnover from year three and 6.3% by year five. We have continued this process in 2020 generating a cumulative net saving of £1.884m compared to a forecast of £1.823m

A big part of this is rebranding of the landlords in the Group to just one brand “Connexus”. South Shropshire Housing, Meres and Mosses Housing and Herefordshire Housing have achieved a lot since their creation, and some will be sad to see those names disappear. But the rebranding will create efficiencies and simplify the offer for our customers and stakeholders and allow us to focus on what matters to our customers and communities in Shropshire and Herefordshire rather than internal governance.

In the last 12 months we have seen a net increase of new homes in management of 108, Our business case for merger forecast an increase in the number of homes of 1,458 by the end of 2020. The new homes strategy has been written which seeks a more modest development programme that reduces risk, focusses on our rural areas and allows investment of resources into our existing homes.

Our operating margin for the year (inc. Disposals) is 28% against a forecast of 26.9%, the variance to forecast is primarily down to in year savings in management costs incurred in year.

The Registered Providers within the Connexus Group have a strong history in working with our communities. Following on from 2019 when Connexus won the “Best Older Persons Landlord” in the prestigious UK housing awards, a revised corporate plan has been approved by the Board in March 2020 for Connexus which puts our communities in Shropshire and

Herefordshire as the focus of our objectives over the next three years.



**Richard Woolley, Chief Executive**

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### Report of the Board

The Board presents its report and the audited financial statements for the year ended 31 March 2020.

### Principal activities

Connexus Housing Two Limited is a company limited by guarantee with direct subsidiaries which include Enterprise 4 Limited (a private company limited by shares), Independence Trust Limited (a charitable company limited by guarantee) and Hereford Capital plc. Rise Partnership Developments Limited, formerly a subsidiary of Herefordshire Housing Limited was transferred to become a direct subsidiary of Connexus Housing Limited ("the Parent") during the year. Connexus Housing Two Ltd is a subsidiary of Connexus Housing Limited.

The Company's overall aim is delivering quality housing services to diverse communities. Its principal activities are the management and development of social housing and related support.

### Review of business and future developments

Herefordshire Housing Limited changed its name to Connexus Housing Two Limited on the 1st April 2020, as part of the One Connexus Programme. Details of the Group's performance for the financial year and future plans are set out in the Strategic Report that follows this report.

### Housing property assets

Details of changes to the Group's fixed assets are shown in notes 12 and 13 to the financial statements.

### Political and charitable donations

No charitable donations were made during the financial year (2019:£nil).

No political donations were made during the financial year (2019: £nil).

### Reserves

The surplus on reserves at the end of the financial year was £48.4m (2019: £44.3m). This is after the transfer of the total comprehensive income for the financial year of £4.2m (2019: £3.8m).

### Post balance sheet events

There are no significant post balance sheet events requiring adjustment to, or disclosure in, the financial statements.

### Payment of creditors

In line with government guidance, the Group's aim is to pay purchase invoices within 30 days of receipt, or earlier if agreed with the supplier.

### Board Members and Non-Executive Directors

The Connexus Group operates with co-terminus boards, where the board members act for and on behalf of the whole Group. Connexus Housing One Limited (formerly South Shropshire Housing Limited (CH1L)), Connexus Housing Three Limited (formerly Meres and Mosses Housing Association (CH3L)),

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Connexus Housing Two Limited (formerly Herefordshire Housing (CH2L)) and Connexus Housing Limited share the same board members.

The non-executive directors of the Group who were in office during the year and up to the date of signing the financial statements are set out below. The Board comprises of ten Ordinary board members and the Group's Chief Executive Officer.

Current Board members:

**Ordinary Board Members**

**John Barker – Chair  
(appointed  
September 2019)**

John is an experienced non-executive director, chair and chief executive with wide experience in several successful housing associations. He has a strong personal commitment to the housing association sector, a clear appreciation of the strategic context in which HA's operate and recent experience at board level in high performing organisations including Sentinel, Bromford Group and First Wessex.

John was previously Chief Executive and a Board Member at Moat Homes from 1989 to 2008 and was one of the founder members of the South East England Regional Assembly and a Board and Committee member at the National Federation. John's pedigree

in social housing and governance is therefore strong.

**Andrew Battrum  
(appointed  
September 2019)**

Andrew was the Finance Director of Bromford Housing Group, for 13 years retiring in 2016. His experience at Bromford provides him with a good insight into the social housing sector and equips him with an understanding of the locality.

In addition to his Financial Management and treasury expertise, he brings strong analytical skills and an ability to move easily between bigger picture and detailed thinking. He has experienced different ways of working at Bromford, which has broadened his thinking both in terms of organisational and Board operations.

**John Cross  
(appointed December  
2018)**

John has extensive senior level experience leading on the development of new affordable homes and has worked as a highly successful Chief Executive for several organisations including bpha. He previously served as Chair of the National Housing Federation for three years. John will retire from the board in September 2020.



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**Simon Gibbs  
(appointed  
September 2019)**

Simon has Board experience of both public and private companies across sectors including Property, Retail, and Media. He has executive experience over 25 years as a CEO/MD. He is a Chartered Accountant with investment banking experience and has specialist knowledge in both Treasury Management and Property Development, most recently through his role at Curo.

Simon has commercial expertise to drive growth within a housing building context. He has experience, understanding and an appreciation of the social housing sector bringing something different given his blended professional profile.

**David Lincoln  
(appointed July 2017)**

David has previously worked in the gas and electricity industries, in roles ranging from operational to business and systems development and change management. David is also a volunteer adviser with Herefordshire Citizens Advice Bureau.

David was a Board Member of Herefordshire Housing Limited from 2010 before the merger to Connexus Housing Limited in 2017 and was due

to retire from the Board in September 2019 but has remained on the Board for an additional year to assist with the Board transition arrangements. David will retire from the Board in September 2020.

**Maggie Punyer  
(appointed  
September 2019)**

As a lead director with Ocean Media, Maggie has a good grasp of the key issues affecting the sector and practical experience of embracing the opportunities/challenges currently facing RP's. She has gained this insight through many governance roles, notably in her current capacity as a NED on the Board of Accent. With a good appreciation of regulation, risk, culture and governance control, Maggie also has a commercial background providing the strategic leadership needed at a governance level by Connexus.

Maggie's track record of delivery is supplemented by the softer skills she brings around team development, Board growth and building consensus to take business led decisions that are integral to the achievement of corporate goals. Comfortable in stakeholder management and effective in network building, Maggie

acknowledges the importance of the external dimension of the role. She cares deeply about the provision of good quality social and affordable housing, and strongly believes in the voice of the customers and tenants informing organisational activity.

**Abigail Reilly**  
**(appointed**  
**September 2019)**

Abigail comes from a military background and has fifteen years' experience at senior management level within Social Housing. This includes three years as Executive Director responsible for a wide portfolio including Organisational Development, HR, Governance, ICT, Communications, Project Management, Facilities, Fleet Management and Corporate Strategy, Performance and Planning.

From September 2019 Abigail is returning to full time study to complete an MSC in Occupational Psychology as part of her ongoing professional development as an OD/business change specialist.

Abigail's appointment to the Connexus Board is her first NED appointment. She has however, been heavily involved in governance

reviews which has formed a key focus of her executive director accountabilities. Her experience in this area includes being part of an in-depth regulatory assessment (IDA) process. Abigail offers relevant technical expertise, a sound insight into governance issues and the potential to operate effectively in a NED capacity.

**Paul Smith**  
**(appointed December**  
**2018)**

Paul is the Cabinet Member for Housing at Bristol City Council and a member of the Advisory Panel for the Housing Ombudsman. Paul has also served as the Chief Executive of two national charities, the Furniture Re-use Network and Housing Potential (the skills agency for housing).

**Allison Taylor**  
**(appointed July 2017)**

Allison has many years' experience at a senior level with an emphasis on people management and helping organisations create a climate to enable people to work at their best. Allison runs her own consultancy offering leadership development and executive coaching. Allison is the Chair of Connexus' Remuneration and HR Committee.

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Allison was a Board Member of Herefordshire Housing Limited from 2010 before the merger to Connexus Housing Limited in 2017 and was due to retire from the Board in September 2019 but has remained on the Board for an additional year to assist with the transition of board members. Allison will retire from the Board in September 2020.

Andrew Taylor  
(appointed  
September 2019)

Andrew operates as an independent consultant primarily specialising in the social housing sector, but with some commissions also in the health sector.

He is a qualified member and fellow of CIPFA and has significant experience in all areas of Risk, corporate governance, and stakeholder management. This is through previous NED positions where he chaired Boards and Committees at both Salvation Army Housing Association and Hendon Christian Association. Andrew has experience in compliance controls, IDA preparation and key issues of relevance from a regulatory point of view for an Audit and Risk Committee.

Richard Woolley  
(appointed April  
2019)

Richard has over 20 years' experience in the housing sector, gained with both Large Scale Voluntary Transfers (LSVTs) and traditional housing associations. Having been Director of Resources for Herefordshire Housing and then Connexus Housing, Richard was appointed as Chief Executive and to the Board in April 2019.

**Retired Ordinary Board Members in the year**

Ruth Cooke (Chair)

(appointed July 2017, retired September 2019)

Hilary Gardner

(appointed December 2018, retired September 2019)

Gillian Jones

(appointed July 2017, retired September 2019)

Elizabeth Walford

(appointed July 2017, retired September 2019)

The Group has insurance policies that indemnify both its Board Members and Executive Directors against liability when acting for the Companies. With the exception of the Chief Executive, Richard Woolley and Director of Resources Andrew Cooke, Executive Directors are not Board Members and act as executives within the authority delegated by the Board.

The Board is responsible for the Group's strategic direction. Day to day management and implementation is delegated to the Chief Executive and his Executive team who meet at least

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fortnightly. The Executive Directors and senior colleagues attend Board and committees.

The Board meet a minimum of four times a year. The Chief Executive and Chair meet regularly.

### **Stakeholders**

The strength of the Group lies in the quality and commitment of its employees. The Group's ability to meet its objectives and commitments to customers in an efficient and effective manner depends on the contribution of employees throughout the financial year. Consultation and communication with all employees takes place through regular briefings, team meetings and union representation.

The Group is committed to eliminating discrimination and harassment and promoting equality and diversity. Connexus Housing Limited actively encourages customer involvement by promoting various mechanisms. These include supporting resident groups, a customer involvement panel with direct access to the Group Board, and independent surveys through 'Voluntas'. These all help for customers to play an active role in shaping the future provision of services.

The Group's commitment is not purely to its customers, but also to the wider community. The Group supports the Discovery Centre in Craven Arms, the Mayfair Centre in Church Stretton and the Newton Farm Information Centre, a Hereford charity providing a wide range of advice either directly, by signposting or by providing space for other agencies on a surgery basis. This includes regular visits by the Citizens Advice Bureau (to whom grant aid is given to fund a part-time officer dedicated to

supporting our tenants) and an access point for the local Credit Union.

The Group directly allocated grants to community groups to support initiatives across Shropshire and Herefordshire.

### **NHF Code of Governance**

We are pleased to report that the Group complies with the recommendations of the NHF Code of Governance. A formal review of the effectiveness of the Board has been undertaken during the year and found that the Group was compliant with the code.

### **Members of the Association**

As of 31 March 2020 there were 21 shareholders, each holding a £1.00 share all of which are independent in accordance with the Association's new Rules. Connexus Housing Limited is also a member and holds a £1.00 share. Members have voting rights at Annual and Special General Meetings. Members of the Association are eligible to be elected to sit on the Board and Committees. The detailed arrangements regarding membership are set out in the Rules of the Association.

### **Health and safety**

The Board is aware of its responsibilities on matters relating to health and safety and the Group has detailed health and safety policies. The Group complies with the Health and Safety at Work Act 1974 and other relevant legislation.

## Public Benefit

In setting the Company's aims and objectives, the Board has given careful consideration to the Charity Commission's general guidance on public benefit. The Board confirms that the Company complies with the public benefit criteria by:

- The provision of housing, accommodation and related services for people in need.
- Ensuring that rents are charged within the parameters of the Group's rent plan, in accordance with the RSH's rent standard and guidance.
- Ensuring that housing is let on the basis of need.
- Valuing diversity through the Group's Equality and Diversity policy.

Details of the Group's performance in achieving this in the year to 31 March 2020 are included in the Strategic Report.

## Internal Control Assurance Statement

The Group Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness for the Group as a whole.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, and not absolute, assurance against material misstatement or loss. In meeting its responsibilities, the Group Board has approved an effective framework to identify and manage the significant risks to the Group's operations. This risk-based approach to establishing and maintaining internal controls is embedded within day-to-day management and governance processes. The approach includes the regular evaluation of the nature and extent of risks to which the Group is exposed and is consistent with best practice.

## Annual Review of the effectiveness of the System of Internal Control

The Group Board delegates responsibility for the annual review of the effectiveness of the system of internal control to the Audit & Risk Committee. The Audit & Risk Committee take account of any changes needed to maintain the effectiveness of the management and control process for risk and fraud. Audit & Risk Committee met five times during the course of the year. Assurance over the control environment was obtained from the following main sources:

## Risk Management

An effective risk management framework sits at the core of the

system of internal control. The Group Board confirms that the process for identifying, evaluating and managing the significant risks faced by the organisation is ongoing, the process has been in place throughout the year and up to the date of approval of the annual report and accounts and is regularly reviewed by the Group Board. The Group Board during the financial year set their risk appetite, setting out the Group Board's attitude to risk in the achievement of its objectives.

The Audit & Risk Committee approves at each meeting the contents and scoring of the risk register on behalf of the Group Board who maintain direction and oversight as part of good governance. The Executive and Senior Management Team regularly consider reports on risks and the Group Chief Executive is responsible for reporting to the Group Board any significant changes affecting key risks.

### **Internal Audit Service**

The prime responsibility of the internal audit service is to provide the Group Board with assurance on the adequacy and effectiveness of the internal control system, including risk management and governance. Internal audit also plays a valuable role in helping management to improve systems of internal control and so to reduce the potential effects of any significant risks faced. Internal Audit is delivered by Beevers and Struthers with additional audit work being carried out by external sources to provide a 3<sup>rd</sup> line of assurance. The Internal Auditors has direct access to the Audit & Risk Committee including one in-camera meeting without management present.

The Audit & Risk Committee reviews the findings arising from all Internal Audit Reports and is provided with progress reports on the implementation of all agreed recommendations for

improvement to the point of conclusion.

The Internal Auditors provides an annual report and overall assurance opinion on the system of internal control based on the Internal Audit work performed during the year and management response to that work. The 2019-20 Internal Auditor Opinion and Annual Report identified no material concerns.

### **Fraud Management**

There is an established code for Integrity & Bribery and Connexus Group operates a zero tolerance approach to any instances of fraud or corruption. There is an anti-fraud, bribery and corruption policy and fraud response policy, along with a Money Laundering policy and Whistleblowing policy. These policies are reviewed regularly. An electronic fraud register is maintained by the Company Secretary in addition to a hospitality register which is a register that identifies any gifts that may have been received. There were no material issues identified during the year. The Group has appropriate insurance cover in place to mitigate the potential financial losses associated with fraud.

### **Information and Financial Reporting Systems**

Financial reporting procedures include a long-term financial plan, detailed annual budgets, detailed treasury reports, value for money reporting and regular management accounts which are reviewed by the Group Board.

Any issues raised in the external audit management letter issued at conclusion of the annual audit are dealt with to the satisfaction of both the external auditors and the Audit &

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Risk Committee with progress tracked to the point of conclusion.

Key performance indicators and business objectives set as part of the performance management framework are regularly reviewed by the Group Board to assess progress and outcomes against the Corporate and Business Plan.

### **Executive Management Team and Senior Management Team**

Each employee who has financial or devolved budgetary responsibility is provided with a copy of the Standing Orders and Financial Regulations (SOFR) and provided appropriate training. Colleagues shall be responsible for the accountability and control of all resources including plant, buildings, materials, cash and stores relating to their areas of responsibility.

The Audit & Risk Committee shall be responsible for making recommendations to the Group Board on new SOFR and amendments to existing ones, as it considers necessary for the supervision and control of the finances, accounts, income, expenditure and assets of the Group.

### **Control Environment and Procedures**

Governance arrangements are subject to continuing review and development to ensure they remain fit for purpose. Board and sub-Committee membership is reviewed annually in line with the membership policy terms. Compliance with the chosen code of governance and the Regulatory Framework is reviewed annually.

The Board retains responsibility for a defined range of issues

covering strategic, operational, financial, and compliance matters and new investment projects. The Board disseminates its requirements to colleagues through a framework of policies and procedures.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Group and for preventing, detecting, investigating and insuring against fraud. This process had been in place throughout the year under review, up to the date of the Annual report, and is regularly reviewed by the Board.

### **Financial risk management**

Connexus is financed by a combination of retained reserves, long-term loan facilities and grants from the Government. The Group has a formal Treasury Management Policy that was approved by the Board in May 2020 along with the 30 Year Business plan which is aligned to the Boards risk appetite and Golden Rules.

This policy seeks to address funding and liquidity risk and ensure covenant compliance; it states which types of financial instrument can be authorised for use, covering both borrowings and investments. In addition, the policy identifies the maximum value of financial instruments and with whom they may be agreed. The purpose of this policy is to reduce the impact to Connexus of adverse movements in interest rates and fluctuations in income (especially sales).

## Going Concern Statement

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Group prepares a 30 year business plan which is updated and approved on an annual basis. The most recent business plan was approved in May 2020 by the Board. As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of Covid-19 the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst case assessment.

The board, after reviewing the group and company budgets for 2020/21 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for a period of 12 months from the date of approval of these financial statements (the going concern assessment period). In order to reach this conclusion, the Board have considered:

- The property market – budget and business plan scenarios have taken account of delays in handovers,

lower numbers of shared ownership property sales, reductions in shared ownership sales values and potential conversion of market sale to social homes;

- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;
- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;
- Liquidity – current available cash and unutilised loan facilities of £7.332m with a further £25.263m held in Herefordshire Capital plc, which gives significant headroom for committed spend and other forecast cash flows that arise;
- The group's ability to withstand other adverse scenarios such as higher interest rates and number of void properties.

The board believe the group and company has sufficient funding in place and expect the group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Group and Association will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.



## Annual General Meeting

The annual general meeting will be held on 15 September 2020 at the registered office, The Gateway, Craven Arms.

## Independent Auditor

The external audit contract is due for retender this year and for this reason no resolution to reappoint KPMG LLP, as independent auditor will be put to the members at the annual general meeting due to a competitive tender taking place.

The report of the Board was approved by the Board on 15 September 2020 and signed on its behalf by:



John Barker  
Chair  
15 September 2020

## Strategic Report

**Who are we?** Connexus was formed in 2017 following the merger of South Shropshire, Meres and Mosses and Herefordshire Housing Associations.

During the financial year we were operating to our Corporate Plan 2018-2021 which sets out:

### The Connexus Way

**Our Purpose** “Creating places where People can reach their potential”

**Our Pillars** We are best able to deliver our purpose through focusing our energy in 3 areas.

**People** We have over 10,500 tenants, plus their wider households and provide careline services to 37,000 people.

**Places** We have over 10,500 homes in Shropshire & Herefordshire.

**Partnerships** We work in partnership with Local Authorities to deliver our affordable homes programmes and other third sector agencies to add value to local communities.

We do this in an enterprising cost effective way. We call this-

### Profit for Purpose

It's about reinvesting any surplus we make into our core priorities. For example our Market Sales development at Radbrook delivering profits to fund affordable homes.

We measure our success in terms of the returns we achieve on our time, money and resources to Customers, Connexus, Communities.

**Our Values** We are a young organisation, we have pedigree and are able to clearly describe how we will behave, operate and interact with others, and will be guided in everything we do by our PRIDE values:



## Our Priorities for 2019-20

### Customer Services- The Connexus Customer Offer

To deliver a consistent and effective service to our customers, enabling colleagues to give a first point of contact resolution and providing customers with a wider choice in how they access our services and an improved overall experience.

During the year we handled 129,772 calls from our customers resolving 87.6% of queries at the first point of contact an increase of 4.3%. However overall satisfaction dipped slightly in the year we are working hard to understand what the drivers for customer satisfaction are so that we take necessary actions.

In the coming year the implementation of one Housing System will make things easier for our teams which in turn should improve the Customer experience and satisfaction levels.

Net satisfaction with neighbourhoods increased to 83.8% in the period which is a 6% increase in the year.

### Development

During the year we delivered 138 new houses across Connexus including the following schemes:

Marstons Hub, Ludlow	Connexus Housing One
Radbrook, Shrewsbury	Connexus Housing One
Blackfriars Street, Hereford	Connexus Housing Two
Ship Inn, Hereford	Connexus Housing Two
Baschurch Road, Bomere Heath	Connexus Housing Three
Queensway, Whitchurch	Connexus Housing Three

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These include a range of tenures to meet the needs of local communities including affordable rent, social rent and shared ownership. The properties have now been let to the new tenants, turning them from houses into homes.

Additionally in the year we delivered 42 Open Market properties at our Radbrook site and a further 20 properties were delivered by Connexus Housing Two Ltd for open market rent.

### Place Shaping

As part of the place shaping strategy for the group during the year, the ERDF funded Warmer Homes project commenced. This is an exciting and innovative project to apply Passivhaus principles to improve insulation and heating systems, and will help to tackle fuel poverty for 132 households across Connexus during the project itself. However, the potential benefits and learning we hope this will deliver will far out reach the project life itself, as this will provide the start of a blueprint for how to 'retrofit' energy efficiency measures to existing homes as housing providers plan how to reach the Net Zero Emissions by 2050.

### Investment and Safety

Resident safety has continued to be our highest priority and has been a real focus during the year.

Our Asset Investment activity slowed during the Covid-19 lock down period, but we are now fully operational once more with many customers again happy to allow us into their homes. We have been rolling out an intensive stock condition survey process to enable us to fully articulate our journey to Carbon Neutral, by 2050, over the next twelve months. Our Asset Management and New Homes

Strategies have been redrafted and set out clear direction around investment, refurbishment, regeneration and disposal options. We have also secured European Regional Development Fund grant funding to deliver our Warmer Homes Project, which includes external wall insulation and heating solutions to improve our rural off gas homes.

In the coming year we will be rolling out additional e-learning courses on risk assessments and Health and Safety throughout the organisation.

### Landlord H&S Compliance:

This year we have increased our internal and external auditing in this area for assurance that we continue to deliver a fully compliant service. We now have a quarterly auditing process in place, which is helping us to strengthen and develop this service area. One of the auditors is Pennington Choices, well known in the sector for providing guidance in this area, we are working closely with them to deliver our vision of being a sector leading organisation.

### Corporate H&S:

Over the past six months our entire Senior Management Team has undertaken IOSH Managing Safely training. We are also working in partnership with the British Safety Council to deliver further training for our entire Leadership Team. In addition to this we have refreshed our risk assessment matrix for all colleague activities, to bring it in line with our Board's risk appetite, and we will be embedding this approach across the organisation over the next six months.

### One Connexus

'One Connexus' is our corporate programme to complete the

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merger of Group and embed our Connexus way of working. It seeks to build the Connexus brand more effectively.

As part of the One Connexus programme, we have continued our rebranding and process in the year our fleet of approximately 150 vehicles was rebranded, along with our websites and other customer facing platforms. An integrated Payroll and HR systems was successfully implemented in the year along with the completion of the Terms and Conditions review to harmonise T&C's across the group.

We continue our journey to a simplify the organisation structure with three entities due to be removed from the group in 2020/21. Independence Trust by means of a transfer of control and Enterprise 4 Limited & Floreat Development Living due to a winding down of activities in these companies, as future work is undertaken by Connexus Enterprise and Rise Developments respectively.

**Value for Money**

There is a As part of the priorities set out at merger a target of £2m of recurring savings was set to be delivered by 2021. During 2019/20 we have been working to deliver the efficiency savings target for the year and improve performance against the VFM metrics.

Merger Plan - Business Case	2017/18 Forecast	2017/18 Actual	2018/19 Forecast	2018/19 Actual	2019/20 Forecast	2019/20 Actual	2020/21 Forecast	2021/22 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Merger Saving	£ 116	£ 669	£ 1,127	£ 1,188	£ 2,231	£ 1,020	£ 2,540	£ 2,622
Slippage Value	-	-	-	-	-	-	-	£ -
Gross savings	£ 116	£ 669	£ 1,127	£ 1,188	£ 2,231	£ 1,020	£ 2,540	£ 2,622
Merger Costs	-£ 870	-£ 428	-£ 513	-£ 230	-£ 268	-£ 335	-£ 118	-£ 18
Net savings	-£ 754	£ 241	£ 614	£ 958	£ 1,963	£ 685	£ 2,422	£ 2,604
Cumulative total	-£ 754	£ 241	-£ 140	£ 1,199	£ 1,823	£ 1,884	£ 4,245	£ 6,849

We remain ahead of the Efficiency Savings target forecast at Merger with £1.884m of cumulative savings achieved, compared to a £1.823m target. The coming year is forecast to have significant savings of £2.54m due to restructuring, continuing to streamline operations and the One Connexus programme bringing about savings in relation to Systems, these have identified and approved by the Group Board as part of the budget setting process.

This work will be on-going in 2020/21 with projects underway to deliver one Connexus Repairs System and one Housing System, both with Go-Live in the year.

Value for Money is discussed further later in this document.

As part of the One Connexus Programme we are reviewing our offices facilities and with Covid19 the way we work.

**Improving Governance**

Connexus is currently rated as a G2 V2 organisation. We aspire to be G1 V1 in 2020/21 by improving and strengthening Governance at Connexus through the Embedding Excellence programme and realigning our risk appetite for Market Sales.

Following the recruitment of new Board and Executive team at the end of 2018/19, work has been on going during the year to embed our improved risk management framework throughout the organisation and we have agreed with board a set of Golden Rules which will underpin all our activities.

We have increased mandatory training in the year to include the following areas; GDPR, Anti-Bribery and Corruption, Whistleblowing,

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Cyber Security, Safeguarding, Confidentiality and Professional Boundaries with training course on Procurement, Lone Working and Anti Money laundering for relevant colleagues. With the aim of increase best practice and training colleagues to the highest standards as well as attaining G1 V1 grading by working with the Regulator of Social Housing to ensure continued compliance with Governance and Financial Viability standards.

**Financial Strength and Resilience**

We are in a strong financial position and our operating performance is consistently out-performing our budgets. The surplus of the year was £8.8808m, compared to a budget of £8.345m. With an operating margin of 28% in the year.

All covenants were compliant throughout 2019/20 with significant headroom available.

Operational cashflows are managed in line with the Treasury Management Policy through use of a revolving £40m facility. A refresh of the facility has been agreed with RBS, increasing the facility value to £55m and extending the period of financing by 5 years.

We are resilient to future financial pressures with un-encumbered assets of £146m (EUV-SH) and substantial over securitisation in our charged assets giving further headroom, based on valuation by Savills at 31 March 2020.

**People- The Connexus Colleague Offer**

In 2019-20 we have unified terms and conditions across the group ensuring a fair and consistent approach that will not only retain colleagues but also ensure Connexus is a leading employer and a place where people want to work. Promoting more agile and flexible working arrangements.

**Other Achievements in 2019-20**

Cyber Security- In 2019/20 we achieved Cyber Essentials which protects Connexus against the most common cyber threats reducing the risk by over 80%, protecting our data, and demonstrating our commitment to Cyber Security to our customers. In 2020/21 we aim to achieve Cyber essentials plus.

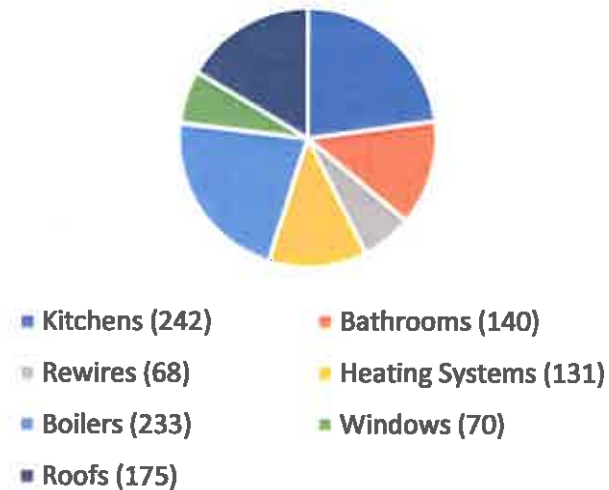
**Maintaining and Improving our Properties**

During the year we have been maintaining our homes through responsive and planned repairs in addition to our Capital Improvements programme.

A total of 28,810 responsive repairs were carried out during the financial year. We have also spent £8.358m on improving our existing properties across the group this year as detailed below.



**Capital Improvement Programme 2019-20**  
**(No of Installs)**



## **The Future at Connexus?**

### **Corporate plan 2020-23**

The Corporate Plan for 2018-21 has now been superseded by a new Corporate Plan for 2020-23. This plan was developed prior to the Covid-19 crisis and was due to be launched on the 1<sup>st</sup> of April 2020, the Board agreed to postpone the launch of the plan so that they could review the outcomes once the crisis was over. We know now that the Covid-19 crisis will not be resolved overnight, so we need to re-evaluate our working practices and priorities for the medium and long term.

The Corporate Plan identifies Brexit, the housing crisis, welfare reforms and rapid technological changes as having an impact on our customers, communities and our homes hence describing these as the drivers of the Corporate Plan. The values and the “pillars” that Connexus is focussing on are described in the Chief Executive’s report. Our plan is to grow Connexus, not just to provide new homes, but to place greater emphasis on the issues that matter most to our customers- regeneration of existing homes, reduction of fuel poverty, improving services and responding effectively to external factors- climate change, environmental standards and government policy. Our people are passionate about the services we provide and we will invest in them and empower them to provide great services to all our customers.

The full corporate plan is available on our website

[www.Connexus-group.co.uk](http://www.Connexus-group.co.uk)

We have agreed defined targets and objectives for the coming year linked to our Objectives. Targets for 2022-23 will be set in the coming year when there is more certainty about the operating environments. Focussing on the first 12 months by the end of 2021- we will aim deliver the following outcomes:

**1** Customer Focus

Corporate Plan objectives 2020 to 2023	Outcomes 2020/21	Measure of success
<b>Customer Focus</b> All objectives are linked to all outcomes		
<ul style="list-style-type: none"> <li>Increased resolution at First point of contact</li> <li>Consistent customer offer</li> <li>Delivers what matters to the customer</li> <li>Simple approach to lettings</li> <li>Safe and secure homes</li> </ul>	Improved voids and lettings performance across the Group	Re-let time maximum 20 days
	Housing services delivered in a consistent way	Rent arrears less than 2%
	Improved customer satisfaction and net promoter scores	Customer satisfaction of 92% NPS 60
	Listen to and empower our customers to scrutinise and influence services. CST2 - Deliver a modern and consistent customer service	New customers actively involved
	Deliver a modern and consistent customer service	On-line portal <ul style="list-style-type: none"> <li>call volume reduction 3%</li> <li>150 portal sign-ups</li> </ul>
	Safer homes	100% compliance (except electrical) 100% electrical safety checks (lets)
	Increased delivery of Independent Living services	Review of 5 Housing for older people schemes and development of sustainable independent living model
	Community alarms appropriate for the needs of our customers	Review of community alarms across Connexus
	Independent Living Schemes that are popular and easy to let	Re-let times maximum of 26.5 days
	More targeted and effective communications	Improved use of email and on-line communications to drive efficiencies

**2** Our People

Corporate Plan objectives 2020 to 2023	Outcomes 2020/21	Measure of success
<b>Our People</b> All objectives are linked to all outcomes		
<ul style="list-style-type: none"> <li>Working practices based on needs of our people and customers</li> <li>Healthy and safe workforce</li> <li>Resources as enablers</li> <li>Learning &amp; Development and investment in apprenticeships</li> <li>IT systems that deliver effective service delivery</li> </ul>	Colleagues have access to equipment they need to work in a mobile way	Increased number of colleagues able to work from any location
	Enhanced colleague journey to aid recruitment and retention	Improved recruitment (applicant numbers and quality of candidates), retention/colleague turnover, and absence levels.
	Fully trained and competent workforce	Implementation of the Learning & Development strategy
	Delivery of ICT arrangements in relation to office review	Right equipment and places to work
	Healthy and safe employees	Health and safety action plan fully implemented

**3** One Connexus

One Connexus All objectives are linked to all outcomes		
<ul style="list-style-type: none"> <li>• One approach across our geography</li> <li>• Aligned policies and procedures</li> <li>• New systems driving efficiency maintaining accessibility</li> <li>• Simplified corporate and management structure</li> </ul>	Implement the same IT system (Orchard) for Assets and Repairs across the Group. 1st Touch (hand-held devices for Trades colleagues) plus support in the use of the Orchard Assets system	All Repairs teams using Orchard and 1st Touch
	Reduced timeframe for statutory accounts production	Reduced external audit costs 21/22
	Develop a reliable and consistent invoice payment service	Reduced hours worked over year end
		Invoices paid within 30 days - at least 80%
	Corporate structure review	Reduce overtime cost to £3k
	Review of Registered Providers (RPs) and other companies in structure and consolidated if demonstrating Value for Money (VfM).	

**4** Commitment to our Communities

Corporate Plan objectives 2020 to 2023	Outcomes 2020/21	Measure of success
Commitment to our Communities All objectives are linked to all outcomes		
<ul style="list-style-type: none"> <li>• Clear understanding of our stock</li> <li>• Quality home vision</li> <li>• New homes strategy</li> <li>• Housing support strategy</li> <li>• Maximise local employment</li> <li>• Pilot carbon neutral approach</li> </ul>	Fully informed asset management system	Stock condition surveys of 50% of stock
	Asset Management Strategy	Asset Management strategy in place
	Maintaining robust governance (of assets)	Electronic asset management system in place
	New homes delivered	143 new homes delivered
	Clarity over rural offer to tenants	Rural sustainable communities defined
	Improved energy efficiency in our homes	Start on site for ERDF project
	Pilot a carbon neutral approach to development	Developed a pilot new build approach specification that is both cost and carbon neutral
	Approach to neighbourhoods agreed	Neighbourhood policy developed
Aligning service charge recovery across Connexus	Fixed service charges implemented	



5

## Well governed, resilient and financially sound

Well governed, resilient and financially sound  
All objectives are linked to all outcomes

- Strategic and operational risk register
- 100% compliance against standards
- Efficient and financially resilient
- Performance focus

Up to date strategic and operational risk registers

G1 status obtained

Compliance with standards

Performance reviewed monthly








Risk registers reviewed monthly at Business Review

Embedding excellence plan implemented

Standards reviewed and compliance scrutinised at Board/Committee

Business Review Meetings carried out monthly with Heads of Service and corrective action taken where appropriate

## Financial Projections

		2020	2021	2022	2023
Homes					
<b>Assets and Liabilities</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	Homes	10,367	10,457	10,659	10,906
	Borrowing	241.7	238.3	248.3	258.5
	Reserves	95.4	109.5	126.5	140.0
<b>Income and costs</b>					
	Rents and Service charges	49.9	51.8	54.2	55.9
	Property Sales income	1.2	2.4	2.3	1.5
	Other income	26.9	33.4	37.2	27.3
	Operating costs	69.0	73.5	76.8	72.2
<b>Surplus</b>					
Key ratios					
-	Operating margin	34.8%	35.5%	36.9%	37.5%
-	EBITDA MRI/Interest	232%	179%	172%	202%
-	Debt per unit	£23,311	£22,792	£23,305	£23,708

**Equality and Diversity.**

Connexus is committed to ensuring equality of opportunity as both a service and an employer and to maintaining a working environment free from discrimination, victimisation, harassment and bullying. The group adheres to all aspects of the Equality Act 2010 and operates within the HCA Regulatory framework.

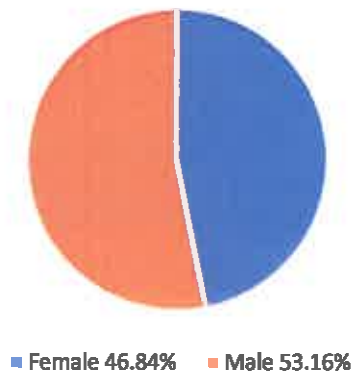
The Connexus Way is to create places where people can reach their potential and the Equality & Diversity strategy reflects the Groups PRIDE values and in particular that we are respectful.

**'We deal with people of all ages, all backgrounds, all needs and requirements and we treat everyone fairly considerately and as individuals'**

Connexus is required to produce an annual report on the Gender Pay Gap. A snapshot of the data reported for the period April 2019- March 2020 is below:

There were 553 colleagues at the time of reporting:

Employees (Number)



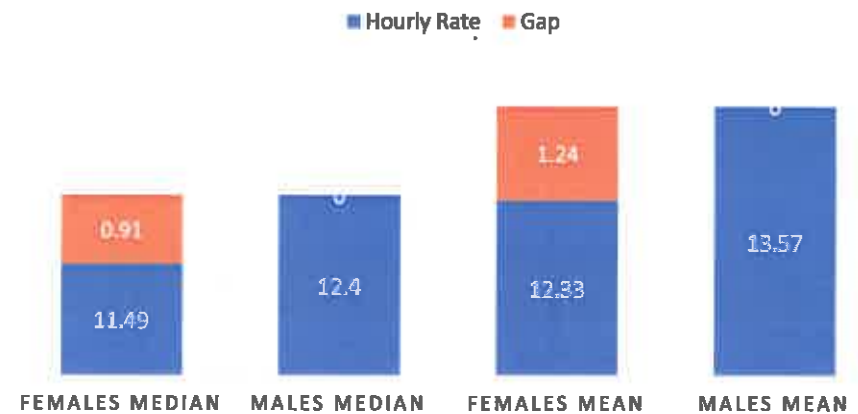
In order to understand the data in more detail it is important to understand the organisation functionality and demographic.

We are a housing association based in rural Herefordshire and Shropshire and also provide wellbeing support in services in Gloucestershire. From a colleague perspective, Connexus consists of a board, committee members, a chief executive, directors and a range of colleagues with wide ranging skill sets and professions.

Unemployment is at a year on year low meaning there are skills shortages nationally and particularly in rural locations like those Connexus operates in. The current pandemic and impacts on the employment market may mean that this changes in the future.

The Group promotes flexible and part time working in many roles, has mixed central support and housing teams, wellbeing support, and trades assets colleagues. Even with proactive recruitment the trades areas remain a predominantly male dominated area of the business.

**PAY GAP ANALYSIS £**



### What are we doing about it?

In the year the Group launched revised terms and conditions for the workplace, as part of the Connexus Way and being One Connexus post merger transformation, with a significant part of this review being pay harmonisation.

A key driver for the review was to create an employer of choice, we recognise the importance of having the right colleagues in the right roles with fair and equitable rewards packages. We endeavour to continue this journey through our People Strategy and our Equality and Diversity policies so that we reflect the diversity of our customers, tenants and colleagues and can meet their needs and expectations.

### Next Steps

We have committed to regular reviews of pay in line with benchmarked data on an annual basis and more widely every three years.

We carry out proactive recruitment- recruiting in different ways- engaging a positive colleague journey for all colleagues.

We have a clear Recruitment, People and L&D Strategies to ensure that we continue our journey, empowering colleagues to develop to their potential, meeting their training needs and are proactive in networking with other organisations/charities/groups and partners to share resources and best practice.

### Apprentices at Connexus

Connexus supports and encourages apprenticeships as they are a fantastic opportunity for the group to grow and shape its own talent.

Our apprenticeships create a journey for an individual, taking them

from novice to skilled colleague, while aligning with, and contributing to the groups vision and values. Connexus invest in its apprentices helping them to develop their practical skills and knowledge which not only benefits the apprentice but gives the group a return on its investment, making them truly a real asset to have within the business.

### Connexus' past apprentices



**Georgie Cadman, Business Support Assistant**

"I joined as an apprentice in 2018 and have since secured a full-time position. Connexus was offering amazing apprenticeship opportunities and this was a great starting point in my career. Connexus provided me with a good foundation to build the necessary skills to progress with a career in housing. I was able to work with other departments, developing my knowledge."

**James Tolley, Heating Engineer**



"I started as a Gas Apprentice in August 2013 with the gas team completing gas servicing, repairs and other works, once I completed my apprenticeship I started work in the Renewables Team carrying out services of these systems as well as repairs. Since September 2018 I've been employed as a Heating Engineer and carry out gas servicing and repairs

for properties across Shropshire."

**Sophie Mellings, Communications & Marketing Assistant**



"Connexus has helped me develop my skills and knowledge of working in a business environment while completing my Business & Administration Apprenticeship in 2015 within the Communications team at Connexus. I'm currently studying

towards my Level 3 Foundation Certificate in Marketing."



**Bryn Martin, Electricians Working Supervisor**

"You never stop learning as an electrician as the Regulations have constant updates, and the industry evolves, with new products on the market often requiring manufacture training. My apprenticeship gave me the basic knowledge and skills

required. As in most trades you don't really start your development until your thrown in the deep end and start working independently."

**Danni Brown, Trainee HR Business Partner**



"I have gained valuable skills and experience and completed my HR Apprenticeship in 2014. Since then I have completed my CIPD Level 3 certificate in HR and working towards my Level 5 diploma. This will contribute to me becoming a fully qualified HR Business Partner."



**Sophie Pryce, Electrician Approved**

"I learned lots of important knowledge, while doing my apprenticeship, from both the classroom and being on site. Also, a bonus is you're being paid to learn! I qualified as an Electrician in 2012."



**Brodie Magill, Heating Engineer Improver**

"I started as a plumbing apprentice in February 2018. I'm now a qualified plumber and working towards my gas qualifications by working alongside the gas team on servicing, installs, repairs and associated plumbing works."



**Jack Perry, Trainee Income Officer**

"My apprenticeship was a CIH Level 3 In Housing and I started in April 2018. My apprenticeship has enabled me to be in the job I am doing today as the skills I gained allowed me to be successful in the interview process and show that I can work at Connexus full time. My apprenticeship was involving, balanced and lots of fun!"

## Financial Performance

The company made a surplus after tax for the year ended 31 March 2020 of £4.09m, (2019: £6.03). The surplus in the year is lower than in 2019 and adverse compared to the £4.325m budgeted surplus.

The key variances which have resulted in the £1.94m reduction in surplus relative to 2019 were mainly year end adjustments following positive operational performance throughout the year:

- Impairment of PPE-Legion Way Offices £1.7m
- Revaluation loss on Investment properties £0.665m.
- Other areas performed strongly throughout the year with Management cost £0.579 positive to 2019 outturn.

From a budgetary perspective, the adverse variance is due to the the year-end adjustments identified above offsetting £2.0m positive operational performance throughout the year.

Property disposals were £1.485m positive to budget.

Colleague costs were £0.371m favourable to budget, offsetting pressure on Direct and Corporate costs in relation to Premises, Professional and Finance costs and ICT.

With favourable Finance Cost performance including Interest payable and depreciation costs £0.471m as a result of lower than forecast borrowing in the year.

The focus for 2020 continued to be maintaining the quality of our homes with an investment programme with £5.87m spent, (2018:

£9.1m). Priority in the year for CH2L housing homes was Energy measures.

The total comprehensive income for the year was £4.1m surplus compared with £3.89m in 2019.

An actuarial gain of £0.096m was recognised in year as opposed to an Actuarial loss of £2.2m in 2019.

## Value for money

In April 2018 the Regulator of Social Housing updated the Value for Money Standard and we have maintained our approach to VFM to ensure compliance with this.

The Group Board has been given assurance in respect to compliance via a VFM compliance checklist, this articulates all strands of the standard which Executive colleagues have presented documented evidence to the Audit & Risk Committee for approval.

The required outcomes from the RSH are that Registered Providers must:

### **Clearly state their strategic objectives –**

A new Corporate Plan was approved in 2020 by the Group Board which details five clear objectives; Customer focus, Our people, One Connexus, Commitment to our Communities and to be Well Governed, Resilient and Financially Sound. A Value for Money strategy was approved in July 2018, a revised VFM strategy is being prepared for approval by the Group Board and will be in place from the 1<sup>st</sup> of April 2021. The existing strategic objectives are to:

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- Generate the optimal outcomes for the Group, tenants, customers and communities from the considered use of all resources.
- Create efficiencies in the way we operate.
- Utilise profits from commercial activities to provide better services for our customers.
- Understand the return on our assets and utilise this to assist in the prioritisation of activities against our strategic objectives making new development decisions based on social and financial return to the Group, our customers and communities.
- Create and embed a VfM culture across the Connexus group.
- Use growth in the business to provide local employment opportunities, apprenticeships and reduce dependency.
- Provide social and economic benefits to individuals and communities in our core geographical areas.
- Create environmental efficiencies

The financial efficiencies generated will provide funding to:

- Meet new homes targets
- Invest in existing stock
- Improve customer services
- Maintain sustainable communities
- Support business growth and development
- 

### **Approach agreed by Board in delivering value for money**

The strategy in place since merger has been reviewed by the Audit & Risk Committee and has been scrutinised and approved by the Board. A revised strategy is being prepared which will align to the new corporate plan.

The VfM agenda is embedded at Connexus through the creation of a Connexus Value Group (CVG). Chaired by the Director of Resources, the CVG includes colleagues across the Group at all levels. A detailed

efficiency log is at the heart of the CVG, this is accessible by all colleagues within the organisation having the ability to enter onto the log savings that have been demonstrated. Finance then transact these savings as cash backed and report to Senior Management, Executive Management and Group Board income and expenditure detailed variance analysis via the monthly management accounts.

Our approach is designed to ensure that value for money is provided for our customers. Specifically:

- Connexus has adopted a Customer First approach to focus on delivering to purpose and what matters most to the customer rather than being driven by costs, targets and budgets. All of these will be measured and monitored but will not drive delivery.
- Connexus has developed a Customer and Community Involvement Strategy and will listen to the concerns of customers in order to deliver better services and amend our approach in response to customer feedback. We communicate with our customers in a variety of ways, via our website, telephone and text messaging, meetings, face-to-face contact and social media but we principally communicate our VfM story and service changes etc. through our customer newsletters.
- Customer Involvement Panels are central to the process of service review and improvement.
- Connexus has partnership working as a key pillar and will work closely with other landlords across our core operating area of Shropshire and Herefordshire to better address the collective needs of residents, tenants and customers and to be responsive to priority issues facing our Council partners.

**Ensure that optimal benefit is derived from resources and assets to optimise economy, efficiency and effectiveness.**

The approved VfM strategy states that Connexus will:



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- Prioritise our expenditure and ensure that expenditure is only incurred if it directly benefits our customers or indirectly benefits our wider customer base.
- Create a business case for major decisions and scrutinise these at Connexus Value Group, Senior Management Team meetings, Executive Management Team meetings, Enterprise Committee, Audit & Risk Committee, Customer Services Committee or Parent Board as appropriate. The business case will be backed up by a financial appraisal linked to the quality and benefits to our customers
- Understand our performance and cost base in relation to outcomes and review these in comparison to other similar organisations (including commercial organisations where available) on at least an annual basis using analysis to drive service improvement where appropriate.
- Monitor trends against performance on a monthly basis and have processes in place to improve, introducing continual learning cycles.
- Review our performance through balanced scorecards and management accounts on a monthly basis and at least quarterly report to Board and relevant Committees.
- Drive efficiencies in procurement by creating a procurement plan and monitoring outcomes.
- Set annual targets for VfM efficiencies, recording and scrutinising efficiencies delivered.
- Have robust business planning and budget process and review to ensure that financial performance will comply with funders' covenants
- Include an annual efficiency target approved by the Group Board in our Long Term Financial Forecast.
- Where possible we will generate a profit by providing services to non-residents and use the profit to reduce costs or improve the service to our residents.
- Implement our Asset Management Strategy to optimise the return on our assets.
- Use a variety of data from a number of sources (including customer satisfaction, customer profiling and complaints/compliments analysis) to review and triangulate evidence to value for money
- Involve customers through representative tenant groups, resident inspectors and scrutiny panels
- Challenge our delivery models and ensure that our corporate structure provides VfM.

Specific expectations from the RSH are that Registered Providers must demonstrate:

**Robust approach to achieving value for money, including “rigorous appraisal of potential options for improving performance”**

Options appraisals are considered for significant decisions and reviewed by EMT, relevant Committees or the Group Board as appropriate which include merger savings and team restructures

**Regular and appropriate consideration by the Board of potential value for money gains,**

Gains have been considered at the internal Connexus Value Group and at Audit and Risk Committee and for particular items at Board. Options appraisal and VfM section of the Board reports ensure there is regular and appropriate consideration of VfM by the Board. We now plan to rationalise the structure and merge the entities in the business, to generate further efficiencies.

**Consideration of value for money across their whole business and where they invest in non-social housing activity, they should**



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**consider whether this generates returns commensurate to the risk involved and justification where this is not the case.**

The Enterprise & Development Committee was established in 2018 to ensure that non-social housing returns were properly evaluated. New business finances are prepared by the Finance Team and reviewed by the Director of Resources in conjunction with the lead Director or, if material, by the Executive Management Team. Development management accounts are presented to the Enterprise & Development Committee, which provides assurance in respect to non-social housing activity. The Group Board as part of the approval process of the LTFF2020 re-confirmed the on-lending cap between Connexus Housing Two and Floreat Living plus establishing a fresh set of Golden Rules limiting the exposure to non-social housing activity.

**That they have appropriate targets in place for measuring performance in achieving value for money in delivering their strategic objectives, and that they regularly monitor and report their performance against these targets**

Overall VFM self-assessment

Connexus has engaged i4H to provide benchmarking information, with the full report for 2019/20 being provided in July 2020, and is benchmarked against 15 of its peers. Audit & Assurance Committee noted the VFM metrics and VFM compliance checklist in their July 2020 Committee meeting.

**Methodology**

The scoring is based on the i4H quartile system presented below and the system will correspond the score to the quartile position.

Performance	Score	Percentile
Elite	40	76 - 100
Median/Upper	30	51 - 75
Low/Median	20	26 - 50
Poor	10	0 - 25

Targets have been developed from the Business Case for merger, the efficiency targets approved by the Board, the standard metrics produced by the Regulator of Social Housing and other metrics that EMT and SMT have identified. These are included in the Vfm Strategy. We report on our financial Vfm targets (where they can be derived from the Statement of Comprehensive income) in our quarterly financial reports to Board. A more detailed 6 monthly review of performance against targets is taken to Audit and Risk Committee and reported annually to the Board.

Registered providers must annually publish evidence in the statutory accounts as follows

- Performance against VFM targets, metrics set by the regulator and performance compared to peers.
- Measurable plans to address any areas of underperformance

These are detailed in the following pages:

## Financial Performance and Position

The following table presents the VfM Metrics introduced by the Regulator Social Housing in 2018. The metrics are a requirement of the updated VfM Standard and are of importance to the regulator in the consideration of efficiency.

FY20 - Financial Indicator	FY19 Outturn	FY20 Outturn	Median
Reinvestment%	n/a	8.36%	7.86%
New Supply Delivered% (Social Housing)%	1.52%	1.44%	1.35%
New Supply Delivered% (Non- Social Housing)%	0.00%	0.19%	0.00%
Gearing Ratio %	62.78%	72.43%	49.22%
EBITDA MRI Interest Cover %	168.27%	181.65%	201.45%
Headline social housing cost per unit £	£3,379	£3,500	£3,474
Operating Margin % (Overall)	28.51%	26.18%	26.54%
Operating Margin % (SHL)	27.33%	25.02%	28.72%
Return on capital employed (ROCE)	4.99%	4.39%	4.56%
Total Score	180	200	225

*\*Operating Margin Overall in FY19 included Surplus on the disposal of Fixed assets which is excluded in 2020 meaning like for like performance has improved.*

A key, strategic objective for the Connexus group is to develop new homes and development activity has reduced for FY20. The impact of Covid-19 needs to be considered for a reduction in development activity, which will also be a factor for FY21.

Compared to all social housing providers above 1,000 units Connexus Group performance is considerably improved. The quartile position moves from mid/lower quartile (Connexus peer group) to mid/upper quartile (National peer group). In particular, performance for headline social housing cost per unit and ROCE performance is improved. Operating margin overall and SHL also shows more favourably compared to national providers.

In conclusion, Connexus Group is a low performer compared to the peer group. However, overall performance is more favourable when compared to national registered providers. New delivery performance has declined but new delivery is contributing to a key national and business objective.

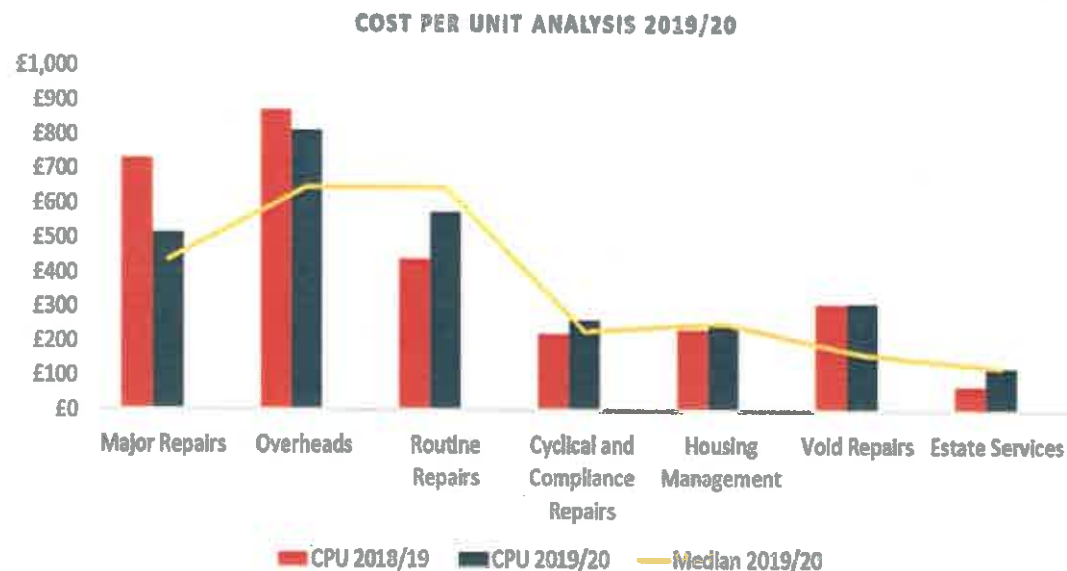
### Operating costs

The total finance score for Connexus Group has slightly increased in FY20 in comparison to FY19. This is however due to the reinvestment score not being included for FY19 as it was not available at the time of reporting. There has been a reduction in performance for headline social housing cost per unit, operating margin and social housing lettings operating margin. New supply delivery has reduced very slightly however performance remains at the mid/upper quartile.

This represents a 35% performance gap between Connexus group and the elite category in FY20. Connexus Group overall financial position remains at the mid/lower Quartile against its peer group for FY20.

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Below is an overview of the Groups cost per unit across our key areas



Service Area	CPU 2018/19	CPU 2019/20	Median 2019/20
Major Repairs	£732	£516	£439
Routine Repairs	£442	£578	£648
Void Repairs	£311	£313	£164
Cyclical and Compliance Repairs	£224	£262	£253
Housing Management	£236	£245	£230
Estate Services	£74	£126	£126
Overheads	£874	£815	£649
<b>Total Cost Per Unit</b>	<b>£2,892</b>	<b>£2,854</b>	<b>£2,633</b>

*NB, cost per unit is £3,500 including service charge, capitalised major works and supported housing costs*

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Connexus Group has an overall cost per unit for 2019/20 across the key areas of £2,854, placing at mid/upper quartile. The variance in costs relates to a reduction in major works revenue spend and increase in capital costs across the group. There has been an increase in routine, cyclical and housing management and estate services costs.

Although overhead costs have reduced, they continue to stand out as an area that has the potential for cost reduction. When compared to the peer group (c. £1.79 million above the median level). This does include exceptional merger costs, resourcing and investment into IT as part of the integration.

**Operational Performance Indicators**

Performance Indicator	2018/19 Result	2019/20 Result	Peer Median
Rent collected current and former tenants (including arrears b/f)	100.15%	99.17%	97.56%
Current tenant arrears (Excluding Voids)	1.47%	1.56%	2.68%
Former tenant arrears (Excluding Voids)	0.56%	0.51%	1.27%
Rent loss due to voids	0.98%	0.87%	0.52%
Average time complete repairs (Days)	15.85	20.50	11.49
Percentage of repairs completed at the first visit	83.18%	91.44%	92.34%
Satisfaction with the last repair (Transactional)	89.70%	88.99%	93.65%
Appointments kept %	99.90%	99.87%	97.70%
Average relet time (Days)	35.85	34.95	20.35
Gas safety certificate %	100.00%	99.92%	100.00%
SAP rating	67.12	67.01	71.34
Average seconds to answer inbound calls	66.80	101.00	55.70
<b>Total Score</b>	<b>270</b>	<b>260</b>	<b>300</b>

Connexus Group is performing at the mid-lower quartile.

There is currently a 13% performance gap to reach the median level and 33% gap to achieve elite performance. Rent loss due to voids, average days to complete repairs, percentage of repairs complete at the first visit, satisfaction with the last repair survey and average re-let times have been identified as key performance improvement areas.

Rent arrears performance for the group remains upper quartile in terms of collection and arrears. This has been a consistent trend for the group and demonstrates strong internal controls and procedure.

### Satisfaction

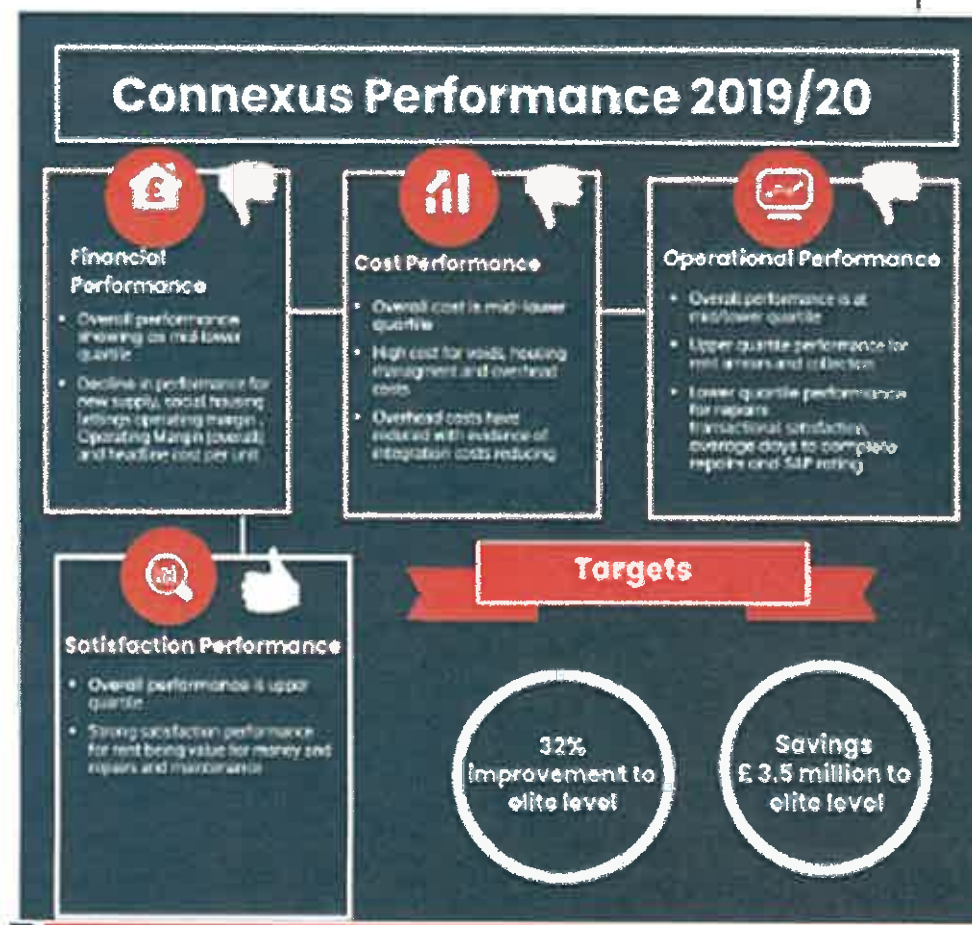
Performance Indicator	Latest Result	Median 2019/20
Overall Services	89.50%	90.12%
Quality of Home	84.00%	85.90%
Neighbourhood	84.00%	84.00%
Rent Value for Money	88.00%	87.10%
Repairs and Maintenance	89.00%	84.35%
<b>Total Score</b>	<b>130.00</b>	<b>100.00</b>

Latest satisfaction data available for the group has been used to provide a consolidated result, the results show, the overall position for Connexus Group is upper quartile performance for FY20.

Rent value for money and repairs satisfaction are now performing to upper quartile performance.

Overall Quality of the home and neighbourhood are showing lower levels of satisfaction, however, both these indicators are close to the median position.

### Overall score with our Peers



VIM Measure	Results 2018/19	Results 2019/20	Median 2019/20	Score 2019/20
Total Cost Per Unit	£2,892	£2,854	£2,633	20
Total Operational Performance Score	260	260	300	20
Total Customer Satisfaction Score	90	130	100	30
Total Financial Score	120	200	225	20
<b>Total VIM Score</b>	<b>80</b>	<b>90</b>	<b>100</b>	<b>90</b>



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Connexus will continue to work on improving VFM, this has been evidenced through the Service Improvement Plans (SIP's) created by each Head of Service aligned to the Corporate Plan Objectives.

A number of areas are articulated below;

Indicator	Issues / Actions taken to improve performance	Measurable Plan
Rent loss due to voids	A Connexus Voids and Lettings Improvement Project, led by the Head of Communities, continues to be delivered with improvements to rent loss, re-let times and void costs expected to be seen throughout the year.	Re-let time of 20 days targeted for the end of March 2021. Voids and Lettings Improvement Plan being led by Head of Communities with consultancy expertise and Insight and Change team in place to support implementation.
Average time to complete repairs (Days)	Improve service productivity and reduce costs.  Reduce average customer waiting time for routine	<ul style="list-style-type: none"> <li>1st April 2020 - Full CR use of Orchard &amp; 1st Touch.</li> <li>30th September 2020 - suite of service demand &amp; productivity</li> </ul>

	<p>repairs appointments.</p> <p>Development of demand &amp; productivity reports with the assistance of the Insight &amp; Change team.</p>	<p>reports agreed and tested.</p> <ul style="list-style-type: none"> <li>31st December 2020 Identification of average number of completed jobs per trade with an action plan in place to improve productivity.</li> <li>Quarterly CR management team review of performance and processes. Performance target achievement by 31st March 2021.</li> <li>2020/21 average customer waiting time no more than 15 days for routine repairs by 31st March 2021.</li> </ul>
Percentage of repairs completed at the first visit	<p>Improved communication with customers (focus on proactivity and flexibility);</p> <p>Increase Connexus Repairs oversight of appointments</p>	<ul style="list-style-type: none"> <li>Full CR use of Orchard &amp; 1st Touch from 1st April 2020.</li> <li>Quarterly CR management team review of performance and processes.</li> </ul>

	<p>&amp; Trade Colleague deployment;</p> <p>Customer service refresher training for trade colleagues and operational managers;</p> <p>Introduction of a robust skills assessment for trade colleagues (quality of work);</p> <p>Tech training for non-tech staff training from Customer Service Team to improve diagnosis;</p> <p>Review of materials management - van stock audits &amp; adjustments,</p> <p>Method of ordering &amp; collection;</p> <p>Investigate the reasons for customer no access</p>	<ul style="list-style-type: none"> <li>• Performance target achievement by 31st March 2021</li> </ul>
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<p><b>Satisfaction with the last repair</b></p>	<p>Improved communication with customers (focus on proactivity and flexibility);</p> <p>Increase Connexus Repairs oversight of appointments &amp; Trade Colleague deployment;</p> <p>Customer service refresher training for trade colleagues and operational managers;</p> <p>Introduction of a robust skills assessment for trade colleagues (quality of work);</p> <p>Tech training for non-tech staff training from Customer Service Team to improve diagnosis.</p>	<p>Q2 2019/20 customer satisfaction performance is 89% against a target of 92%. NPS performance is 55 against a target of 60. The current targets to be retained. Qualitative data shows customer dissatisfaction centers on communication and quality of work - the customer feedback will be tracked to assess performance.</p> <p>Quarterly progress monitoring using the Customer Insight customer satisfaction reports. Improvement against target achieved by 31st March 2021.</p>
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<p><b>Average re-let time (Days)</b></p>	<p>A Connexus Voids and Lettings Improvement Project, led by the Head of Communities, continues to be delivered with improvements to rent loss, re-let times and void costs expected to be seen throughout the year.</p>	<p>Re-let time of 20 days targeted for the end of March 2021. Voids and Lettings Improvement Plan being led by Head of Communities with consultancy expertise and Insight and Change team in place to support implementation.</p>
<p><b>Gas safety certification</b></p>	<p>Currently 33 are outstanding due to Covid non-access. Appointments are booked for all before end July so we expect to achieve 100% by end of July.</p> <p>Once Covid catch up is complete compliance will be maintained at 100% as any non-access</p>	<p>Compliance reporting to Group Board in August 2020.</p>

	<p>issues are escalated through our standard procedure.</p>	
<p><b>SAP Rating</b></p>	<p>All stock now included in one asset system, Orchard Assets.</p> <p>Start on site due, November 2020, on our ERDF funded Warmer Homes Project, the learning from which will enable us to model what work is required to improve the energy efficiency of our stock in general.</p> <p>All investment contracts run through new Asset Management system to better inform stock</p>	<p>60% stock condition survey data completed by March 2021. 100% by March 2022.</p> <p>Warmer Homes programme complete March 2022.</p> <p>New Asset Management Strategy in place by March 2021.</p>



	<p>condition/energy performance data.</p> <p>Stock option appraisal model in place by March 2021.</p>	
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### Risk Management

Connexus is exposed to risks which may have material and adverse effects on its reputation, performance and financial position.


The Group measures these risks by reviewing the likelihood and impact of the inherent risk of an event occurring, identifying controls and actions to mitigate the risk and calculation of the residual risk remaining.



The most significant business risks facing the Group at the end of the March 2020 were:



Risk	Management Controls
<p><b>Governance</b></p> <p>Poor governance leading to a regulatory downgrade</p>	<ul style="list-style-type: none"> <li>• Board and Committee Effectiveness Review</li> <li>• Board training and development plan</li> <li>• Concise and maintained risk registers in place with Risk Assurance Framework and Risk Management Strategy</li> <li>• Current board member recruitment</li> <li>• Up-to-date audited Asset and Liability Register</li> </ul>

	<ul style="list-style-type: none"> <li>• Board skills assessment and 360° appraisal process undertaken</li> <li>• Executive and Leadership team strengthened</li> <li>• Policy Up-dates of all governance policies and revised Standing Orders and Financial Regulations</li> <li>• e-learning on key governance areas</li> <li>• Review of all governance processes</li> </ul>
Risk	Management Controls
<p><b>Governance</b></p> <p>Staff and Board Member Retention</p> <p>Turnover of staff leads to increased costs through the use of temporary staff and the cost of recruitment. Loss of key staff can lead to issues in information retention, as well as reputational damage. Loss of board members weakens the skills required for a strong, in-control board</p>	<ul style="list-style-type: none"> <li>• Agile working policy</li> <li>• Attractive terms and conditions</li> <li>• Bench-marked and periodically reviewed salaries</li> <li>• Board skills analysis completed</li> <li>• 360° board appraisal completed</li> <li>• Promotion of internal secondments, apprenticeship schemes, etc. R&amp;HR Committee oversight</li> <li>• Stress Testing</li> <li>• Succession planning for EMT and Board Training and Development pan</li> <li>• Well-equipped offices and facilities</li> <li>• Wide-spread recruitment advertising outlets</li> <li>• Consultants to assist with board member recruitment</li> </ul>
	

Risk	Management Controls
<p><b>Development</b></p> <p>Slump in housing market – sales (including shared ownership) not materialising as forecast / surpluses not achieved as forecast in business plan</p> 	<ul style="list-style-type: none"> <li>• Board / Committee oversight of any new sales projects before committing</li> <li>• Capital at risk caps in place for Shared Ownership and Outright Sale Programmes.</li> <li>• Cash in bank to deal with market downturn.</li> <li>• Contingency plans in place to look at alternative tenures. EMT and Enterprise &amp; Development Committee receive monthly written reports on sales.</li> <li>• Phased release of developments to manage overall exposure to individual sites and to the Group as a whole.</li> <li>• Professional sales team supported by a specialist consultant.</li> <li>• Report considered by the E&amp;D Committee on the current housing market Stress testing undertaken against this risk materialising.</li> <li>• Strong links with local estate agency to assess market conditions. Targeted well-resourced ongoing marketing campaign</li> <li>• This risk has increased following review of the impact of Covid-19 on the sales market. There is understandably now a period of uncertainty and so we will continue to monitor the market closely.</li> </ul>

Risk	Management Controls
<p><b>Financial</b></p> <p>Issues causing Covenant Failure</p> <p>Finances managed badly leading to breach of covenants and consequent downgrade</p> 	<ul style="list-style-type: none"> <li>• Budgets monitored on a monthly basis and covenant performance monitored monthly by EMT</li> <li>• Board receive management accounts including covenant compliance, liquidity, cash flow and headroom in lender covenants</li> <li>• Drawn loan facilities with availability in the revolving credit facility.</li> <li>• DoR receiving weekly cashflow updates.</li> </ul>
Risk	Management Controls
<p><b>Health and Safety Legal Compliance</b> <b>carried out poorly or not adequately.</b></p> <p>Compliance work not carried out satisfactorily or systems for compliance testing not operating effectively leading to serious injury or death</p>	<ul style="list-style-type: none"> <li>• Compliance Team in place with clear roles and responsibilities</li> <li>• Training plan in place for Team</li> <li>• Validation reports link back compliance programmes to stock numbers</li> <li>• Weekly operational KPI reporting to CEO and Directors</li> <li>• Quarterly reporting to Audit and Risk Committee</li> <li>• Quarterly reporting to Board</li> <li>• Quarterly audit from Beever and Struthers</li> </ul>

	<ul style="list-style-type: none"> <li>• Quarterly audits from Pennington Choices</li> <li>• Internal Action Plan in place to provide continuous improvement actions and link in emerging Building Safety legislation.</li> </ul>
<b>Risk</b>	<b>Management Controls</b>
<p>Impact of Brexit seriously affects the business</p> <p>Unknown, disruptive effect.</p>	<ul style="list-style-type: none"> <li>• Data Quality Policy approved at Audit and Risk Committee</li> <li>• No issue in respect to accessing data as a consequence of a hard Brexit due to in-house data storage</li> <li>• Internal Audits</li> <li>• Quarterly cashflows to Board</li> <li>• Report on suppliers from CHIC (Central Housing Investment Consortium) Resources (cash) available</li> <li>• Sales are monitored weekly with EMT and the Enterprise and Development Committee receive monthly reports</li> <li>• Stress testing undertaken</li> <li>• Supply chain checks being undertaken</li> <li>• Tracking housing sector activity, impact and solutions</li> <li>• Minimal reliance on EU27 nationals in respect to our labour market.</li> </ul>
	
<b>Risk</b>	<b>Management Controls</b>
<p>Safeguarding issues lead to abuse of individuals</p>	<ul style="list-style-type: none"> <li>• Colleague training</li> <li>• Designated Safeguarding leads and deputies across the group</li> </ul>

	<ul style="list-style-type: none"> <li>• External Safeguarding Champion</li> <li>• Policies / procedures / registers</li> <li>• Safeguarding Steering Group</li> <li>• 'Safer recruitment' adopted</li> </ul>
<b>Risk</b>	<b>Management Controls</b>
<p>Disease Pandemic</p>	<ul style="list-style-type: none"> <li>• EMT set key measures aligned to Board risk appetite that were reviewed on a weekly basis. Including Sickness, Sales, Voids.</li> <li>• Increased frequency of Chairs plus meeting between CEO and Chair of Board and Committees.</li> <li>• Board &amp; EMT decision to increase liquidity by drawing RCF facility in to cash for an initial period of 3 months, with a corresponding relaxation of the Counterparty limits.</li> <li>• Communication Strategy: EMT daily review meeting taking place during the current COVID19 Pandemic. With this cascading to SMT and being fully communicated to the wider organisation and stakeholder groups utilising the Intranet, webex, telephones, emails and team meetings. To ensure that all are fully informed and aware throughout. FAQs issued on a weekly basis to all colleagues.</li> </ul>
	

*Disease pandemic cont'*



- Safe methods of work were established in all areas of the business, and included the closing offices and moving to remote working.
- ICT Infrastructure was robust and systems were already in place to support remote working.
- EMT engaging with peers in the wider sector to share information and best practice.
- Anthony Collins Solicitors were engaged early in the pandemic to provide specialist advice and support.
- Adequate insurance cover in place for all colleagues working from home using Connexus ICT equipment
- Advice given across the Group in terms of health advice, using guidelines issued via the Gov.UK and World Health Organisation websites
- Each Director and Head of Service nominated a deputy in the event said Director or Head of Service should take ill themselves
- A Covid adjusted Business Plan was prepared and approved by Board. Including adjustments to the planned programme of Developments, bad debt provisions and Capital improvements to a compliance only programme.

*Disease pandemic cont'*

- Teams to undertake risk assessments and test their individual business continuity plans.
- Contingency arrangements made by all Heads of Service to ensure all Regulatory returns continue to be submitted, governance team have secure access to all electronic submission details, sickness cover was put in place and compliance with regulatory standards is maintained.
- Head of Service prepared recovery plans which start the transition to 'business as usual' whilst minimising office presence wherever possible, to prevent the risk of cross-contamination of staff/customers, minimise the number of services that are delivered and minimise the number of colleagues delivering those services. Office access limited to those named in recovery plans.

Good governance is key to delivering a merger and Connexus ensures that a prudent approach is in place to maintain good governance. The Group Board has a key role in governing the organisation to mitigate the risk of poor governance and utilises its powers appropriately. Good governance is key to delivering a merger and Connexus ensures that a prudent approach is in place to maintain good governance. The Group Board has a key role in governing the organisation to mitigate the risk of poor governance and utilises its powers appropriately.

## **The General Data Protection Regulation (GDPR)**

The Data Protection Act (DPA) 2018 (encompassing General Data Protection Regulation) came into effect on the 25 May 2018 and applies to any data companies hold or process within the EU. The regulation also relates to companies outside the EU. Its overall goal is to safeguard consumer data and enforce data security rights. At the same time, it forces organisations to think about what they collect, and how they use it.

Connexus is committed to the proper and appropriate use of data held regarding customers and colleagues, storing all data securely and only retaining whilst there is valid reason to do so. In July 2018 a Data Protection Officer was appointed to strengthen controls around GDPR. A Document and Data retention schedule is in place and all data is retained in line with this schedule, as such we are compliant with DPA 2018 retention regulations.

In May 2018 the group had an internal audit completed and all the recommendations from the audit were implemented by February 2019. A further internal audit was completed in May 2020 and we are currently awaiting the report of this audit.

## **Accounting Policies**

The principal accounting policies are set out in note 2 to the financial statements on pages 52 to 62.

## **Capital Structure and Treasury Policy**

The Group's financial instruments comprise borrowings, some cash and liquid resources and various items such as trade debtors, creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the

Group's operations. It is the Group's policy to not trade in financial instruments. The main risk arising from the Group's financial instruments is liquidity risk. The Board reviews and agrees policies for managing this risk, details of which are summarised below. The policy was implemented following the refinancing in January 2018.

Treasury activities are controlled and monitored by the Director of Resources, with the assistance of external consultants as required, and are carried out in accordance with policies and strategies approved by the Board. The Board undertakes regular reviews of treasury management activity and covenant compliance. The Company has adopted a policy that balances the need to keep cash levels necessary only to meet immediate business requirements but also protecting the long-term position by taking advantage of long-term rates, when the opportunity arises.

The overall aim is to manage the Company's exposure to interest rates and have a debt profile that supports the needs of the business.

The Group finances its operations through a mixture of retained profits, bank funding and bonds taken at fixed rates of interest. The Group has funding in place in the form of a £40m revolving credit facility (RCF). At 31 March 2020, borrowings stood at £247.5m (2019: £223m), with facility was fully drawn (£40m) at the 31<sup>st</sup> March (2019: £25m) following the Board approval of the drawdown of £27m in to cash as a risk mitigation, at the onset of the Covid19 pandemic. At the year-end 80% of borrowings were at fixed rates.

All borrowings are at fixed rates in GBP and the Group has no currency exposures. Any movements in interest rates will therefore not impact on the surplus before tax.

The Group does not hold any derivative financial instruments.

The table below provides a Group analysis of when the debt falls due for repayment:

Group	2020 £'000	2019 £'000
Within two to five years	40,000	15,000
After five years	207,521	207,701
<b>Interest rate basis:</b>		
Fixed	80%	89%
Floating	20%	11%

The weighted average percentage of financial liabilities is 4.18% in 2020. (2019: 4.62%).

### Cash Flow

The Group generated net cash from operating activities of £30.8m (2019: £25.8m). After investing and financing activities cash and bank balances for the year ended 31 March 2020 increased by £0.993m (2019: (£1.394m)).

The company is exempt from producing a cashflow statement in accordance with FRS102.

### Current Liquidity

The Connexus Group treasury management policy requires that Connexus will maintain a minimum level of liquidity such that there is:

- i. sufficient cash to cover the next three months forecast net cash requirement
- ii. sufficient cash and committed loan facilities capable of immediate draw down to cover the next twelve months forecast cash requirement; and
- iii. sufficient cash and committed loan facilities (whether or not capable of immediate draw down) to cover the higher of total committed development spend and the next eighteen months forecast cash requirement

Cash and bank balances and short term investments at 31 March 2020 for the Group were £58.6m (2019: £38.1m), for the company were £7.3m (2019: £1.9m). The Group has a fully secured £40m revolving credit facility in place with credit approval for an increase to the facility of £15m. The main factor influencing the amount and timing of borrowings is the pace of the Planned Maintenance and Improvement and New Development programmes. This has a significant impact according to the timing of payments to contractors and receipt of any capital grants.

### Statement of compliance

The Board confirms that these financial statements are prepared in accordance with Financial Reporting Standard 102 – the applicable financial reporting standard in the UK and Republic of Ireland (FRS 102) and the Statement of Recommended Practice: Accounting 2019 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019. And is fully compliant with the Governance and Viability standard following the review undertaken during the year.

## Statement of the responsibilities of the Board

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the association and of the surplus or deficit for that period. In preparing these financial statements, the directors are 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 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 they either intend to liquidate the association or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting

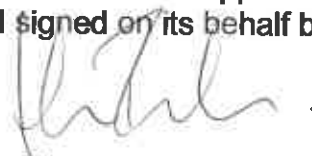
records that are sufficient to show and explain the association's transactions and disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The directors are 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.

The directors who held office at the date of approval of this statement confirm, so far as they are each aware, there is no relevant audit information of which our independent auditors are unaware; and each director has taken all the steps they ought to have taken as a director to make them aware of any relevant audit information and to establish that our independent auditors are aware of that information.

The Report of Board, the Strategic Report and the financial statements were approved by the Board on 15<sup>th</sup> September 2020 and signed on its behalf by:



John Barker  
Chair

15 September 2020



**Independent auditor's report to Connexus Housing Two Limited for the year ended 31 March 2020**

**Opinion**

We have audited the financial statements of Connexus Housing Two Limited ("the association") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves and related notes, including the accounting policies in note 1.

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 association as at 31 March 2020 and of its income and expenditure for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

**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 association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**Going concern**

The association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the association or

to cease its operations, and as they have concluded that 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 its 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 association's business model and analysed how those risks might affect the 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 association will continue in operation.

**Other information**

The association's Board is responsible for the other information, which comprises Chair's Foreword, Chief Executive's Foreword to the Financial Statements, Report of the Board, Strategic Report, and Statement of the Responsibilities of the Board. 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.



### **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 association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over transactions; or
- the financial statements are not in agreement with the 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 47, the 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 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 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](http://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 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.



**Harry Mears**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

KPMG LLP

One Snowhill, Snow Hill Queensway

Birmingham B4 6GH

24 September 2020

## Statement of Comprehensive Income

		2020	2019
	Note	£ 000	£ 000
<b>Turnover</b>	3	<b>30,844</b>	33,218
Operating expenditure	3	(23,430)	(23,862)
Surplus on disposal of fixed assets	5	1,680	671
Movement in investment property valuation	3	(665)	-
<b>Operating Surplus</b>	3,4	<b>8,429</b>	10,027
Interest receivable and other income	7	583	471
Interest and financing costs	8	(4,921)	(4,466)
<b>Surplus before tax</b>		<b>4,091</b>	6,032
Taxation	9	7	1
<b>Surplus for the year</b>		<b>4,098</b>	6,033
Actuarial (loss)/gain in respect of pension schemes	31	96	(2,094)
Re-measurement of SHPS obligation	31	-	(124)
<b>Total comprehensive income for the year</b>		<b>4,194</b>	3,815

All results derive from continuing operations.

The financial statements were approved and authorised for issue by the Board on 15 September 2020.



John Barker  
Chair



Nicola Griffiths  
Company Secretary



Richard Woolley  
Chief Executive

## Statement of Financial Position as at 31 March 2020

	Note	2020	2019
		£ 000	£ 000
<b>Fixed Assets</b>			
Tangible fixed assets - housing properties	12	148,773	140,954
Other tangible fixed assets	13	3,076	4,929
Investment properties	14	2,749	682
Investment in subsidiaries	13	13	13
		<b>154,611</b>	<b>146,578</b>
<b>Current assets</b>			
Properties held for sale	15	1,873	1,330
Stock	15	202	119
Trade and other debtors	16	37,347	41,937
Debtors: amounts due after more than one year	17	84	178
Short term investments	18	6,683	1,538
Cash and cash equivalents	18	649	360
		<b>46,838</b>	<b>45,462</b>
<b>Creditors: amounts falling due within one year</b>	19	<b>(6,629)</b>	<b>(5,675)</b>
Net current assets		40,209	39,787
<b>Total assets less current liabilities</b>		<b>194,820</b>	<b>186,365</b>
<b>Creditors: amounts falling due after more than one year</b>	18	<b>(134,156)</b>	<b>(130,789)</b>
<b>Provisions for liabilities</b>			
Pension provision	28	(12,035)	(11,098)
Other provisions	22	(142)	(184)
<b>Total net assets</b>		<b>48,487</b>	<b>44,294</b>
<b>Reserves</b>			
Income and expenditure reserve		48,487	44,294
<b>Total reserves</b>		<b>48,487</b>	<b>44,294</b>

**Consolidated Statement of Changes in Reserves**

	Share Capital £'000	Income and Expenditure Reserve £'000	Total Capital and Reserves £'000
At 31 March 2018	-	40,479	40,479
Surplus for the year ending 31 March 2019	-	6,033	6,033
Other comprehensive income for the year	-	(2,218)	(2,218)
		<b>44,294</b>	<b>44,294</b>
As at 31 March 2019	-		
Surplus for the year ending 31 March 2020	-	4,098	4,098
Other comprehensive income for the year	-	96	96
<b>At 31 March 2020</b>	-	<b>48,488</b>	<b>48,488</b>

## Notes to the Financial Statements

### 1. Legal status

The Company, Connexus Housing Two, is registered with the Cooperative and Community Benefit Societies Act 2014, and is registered with and regulated by the Regulator of Social Housing as a social housing Registered Provider in accordance with the Housing and Regeneration Act 2008, Registered No. LH4353. The Association has charitable objects and is a charity for tax purposes.

Connexus Housing Two is a subsidiary of Connexus Housing Limited which is the Groups ultimate parent. Connexus Housing Limited is registered with the Cooperative and Community Benefit Societies Act 2014, Registered No. IP30269R.

The consolidated financial statements of Connexus Housing Limited can be obtained by visiting the website <https://connexus-group.co.uk> or are available from the Company Secretary, Connexus Housing, The Gateway, The Auction Yard, Craven Arms, Shropshire, SY7 9BW.

### 2. Accounting policies

The following accounting policies have been adopted as being appropriate to the Group's circumstances with regard to giving a true and fair view and have been applied consistently in dealing with items which are considered to be material in relation to the Groups' financial statements.

#### a. Basis of Accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 the applicable financial reporting

standard in the UK and Republic of Ireland (FRS102) and the Statement of Recommended Practice: Accounting 2018 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The individual accounts of Connexus Housing Group have also adopted the following disclosure exemption:

- The requirement to present a statement of cash flows and related notes

Operating Segment Reporting: It is a requirement under SORP 2018 to apply IFRS8 Operating Segments. Management have determined that the group's operating segments are:

#### ***Social Housing letting:***

General Needs Housing  
Supported Housing and Housing for Older people  
Temporary Social Housing  
Low Cost Home Ownership

#### ***Other Social Housing Activities:***

Current Asset Property Sales  
Supporting People  
Other Support Services

## Notes to the Financial Statements

### **Non Social Housing Activities**

Market Sales

Wellbeing Services

Other

Surplus on Disposal of Fixed Asset

#### **b. Going concern**

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the

following reasons.

The Group prepares a 30 year business plan which is updated and approved on an annual basis. The most recent business plan was approved in May 2020 by the Board. As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of Covid-19 the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst case assessment.

The board, after reviewing the group and company budgets for 2020/21 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for a period of 12 months from the date of approval of these financial statements (the going

concern assessment period). In order to reach this conclusion, the Board have considered:

- The property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of shared ownership property sales, reductions in shared ownership sales values and potential conversion of market sale to social homes;
- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;
- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;
- Liquidity – current available cash and unutilised loan facilities of £7.332m with a further £25.263m held in Herefordshire Capital plc, which gives significant headroom for committed spend and other forecast cash flows that arise;
- The associations ability to withstand other adverse scenarios such as higher interest rates and number of void properties.

The board believe the group and company has sufficient funding in place and expect the group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Group and Association will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

## Notes to the Financial Statements

### c. Significant judgements and estimates

The preparation of the financial statements requires management to make significant judgements estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes may differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognized in the financial statements.

- **Property, plant and equipment**

The Company has undertaken a review of the intended use of all housing properties. In determining the intended use, the Company has considered if the asset is held for social benefit or to earn commercial rentals. The Company has determined that market rented property, as it is developed are investment properties. The Company has determined that the small number of shops held, due to their nature and low level of rentals charged are held as property, plant and equipment are held for their social benefit.

- **Capitalisation of property development costs**

The Company capitalises development expenditure in accordance with the accounting policy described within these notes. Initial capitalization of costs is based on management's judgement that development scheme is likely to proceed. Costs capitalised in this way are regularly reviewed and any costs identifies as abortive are charged to the Statement of Comprehensive Income. The total amount capitalised is disclosed in the notes.

- **Impairment**

The Company has identified a cash generating unit for impairment assessment purposes during development and construction at a programme level, with subsequent impairment assessment once in management at a property level.

### **Estimation uncertainty**

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

### **Useful lives of depreciable assets**

Other than investment properties, tangible fixed assets are depreciated over their useful lives. Management reviews the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes in homes standards which may require more frequent replacement of key components.

The key judgements and estimates applied in respect of housing property are contained within these notes and include:

- The useful economic life of properties
- That properties have no residual value at the end of useful life.

## Notes to the Financial Statements

### Defined benefit obligation (DBO)

The Company has obligations to pay pension benefits to colleagues. The cost of these benefits and the present value of the obligation depend on a number of critical underlying assumptions. These include standard rates of inflation, mortality, discount rate and anticipation of future salary increases provided by the pension administrators and actuaries. Variations in these assumptions may significantly impact the net pension obligation in the balance sheet and the annual defined benefit expenses.

### Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimates fair values may vary from the actual prices.

### d. Exemptions taken

In accordance with FRS102, the association has taken advantage of the exemption from disclosing transactions or balances with entities which form part of the Group and have therefore not prepared a consolidation.

### e. Turnover and revenue recognition

Turnover represents rental income receivable in the year, income from shared ownership first tranche sales, and properties built for open market sales and other services included at invoice value (excluding VAT where recoverable) of goods and service supplied in the year and revenue grants receivable in the year. Government grants received for housing properties are included in turnover amortised over the expected useful life of the housing property structure.

Rental 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 shared ownership and open market sales of properties built for sale is recognised at the point of legal completion.

### f. Accrued Income

Where goods or services are provided but not yet invoiced, that revenue is accrued for.

### g. Deferred Taxation

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognized to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.



## Notes to the Financial Statements

### **h. Loan interest costs**

Interest payable and similar charges include interest payable, loan fees, and finance leases recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial liability.

### **i. Finance and issue costs**

Costs directly connected with the raising of finance are deducted from loans and written off over the life of the loan to the Statement of Comprehensive Income (SOCi).

### **j. Preserved Right to Buy Income and Sales**

Surpluses and deficits arising from the disposal of properties under the Preserved Right to Buy legislation are disclosed on the face of the Statement of Comprehensive Income before the operating result. On the occurrence of a sale a relevant proportion of the proceeds are clawed back by Herefordshire Council. The surplus or deficit is calculated by comparing the net proceeds received with the carrying value of the property sold.

### **k. Management Costs**

Management costs are allocated to revenue accounts on the basis of an estimation of colleague time allocated, except for specific items of expenditure, which are allocated directly.

### **l. Tangible Fixed Assets**

#### **Housing Properties**

Housing properties are properties held for the provision of social housing or to otherwise provide social benefit. Housing properties are principally properties available for rent and are stated at historical cost less accumulated depreciation and impairment losses. The cost of properties represents the acquisition price of land and buildings, development costs, interest charges incurred in the development period, and expenditure incurred in respect of improvements.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements.

Properties in the course of construction are stated at cost and are transferred into housing properties, when complete. Properties in the course of construction are not depreciated.

#### **Donated land and other assets**

Where land has been donated as part of an intended development, the land is recorded at its current value at the gifting date within cost of construction and the income treated as a grant if from a government body and as turnover if from a non-government body. Current value takes into account any restrictions on use.

#### **Shared Ownership Properties**

Shared ownership properties are split between fixed and current assets in line with the expectation relating to the first tranche sale percentage. The expected first tranche proportion is classified as a

## Notes to the Financial Statements

current asset until the point of the first tranche sale. The current asset is then transferred to cost of sales and matched against sales proceeds within the operating surplus in the Statement of Comprehensive Income. Any operating surplus is restricted to the overall surplus which takes into account the Existing Use Value-Social Housing (EUV-SH) of the remaining fixed asset element.

The remaining element of the asset is classified as a fixed asset and included in housing properties at cost, less any provision for depreciation or impairment.

### **m. Investment Properties**

The classification of properties as investment property or property plant and equipment is based upon the intended use of the property. Properties held to earn commercial rentals or for capital appreciation are treated as investment properties. Properties that are used for administrative purposes or that are held for the provision of social housing are treated as property plant and equipment.

Where land is acquired for use in the provision of social housing or for a social benefit it is accounted for as property, plant and equipment.

Investment properties are reported at market valuation.

### **n. Government Grants**

Government grants include grants receivable from the Homes England (formerly Homes and Communities Agency), local authorities, and other government organisations. Government

grants received for housing properties are recognised in income over the useful life of the housing property structure and, where applicable, its individual components (excluding land) under the accruals method.

Grants relating to revenue are recognised in the Statement of Comprehensive Income over the same period as the expenditure to which they relate once reasonable assurance has been gained that the entity will comply with the conditions and that the funds will be received.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Government grants received for housing properties are subordinated to the repayment of loans by agreement by the RSH. Government grants released on sale of a property may be repayable but are normally available to be recycled are credited to a Recycled Capital Grant Fund and included in the statement of financial position in creditors.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income in the Statement of Comprehensive Income.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to the Statement of Comprehensive Income. Upon disposal of the associated property, the Group is required to recycle these proceeds and recognise them as a liability.

Notes to the Financial Statements

**o. Other Grants**

Grants received from non-government sources are recognised using the performance model. A grant which does not impose specified future performance conditions is recognised as revenue when the grant proceeds are received or receivable. A grant that imposes specific future performance-related conditions on the associations is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

**p. Depreciation**

**Property, plant and equipment**

The Group separately identifies the major components which comprise in its housing properties, and charges depreciation, so as to write-down the cost of each component to its estimated residual value on a straight-line basis.

A full year's depreciation is charged on all assets in the year of acquisition but no charge is made in the year of disposal.

The expected useful lives of assets identified separately are as follows:

	CH2L
<b>Structure:</b>	
Non-traditional	30 years
Pre 1974 construction	75 years
Post 1974 construction	100 years
<b>Other Major Components:</b>	
Roofs	60 years
Windows & doors	30 years

Heating systems	36 years
Wiring	40 years
Kitchens	20 years
Bathrooms	30 years
Boilers	12 years
Lifts	20 years
<b>Leasehold Properties:</b>	Remaining life of lease
<b>Garages:</b>	25 Years
Freehold land	Is not depreciated

Other tangible fixed assets

Tangible fixed assets other than housing properties are stated at cost (less grant) less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use.

Depreciation (to residual value) is charged on a straight line over the expected useful life of the asset from the month of acquisition, at the following annual rates:

Computers and other equipment	15% - 33%
Plant and Equipment	20% - 33%
Vehicles	25%
Furniture, fixtures and fittings	25%

## Notes to the Financial Statements

Depreciation on offices is calculated on a straight line basis over the following periods:

Newly constructed offices:	50 Years from the date of practical completion
Leasehold offices	Over the period of the lease

### q. Impairment

The Group's internal controls are designed to identify where the value of property, plant and equipment and work in progress held in the Statement of Financial Position is more than the lower of cost or net realisable value. Where there is evidence of impairment, fixed assets are written down to the recoverable amount, this is likely to be the value in use of the asset based on its service potential. The resulting impairment loss is recognized as expenditure in the Statement of Comprehensive Income. Where an asset is currently deemed not to be providing service potential to the association, its recoverable amount is its fair value less costs to sell. Depreciated replacement cost is taken as a suitable measurable model.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply and included in surplus or deficit in the Statement of Comprehensive Income.

### r. Capitalisation of Development Overheads and Interest

Only specific and directly attributable costs are capitalised in line with the Statement of Recommended Practice

Interest on loans financing new development is capitalised up to the date of practical completion if it represents either:

- Interest on borrowings specifically financing the programme after deduction of interest on Social Housing Grant (SHG) in advance or
- Interest on borrowings of the company as a whole after deduction of interest on SHG in advance to the extent that they can be deemed to be financing the development programme.

### s. Properties for sale

Shared ownership first tranches sales and completed properties for outright sale are disclosed as a current asset, stated at the lower of cost and net realisable value. Cost comprises materials, direct labour costs and other direct overheads, as identified above. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal.

### t. Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of any transactional costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

### u. Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate method.

## Notes to the Financial Statements

### **v. Employee Benefits**

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

### **w. Finance Leases**

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the Statement of Financial Position as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Statement of Comprehensive Income, and the capital element which reduces the outstanding obligation for future instalments.

### **x. Operating Leases**

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

### **y. Stocks**

The value of stock is shown at the lower of cost (the original purchase price) or net realisable value in accordance with accounting standards. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. The value of stores stock is calculated using the weighted average method.

### **z. Bad and doubtful debts**

Provision is made for current and former tenant arrears, as well as other miscellaneous debts (service charges, community alarm income, and fees receivable for the provision of services) to the extent that recovery is considered doubtful.

### **aa. Provisions**

Due to the numbers of properties and the establishment of regular programme of repair and maintenance, the Group does not generally make a provision for future works. Actual costs are charged to the Statement of Comprehensive Income.

The Group will recognise provisions where it has a present obligation (legal or constructive) as a result of a past event or where a transfer of economic benefit will be required to settle the obligation and an estimate can be made.

Where properties are leased a provision will be made for dilapidations where specified in the terms of the lease based on the annual rent for that property.

The Group recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

### **bb. Pensions**

Connexus Housing Group participates in the following defined benefit pension schemes:

## Notes to the Financial Statements

### **Local Government Pension Scheme (LGPS)**

The Group has three LGPS schemes in place – two with Shropshire Council Pension Fund (CH1L and CH3L) and one with Worcestershire County Council Local Government Pension Scheme (CH2L).

The Group financial statements report pension obligations according to the requirements of FRS 17 – ‘Retirement Benefits’. Multi-employer defined benefit schemes that identify individual employers’ shares of underlying assets and liabilities are reflected in the Statement of Comprehensive Income and the Statement of Financial Position. The difference between the fair value of the assets held in the pension scheme and the scheme’s liabilities are recognised in the Statement of Financial Position as a pension scheme asset or liability. Changes in the defined benefit pensions scheme asset or liability arising from factors other than cash contribution by the employer are charged to the Statement of Comprehensive Income or Other Comprehensive Income.

### **Social Housing Pension Scheme (SHPS)**

This scheme is administered independently by the Pension Trust. The group has two defined benefit schemes in place (CH1L and CH2L). From the year ended 31 March 2018 contributions payable from the association to the SHPS under the terms of its funding agreement were recognised as a liability in the Statement of Financial position.

From the year ended 31 March 2019, the association has been able to identify its share of the scheme assets and the scheme liabilities. It has therefore applied defined benefit accounting, the relevant date for accounting for this change from defined contribution to defined benefit accounting is 1 April 2018. The scheme assets are

measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates.

The deficit funding agreement liability that was previously recognised in creditors was derecognised on the 1 April 2018, and an initial net defined benefit pension liability was recognised at this date in the statement of financial position. The resulting net difference on initial recognition of the SHPS obligation was recognised in other comprehensive income.

From the year ended 31 March 2019, the net defined benefit pension liability has been included within the provisions for pension liability in the financial statements.

In the year ended 31 March 2020, the current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period within the income and expenditure account. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income. Refer to Note 31 for more details

### **cc. Corporation Tax**

The charge for taxation is based on the results for the year and takes into account taxation deferred (or accelerated) because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax on a full provision basis.

Connexus Housing Two Limited is exempt charities for tax purposes and are therefore not liable to corporation tax on surpluses on their charitable activities.

Notes to the Financial Statements

Where the Group undertakes activities that are outside of its charitable purpose and exceed the permitted threshold corporation tax will be payable.

**dd. Value Added Tax (VAT)**

The Company is VAT registered, but a large proportion of its income, income, being housing rents, and Right to Buy sales, is exempt for VAT purposes and this gives rise to a partial exemption calculation.

The financial statements include VAT to the extent that it is suffered and not recoverable from HM Revenue & Customs. The balance recoverable or payable at the year-end is included as a current liability or asset.

**ee. Financial instruments**

Financial instruments which meet the criteria of basic financial instrument as defined in Section 11 of FRS102 are accounted for under an amortised historic cost model.

Basic financial instruments are recognised at amortised historical cost.

Non-basic financial instruments are recognised at fair value using a valuation technique with any gains or losses reported in surplus or deficit.

**ff. Liquid resources**

Liquid resources are readily disposable current asset investments. They include some money market deposits, held for more than 24 hours that can only be withdrawn without penalty on maturity or by giving some notice of more than one working day.

**3. Turnover, operating costs and operating surplus**

	Turnover	Cost of Sales	Operating Costs	Operating Surplus
2020	£'000	£'000	£'000	£'000
<b>Social Housing Lettings</b>	24,897	-	(16,843)	8,054
<b>Other Social Housing Activities</b>				
Current asset property sales	472	(362)	-	110
Other support services	165	-	(109)	56
<b>Non-social housing activities</b>				
Provision of services to Group undertakings	2,927	-	(2,904)	23
Market Sales	-	-	-	-
Other	2,383	-	(1,503)	880
<b>Total from Social and Non-Social Housing Activities</b>	<b>30,844</b>	<b>(362)</b>	<b>(21,359)</b>	<b>9,123</b>
Surplus on disposal of fixed assets				1,680
Impairment of PPE				(1,709)
Revaluation of Investment Properties				(665)
<b>Total Operating Surplus</b>				<b>8,429</b>



Notes to the Financial Statements

2019	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	24,777	-	(16,783)	7,994
<b>Other Social Housing Activities</b>				
Current asset property sales	782	(593)	-	189
Other support services	298	-	(298)	-
<b>Non-social housing activities</b>				
Provision of services to Group undertakings	2,791	-	(2,769)	22
Market Sales	1,945	-	(1,847)	98
Other	2,625	-	(1,572)	1,053
<b>Total from Social and Non-Social Housing Activities</b>	<b>33,218</b>	<b>(593)</b>	<b>(23,269)</b>	<b>9,356</b>
Surplus on disposal of fixed assets				671
<b>Total Operating Surplus</b>				<b>10,027</b>

The group and companies activities consist solely of social housing and non-social housing activities within the UK.

The cost of sales relate directly to the share of the low cost home ownership properties sold.

Particulars of Income and Expenditure from social housing lettings:

	General Needs Housing £'000	Supported Housing and Housing for older people £'000	Temporary Social Housing £'000	Low cost Home Ownership £'000	Total 2020 £'000	Total 2019 £'000
Rent receivable	19,302	4,415	80	157	23,954	23,869
Service Charges Receivable	268	433	12	18	731	723
Amortised government grants	131	1	-	2	134	113
Other revenue grants	78	-	-	-	78	72
Turnover from social housing lettings	19,779	4,849	92	177	24,897	24,912
Management	(4,698)	(1,091)	(13)	(55)	(5,857)	(6,436)
Services	(648)	(326)	(23)	(1)	(998)	(898)
Routine maintenance	(3,340)	(687)	(20)	-	(4,047)	(3,534)
Planned maintenance	(440)	(43)	-	(1)	(484)	(461)
Bad debts	(53)	(17)	(1)	-	(71)	(227)
Depreciation of housing properties	(3,864)	(614)	(9)	(35)	(4,522)	(4,360)
Pension operating costs	(703)	(151)	(2)	(8)	(864)	(867)
Operating costs on social housing lettings	(13,746)	(2,929)	(66)	(100)	(16,843)	(16,783)
<b>Operating surplus on social housing lettings</b>	<b>6,033</b>	<b>1,920</b>	<b>24</b>	<b>77</b>	<b>8,054</b>	<b>7,994</b>
Void losses	(103)	(50)	(18)	(3)	(174)	(161)

Notes to the Financial Statements

**4. Operating Surplus**

	2020 Company £'000	2019 Company £'000
<b>Operating surplus is arrived at after charging / (crediting):</b>		
<b>Depreciation and Impairment</b>		
Depreciation of housing properties	4,522	4,373
Restatement of property impairment	-	-
Depreciation of other tangible fixed assets	682	710
Impairment of tangible fixed assets	1,709	-
Depreciation of finance lease assets	-	80
<b>Grant amortisation</b>	(134)	(113)
<b>Operating lease rentals</b>		
Service fleet	221	-
Office equipment	57	61
<b>Auditors' remuneration (excluding VAT)</b>		
- for external audit services	24	23
- for tax advice & loan covenant review	-	-
<b>5. Surplus on Disposal of Property, Plant and Equipment</b>		
	2020 £'000	2019 £'000
Disposal Proceeds	2,318	896
Carrying value of fixed assets	(638)	(225)
<b>Surplus on disposal of fixed assets</b>	1,680	671

Disposal proceeds includes £0nil in respect of overage payments (2019: £184,000).

**6. Accommodation in Management**

	2020 Number	2019 Number
<b>Social housing</b>		
General housing - social rent	3,970	3,987
General housing - affordable rent	451	384
Supported housing	946	968
Low cost home ownership	52	46
<b>Social housing owned</b>	<b>5,419</b>	<b>5,385</b>
Market rent properties	24	4
Leasehold market rent properties	7	7
Leasehold properties	396	392
<b>Other</b>		
Garages	1,965	1,965
Shops	30	29
<b>Other owned</b>	<b>1,995</b>	<b>1,994</b>

Notes to the Financial Statements

**7. Interest receivable and other Income**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable from deposits and investments	583	471

**8. Interest and financing costs**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Interest payable on loans	5,032	4,719
Interest on finance leases	-	-
Other charges	99	101
	<b>5,131</b>	<b>4,820</b>
Pension finance costs	268	201
Interest payable capitalised on housing properties under construction	(493)	(569)
Loan amortisation	15	14
	<b>4,921</b>	<b>4,466</b>

Capitalisation rate used to determine the finance costs capitalised during the financial year:	<b>3.95%</b>	<b>4.05%</b>
Accumulated costs capitalised	<b>2,596</b>	<b>2,103</b>

**9. Taxation**

Connexus Housing Two Ltd is an exempt charity for tax purposes and is therefore not liable to corporation tax on surpluses on its charitable activities. However, during the year it has undertaken a number of activities that are outside of its charitable purpose and has exceeded the £50,000 permitted threshold.

The tax charge on the surplus/(deficit) on ordinary activities for the year was as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Current tax:		
UK Corporation Tax on surplus for the year	12	54
Adjustment in respect of prior years	(19)	(55)
Total current tax	(7)	(1)

Total tax reconciliation

Surplus on ordinary activities before tax	4,091	6,032
Theoretical tax at UK Corporation tax rate 19%	777	1,146
Capital allowances in excess of depreciation	(11)	(11)
Adjustment in respect of prior years	(19)	(10)
Income not taxable	(754)	(1,126)

Notes to the Financial Statements

(7) (1)

**10. Employees**

Average monthly number of colleagues (including the Chief Executive), employed during the financial year:

	<b>2020</b>	<b>2019</b>
	<b>Number</b>	<b>Number</b>
Management & Support	37	39
Development	7	7
Asset Management	14	14
Housing management	32	41
Property and maintenance	96	96
Care & Support	18	30
	<b>204</b>	<b>227</b>

Average monthly number of employees expressed in 37-hour full-time equivalents (full-time staff actually work 37 hours):

	<b>2020</b>	<b>2019</b>
	<b>Number</b>	<b>Number</b>
Management & Support	35	38
Development	7	7
Asset Management	14	14
Housing Management	31	40
Property and Maintenance	92	94
Care & Support	12	17
	<b>191</b>	<b>210</b>

Employee costs:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Salaries	5,658	6,068
Social security costs	567	576
Other pension costs	1,577	1,628
	<b>7,802</b>	<b>8,272</b>

Including past pension deficit of £143,700 (LGPS £107,200, SHPS £36,500) (2019 LGPS £148,253).

Employee numbers are calculated on the basis of the average number of colleagues employed at the end of each quarter.

<b>Remuneration bandings for all employees earning over £60,000:</b>	<b>2020</b>	<b>2019</b>
	<b>Number</b>	<b>Number</b>
£150,000 to £160,000	-	-
£140,000 to £150,000	1	-
£130,000 to £140,000	-	-
£120,000 to £130,000	1	1
£110,000 to £120,000	-	-
£100,000 to £110,000	1	1
£90,000 to £100,000	1	-
£80,000 to £90,000	-	3
£70,000 to £80,000	3	1
£60,000 to £70,000	2	4

Notes to the Financial Statements

**9      10**

In addition to the above, £93,000 was paid to a third party in relation to management services provided by the Interim Directors who would have earned over the earnings threshold on an FTE basis.

**11. Board Members and Executive Directors**

The Board Members and Executive Directors are also directors of the parent Connexus Housing Limited. The Directors of the Group are defined as the Chief Executive and any other person who is a member of the Executive Management Team, or its equivalent. Excluding Interims employed during the year, there are 2 Executive Directors remunerated by Connexus Housing Two Ltd all of whom accrue benefits under either the SHPS or the WCCPF pension scheme. Director charges are apportioned across the group as part of its overhead recharges.

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate Emoluments paid to Non-Executive Directors (Board Members)	-	-
Aggregate Emoluments paid to Executive Directors	255	411
Pension payments relating to services as Executive Directors	32	33
Consideration payable to third parties in relation to Director services provided	93	420
	<b>380</b>	<b>864</b>

The emoluments of the highest paid Director, Richard Woolley, excluding pension contributions, was £149,000 (2019: £113,000).

The Chief Executive is a member of the Local Government Pension Scheme. The Company did not make any further contribution to an individual pension arrangement for the Chief Executive.

No severance pay was made in the period (2019:£133,154). This sum is reported in the above emolument table.

The Directors and Board members listed below are directly employed by the parent Connexus Housing Limited. Their emoluments are paid by the parent company.

	<b>Appointed</b>	<b>Resigned</b>	<b>2020</b>	<b>2019</b>
			<b>£000</b>	<b>£000</b>
Ruth Cooke (Chair)	28/09/2010	-	-	4
James Williamson	27/07/2017	30/11/2018	-	-
Graham Biggs	27/07/2017	15/11/2018	-	-
Sonia Higgins	27/07/2017	30/11/2018	-	-
Gillian Jones	27/07/2017	-	-	-
David Lincoln	28/09/2010	-	-	2
Michael McCarthy	04/06/2013	31/12/2018	-	2
Allison Taylor	28/09/2010	-	-	2
Elizabeth Walford	27/07/2017	-	-	-
John Cross	11/12/2018	-	-	-
Hilary Gardner	11/12/2018	-	-	-
Philippa Jones	11/12/2018	17/04/2019	-	-
Paul Smith	11/12/2018	-	-	-
Paul O'Driscoll	20/03/2017	31/12/2018	-	-
			-	10

Notes to the Financial Statements

**12. Tangible fixed assets - Housing Properties**

	Housing properties held for letting £000s	Housing properties in the course of construction £000s	Completed shared ownership properties £000s	Total £000s
<b>Cost</b>				
At 1st April 2019	151,543	19,913	3,575	175,031
Additions	-	10,974	-	10,974
Works to existing properties	5,379	(56)	-	5,323
Interest capitalised	-	493	-	493
Schemes completed	9,057	(9,663)	606	-
Transfer to Investment Properties	-	(2,732)	-	(2,732)
Transfer to current assets	-	(906)	-	(906)
Disposals - Other	(1,774)	(84)	(46)	(1,904)
<b>At 31 March 2020</b>	<b>164,205</b>	<b>17,939</b>	<b>4,135</b>	<b>186,279</b>
<b>Depreciation</b>				
At 1st April 2019	34,003	-	74	34,077
In Year	4,487	-	35	4,522
Released on disposal	(1,092)	-	(1)	(1,093)
<b>At 31 March 2020</b>	<b>37,398</b>	<b>-</b>	<b>108</b>	<b>37,506</b>
<b>Net Book Value</b>				
<b>At 31 March 2020</b>	<b>126,807</b>	<b>17,939</b>	<b>4,027</b>	<b>148,773</b>

At 31 March 2019                      117,540                      19,913                      3,501                      140,954

Housing properties net of depreciation comprises:

	2020 £'000	2019 £'000
Freehold land and buildings	148,617	140,790
Long leasehold land and buildings	156	164
	<b>148,773</b>	<b>140,954</b>

Expenditure on works to existing properties:

	2020 £'000	2020 £'000
Components capitalised	5,379	5,119
Amounts charged to income and expenditure	4,531	3,995
	<b>9,910</b>	<b>9,114</b>

Notes to the Financial Statements

**Social housing assistance**

Total social housing and other capital grants:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Social Housing Assistance</b>		
Total accumulated grant received or receivable at 31 March	15,979	12,448
Recognised in the Statement of Comprehensive Income	861	727
Recognised in the Statement of Comprehensive Income - Disposal	75	37
Held as deferred income	15,043	11,684
<b>At 31 March</b>	<b>15,979</b>	<b>12,448</b>

Aggregate amount of finance costs included in the cost of housing properties:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate Amount brought forward	2,103	1,534
Amount incurred in the year	493	569
<b>At 31 March</b>	<b>2,596</b>	<b>2,103</b>

**12. Tangible fixed assets – Housing Properties (continued)**

**Valuation**

Savills has undertaken a full valuation of housing properties at the year-end for the purposes of the bond security, in accordance with the conditions of the Company's funding agreement with the investors. The valuation, calculated on an existing use for social housing basis, was £171.75m (for 4,124 properties) against the £120m bond which was fully drawn as at 31 March 2020, (£120m 31 March 2019).

The full valuation of all CH2L housing properties and garages had and EUV-SH of £239.65m compared to the previous valuation undertaken as at 31 March 2016. The valuation, calculated on an existing use for social housing basis, was £177m.

**Impairment**

Connexus Housing Two Ltd assesses at each reporting date whether there is any indication that an asset (housing and non-housing) is impaired.

The following indicators of impairment must, as a minimum, be considered by a social landlord in assessing whether there is an indication that assets are impaired:

- a) Contamination not identified as part of a development which results in a material increase in development costs



Notes to the Financial Statements

- b) Change in government policy, regulation or legislation which has a material detrimental impact on the development scheme
- c) Change in demand for a property
- d) Material reduction in the market value of the property.
- e) Obsolescence of the property e.g. Where it is probable that a plan to regenerate existing properties by demolishing them or replacing of components of existing properties will go ahead

CH2L does not consider that any such indicators exists and therefore it has not undertaken an exercise to estimate the recoverable amount.

Where a property is to be demolished or is unable to be let the net book value of these assets has been compared with the market value on disposal to determine whether impairment is required. In the case of Beattie Avenue Bungalows, Eign Mill Road and Highmore Street where plans are being prepared for the regeneration of the scheme and tenant consultation has commenced the land value is deemed to be in excess of the net realisable value and therefore there is no requirement to impair these assets.

13. Other fixed assets

	Offices	Furniture fixtures & fittings	Computers & other equipment	Vehicles, plant & equipment	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1st April 2019	5,110	368	4,028	1,294	10,800
Additions	11	7	520	-	538
Impairment	(1,709)	-	-	-	(1,709)
Disposals	-	-	-	-	-
<b>At 31 March 2020</b>	<b>3,412</b>	<b>375</b>	<b>4,548</b>	<b>1,294</b>	<b>9,629</b>
<b>Capital Grants</b>					
At 1st April 2019	-	-	6	-	6
<b>At 31 March 2020</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>6</b>
<b>Accumulated depreciation</b>					
At 1st April 2019	1,256	352	3,057	1,200	5,865
Charged in year	112	7	552	11	682
Disposals	-	-	-	-	-
<b>At 31 March 2020</b>	<b>1,368</b>	<b>359</b>	<b>3,609</b>	<b>1,211</b>	<b>6,547</b>
<b>Net Book Value</b>					
<b>At 31 March 2020</b>	<b>2,044</b>	<b>16</b>	<b>933</b>	<b>83</b>	<b>3,076</b>
At 31 March 2019	3,854	16	965	94	4,929

Notes to the Financial Statements

**14. Investment properties and non-social housing properties held for letting**

	<b>Market rent</b>	<b>Market rent</b>
	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Valuation</b>		
At 1st April	682	682
Additions	2,732	-
Decrease in value	(665)	-
Disposals	-	-
<b>At 31 March</b>	<b>2,749</b>	<b>682</b>

Investment properties were valued in 2020 by RICS registered valuers, Savills and were subject to a material uncertainty clause due to Covid19. Investment properties saw material impairments in this valuation. The impairment recognised and more recent market intelligence in relation to funder valuations gives the Board confidence that use of the valuations for the period ending 31 March 2020 is appropriate.

**15. Stock and properties held for sale**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Stock and work in progress</b>	<b>202</b>	<b>119</b>
Schemes developed for shared ownership disposal	1,873	1,330
Properties developed for outright sale	-	-
<b>Properties held for sale</b>	<b>1,873</b>	<b>1,330</b>

**16. Trade and Other Debtors**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Due within one year</b>		
Rent and service charges receivable	450	436
Less: Provision for bad and doubtful debts	(287)	(225)
<b>Net rent arrears</b>	<b>163</b>	<b>211</b>
Other debtors	290	713
Social housing grant receivable	-	-
Amounts owed by subsidiary undertakings	34,635	39,929
Other taxation and social security	-	17
Prepayments and accrued income	2,260	1,067
	<b>37,185</b>	<b>41,726</b>
	<b>37,348</b>	<b>41,937</b>

Notes to the Financial Statements

Intercompany debtors within Connexus Housing Two Ltd includes £25.09m in respect of investments undertaken by Herefordshire Capital plc. on behalf of the Company (2019: £31.5m).

**17. Debtors amounts due after more than one year**

	2020	2019
	£'000	£'000
<b>Due within one year</b>		
Amounts owed by subsidiary undertakings	30	30
Prepayments	54	149
	<b>84</b>	<b>179</b>

**18. Cash and Short-Term Investments**

	2020	2019
	£'000	£'000
Short term investments	6,683	1,538
Cash and cash equivalents	649	360
<b>Total financial assets</b>	<b>7,332</b>	<b>1,898</b>

**19. Creditors: amounts falling due within one year**

	2020	2019
	£'000	£'000
Trade creditors	2,291	953
Council's share of Right to Buy proceeds	-	546
Rent and service charges received in advance	1,387	729
Other taxation and social security	2	54
Accruals	422	1,206
Other creditors	-	2
Deferred grant income	134	113
Inter-company creditors	1,821	1,603
Pension contributions payable	-	-
Receipts in advance	572	469
Other capital grants received in advance	-	-
	<b>6,629</b>	<b>5,675</b>

**Payments to creditors**

The Company aims to pay purchase invoices within 30 days of receipt, or earlier if alternative payment terms have been agreed. Creditor days during the financial year were 38 days (2018: 34 days).

Notes to the Financial Statements

**20. Creditors: amounts falling due after more than one year**

	2020	2019
	£'000	£'000
Inter-company loans (Note 20 and 26)	120,000	120,000
Less: Issue costs	(766)	(782)
Recycled Capital Grant Fund (Note 22)	13	-
Deferred grant income	14,909	11,571
	<b>134,156</b>	<b>130,789</b>

**21. Deferred income**

	2020	2019
	£'000	£'000
At 1 April	11,684	9,294
Grant received in the year	3,531	2,518
Released to Property Sales	(38)	(15)
Released to income in the year	(134)	(113)
<b>At 31 March</b>	<b>15,043</b>	<b>11,684</b>
Amounts to be released within one year	134	113
Amounts to be released in more than one year	14,909	11,571
	<b>15,043</b>	<b>11,684</b>

**22. Recycled Capital Grant Fund**

	2020	2019
	£'000	£'000
Balance as at 1 April 2019	-	-
Grants Recycled	19	-
Interest Accrued	-	-
Withdrawals	(6)	-
	<b>13</b>	<b>-</b>
Repayment of grant	-	-
<b>At 31 March 2020</b>	<b>13</b>	<b>-</b>

**23. Debt analysis**

	2020	2019
	£'000	£'000
<b>Due after more than one year:</b>		
Loans	120,000	120,000
<b>Total borrowings</b>	<b>120,000</b>	<b>120,000</b>

CH2L refinanced its funding in November 2014 via Herefordshire Capital PLC. It has a 35-year bond for £120m in place of which £35m was in the form of retained bonds. The bonds have a 35-year maturity, amortising over the last 5 years.

Notes to the Financial Statements

Based on the lender's earliest repayment date, borrowings are repayable as follows:

	2020 £'000	2019 £'000
Five years or more	120,000	120,000
<b>Total borrowings</b>	<b>120,000</b>	<b>120,000</b>

**24. Financial Commitments**

	31 March 2020 £'000	31 March 2019 £'000
Authorised expenditure not contracted	72,221	41,375
Authorised expenditure contracted	19,802	13,041
	<b>92,023</b>	<b>54,416</b>

At the reporting date CH2L had £0.6m of cash and cash equivalents and £6.7m short term investments and £25.1m of investment through its funding subsidiary Herefordshire Capital PLC. The remaining £59.6m is expected to be funded by reserves, future surpluses, Social Housing Grant, loan finance and new build asset

sales. The CH2L business plan shows the affordability of the £92m financial commitment through future surpluses and loan finance.

The Company is committed to making the following future minimum lease payments under non-cancellable operating leases:

	2020 £'000	2019 £'000
Due within one year	416	55
Due one to five years	1,200	66
<b>Minimum future operating lease payments</b>	<b>1,616</b>	<b>121</b>

**25. Provisions for liabilities**

The leave pay provision represents holiday balances accrued as a result of services rendered in the current period and which employees are entitled to carry forward. The provision is measured as the salary cost for the period of absence.

Company	Groundworks £'000	Leave pay £'000	Total £'000
	At 1 April 2019	100	84
Additions	-	-	-
Reversals	(37)	(5)	(42)
<b>At 31 March 2020</b>	<b>63</b>	<b>79</b>	<b>142</b>

Notes to the Financial Statements

**26. Financial Instruments**

**Fair values of Financial Instruments**

The fair values of all financial assets and liabilities by class together with their carrying amounts are shown in the balance sheet as follows:

	<b>Carrying Amount £'000</b>	<b>Fair Value £'000</b>
<b>Financial assets</b>		
Other loans and receivables	120,000	161,427
<b>Financial liabilities measured at amortised costs</b>		
Other interest-bearing loans and borrowings	120,000	119,218

The fair value of trade and other receivables is estimated as the present value of future cashflows, discounted at the market rate of interest at the balance sheet date if the effect is material.

The Group has no financial instruments measured at fair value, so fair value hierarchy disclosure requirements do not apply.

All financial assets held by the Group (Loans and Receivables) qualify to be held at amortised cost, therefore the requirement to disclose the effect of changing the inputs in calculation of fair values is not considered applicable.

At 31 March 2020, the fair value of the subsidiary, Herefordshire Capital plc. long term debt was £161.427m (2019: £142.6m. The fair value of financial liabilities is estimated as the present value of future cashflows, discounted at the market rate of interest at the balance sheet date if the effect is material.

**Financial risk management**

**Risk Management**

The Corporate Finance team is responsible for the management of funds and control associated risks. Its activities are governed by the Group Board who are responsible for treasury issues in all Connexus Housing legal entities which include this Company.

**Credit Risk**

Connexus Housing Two Ltd (CH2L) subsidiary, Herefordshire Capital plc. raises capital market financing and the proceeds are immediately on-lent to Connexus Housing Two Ltd.

The credit risk is mitigated through a number of factors, including the housing asset security that stands behind the loan to CH2L, the overall credit worthiness of the Group, the guarantees that CH2L has issued to the Company and the contractual protections in the loan agreement itself.

## Notes to the Financial Statements

Herefordshire Capital plc. is currently rated A3 by Moody's, an uplift from BAA1 taking place in the year. The aging of trade receivables at the balance sheet was not past due. The full amount is believed to be recoverable.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group has robust Treasury Management policies in place to ensure there is sufficient liquidity to cover 18 months.

The contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements are in 30 years.

The debt is repayable as follows:

	2020	2019
	£'000	£'000
<b>Lump Sum Repayments:</b>		
In five years or more	120,000	120,000
	<b>120,000</b>	<b>120,000</b>

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their Outstanding Principal Amount in ten equal instalments on the Interest Payment Dates falling on, and including, 28th May, 2045 to, and including, 28th November, 2049 (each an Instalment Redemption Date and the latter being the Maturity Date).

### Interest rate risk

The Company currently borrows on a fixed rate basis from the capital market through Herefordshire Capital which then on-lends

these funds to Connexus Housing Two Limited on a similar fixed rate basis. Connexus Housing Two then on lends to Enterprise 4 at a similar level and to Floreat Living at Libor plus 2% margin.

The Group does not have any hedging activities and it does not have any derivatives.

The interest rate on all borrowings is fixed at 4.193% until 2049.

## 27. Reconciliation of net cash flow to movement in debt

	2020	2019
	£'000	£'000
Increase / (decrease) of cash in the year	289	42
Cash flow from increase / (decrease) in liquid resources	5,145	(498)
Cash flow from decrease / (increase) in debt	-	(15,012)
Decrease in net debt from cash flows	5,434	(15,468)
<b>Net debt at 1st April</b>	<b>(117,252)</b>	<b>(101,784)</b>
<b>Net debt at 31 March</b>	<b>(111,818)</b>	<b>(117,252)</b>

(2019: In addition to the £15m bond finance received a further £1.975m was received as bond premium)

Notes to the Financial Statements

**28. Analysis of changes in net debt**

	1st April 2019	Cashflow	31 March 2020
	£'000	£'000	£'000
Cash	360	289	649
Short term investments	1,538	5,145	6,683
	1,898	5,434	7,332
Debt (loans)	(120,000)	-	(120,000)
Issuance costs	850	-	850
	<b>(117,252)</b>	<b>5,434</b>	<b>(111,818)</b>

**29. Financial assets and liabilities**

Other than short-term debtors, financial assets held are cash deposits at bank or placed on money markets at call or invested in sterling gilts. They attract interest at variable rates and amounts held are shown below:

	2020	2019
	£'000	£'000
Call Account deposits	6,683	1,538
Current account deposits	649	360
<b>Total financial assets</b>	<b>7,332</b>	<b>1,898</b>

Financial liabilities excluding trade creditors

	2020	2019
	£'000	£'000
After five years	120,000	120,000
<b>Interest rate basis:</b>		
Fixed	100.0%	100.0%
Floating	-	-

**30. Contingent liabilities**

As at 31 March 2020 the Company had the following contingent liabilities:

- £1,644,103 estimated potential employer debt should the Company cease to participate in the Social Housing Pension Scheme. This figure is based on the financial position of the Scheme as at 30th September 2016 as we have not received an updated projection from the pension provider for this financial year. Note 28 provides additional information.



## Notes to the Financial Statements

### 31. Pensions Cont'

All the Company's employees are eligible for membership of the Worcestershire County Council Pension Fund or the Social Housing Pension Scheme (SHPS). Further information on each scheme is given below.

#### **Social Housing Pension Scheme**

Connexus Housing Two participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK.

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 the funding defined benefit occupational pension schemes in the UK.

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 the 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 was not 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, a valuation of the scheme was carried out with an effective date of 30 September 2018. The liability figures from this valuation were rolled forward for accounting year-ends from 31 March 2019 to 29 February 2020 inclusive. The liabilities are compared, at the relevant accounting date, with the company's fair value share of the Schemes total assets to calculate the company's net deficit or surplus.

Similarly, an actuarial valuation of the scheme was carried out as at 30 September 2019 to inform the liabilities for the accounting year ends from 31 March 2020 to 28 February 2021 inclusive.

Notes to the Financial Statements

**31. Pensions (continued)**

**Assumptions**

The principal assumptions at the balance sheet date are:

	2020	2019
	% per annum	% per annum
Discount rate	2.39	2.29
RPI inflation	2.65	3.30
CPI inflation	1.65	2.30
Salary Growth	2.65	3.30
Allowance for commutation of pension for cash at retirement	75% of max allow	75% of max allow

The mortality assumptions adopted at 31 March 2020 imply the following life expectancies:

	Life expectancy at age 65 Years
Retiring today:	
Males	21.5
Females	23.3

Retiring in 20 years:

Males	22.9
Females	24.5

Analysis of the amount charged to the Statement of Comprehensive Income

	2020 £'000
Current service costs	9
Employer Contribution Expenses	(45)
<b>Amounts charged to operating costs</b>	<b>(34)</b>
Net Interest expense	11
<b>Amounts charged to other finance costs</b>	<b>11</b>
<b>Total recognised in statement of comprehensive income</b>	<b>(23)</b>

Notes to the Financial Statements

**31. Pensions (continued)**

Statement of total recognised surpluses and deficits:

	2020	2019
	£'000	£'000
<b>Difference on transition from defined contribution to defined benefit accounting</b>		
Past service deficit liability as at 1 April de-recognised	-	211
Net pension scheme deficit under defined benefit	-	(335)
<b>Loss recognised in other comprehensive income on initial recognition as at 1 April</b>	-	(124)
Remeasurements in year (liabilities & assets)	284	(177)
<b>Total loss recognised in other comprehensive income for year ended 31 March</b>	<b>284</b>	<b>(301)</b>

Analysis of the amount recognised in the Statement of Financial Position

	2020	2019
	£'000	£'000
Present value of funded benefit obligations	1,766	1,995
Fair value of plan assets	(1,608)	(1,530)

<b>Deficit related to the Company</b>	<b>158</b>	<b>465</b>
<b>Net liability to the Company</b>	<b>158</b>	<b>465</b>

Change in benefit obligation during financial year to 31 March

	2020
	£'000
Opening benefit obligation	1,995
Current service cost	9
Expenses	2
Interest Cost	46
Member contributions	4
Actuarial losses (gains) - Experience	(25)
Actuarial losses (gains) - Demographics	(18)
Actuarial losses (gains) - Financial	(209)
Curtailments	-
Benefits paid and expenses	(38)
<b>Closing benefit obligation</b>	<b>1,766</b>

Change in plan assets during year to 31 March

	2020
	£'000
Opening fair value of plan assets	1,530
Interest income	35
Remeasurements - Experience gain (loss)	32
Employer contributions	45
Member contributions	4

Notes to the Financial Statements

Benefits paid and expenses	(38)
<b>Closing fair value of plan assets</b>	<b>1,608</b>

**31. Pensions (continued)**

The actual return on the plan assets (including any change in share of assets) over the period ended 31 March 2020 was £67,000 (2019 590,000).

Analysis of plan assets

	2020 £'000	2019 £'000
Global Equity	235	257
Absolute Return	84	132
Distressed Opportunities	31	28
Credit Relative Value	44	28
Alternative Risk Premia	112	88
Fund of Hedge Funds	1	7
Emerging Market Debt	49	53
Risk Sharing	54	46
Insurance-Linked Securities	49	44
Property	35	34
Infrastructure	120	80
Private Debt	32	21
Opportunistic Liquid Credit	39	-
Corporate Bond Fund	92	71
Liquid Credit	1	-
Long Lease Property	28	23
Secured Income	61	55
Over 15 Year Gilts	-	-

Liability Driven Investment	534	560
Net Current Assets	7	3
<b>Total assets</b>	<b>1,608</b>	<b>1,530</b>

**Worcestershire County Council Pension Fund (WCCPF)**

The WCCPF is a multi-employer scheme with more than one participating employer, which is administered by Worcestershire County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

Triennial actuarial valuations of the pension scheme are performed by an independent, professionally qualified actuary using the projected unit method. The last actuarial valuation was completed as at 31 March 2019.

The market value of the overall scheme assets at 31 January 2020 was £2,933m.

The market value of the Company's share of the scheme assets at 31 March 2020 was £25.934m (2019: £26.883m) representing a funding level of 69% (2019: 72%) based on liabilities valued on actuarial assumptions. Liabilities had a market value of £37.811m (2019: £37.516m).

Employers' contributions to the WCCPF by the Company for the year ended 31 March 2020 were £0.69m (2019: £0.71m). The Company's employer's contribution rate was 13.9% during the financial year (2019: 13.9%).

Following the outcome of the valuation, the overall average employer primary contribution rate will be 17.5% of pensionable

Notes to the Financial Statements

pay, plus £28m per annum with secondary contribution rates set an individual scheme basis on the basis that deficits are recovered over 15 years. In the absence of other factors, the contributions at the above level would mean a gradual improvement so that the Fund would have increased to 100% at the end of the 15 years. Employers can also opt to make an additional contribution to cover the McCloud judgement, Connexus has opted to do so and it is included in the Secondary rate.

In practice, each employer's position is assessed and separate employer contribution rates are set based on individual employer circumstances.

Following the year end a consultation was announced which is not due to end until October 2020. The impacts of this are that at the time of signing is noted that;

- There is likely to be a change to the pension liability following the completed consultation;
- There is currently insufficient information to base any calculations of the impact on;
- A reliable estimate cannot therefore be made of the impact; and
- The timing of the consultation means that any resulting changes will be reflected in the pension liability at 31 March 2021.

There is no provision for unitising the assets of the WCCPF under the Local Government Pension Scheme Regulations. The above assets as a whole are allocated to participating bodies on a consistent and reasonable basis and overall investment performance is attributed to employers on a pro-rata basis (i.e. a notional individual employer investment strategy that is identical to that adopted for the Scheme as a whole).

**Assumptions**

The principal assumptions at the balance sheet date are:

	2020	2019
	% per annum	% per annum
CPI inflation	1.65	2.30
RPI Inflation	2.65	2.30
Salary Growth	2.65	3.30
Discount rate	2.39	2.29

	2020	2019
	No. of Years	No. of Years

Post retirement mortality assumptions:

Current pensioners - Male	21.5	21.8
- Female	23.3	23.5
Future pensioners - Male	22.9	23.2
- Female	24.5	24.7

Notes to the Financial Statements

**Analysis of the amount charged to the Statement of Comprehensive Income**

	2020	2019
	£'000	£'000
Current service costs	1,380	1,293
Past service costs	89	275
Employer contribution	(687)	(709)
Administration expenses	17	17
Curtailments	-	-
<b>Amounts charged to operating costs</b>	<b>799</b>	<b>876</b>

	2020	2019
	£'000	£'000
Interest on pension liabilities	934	888
Expected return on assets	(677)	(695)
<b>Total pension gain charged to other finance income</b>	<b>257</b>	<b>193</b>

**Statement of total recognised surpluses and deficits:**

	2020	2019
	£'000	£'000
Remeasurements (liabilities & assets)	(188)	(1,917)
Cumulative actuarial loss recognised in reserves	(7,180)	(6,992)

**Analysis of the amount recognised in the Statement of Financial Position**

	2020	2019
Year ended 31 March	£'000	£'000
Present value of funded benefit obligations	37,811	37,516
Fair value of plan assets	(25,934)	(26,883)
<b>Deficit related to the Company</b>	<b>11,877</b>	<b>10,633</b>
<b>Net liability to the Company</b>	<b>11,877</b>	<b>10,633</b>

Notes to the Financial Statements

Change in benefit obligation during financial year to 31 March

	2020	2019
	£'000	£'000
Opening scheme liabilities	37,516	32,961
Current service cost	1,380	1,293
Interest on pension liabilities	934	888
Member contributions	290	297
Past service cost / (gain)	89	275
Re-measurements – loss: experience	(463)	-
Re-measurements – gain: assumptions	(1,252)	2,261
Curtailments	-	-
Benefits paid	(683)	(459)
<b>Present value of benefit obligation at end of the year</b>	<b>37,811</b>	<b>37,516</b>

Change in plan assets during financial year to 31 March

	2020	2019
	£'000	£'000
Opening fair value of plan assets	26,883	25,314
Interest on plan assets	677	695
Remeasurements (assets)	(1,903)	344
Administration expenses	(17)	(17)
Employer contributions	687	709
Member contributions	290	297
Benefits/ transfers paid	(683)	(459)
<b>Closing fair value of plan assets</b>	<b>25,934</b>	<b>26,883</b>

The actual deficit return on the plan assets was £1.256m (2019: £1.039m gain).

Notes to the Financial Statements

Analysis of plan assets

The major categories of plan assets as a % of total plan assets are:

	2020	2019
	%	%
Equities	70.6	71.8
Government Bonds	7.3	8.1
Other bonds	5.0	4.9
Property	5.8	6.3
Cash/Liquidity	0.6	2.3
Other	10.7	6.5

The company expects to contribute £691,000 to its defined benefit pension plan in 2020-21.

History of experience gains and losses (WCCPF)

	2020	2019	2018	2017	2016
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(37,811)	(37,516)	(32,961)	(32,024)	(25,775)
Plan assets	25,934	26,883	25,314	23,447	18,671
(Deficit)	(11,877)	(10,633)	(7,647)	(8,577)	(7,104)

(Losses)/gains on plan liabilities	1,715	(2,261)	1,566	(4,749)	1,649
Gains/(losses) on plan assets	(1,903)	344	271	3,708	(960)

32. Related parties

Defined Benefit Pension Schemes

Related party transactions exist between Connexus Housing Two SHPS and the WCCPF these relate to Defined Benefit pension schemes as disclosed at Note 31.

33. Disclosure of Group activity

Connexus Housing Two Limited's subsidiaries are listed below. It is a Registered Provider of social housing, registered with the Homes and Communities Agency. Its principal activity is the provision of social housing. All subsidiaries within the Group are consolidated and reported under the group parent Connexus Housing Limited.

Name of undertaking	Nature of Business
Enterprise4 Limited	Property maintenance and other non-charitable activities
Independence Trust Limited	Wellbeing, support and care services
Herefordshire Capital Plc.	Treasury and financing services on behalf of



Notes to the Financial Statements

Connexus Housing Two  
Limited

Subsidiaries are entities over which, either directly or indirectly, the Company has control through the power to govern financial operating policies to obtain benefit from their activities.

The Company has invested a £1 share in the wholly owned subsidiary Enterprise 4 Limited, £1 share in the wholly owned subsidiary Rise Partnership Developments Limited and 12,500 £1 shares in Herefordshire Capital Plc.

**Intra Group Transactions**

Debtor and creditor balances between members of the Group are either debt subject to a market rate of interest, or trading balances which are non-interest bearing and are due to be settled within one year of their recognition. Costs are recharged to non-regulated entities within the Group at cost plus 5%.

Connexus Housing Limited provides corporate services across the group entities.

Connexus Housing Two Limited provides accounting, IT and management services to other group entities.

Central overheads have then been allocated equitably across the group, with subsidiaries recharged on an apportionment basis predominantly determined by time allocations across business areas or property numbers.

Connexus Housing Two Limited recharges Enterprise4 Limited a management recharge of 20% of direct costs.

Independence Trust Limited provides Care and Support Services to Connexus Housing Two Limited for which costs are fully recharged.

Herefordshire Capital Plc. recharges its interest and other loan administration costs to Connexus Housing Two Limited. Rise Partnership Developments Limited, formerly a direct subsidiary of Connexus Housing Two Limited (and now Connexus Housing Limited) provides design and build services to Connexus Housing Two Limited at cost plus 5%

In accordance with FRS102, the Group has taken advantage of the exemption from disclosing transactions or balances with entities which form part of the Group.