Annual report and financial statements for the year ended 31 March 2019

Synergy Housing Limited

Co-operative and Community Benefit Societies Act 2014 number 31447R

Synergy Housing Limited

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Synergy Housing Limited

Legal and Administrative Details

Registered office: Link House, First Floor, West Street, Poole, Dorset. BH15 1LD

Legal status: Synergy Housing Limited ('the association') is incorporated under the Co-operative and Community Benefit Societies Act 2014 number 31447R and is a wholly owned subsidiary of Aster Group Limited and a member of the Aster Group ('the group').

The association is registered with the Regulator for Social Housing ('RSH') formally the Homes and Communities Agency.

Members of the board: The directors of the association who were in office during the year and up to the date of signing the financial statements, unless otherwise indicated, are set out below.

Non-executive directors

Andrew Jackson	Chairman
Phillip Owens	Retired from the board 30 September 2018
Sally Higham	Retired from the board 30 September 2018
Stephen Trusler	
Mary Watkins	Retired from the board 31 July 2018
Mike Biles	Senior Independent Director
Andrew Kluth	
Caroline Wehrle	Appointed to the board 1 October 2018
Tracey Peters	Appointed to the board 1 October 2018
Mike McCullen	Appointed to the board 1 October 2018

Executive directors

Bjorn Howard	Group Chief Executive
Michael Reece	Group Operations Director
Amanda Williams	Group Development Director

Executive Team:

Bjorn Howard	Group Chief Executive
John Brace	Group Resources Director (redundant 30 April 2018)
Rachel Credidio	Group People and Transformation Director
Michael Reece	Group Operations Director
Graeme Stanley	Group Strategy Director
Amanda Williams	Group Development Director
Chris Benn	Group Finance Director
Dawn Fowler-Stevens	Group Growth and Assurance Director

Association Secretary: David Betteridge

Independent Auditor: KPMG LLP
Gateway House
Tollgate
Chandler's Ford
Eastleigh
SO53 3TG

Synergy Housing Limited

Legal and Administrative Details (continued)

Principal Banker:

NatWest Bank Plc
Business Banking
503 Ringwood Road
Ferndown
Bournemouth
BH22 9BL

Principal Solicitor:

Trowers and Hamlins
3 Bunhill Row
London
EC1Y 8YZ

Funder:

Santander Corporate Banking
Corporate Lending Operations
4th Floor Santander House
100 Ludgate Hill
London
EC4M 7RE

Abbey National Treasury Services Plc.
2 Triton Square
Regents Place
London
NW1 3AN

Royal Bank of Scotland Plc
1st Floor, 280 Bishopsgate
London
EC2M 3RB

Affordable Housing Finance Plc
4th Floor, 107 Cannon Street
London
EC4N 5AF

MORhomes PLC
71 Queen Victoria Street
London
EC4V 4AY

Security Trustee:

Prudential Trustee Association Limited
Laurence Pountney Hill
London
EC4R 0HH

Valuer:

Jones Lang LaSalle Limited
45 Church Street
Birmingham
B3 2RT

Financial Adviser:

J.C. Rathbone Associates Limited
12 St. James Square
London
SW1Y 4LB

Synergy Housing Limited

Report of the Board

The board presents its report and the audited financial statements for the year ended 31 March 2019.

Principal activities
The association's principal activity is to provide affordable homes and associated services as a Registered Provider.

Results for the year
The profit for the year was £16.6 million (2018: £12.8 million).

The Board
The members of the board are listed on page 1. No members of the board held, at any time during the year, any beneficial interest shares in the association.

Share Capital
During the year 3 shares were issued (2018: 2 shares) and 4 were cancelled (2018: 3) leaving a balance in the share capital of the association of £26 (2018: £27).

Directors' indemnities
The association is a member of the group which has made qualifying third party indemnity provisions for the benefits of its directors and officers (which extend to the performance of any duties as a director or officer of an associated company or subsidiary). The provisions have been in place throughout the year and remain in force at the date of this report.

Going concern
The majority of the association's income comes from sources outside the group. The association receives management, property and other services from other group members. The association is party to a group cross guarantee with other borrowers under the bond structure, covering the timely payment of interest and principal for the on-lending of funds. Given this, the association's net asset position and that of the group members it is reliant on, the directors are satisfied that the association, and the group as a whole, have adequate resources to continue in operational existence of the foreseeable future. For this reason, these financial statements are prepared on the going concern basis, under the historical cost convention, except as modified by the revaluation of investment properties.

Reduced reporting disclosures
Section 1.12 of FRS 102 allows subsidiaries to opt out of making some disclosures in its financial statements and not to report the following:

a) A Statement of Cash Flows as outlined in section 7 of FRS 102;
b) The requirement to disclose key management personnel compensation outlined in paragraph 33.7 of FRS 102;

Synergy Housing Limited has taken advantage of these exemptions. A full set of disclosures are included in the group's consolidated financial statements.

Paragraph 4.4 of the Housing SORP 2014 allows registered providers that are subsidiaries of a group to opt out of providing a Strategic Report. The association has taken this opt out and not produced a Strategic Report. The group's strategic report, including Synergy Housing Limited, is accordingly represented in the financial statements of Aster Group Limited.

Report of the Board (continued)

Review of the association's business

The association owns or manages approximately 11,000 homes for more than 22,000 customers and is a developer of new affordable housing. Zebra Property Solutions Limited, a wholly owned subsidiary of the association, undertook commercial and development activities which were outside the charitable rules for Synergy Housing Limited. Zebra Property Solutions Limited ceased trading following the transfer of market rent properties it owned to Synergy Housing Limited on 29 March 2018.

Aster Solar Limited, a joint venture with a fellow subsidiary, Aster Communities, provides green electricity to the association's tenants using photovoltaic panels.

Aster Solar Limited remains as a non-charitable joint venture of Synergy Housing Limited.

Operational performance

Operational and financial performance in the business remains strong. Key highlights are as follows:

- Income collection remains strong with the arrear's percentage at 2.3% (2018: 2.2%) despite the gradual roll out of universal credit. Universal credit claimants have increased during 2018/19 from 348 to 1223 and there is a continued strong focus on managing the impacts of welfare reform and the roll out of Universal Credit, through the internal Strategy and Practitioners Groups;
- Rent lost through properties being empty is 0.7% of total rental income (2018: 0.4%) compared to a target of 0.8%;
- The average number of re-let days remains good. The re-let times for general needs properties is in line with last year and target, although for housing for older people, stock suffered a fall of 11 days from last year due to a focus on desirable properties which are easier to re-let and an asset review of less desirable hard to let properties;
- Completed 360 (2018: 225) new homes for rental or sale against a target of 345;
- Transferred 65 properties to Aster 3 Limited;
- A compensation payment of £920,000 was received from National Grid in relation to a large number of properties affected by their apparatus and the potential future development impact.
- The association continues to improve its approach to recovering service charges with tighter controls and more efficient systems for recording expenditure and charging customers;
- Investment of £62,000 on neighbourhood enhancements, to ensure communal areas remain desirable and safe;
- Embracing modern digital solutions, the 1st Touch 360 project commenced during 2018/19 and will provide dedicated customer and colleague portals. Improvements driven by 1st Touch 360 will enable the business to deliver its digital ambitions and Group Landlord's Strategy;
- There have been 31 voids disposal programme sales (VDP) (2018: 10), 12 stock option appraisal programme (SOAP) sales (2018: one) and four land sales (2018: nil);

The association has Key Performance Indicators. Targets are set at the beginning of each year as part of the business planning process, and regular reports are drawn from each of the key operating systems to monitor performance. Measures for the association are highlighted below:

	2018/19 Target	2018/19 Actual	2017/18 Actual
% rent lost through vacant properties	0.8%	0.7%	0.4%
Average number of days to re-let - General Needs	14	15	14
Average number of days to re-let - Housing for Older People (HOPS)	24	30	19
% arrears (General Needs & HOPS)	3.0%	2.3%	2.2%
% repairs completed in target	90.0%	82.9%	96.4%
% of tenants found the repair process easy	80.0%	76.2%	83.5%
New homes completed	345	360	225

Operating profit for the association was £27.9 million (2018: £22.4 million) for the year. Factors influencing profit in the year were;

- Overall service charge recovery is 83% (2018: 76%);
- 360 new homes were built during the year of which 109 were for shared ownership. Profit on first tranche shared ownership sales was £2.3m (before marketing and legal costs), partially offsetting a reduction in social, affordable and supported rents of 1%;
- Transferred 65 properties to Aster 3 Limited resulting in a donation value of £2.7 million;
- The void disposal programme (VDP) and stock option appraisal programme (SOAP) has generated profit of £5.1 million during the year (2018: £1.8m). There have been 31 VDP sales (2018: 10), 12 SOAP sales (2018: one) and four land sales (2018: nil).

Value for money

Our Strategic Approach

As a group Aster have made it clear that value for money (VFM) is fully integrated in the group-wide corporate strategy and objectives setting, and this approach has helped to deliver VFM across customers, financial strength, growth, operations, development and culture in equal measure.

VFM has always formed a central part of the group's business and organisational culture. This is encapsulated in the strategy and delivered through the corporate objectives.

VFM is about being effective in planning, managing and operating the business. It means making the best use of resources to provide quality homes backed by high quality services. The group's commitment to VFM is woven throughout the governance, business planning and operational teams.

Aster has a commitment to:

- Reinvest all the profits made into new and existing homes and providing good services. Everything done begins with our social purpose;
- Combine a social heart with a commercial mindset to create homes and communities current and future customers can be proud of;
- Make investment decisions on a long-term commercial basis, that provide not just short-term gains, but long-term benefits to the group and customers;
- Investing in technology over the next five years to deliver improved efficiency and better customer service, determined to drive value in services by minimising customer effort in processes;
- To create a network of strategic partnerships to tackle the housing crisis;
- Deliver social and economic value – in 2018/19 for every £1 spent on developing new homes, over £60 was generated of additional economic value to local communities and over £30 of social value; and
- Aster's business model, financial strength, robust governance, investor confidence and commitment to a range of tenures, enables the group to keep building, even during economic downturns and unfavourable market conditions.

VFM in Aster's Corporate Strategy:

"Providing customer-focused, easily accessible, good and safe landlord services" – As is evidenced by the social housing cost per unit performance, the business looks to strike the right balance between investment and value for money for customers. Investment in stock provides safe services and will generate efficiencies through the group's digital transformation programme that will make services accessible and cost-effective. Working with the supply chain will maximise value from operational contracts and ensure that the procurement framework maximises value for customers.

"Being an agent for change through the activities we choose to do through the Aster Foundation" – VFM is not just about pounds and pence, and through the work of the Aster Foundation the group looks to further drive social value across all landlord services. The main aim of the Foundation Strategy is to maximise tenancy sustainment. This is good value for the business, but also good for customers who get to stay in their Aster homes for as long as possible. Targeting investment at the places which can make the most impact will deliver social value to customers and will ensure further investment can be made in the future.

"Building as many homes as we can, offering a range of housing options" – The development programme is targeted at making the biggest difference Aster can to the housing shortage, by building as many homes as possible. What this doesn't mean is sacrificing quality. Aster's performance shows we are in the upper quartile for generating new supply and this remains the goal. VFM for customers means providing quality, affordable homes in the places they want to live.

"Ensuring we are ready for the future" – Aster's digital transformation journey will allow customers to access services in more ways than ever before. Investment in our colleagues to ensure that a culture is created in the business that ensures maximum outcomes for customers. VFM is not always about cutting costs, it's about return on investment, and this is the aim with digital and colleague transformation.

"Delivering our Corporate Strategy quicker and better through growth" – Growth will never be pursued that has a detrimental impact on the offer to customers and colleagues. All growth options are assessed thoroughly in relation to additional resulting growth or from efficiencies that can be generated. Aster is not looking to become bigger for the sake of it, any growth must benefit customers and colleagues and add to the group's vision and purpose.

Synergy Housing Limited

Report of the Board (continued)

Value for money (continued)

2018/19 Performance

The group's performance in 2018/19 provides strong evidence of the commitments set out in the approach to VFM.

Performance against the VFM key metrics

Set out below is the group's Sector Scorecard comparison showing the median (average) and quartile 3 (top 25%) positions.

	Aster Performance			Scorecard 2018		Target
	2018/19	2017/18	2016/17	Median	Quartile 3	2019/20
REINVESTMENT						
Reflects the investment in social housing properties (existing stock and new supply) as a percentage of the total value of social housing properties held (Aster measure the total value of social housing propertes at deemed cost[1]).	14.1%	15.8%	12.3%	5.8%	8.5%	Upper Quartile
NEW SUPPLY DELIVERED - SOCIAL HOUSING						
Sets out the number of new social housing units, excluding those homes delivered through the group's joint venture, that have been acquired or developed as a proportion of total social housing units owned at the period end.	3.5%	2.8%	2.5%	-	-	Upper Quartile
NEW SUPPLY DELIVERED - NON SOCIAL HOUSING						
Sets out the number of new non social housing units, including those homes delivered through the group's joint venture, that have been acquired or developed as a proportion of total non social housing units owned at the period end.	81.4%	84.0%	89.1%	-	-	Upper Quartile
NEW SUPPLY DELIVERED - COMBINED						
Sets out the total number of new housing units, including those homes delivered through the group's joint venture, that have been acquired or developed as a proportion of total housing units owned at the period end.	3.7%	3.0%	2.7%	1.0%	2.3%	Upper Quartile
GEARING						
Calculated as net debt (loans less cash) as a proportion of social housing assets. Shows how much of the social housing assets are made up of debt, and the degree of dependence on debt finance. It also sets out the potential capacity for further borrowing which can be used to fund the future development of new housing.	52.2%	52.0%	52.2%	35.1%	48.8%	Median
EBITDA MRI[2] INTEREST COVER						
Seeks to measure the level of surplus generated compared to interest payable. It is a key indicator for liquidity and investment capacity.	222.8%	223.2%	262.4%	231.6%	323.3%	Median
HEADLINE SOCIAL HOUSING COST PER UNIT (CPU)						
Assesses the headline social housing cost per unit as defined by the regulator. Costs include management costs, service charges, maintenance, major repairs, other social housing costs and other operating costs on housing lettings, but excludes depreciation.	£ 3,391	£ 3,455	£ 3,155	£ 3,450	£ 2,982	Median
OPERATING MARGIN - OVERALL						
Demonstrates the profitability of operating assets before exceptional expenses. Defined as operating profit, excluding surplus on sale of property, plant and equipment, as a percentage of total turnover or social housing turnover as appropriate.	28.0%	28.0%	33.8%	27.9%	33.5%	Median
OPERATING MARGIN - SOCIAL HOUSING ONLY						
As above	33.0%	35.2%	39.9%	30.4%	36.0%	Median
RETURN ON CAPITAL EMPLOYED (ROCE)						
Compares the operating profit[3] to total assets less current liabilities.	4.3%	4.4%	4.3%	3.7%	5.0%	Median

[1] Deemed cost assets consist of social housing assets held at an EUV-SH valuation up to 31 March 2014 and subsequent additions at cost.

[2] EBITDA MRI is Earning before interest, tax, depreciation, amortisation, excluding profit on disposal of property, plant and equipment, but including the cost of capitalised major repairs (major repairs included). Interest includes the group's interest payable plus interest capitalised during the year but excluding interets on the net pension liability.

[3] Operating profit includes the group's operating profit inclusive of profit from disposal of property, plant and equipment, and the share of profit in joint ventures.

Value for money (continued)

2018/19 Performance (continued)

Aster is one of the sector leaders in reinvestment and the overall sector leader in new supply delivered. Aster's combined new supply delivered measure of 3.7% is 0.2% higher than the next best performing housing association. The group's business model is worked hard to develop as many new homes as possible within the group's financial capacity and in 2018/19 Aster built 1,156 total homes, 217 more than in 2017/18 (1,053 of which were affordable homes) closing the year with 30,506 homes owned (30,388 of which were affordable homes).

The reinvestment spend metric is measured as a proportion of the value of the group's properties. The fall in reinvestment is due to an increase in the value of the group's social housing assets from £1.5 billion in 2017/18 to £1.6 billion in 2018/19, not a fall in the level of reinvestment spend. Total investment spend on properties increased from £212 million last year to £224 million.

Aster recognises that the greatest role to play in tackling the housing crisis is "building as many new homes as we can", this is a key component of the corporate strategy, and Aster's performance in the upper quartile of both the reinvestment and new supply delivered metrics against the sector overall highlights this.

The group's ambition is also highlighted by the level of gearing which pushes the business hard and is viewed as a positive, remaining in the upper quartile. The small increase in the group's gearing ratio reflects the increase in net debt of £63 million to £828 million being proportionally greater than the increase in the total value of social housing assets held.

EBITDA MRI interest cover has reduced marginally. The group's EBITDA MRI increased by £5.0 million compared to last year, but the £2.3 million increase in the cost of finance increased by a greater proportion. This is partly due to a small increase in the cost of debt, but also due to the timing of when finance for the group's ambitious development program is put in place – being at least 12 months before it is required and hence resultant returns from this future development falling into future financial years.

Aster has performed close to the median for the sector against both the gearing and EBITDA MRI interest cover metrics, highlighting the group's ambition of "delivering our Corporate Strategy quicker and better through growth" but not at the cost of increasing the group's risk and exposure.

The social housing cost per unit position has improved from 2017/18 through to this financial year. Additional costs for increased investment in planned maintenance and major works of £78 per unit have been more than offset by management cost savings of £81 per unit and the winding down of the group's direct delivery of care and support having further savings of £61 per unit. Aster has performed slightly ahead of the median for the sector. Excluding £199 per unit costs related to extra care services such as the supporting people contract, domiciliary care and telecare, the social housing cost per unit directly related to social housing lettings is reduced to £3,192 which is closer to the upper quartile of the sector and gives a better indication of where Aster sits in comparison to other housing associations without the diverse range of Aster's services.

Significant investment is planned for 2019/20 in existing housing stock to take the group's health and safety beyond compliance, as such it is anticipated that the overall costs will rise next year. Aster's approach to VFM is not to be the cheapest, but to provide customers with good, safe homes and with good, reliable services and the group's investment plans in the coming year reflect this.

Operating margins, although a good measure of overall profitability, should be viewed in the context of the diversity of activities the sector, and Aster in particular, is now engaged in. Overall margin has remained consistent with 2017/18 and is in line with the sector median. There has been some reduction in the social housing operating margin resulting from additional maintenance and improvements costs of £5.7 million emphasising the group's commitment to providing customers with good, safe homes and with good, reliable services. Despite this, the social housing margin is ahead of the sector median.

Whilst overall return on capital employed (ROCE) gives an indication of how well the group makes a financial return on the assets it owns, Aster's asset management plans focus on improving how the asset base can perform better as well as improving the group's homes. ROCE has remained in line with the prior year figure. An increase in operating surplus is proportionally matched by the increase in the group's asset base reflecting not just the reinvestment and new supply delivered but the group's commitment to "ensuring Aster is ready for the future" through investment in digital and colleague transformation.

Report of the Board (continued)

Value for money (continued)

Aster's 2019/20 targets

To ensure that resources are directed towards achieving Aster's ambitions, the group continues to be committed to finding efficiencies and getting the most out of the money spent. These efficiencies have been built into the group's budgetary process.

As evidenced by the target positions set out in the table above, Aster wants to continue to lead the way in building more new homes, and harnessing the group's financial strength to deliver more new supply. This needs to be balanced with ensuring investment in existing stock, whilst still providing VFM to customers in the rents offered and the services provided.

Aster remains committed to delivering VFM across the group strategy but recognises that VFM is not just pounds and pence, but also in the value of services to customers, the social value added to communities now and into the future, and the value that can be added to solving the housing crisis.

In addition to Value for Money being central to the Aster corporate strategy, there are also a number of operational targets that are set out across business areas and are managed and monitored through our operational governance panels. These include:

- Generating efficiencies across our customer facing services that improves quality, but reduces inefficacy of people and resource;
- Using our assets effectively through a robust and proactive management of our Void Disposals Programme;
- Making good investment decisions and investing for both social and financial return on investment; and
- Build close to 1,000 new homes and continue to lead the way in the delivery of new supply.

Future plans of the business

The association, as part of the Aster Group, launched its revised strategy on 1 April 2018. The group's vision is that "Everyone has a home". The groups purpose is to provide safety and security though reliable landlord and independent living services and supply a wide range of housing options in response to the housing crisis.

Over the next eight years, as well as providing services to existing customers, Aster Group plans to build more than 10,000 new homes.

The group is building a transparent, outcome-focused culture with clear lines of accountability running throughout the business. The Corporate Plan sets out a clear operational direction which will enable the group to successfully deliver the Corporate Strategy. The priorities for the association are as follows:

- Achieve operational and financial performance targets, with a strong focus on VFM and efficiency;
- Provide good services that are customer focused, easily accessible and safe;
- Reduce the housing crisis through maximising the number of homes the group can build;
- Invest in activities that enable local people in our communities to improve their own lives;
- Ensure colleagues have the technology they need to do their jobs effectively;
- Ensure the long-term sustainability of the group by undertaking an innovative and holistic approach to growth.

The landscape for 2019/20 poses a number of risks including:

- The uncertainty of the external environment and government policy towards the housing sector;
- The impact of welfare reforms will continue to be a challenge and could be significantly different to that the association has envisaged and prepared for;
- The risk of regulatory actions from the government and / or RSH for failure to meet the economic and consumer standards set out in the regulatory framework.

Report of the Board (continued)

BREXIT

In 2018/19 BREXIT continued to provide uncertainty in the market place in which the group operates, in particular, pressures on house selling prices and the performance of the housing market, available labour supply in relation to building, as well as inflationary and interest rate pressures in the economy.

Aster has taken a proactive approach to evaluating the impact of BREXIT and the group has focused its approach on those areas deemed the highest risk as a result of BREXIT. In summary:

Changes to the housing market – The sector as whole is more exposed to market fluctuations, and with this in mind, the group has conducted rigorous stress testing for a variety of market scenarios. Included within this were scenarios that forecast a steeper and more severe market downturn.

Slowdown in s106 agreements – The sector is beginning to see signs of a slowdown in s106 agreements and whilst this is not necessarily a symptom of BREXIT, it is related to wider market conditions. The group's development programme is geared towards the majority of output coming from s106 agreements. However, in 2018/19 this ratio was increasingly offset through land led development and the group has a vision to be running a 50/50 split programme within 5 years.

Building the workforce of the future – One of the few tangible outcomes from BREXIT so far has been the drop in availability of labour across the construction sector. Whilst this has been more acute in London, the group is not immune to the impact. 2018/19 was a record year for the group's apprenticeship programme, and there is a clear commitment to be the master of its own destiny with a local workforce primed for the future.

Suppliers – The group undertook a detailed analysis of its suppliers to understand how they and the group may be impacted by a no deal BREXIT. The group is not overly exposed to supply chain issues, but this is something that has been discussed and will continue to be reported to the boards to ensure it can be effectively managed.

The group's board regularly discusses and debates BREXIT and are well informed on the issues and kept up to date on the implications for the group.

The group financial plan for 2019/20 has assumed a neutral impact from BREXIT with no impact on the business from these risks although the group's stress testing scenarios very much cover the group's ability to weather the associated financial impact from these risks should they occur.

Principal risks and uncertainties

Managing the risks and opportunities are essential to the association and the group's long-term success and sustainability. The group endeavours to pursue opportunities which provide the right balance of risk and seeks to maintain exposure to these risks at an acceptable level in line with the risk appetite of the organisation.

The group's framework for opportunity and risk management supports the group's approach to business and enhances the chances of delivering the strategy.

Risk identification and management

The group's system for identifying and managing risks is embedded from the top down in its organisational structure, operations and management systems and accords with the risk management guidelines and principles set out in ISO 31000, the International Standard for Risk Management. The board are satisfied that there are sufficient controls in place to mitigate risk.

Report of the Board (continued)

Principal risks

During 2018/19, the board regularly reviewed the risks which they believed could adversely impact the business and also focussed on the opportunities that could be realised to deliver the strategy. The following list provides an overview of the principal strategic and financial risks that pertain to Synergy Housing Limited at the end of March 2019. The list is not exhaustive or set out in order of priority and is continually subject to change:

- Government policy change - As a registered provider of social housing, the group is exposed to the impact of changes in government policy;
- Health and safety – Ensuring customers and colleagues remain safe;
- Development programme delayed or frustrated – The group's vision is that "everyone has a home" and in order to achieve this it must build more homes. To develop new homes, the group requires either land to build on or developer contributions to help supply affordable housing;
- Regulatory action/intervention – The group is heavily regulated including by the Regulator for Social Housing (RSH);
- Sales risk – The group undertakes a number of property sales activities to include market sales, new build shared ownership sales and stair-casing sales.

Treasury policy, liquidity and credit risk

The group operates a centralised Treasury Management function. Outlined below are extracts from the association's financial statements that relate to treasury policy, liquidity and credit risk:

Treasury policy

The association as part of the Aster Group, operates a centralised Treasury Management function, the primary purpose of which is to manage liquidity, funding, investment and the group's financial risk, including risk from volatility in interest rates and liquidity. The Group Treasury Committee reviews and recommends the Group Treasury Management Policy before it is approved by the group Overlap Boards.

Interest rate risk

The association's exposure to interest rate fluctuations on its borrowings is managed by using fixed rate loans and interest rate swaps. It is the group's policy to manage interest rate risk on a group basis by applying the Group Treasury Policy by having at least 50% of debt and no more than 90% of debt subject to fixed rates for the medium to long term. As at 31 March 2019, 84% of the association's debt was fixed (2018: 89%) for a weighted average maturity of 11.97 years (2018: 11.7 years). The group finances its operations by a mixture of retained surpluses, borrowing from the capital markets, government grants and bank loans.

Liquidity risk

Liquidity risk is managed by ensuring the group can meet at least twelve months of committed expenditure from a combination of cash and loan facilities capable of immediate drawdown. In addition, committed loan facilities are required to be in place to finance all committed expenditure of the group. The group has sufficient undrawn committed facilities and cash available to fund the group, at its full committed and generic development programme level, until 30 September 2020. Further financing is not required for another 18 months. This is above the RSH's requirement for funding which expects finance to be agreed and in place 12 months before it is required.

At 31 March 2019, undrawn committed loan facilities and overdraft facilities for the association amounted to £31 million (2018: £32 million), all of which is committed and available for immediate drawdown.

The drawdown of loan facilities is closely linked to investment in new homes. At the end of the year, the group had not committed to any investment that would take it beyond the scale of facilities available.

In order to maintain flexibility in the management of liquidity, the group's policy is to ensure that no more than 15% of debt matures in any 12 months period over the next five years where no replacement finance has been arranged. Of the association's debt, there is no more than 15% of debt matures in any 12 months period and £54 million (18% of the current facility) is repayable within five years.

Report of the Board (continued)

Corporate and social responsibility

Equality and diversity

The Aster Group remains committed to creating a fair and inclusive culture and have embedded this aim throughout The Aster Way – our values and behaviours proposition.

This includes reviewing the group's approach to creating a more diverse and inclusive workforce, which will seek to address a number of key areas through a targeted action plan, working with members of the Transformation Network.

The group reported a reduction in its gender pay gap from last year with reportable figures for the year being 9% (2018: 18%) for Aster Group and 14% for Aster Property Limited (2018: 17%). The group are already working on a range of actions which will seek to further reduce this gap and has set some short, medium and long-term targets which have been published internally and externally.

In addition, the group remain proud to be a Disability Confident Committed employer and are working to achieve the next level of registration.

Employee wellbeing, employee voice and giving back

As part of the group, the association continues to focus on employee wellbeing; employee voice and giving back. Full details are disclosed within the group's financial statements.

Environmental impacts and mitigation

The group continues to maintain its externally certified environmental management system to the latest version of the ISO14001 standard and no non-conformities were raised at the most recent external audit (January 2019) as undertaken by our environmental auditors BSI Ltd.

More broadly, the group continues to deliver environmental sustainability commitments and key headlines show that our business mileage has reduced by 30% (or 830,000 miles) over the last five years exceeding the target. The corporate building energy consumption has also reduced by 21% and 99% of our office waste is now recycled.

During 2018/19 the group successfully secured green electricity contracts for its corporate real estate and communal domestic portfolio. This is a first for the group.

And as part of the group's ongoing commitment to ensure all its homes have an energy performance rating of C by 2025 it has successfully secured £1.3m of funding from the Warm Homes Fund with additional match funding of £657,000 from Southern Gas Networks to bring new efficient gas heating systems to 800 homes.

Report of the Board (continued)

Statement of Board's responsibilities in respect of the Board's report and the financial statements

The directors are responsible for preparing the Report of the Board and the financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation 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 the Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation 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 company and of the profit or loss of the company 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 have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 and registered social housing legislation. 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.

Synergy Housing Limited

Report of the Board (continued)

Attendance at board meetings

Non-executive directors	Total	Possible*	%
Andrew Jackson	10	12	83
Phillip Owens	7	7	100
Sally Higham	6	7	86
Steve Trusler	10	12	83
Mary Watkins	4	5	80
Mike Biles	10	12	83
Andrew Kluth	11	12	92
Caroline Wehrle	6	7	86
Tracey Peters	5	7	71
Mike McCullen	5	7	71
Executive directors			
Bjorn Howard	12	12	100
Michael Reece	12	12	100
Amanda Williams	11	12	92
Co-Optee			
Clive Barnett	5	5	100

*****Possible attendance may be lower than the total number of meetings held due to the director only holding office for part of the year.

Disclosure of information to auditors

So far as the board is aware, there is no relevant information of which the association's auditor is unaware. The board has taken all reasonable steps that ought to have been taken to make itself aware of any relevant audit information, and to establish the association's auditor is aware of that information.

Signed on behalf of the board.

David Betteridge
Association Secretary
6 August 2019

Independent Auditor's Report to the Members of Synergy Housing Limited

Opinion

We have audited the financial statements of Synergy Housing Limited ("the association") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Statement of Financial Position, and related notes, including the accounting policies in note 3.

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 2019 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 2015.

Basis for opinion

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

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

Uncertainties related to the effects of BREXIT are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures, and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the association's future prospects and performance.

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

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, including the impact of Brexit, 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 the Report of the Directors. 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.

Independent Auditor's Report to the Members of Synergy Housing Limited (continued)

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 12, 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.

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
Gateway House
Tollgate
Chandlers Ford
SO53 3TG

Date 12 August 2019

Synergy Housing Limited

Statement of Comprehensive Income

for the year ended 31 March 2019

	Note	2019 £000	Reclassified Note 6 2018 £000
Turnover	5a	67,140	66,099
Operating expenditure before impairment	5a	(36,129)	(36,030)
Cost of sales	5a	(8,853)	(10,308)
Surplus on sale of housing property, plant and equipment	6	5,712	2,634
Operating profit	7	27,870	22,395
Charitable donations made	10	(2,694)	-
Increase in fair value of investment properties	17	285	249
Gift Aid received	11	-	12
Profit before interest and taxation		25,461	22,656
Interest receivable and similar income	12	1,030	1,059
Interest payable and similar charges	12	(9,518)	(10,506)
Interest on net pension liability	12	(396)	(456)
Net finance expense	12	(8,884)	(9,903)
Profit before tax		16,577	12,753
Taxation	13	-	-
Profit for the year		16,577	12,753
Other comprehensive income / (expense)			
Initial recognition of multi-employer defined benefit scheme	31	(174)	-
Actuarial gain / (loss) in respect of pension schemes	31	1,461	2,369
Other comprehensive income for the year		1,287	2,369
Total comprehensive income for the year		17,864	15,122

Synergy Housing Limited

Statement of Financial Position

as at 31 March 2019

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	14	604	753
Property, plant and equipment (social housing)	15	576,497	544,954
Property, plant and equipment (other assets)	16	1,898	1,900
Investment properties	17	14,997	14,668
Investments	18	50	-
Investment in subsidiaries	19	-	-
Investment in joint ventures	20	1,500	1,500
		595,546	563,775
Non-current assets			
Debtors: amounts falling due after more than one year	21	11,881	9,967
Current assets			
Debtors: amounts falling due within one year	22	8,445	2,773
Shared ownership properties held for sale	23	9,944	4,965
Cash and cash equivalents	24	34,004	48,285
		52,393	56,023
Creditors: amounts falling due within one year	25	(19,053)	(15,337)
Net current assets		33,340	40,686
Total assets less current liabilities		640,767	614,428
Non current liabilities			
Creditors: amounts falling due after more than one year	26	(320,871)	(310,343)
Pension liability - Local Government Pension Scheme	31	(14,394)	(15,395)
Pension liability - Social Housing Pension Scheme	31	(422)	-
Other Provisions	32	(376)	(1,850)
Net assets		304,704	286,840
Capital and reserves			
Called up share capital	33	-	-
Profit and loss reserve		141,524	121,962
Revaluation reserve	34	163,180	164,878
Total reserves		304,704	286,840

The financial statements on pages 16 to 64 were approved and authorised for issue by the board on 6 August 2019 and were signed on its behalf by:

Andrew Jackson
Chairman

Bjorn Howard
Group Chief Executive

David Betteridge
Association Secretary

Association number : 31447R

Synergy Housing Limited

Statement of Changes in Reserves

For the year ended 31 March 2019

	2019		
	Profit and loss reserve £000	**Revaluation reserve £000**	**Total reserves £000**
Balance at 1 April 2018	**121,962**	**164,878**	**286,840**
Profit for the year	**16,577**	**-**	**16,577**
Other comprehensive income for the year	**1,287**	**-**	**1,287**
Transfer to revaluation reserve from profit and loss reserve	**1,698**	**(1,698)**	**-**
Balance at 31 March 2019	**141,524**	**163,180**	**304,704**

	2018		
	Profit and loss reserve £000	Revaluation reserve £000	Total reserves £000
Balance at 1 April 2017	105,757	165,961	271,718
Profit for the year	12,753	-	12,753
Other comprehensive expense for the year	2,369	-	2,369
Transfer from revaluation reserve to profit and loss reserve	1,083	(1,083)	-
Balance at 31 March 2018	121,962	164,878	286,840

Notes to the Financial Statements

1 Legal status

Synergy Housing Limited is registered under the Cooperative and Community Benefit Society Act 2014, and is registered with the Regulator for Social Housing ('RSH') as a Registered Provider as defined by the Housing Act 2004.

2 Basis of preparation

The financial statements of the association have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS102), the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing Providers, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. The association is classified as a Public Benefit Entity under FRS102.

The financial statements are presented in Sterling (£).

Application of accounting policies

The group's accounting policies have been applied consistently throughout the year with one exception, the accounting for the SHPS defined benefit pension scheme.

Prior to 1 April 2018 the scheme was accounted for under FRS 102 2015 paragraphs 28.11 and 28.11A as a multi-employer pension plan with employer costs being recognised in profit and loss and the present value of the contributions to the scheme's deficit recovery plan recognised as a creditor.

Post 1 April 2018 sufficient information has been available to attribute the scheme's assets and liabilities to its member employers. The scheme has subsequently been accounted for as a defined benefit plan as outlined in FRS 102 2015 paragraphs 28.14 to 28.28.

The resulting loss from this transition has been recognised in Other Comprehensive Income as required by FRED 71, the early adoption of FRS 102 2018 paragraphs 28.11B and 28.11C

Going Concern

The majority of association's income comes from sources outside the group. The association receives management, property and other services from other group members. The association is party to a group cross guarantee with other borrowers under the bond structure, covering the timely payment of interest and principal for the on-lending of funds. Given this, the association's net asset position and that of the group members it is reliant on, the directors are satisfied that the association, and the group as a whole, have adequate resources to continue in operational existence of the foreseeable future. For this reason, these financial statements are prepared on the going concern basis, under the historical cost convention, except as modified by the revaluation of investment properties.

Notes to the Financial Statements (*continued)*

3 Summary of significant accounting policies

Operating Profit

The association has chosen to show operating profit on the face of the Statement of Comprehensive Income. This figure represents income, less the costs and expenses incurred to generate it, from the association's principal activities that are not investing or financing activities.

Turnover

Turnover represents:

Rental, service charge income and garage lettings - recognised from the point at which the properties under development reach practical completion or otherwise become available for letting;

Service charge income - an amalgamation of the budgeted charge for the year and the under or over recovery from the pre-previous year;

Revenue fees and grants from local authorities and the Regulator for Social Housing - recognised over the period the related costs are incurred;

Asset related fees and grants from local authorities and the Regulator for Social Housing - recognised over the life of the related asset. For grants relating to completed properties the grant is amortised through turnover over the effective useful life of the property's structure;

Income from first tranche sales of New Build HomeBuy and housing properties developed for sale - recognised at the legal completion of the sale;

Other income, such as domiciliary care and sewerage services - recognised when the performance of a service is completed, or when the requirements of an agreement with a third party or other group subsidiary are met.

Property managed by agents

The association has a small number of properties that it owns but are managed by agents on its behalf. Where the association carries the financial risk on property managed by agents, all the income and expenditure arising from the property is included in the statement of consolidated income for the year. Where the agency carries the financial risk, the profit or loss for the year includes only that income and expenditure which relates solely to the group.

Value added tax (VAT)

The association is registered for VAT and, while turnover is stated excluding VAT, a large portion of its income, including its rents, is exempt for VAT purposes. The majority of its expenditure is subject to VAT which cannot be reclaimed and therefore expenditure is shown inclusive of irrecoverable VAT. The balance of VAT payable or recoverable at the year-end is included as a current liability or asset.

Right to buy

The gain or loss on disposal of housing properties under the right to buy arrangement is calculated as being the difference between the proceeds of sale of a property and the carrying value of that property. The gain or loss on disposal is recognised in the statement of comprehensive income for the year at the date of transfer after adjusting for any local authority claw back agreement in operation. The local authority claw back is recognised as a liability until it is repaid to the relevant authority.

Right to acquire

The gain or loss on the disposal of housing properties under the right to acquire arrangement is calculated as being the difference between the proceeds of sale of a property and the carrying value of that property. Any gain or loss on disposal is recognised in the statement of comprehensive income for the year at the date of transfer.

Notes to the Financial Statements (continued)

3 Summary of significant accounting policies (continued)

New Build HomeBuy (Shared ownership)

The cost of developing New Build HomeBuy properties is split between current assets for that part of the property which is expected to be sold by way of a first tranche sale and property, plant and equipment for the remaining part of the property which is expected to be retained.

First tranche sales on New Build HomeBuy properties are recognised in turnover, with an appropriate proportion of development build costs being expensed through cost of sales.

Subsequent tranches sold (staircasing) are reflected in the statement of comprehensive income on sale of property, plant and equipment. Such staircasing sales may result in social housing grant being deferred or abated until it can be recycled or repaid. Cost includes the acquisition of land and buildings, the cost of developing properties, plus expenditure incurred in respect of improvements.

Intangible assets and amortisation – computer software

Intangible assets are identifiable non-monetary assets without physical substance such as computer software. Intangible assets are stated at cost less accumulated amortisation. Cost includes the original purchase price of the asset and any directly attributable costs of preparing the asset for its intended use. Amortisation is charged on a straight line basis over the expected remaining useful economic lives (UEL) of the assets as follows:

	UEL
Computer software	3 years
Main computer systems software	10 years

Social housing properties and depreciation

Properties rented for social benefit are classified as property, plant and equipment and referred to as social housing. These properties are rented at below market rate to people put forward by the relevant local authorities from their housing lists. Social housing properties under construction are stated at cost and are not depreciated. These are reclassified as social housing properties on practical completion of construction with cost apportioned by key components.

Freehold land is not depreciated. Freehold properties are depreciated by component on a straight line basis over the estimated useful economic lives of the component categories.

Social housing properties are split between the structure and those major components which require periodic replacement. Capitalised major components are depreciated over the following useful economic lives (UEL):

Component	UEL
Structure (see below)	30 - 100 years
Roof	60 years
Heating Distribution Systems	30 years
Boiler	15 years
Bathroom	30 years
Windows/Doors	30 years
Kitchen	20 years
Electrical wiring	30 years

Impairment reviews are carried out at each reporting date. If impairment is present the asset's carrying value is reduced to its depreciated replacement cost, as outlined in the impairment policy, unless it is being demolished or remodelled when the carrying value is reduced to that of the remaining components.

Social housing properties held on long leases are depreciated in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Notes to the Financial Statements (continued)

3 Summary of significant accounting policies (continued)

Social housing properties and depreciation (continued)

New Build HomeBuy properties are split proportionately between property, plant and equipment and current assets based on the proportion of the share of equity sold in the first tranche. The element of a property anticipated to be sold as a first tranche sale is recognised as a current asset, whereas the element relating to second and subsequent tranche sales is treated as property, plant and equipment. If the profit on sale of the first tranche is expected to exceed the total overall profit on sale of all tranches of that property the proportionate value of the first tranche current asset is increased to limit the profit earned to the overall profit.

Depreciation on freehold properties and long leasehold social housing properties is provided to write off the cost less the estimated residual value of social housing properties by equal instalments over their remaining estimated useful economic life (UEL). Any additions and improvements are depreciated over the remaining life of the premises. The useful economic lives used are:

Structure	UEL
Pre-fabricated reinforced concrete construction (PRC)	30 years
Bedsits	30 years
All other social housing properties	100 years

Freehold land is not depreciated.

It was elected to take the transitional exemption laid out in paragraph 35.10(d) of FRS 102 and use the 31 March 2014 valuation as the deemed cost of social housing properties at that date. All social housing properties completed after that date are recognised at cost.

Donated land and social housing properties

Land donated by local authorities and others is added to the cost of the development scheme at the market value of the land at the time of the donation. If the land is donated by a local authority the market value is recognised as a government grant and accounted for using the accruals method. If the land is donated by a non-government party the market value is recognised as turnover in the statement of comprehensive income for the year.

Where social housing properties are donated by one group member to another the transfer is made at the properties et book value with the resulting expense or income being recognised as a donation.

Property, plant and equipment and depreciation, non-social housing

Property, plant and equipment, is stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs incurred in bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Subsequent expenditure is capitalised where it increases the value of the asset or extends its life. Completed social housing properties are covered by a separate policy. Depreciation is charged on a straight line basis over the expected remaining useful economic lives of the assets as follows:

	UEL
Freehold offices	50 years
Photovoltaic panels	25 years
Motor vehicles	4 – 5 years
Office, estate equipment and furniture	3 – 15 years

Freehold premises (non-social housing properties) depreciation is provided to write off the cost less estimated residual value over the useful economic life of the property. Any additions and improvements are depreciated over the remaining life of the premises.
Assets under construction are stated at cost (as defined above). They are presented separately in the note to the financial statements and not depreciated until they are completed and brought into use. The useful economic lives of all property, plant and equipment is reviewed annually.

Notes to the Financial Statements (continued)

3 Summary of significant accounting policies (continued)

Capitalisation of internal staff costs

a) Housing development schemes

Internal staff costs that are directly related to the development of housing assets are capitalised to the schemes under construction where the outcome of the scheme is certain. Where the outcome of the scheme is uncertain or aborted, the direct development administration costs are charged to the statement of comprehensive income for the period.

b) Development of internally created assets

Internal staffing costs relating to internally created other tangible or intangible assets are capitalised to the extent that they are additional costs incurred due to the development of the asset.

An internally generated intangible asset is only recognised if all the following conditions are met:

- The asset created can be identified (such as software or a website);
- It is expected that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are recognised at cost and amortised on a straight-line basis over the useful lives from the date the asset becomes usable.

Capitalisation of interest costs

Interest costs relating to the construction and acquisition of housing assets are charged to the cost of the development scheme, over the period of its development. The amount capitalised represents either:

- Interest costs incurred specifically for financing the development programme after the deduction of social housing grant in advance; or
- Interest costs of the group as a whole after the deduction of interest on social housing grant in advance to the extent that they are funding the development programme.

Other interest costs are recognised in the statement of comprehensive income for the period to which they relate.

Leased assets

Where assets are financed by leasing agreements that transfers substantially all the risks and rewards of ownership, they are treated as if they had been purchased outright. The amount capitalised is the lower of the present value of the minimum lease payments payable during the lease term or the fair value of the leased asset. The corresponding leasing commitments are shown as the present value of the obligations to the lessor. Lease payments are treated as consisting of a finance charge and a reduction in the liability. The finance charge is charged to the statement of comprehensive income for the period using the effective interest method.

Rentals paid under operating leases are charged to the statement of comprehensive income for the period on a straight line basis over the period of the lease.

Investment properties

Investment properties are properties held for capital appreciation, rental at a market rate where there are no restrictions on who can be a tenant, or both.

Investment properties are re-valued each year to their fair or market value. Any changes in value are recognised in the statement of comprehensive income for the year when they occur.

Notes to the Financial Statements (continued)

3 Summary of significant accounting policies (continued)

Inventories

a) General inventories
Inventories are valued at the lower of cost and net realisable value, after making allowances for any obsolete and/or slow moving items. Net realisable value is the price which inventories can be sold for in the normal course of business after allowing for the costs of realisation. Inventories are valued using a first-in-first-out methodology.

b) Properties developed for market sale
Properties that have been developed for market sale are recognised at cost less cost to sell. Cost comprises materials, direct labour, direct development overheads and attributable interest. Sales proceeds are included in turnover.

Impairment

a) Inventories
At the end of each reporting period inventories are reviewed for impairment. If any inventory is found to be impaired the carrying value is reduced to the selling price less costs to complete and sell.

b) Other tangible and intangible assets
Other tangible and intangible assets are reviewed for impairment if there is an indication that impairment may have occurred. Where there is evidence of impairment, the affected assets are written down to the recoverable amount. Any such write down is charged to the statement of comprehensive income for the period.

c) Social Housing
Social Housing properties are subject to impairment trigger reviews on completion and then annually thereafter. If there is a trigger and evidence of impairment is found the carrying value of the property is compared to its depreciated replacement cost. This represents the amount it would cost the group to replace the property. For properties built or acquired prior to 1 April 2014 this replacement cost is depreciated from 1 April 2014. For properties built or acquired after 1 April 2014 depreciation starts from the build or acquisition date. If the property's carrying value is higher than its depreciated replacement cost the carrying value must be reduced to the depreciated replacement cost, the write down is charged to Consolidated Statement of Comprehensive Income for the year.

In the portfolio there are some pre-fabricated reinforced concrete construction properties and bedsits. Where an impairment review indicates that their useful economic life is likely to be less than the standard policy they have been re-lifed to 10 years.

d) Unsold first tranche HomeBuy current assets
On practical completion HomeBuy property assets are spilt between current assets for the unsold first tranche portion and property, plant and equipment for the rental portion.

First tranche current assets are reviewed for impairment if there are indications that the market value of the property has dropped below that included in the investment appraisal. If any current assets are found to be impaired the carrying value is reduced to the selling price less costs to complete and sell.

The rental portion is treated as social housing for impairment purposes.

e) Open markets properties held for sale
Open market properties held for sale are classified as current assets and are reviewed for impairment if there are indications that the market value of the property has dropped below its carrying value If any current assets are found to be impaired the carrying value is reduced to the selling price less costs to complete and sell.

Notes to the Financial Statements (continued)

3 Summary of significant accounting policies (continued)

Accrued income

When, as a result of performing a service or otherwise meeting the requirements of an agreement with a third party, income falls due but has not been invoiced in the period, an accrual is made for this income.

Deferred income

Where payment has been received for goods or services not yet delivered, the amount is initially recorded as a liability in the consolidated statement of financial position and recognised as turnover once the delivery has been made.

Service charge sinking funds

The association owns a number of schemes which require it to manage sinking funds in order to maintain the upkeep of the properties. These funds are held separately by the association, and may only be used for the benefit of the relevant schemes. These funds are held in creditors on the consolidated statement of financial position.

Financial instruments

Section 11 Basic Financial Instruments of FRS 102 permits an accounting policy choice for financial instruments. The group has chosen to adopt sections 11 and 12 of FRS 102 as permitted by this section.

a) Rent arrears and other debts
Rent arrears, other amounts due from tenants and other miscellaneous debts are recognised and carried at original amount of the charge, less provision for impairment. A provision is made and charged to the statement of comprehensive income for the period when there is objective evidence that the group will not be able to collect all amounts due in accordance to the original terms.

Any tenants or miscellaneous debtors who have a payment arrangement to pay their debts over a period of longer than the normal terms of business are treated as having a financing transaction. These transactions are recognised at their present value rather than transaction value. The discount rate used for the present value calculation is based upon an estimate of the rate the debtor could obtain in their own right.

b) Cash and cash equivalents
Cash and cash equivalents includes cash, short-term deposits and other short-term highly liquid investments with an original maturity of twelve months or less.

c) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

d) Trade creditors
Trade creditors are not interest-bearing and are stated at their transaction value.

f) Committed borrowings and bank overdrafts
Interest-bearing loans and overdrafts are recorded at the amounts received, net of direct issue costs, using the effective interest method. Direct issue costs are amortised over the period of the loans and overdrafts to which they relate. Finance charges, including premiums payable on settlement or redemption, are charged to the profit or loss for the period as incurred using the effective interest rate method and are added to the carrying value of the borrowings or overdraft to the extent they are not settled in the period in which they arise.

When a loan facility agreement is entered into, any associated costs are capitalised, discounted at the prevailing market rate of interest amortised over the life of the related loans.

3 Summary of significant accounting policies (continued)

Social housing and other grants

Social housing grant (SHG) is receivable from the Regulator for Social Housing ('RSH') It is accounted for under section 24 of FRS 102 'Government Grants' using the accrual model. Once properties have been completed the grant is classified as a long-term creditor and amortised to the statement of comprehensive income for the period over the life of the properties' structure. Where grants are paid in advance, they are included in creditors until performance is completed.

If a property which received a grant is subsequently sold, or another relevant event takes place the SHG appears as a creditor due in less than one year. It can be recycled for use in a project approved by the RSH or repaid to the RSH if it is not used within the agreed timescale.

Prior to transition to FRS 102 the association held its social housing properties at valuation. On transition this became the deemed cost. All SHG received prior to transition on 1 April 2014 was transferred to the profit and loss reserve. It is recycled from this reserve if a relevant event occurs.

Government grants received after 1 April 2014 are recognised in income over periods in which the related costs are recognised for which the grant is intended to compensate, over the useful economic life of the property's structure.

Other government grants received are also accounted for under section 24 of FRS 102 using the accrual model.

When part of the government grant is deferred, it is recognised as deferred income within creditors and allocated between due within one year and due after more than one year as appropriate.

Pension Costs

The cost of providing retirement pensions and related benefits is accounted for in accordance with Section 28 of FRS 102 'Employee Benefits'.

Synergy Housing Limited participates in four pension schemes. There is one Local Government Pension Scheme (LGPS) which is the Dorset County Council Pension Fund. There are three separate schemes with the Social Housing Pension Scheme ('SHPS').

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit scheme. The asset for this scheme is held separately from those of the association in independently administered funds. Pension scheme assets are measured in accordance with the FRS 102 fair value hierarchy. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability.

The increase in the present value of the liabilities of the association's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in operating expenditure. Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the statement of financial position net of the related deferred tax. Actuarial gains and losses which arise from the difference between actual and expected performance of the scheme are recognised in other comprehensive income.

Notes to the Financial Statements (continued)

3 Summary of significant accounting policies (continued)

Pension Costs (continued)

There are three separate SHPS schemes. The SHPS defined benefit scheme based on final salary was closed to new starters with effect from October 2010. Employees currently have a choice of joining the SHPS defined benefit scheme based on a career average of earnings (CARE), or a SHPS defined contributions (stakeholder) scheme. The CARE scheme will be closed to new starters from June 2019.

Defined contribution scheme costs are charged to the Consolidated Statement of Comprehensive Income as they fall due.

Prior to 1 April 2018 SHPS were unable to provide sufficient information for the defined benefits schemes to calculate the group's share of assets and liabilities and the scheme was accounted for as a defined contribution scheme. The SHPS scheme was in deficit and the group had agreed to participate in a deficit funding arrangement which was recognised as a liability. The amount recognised was the present value of the contributions payable under the deficit funding arrangement.

Post 1 April 2018 SHPS has been able to provide sufficient information to calculate the group's share of the scheme's assets and liabilities. The scheme is now accounted for as a defined benefit scheme as described for the LGPSs above.

The movements resulting from the transition have been recognised in Other Comprehensive Income, see "Pension Obligations" note for further details.

All SHPS defined benefit schemes will be closed to new starters from June 2019.

Provisions

a) General provisions

A provision is recognised in the consolidated statement of financial position where the group has an obligation as a result of a past event, and it is probable that economic benefits will be required to settle the obligation. The amount of provision is re-assessed each year in the light of estimated future income and costs as appropriate.

Notes to the Financial Statements (continued)

4 Critical accounting judgements and estimation uncertainty

Preparation of the financial statements requires management to make significant judgements and estimates, which are shown below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the association's accounting policies

Fair value

The directors have made the following judgements regarding fair value:

- If land is donated at below market cost it is recognised at its fair value. The directors judge this to be its market value at the time of the donation.
- Investment properties are recognised each year at their fair value. The directors judge this to be their market value at the end of the reporting period.

Cash generating units

When reviewing social housing properties for impairment the directors are required to consider the level of cash generating unit. For impairment purposes, the directors consider that each individual property constitutes a cash generating unit as it generates cash flows that are largely independent of the cash flows generated by other assets.

Multi-employer defined benefit pension plan

The group participates in two multi-employer defined benefit pension plans. One based on final salary and one based on a career average of earnings, both provided by the Social Housing Pension Scheme.

In the judgement of the directors prior to 1 April 2018 there was not sufficient information available to be able to reliably account for the group's share of the SHPS defined benefit scheme obligation and assets. Therefore, the scheme was accounted for as a defined contribution scheme. Post 1 April 2018 there was sufficient information to attribute the scheme's assets and liabilities and the scheme's accounting changed to defined benefit. The movements resulting from the transition have been recognised in Other Comprehensive Income which the directors judge to be appropriate. See note "Pension Obligations" note for further details.

Critical accounting estimates and assumptions

The association makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful lives of social housing property assets

Social housing property assets are split into their component parts, with each component being depreciated over a separate estimated useful economic life. The annual depreciation charge for social housing property assets in total is sensitive to changes in these estimated useful economic lives. The useful economic lives of individual components are re-assessed as part of a rolling stock condition survey, examining 20% of the stock annually, and amended where necessary. See note 3 for the useful economic lives for each class of component.

Notes to the Financial Statements (continued)

4 Critical accounting judgements and estimation uncertainty (continued)

Critical judgements in applying the association's accounting policies (continued)

Rebalancing surpluses from HomeBuy first tranche sales

Where social housing development schemes consist of social rental and HomeBuy properties the cost of development is split between the individual properties by property classification. As these costs cannot be accurately assigned to individual properties management assumes that they are evenly spread by floor area.

The HomeBuy property costs are then further split between the percentage of the property to remain as property, plant and equipment and the current asset based on the percentage to be sold as the first tranches sale.

The exception to this treatment is where the overall surplus of the scheme, including social rental properties, is less than the surplus to be recognised for the first tranche sale. The surplus for the entire scheme is calculated by taking the present value of the net cash flows expected to be generated by the scheme over a period of 30 years, (its existing use valuation – social housing (EUV-SH)), value away from the cost of the scheme. If the resulting surplus is smaller than the surplus on the first tranche sales alone the first tranche surplus must be restricted to that of the total scheme. This is achieved by transferring costs from property, plant and equipment to the current asset until the excess surplus is removed.

Change in accounting policy for multi-employer defined benefit pension plans

Prior to 1 April 2018 multi-employer defined benefit pension plans were accounted for as defined contribution schemes. Contributions to a plan's deficit recovery plan were recognised at the present value of the contributions discounted at the current rate of return on a high-quality corporate bond of equivalent terms and currency to the liability, provided by the schemes actuaries. Post 1 April 2018 these plans are accounted for as a defined benefit scheme. The cost of these benefits and the present value of the obligation depend on a number of estimates, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. These estimates are provided by the scheme's actuaries. The directors are satisfied these estimates are reasonable. See "Pension Obligations" for further details.

Impairment triggers for housing properties

On completion each development scheme is reviewed for impairment triggers using the group's Property Impairment Flow Chart. If it is judged that there is evidence that the scheme has activated one of the triggers in the flow chart an impairment review is undertaken. Where impairment is found the carrying value of the properties in the scheme is reduced to their depreciated replacement cost. This process is also applied to completed properties annually.

Notes to the Financial Statements (*continued)*

5 Turnover, operating expenditure and operating profit

5a

	Note	Turnover £000	2019 Operating expenditure £000	Operating profit /(loss) £000
Income and expenditure from lettings				
Housing accommodation before impairment	**5b**	**53,671**	**(34,780)**	**18,891**
Other income and expenditure				
Social Housing				
Housing services provided to third parties		**15**	**(2)**	**13**
Properties managed by agents		**299**	**(2)**	**297**
Community involvement and transform		**15**	**(228)**	**(213)**
Development costs not capitalised		**-**	**(766)**	**(766)**
		329	**(998)**	**(669)**
Non-social Housing				
Garage lettings		**572**	**(109)**	**463**
Sewerage services		**9**	**(20)**	**(11)**
Market rented properties		**793**	**(222)**	**571**
Other		**920**	**-**	**920**
		2,294	**(351)**	**1,943**
Total income and expenditure		**56,294**	**(36,129)**	**20,165**
Other income and cost of sales				
Social Housing				
First tranche shared ownership		**10,846**	**(8,853)**	**1,993**
Total other income and cost of sales		**10,846**	**(8,853)**	**1,993**
Total		**67,140**	**(44,982)**	**22,158**
Surplus on sale of housing property, plant and equipment	**6**	**9,469**	**(3,757)**	**5,712**
Operating profit				**27,870**

Notes to the Financial Statements (*continued)*

5 Turnover, operating expenditure and operating profit (continued)

5a

	Note	Turnover £000	Reclassified 2018 Operating expenditure £000	Operating profit /(loss) £000
Income and expenditure from lettings				
Housing accommodation before impairment	5b	52,188	(34,869)	17,319
Other income and expenditure				
Housing services provided to third parties		17	-	17
Properties managed by agents		289	-	289
Community involvement and transform		49	(222)	(173)
Other		-	(703)	(703)
		355	(925)	(570)
Non-social Housing				
Garage lettings		560	(24)	536
Sewerage services		1	(4)	(3)
Market rented properties		731	(208)	523
Other		-	-	-
		1,292	(236)	1,056
Total income and expenditure		53,835	(36,030)	17,805
Other income and cost of sales				
Social Housing				
First tranche shared ownership		12,264	(10,308)	1,956
Total other income and cost of sales		12,264	(10,308)	1,956
Total		66,099	(46,338)	19,761
Surplus on sale of housing property, plant and equipment	6	6,186	(3,552)	2,634
Operating profit before impairment				22,395
Operating profit				22,395

The disopsal of housing properties has been reclassifed as part of operating profit becuase management consider it is part of the association's core business.

Notes to the Financial Statements (*continued)*

5 Turnover, operating expenditure and operating profit (continued)

5b Income and expenditure from lettings

	2019				
	General Needs Housing £000	Supported Housing £000	Shared Ownership £000	Other £000	Total £000
Income					
Rents	38,966	8,402	2,029	8	49,405
Service charges	896	2,613	502	-	4,011
Amortised government grants	70	-	22	-	92
Other revenue grants	118	32	13	-	163
Total net rents from lettings	40,050	11,047	2,566	8	53,671
Expenditure					
Management	(8,007)	(9)	-	7	(8,009)
Services	(1,420)	(2,860)	(359)	(81)	(4,720)
Routine maintenance	(4,487)	-	(4)	(2)	(4,493)
Planned maintenance	(2,936)	-	-	-	(2,936)
Major improvements and repairs	(5,791)	-	-	-	(5,791)
Bad debts	(339)	(73)	-	(1)	(413)
Depreciation of housing properties	(6,691)	(1,245)	(270)	-	(8,206)
Accelerated depreciation on component disposals	(212)	-	-	-	(212)
Operating expenditure on housing lettings	(29,883)	(4,187)	(633)	(77)	(34,780)
Operating profit / (loss) on lettings activities before impairment	10,167	6,860	1,933	(69)	18,891
Operating profit / (loss) on lettings activities	10,167	6,860	1,933	(69)	18,891
Rental income is stated net of void losses as set out below:					
Void losses	155	151	-	1	307

Notes to the Financial Statements (*continued)*

5 Turnover, operating expenditure and operating profit (continued)
5b Income and expenditure from lettings (continued)

	2018				
	General Needs Housing £000	Supported Housing £000	Shared Ownership £000	Other £000	Total £000
Income					
Rents	38,402	8,507	1,555	4	48,468
Service charges	752	2,262	369	-	3,383
Amortised government grants	67	-	22	-	89
Other revenue grants	202	46	-	-	248
Total net rents from lettings	39,423	10,815	1,946	4	52,188
Expenditure					
Management	(10,293)	(15)	-	-	(10,308)
Services	(2,569)	(1,669)	(213)	(4)	(4,455)
Routine maintenance	(4,546)	-	(8)	-	(4,554)
Planned maintenance	(2,491)	-	-	-	(2,491)
Major improvements and repairs	(4,610)	-	-	-	(4,610)
Bad debts	(235)	(67)	-	(1)	(303)
Depreciation of housing properties	(6,428)	(1,242)	(197)	-	(7,867)
Accelerated depreciation on component disposals	(241)	(40)	-	-	(281)
Other costs	-	-	-	-	-
Operating expenditure on housing lettings	(31,413)	(3,033)	(418)	(5)	(34,869)
Operating profit on lettings activities before impairment	8,010	7,782	1,528	(1)	17,319
Net reversal of impairment of housing assets	-	-	-	-	-
Operating profit on lettings activities	8,010	7,782	1,528	(1)	17,319
Rental income is stated net of void losses as set out below:					
Void losses	143	128	-	1	272

Notes to the Financial Statements (*continued)*

6 Profit on disposal of housing property, plant and equipment

	2019			Reclassified 2018		
	Proceeds	**Cost of Sales**	**(Loss) / Profit**	Proceeds	Cost of Sales	(Loss) / Profit
	£000	**£000**	**£000**	£000	£000	£000
Right to buy	**1,188**	**(1,455)**	**(267)**	1,261	(1,595)	(334)
Right to acquire	**324**	**(114)**	**210**	12	-	12
Shared ownership staircasing	**1,187**	**(541)**	**646**	2,334	(1,320)	1,014
Void property disposals	**6,714**	**(1,647)**	**5,067**	2,484	(637)	1,847
Others	**56**	**-**	**56**	95	-	95
	9,469	**(3,757)**	**5,712**	6,186	(3,552)	2,634

The disposal of housing properties has been reclassifed as part of operating profit becuase management consider it is part of the association's core business.

Local authority clawback payments, legal and other related costs are included in cost of disposal.

The right to acquire comparative income relates to discount repaid on a property disposal in the previous year.

7 Operating profit

	2019	2018
	£000	£000
Operating profit is stated after charging/(crediting):		
Auditor's remuneration (excluding irrecoverable VAT)		
In their capacity as auditor:		
Financial statements audit	**23**	24
Depreciation:		
Property, plant and equipment (social housing)	**8,201**	7,864
Property, plant and equipment (loss on write off of components)	**212**	273
Property, plant and equipment (other assets)	**194**	215
Amortisation of intangible assets	**149**	150
Profit on disposal of first tranche shared ownership properties	**(1,993)**	(1,956)
Operating lease payments:		
Land and buildings	**6**	5
Office premises	**214**	224

Notes to the Financial Statements (*continued)*

8 Directors' emoluments

Members of the Executive Board and executive management team

The association employeed one member of the Executive Board and management team during the year, this was recharged to Aster Group Limited so that their services could be recharged out along with other members via the group overheads. This recharge included £196,000 (2018: £199,000) for the executive team's services and the amounts are included in the association's profit for the year. Full details of the executive directors' and executive management team's emoluments are disclosed in the group's consolidated financial statements.

Non-executive directors

The association's board operates as part of the group Overlap Board. The non-executive directors are paid by Aster Group Limited. A charge of £59,000 (2018: £56,000) was made for their services via the group overheads recharge to the association. This amount is included in the profit for the year. Full details of the non-executive directors' emoluments are disclosed in the group's consolidated financial statements.

Notes to the Financial Statements (*continued)*

9 Employee information

	2019 No.	2018 No.
The average number of persons employed during the year (full time equivalents) based on 37 hours per week	**158**	175

FTE by salary bands:

Salary includes salary, car allowance, any acting up allowances, bonuses and pension contributions made by the group. The prior year figures have been restated to reflect this.

	2019 No.	Restated 2018 No.
£59,999 or less	**151**	168
£60,000 to £69,999	**4**	4
£90,000 to £99,999	**1**	2
£100,000 to £109,999	**1**	-
£160,000 to £169,999	**-**	1
£190,000 to £199,999	**1**	-
	158	175

Staff costs:	**2019 £000**	2018 £000
Wages and salaries	**5,553**	6,032
Social security costs	**571**	621
Other pension costs	**728**	803
	6,852	7,456

Notes to the Financial Statements (*continued)*

10 Charitable donations made

	2019	2018
	£000	£000
Aster 3	**2,694**	-

The association donated £2.7 million net book value of housing stock to Aster 3 Limited in May 2018.

11 Gift aid received

	2019	2018
	£000	£000
Gift aid received from subsidiary	**-**	12

Notes to the Financial Statements (*continued)*

12 Finance income and expense

Interest receivable and similar income

	Note	2019 £000	2018 £000
Interest on short term deposits		**145**	176
Interest receivable from other group companies		**752**	799
Total interest income on financial assets not measured at fair value through profit or loss		**897**	975
Unwinding of trade debtor discounting		**133**	84
		1,030	1,059

Interest payable and similar charges

Fixed rate loans		**(5,999)**	(6,497)
Floating rate loans		**(456)**	(273)
Loans with other group companies		**(4,565)**	(4,867)
Less interest capitalised		**1,750**	1,503
		(9,270)	(10,134)
Amortisation of arrangement fees		**(40)**	(43)
Administration Charge		**(67)**	(94)
Recycled capital grant fund interest		**(1)**	(1)
Interest charged on amounts due under right to buy sharing agreement		**(2)**	(3)
Total interest payable on financial liabilities not measured at fair value through profit or loss		**(9,380)**	(10,275)
Movement in SHPS recovery plan liability creditor discounting		**-**	(4)
Reduction in rent debts over 12 months		**(138)**	(227)
		(9,518)	(10,506)

Interest on net pension liability

Pension schemes	**31**	**(396)**	(456)
		(396)	(456)
Net finance expense		**(8,884)**	(9,903)

Notes to the Financial Statements (*continued)*

13 Taxation

The association has charitable rules registered under the Co-operative and Community Benefit Societies Act 2014 and is therefore not liable to Corporation Tax on its charitable activities.

14 Intangible assets

	2019 Computer software £000
Cost	
At 1 April 2018	**2,058**
At 31 March 2019	**2,058**
Accumulated amortisation	
At 1 April 2018	**1,305**
Charge for year	149
At 31 March 2019	**1,454**
Net book value at 31 March 2019	**604**
Net book value at 31 March 2018	753

15 Property, plant and equipment (social housing)

On transition to FRS 102 the association elected to take the transitional exemption laid out in paragraph 35.10(d) of FRS 102 and is using the 31 March 2014 valuation as the deemed cost of social housing properties held at that date. All social housing properties completed or acquired after that date are recognised at cost.

	2019				
	Housing properties under construction £000	Completed housing properties £000	Shared Ownership under construction £000	Shared Ownership completed £000	Total £000
Cost					
At 1 April 2018	16,535	516,029	6,326	34,350	573,240
Additions	22,344	-	18,054	-	40,398
Components	-	4,846	-	-	4,846
Disposal of components	-	(591)	-	-	(591)
Completions	(22,973)	22,973	(15,803)	15,803	-
Transfer to group company	-	(2,953)	-	-	(2,953)
Disposals	-	(2,292)	-	(540)	(2,832)
At 31 March 2019	15,906	538,012	8,577	49,613	612,108
Accumulated depreciation					
At 1 April 2018	-	27,732	-	554	28,286
Charge for year	-	7,932	-	269	8,201
Disposal of components	-	(379)	-	-	(379)
Transfer to group company	-	(259)	-	-	(259)
Disposals	-	(223)	-	(15)	(238)
At 31 March 2019	-	34,803	-	808	35,611
Net book value at 31 March 2019	15,906	503,209	8,577	48,805	576,497
Net book value at 31 March 2018	16,535	488,297	6,326	33,796	544,954

The cost of completed properties during the year includes £1.8 million (2018: £1.5 million) of capitalised borrowing costs at an average cost of borrowing of 2.6% (2018: 2.8%).

Net book value of Property, plant and equipment - Social Housing by tenure

	2019 £000	2018 £000
Freehold	576,032	544,493
Long leasehold	465	461
Net book value	576,497	544,954

Value of completed social housing properties

	Housing properties under construction £000	Completed housing properties £000	Shared Ownership under construction £000	Shared Ownership completed £000	Total £000
Existing Use Valuation - Social Housing					
Valuation	-	493,750	-	42,070	535,820
Net book value at 31 March 2019	-	493,750	-	42,070	535,820

The above valuation was carried out by Jones Lang LaSalle Limited Chartered Surveyors, on 31 March 2019, on the basis of Existing Use Value - Social Housing. The valuations were carried out in accordance with RICS Appraisal and Valuation Manual effective from 1 January 1996 (as amended).

Notes to the Financial Statements (*continued*)

16 Property, plant and equipment (other assets)

	2019					
	Leasehold office improvements £000	Office Premises £000	Motor vehicles £000	Office equipment £000	Computer equipment £000	Total £000
Cost						
At 1 April 2018	879	-	23	3,517	613	5,032
Additions	-	79	-	121	-	200
Transfer to group companies	-	-	-	(5)	-	(5)
Disposals	-	-	-	(312)	-	(312)
At 31 March 2019	879	79	23	3,321	613	4,915
Accumulated depreciation						
At 1 April 2018	162	-	23	2,334	613	3,132
Charge for year	19	-	-	175	-	194
Transfer to group companies	-	-	-	(3)	-	(3)
Disposals	-	-	-	(306)	-	(306)
At 31 March 2019	181	-	23	2,200	613	3,017
Net book value at 31 March 2019	698	79	-	1,121	-	1,898
Net book value at 31 March 2018	717	-	-	1,183	-	1,900

17 Investment properties

	Market rented properties	Freehold	Total investment properties
	£000	£000	£000
Fair value			
At 1 April 2018	14,610	58	14,668
Additions	44	-	44
Fair value adjustments	157	128	285
At 31 March 2019	14,811	186	14,997

The above valuation was carried out as at 31 March 2019 by Jones Lang LaSalle Limited Chartered Surveyors on the basis of Market Value using the comparison method. Market value is defined by the Royal Institution of Chartered Surveyors (RICS) as 'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion'. The valuations were carried out in accordance with RICS Appraisal and Valuation Manual effective from 1 January 1996 (as amended).

Ground rents are recognised as a freehold asset on leases with less than 80 years remaining and are calculated on the present value of the ground rents plus the discounted property valuation.

18 Investments

	2019	2018
	£000	£000
MORhomes PLC	50	-

Synergy Housing Limited owns 100,000 £0.10 ordinary shares with a premuin of £0.40 in MORhomes PLC whose primary activity is to act as a borrowing vehicle for the social housing sector.

Notes to the Financial Statements (*continued)*

19 Investment in Subsidiaries

	2019 £000	2018 £000
Zebra Property Solutions Limited	-	-

The association owns 100 £1 shares in Zebra Property Solutions Limited, who ceased trading on 1 April 2018 following the transfer of its market rent portfolio of assets to the association. The registered company address Link House, First Floor, West Street, Poole, Dorset BH15 1LD.

20 Investment in Joint Ventures

	2019 £000	2018 £000
Aster Solar Limited - Class A shares	1,500	1,500

The association owns 1,500,000 £1 Class A shares in Aster Solar Limited, whose principle activity is the supply of photovoltaic panels. Registered company address Sarsen Court, Horton Avenue, Cannings Hill, Devizes, Wiltshire SN10 2AZ.

21 Debtors: amounts falling due after more than one year

	2019 £000	2018 £000
Amounts owing by group undertakings	10,320	8,520
MORhomes convertible financial instruments	115	-
Affordable Housing Finance (AHF) liquidity Reserve	1,446	1,447
	11,881	9,967

Aster Homes Limited intercompany loan is due for repayment on the 15 June 2021 and bears interest at 8% over LIBOR. On 30 March 2018 Zebra Property Solutions Limited repaid the balance on the intercompany loan with Synergy Housing Limited.

A condition of the European Investment Bank (EIB) loan provided through the Affordable Housing Finance (AHF) plc is that Synergy Housing Limited holds an amount of at least twelve months interest in liquidity reserve funds as security against default on interest payments. These funds are controlled by the EIB and Synergy Housing Limited can only access the funds when the principal of the loans are repaid.

MORhomes PLC fixed rate unsecured convertible loan notes ("CoCO Loan Notes") are availiable in the event of MORhomes PLC becoming financially distressed and the debt automatically converted to equity.

22 Debtors: amounts falling due within one year

	2019 £000	2018 £000
Trade debtors	463	257
Rent arrears	2,974	2,925
Service charge under-recovery	2,120	825
Less discounting of debts payable over more than 12 months	(396)	(391)
Less provision for bad debts	(1,262)	(1,231)
	3,899	2,385
Amounts owing by group undertakings	2,968	30
Other debtors	136	136
Less provision for bad debts	(9)	(3)
Prepayments and accrued income	1,451	225
	8,445	2,773

Notes to the Financial Statements (*continued)*

23 Shared ownership properties held for sale

	Under construction £000	Completed £000	Total £000
At 1 April 2018	**4,260**	**705**	**4,965**
Additions	13,484	-	13,484
Completions	(11,968)	11,968	-
Disposals	-	(8,505)	(8,505)
At 31 March 2019	**5,776**	**4,168**	**9,944**

The association assumes that first tranches sales will be 40% of the property value. Additions are therefore 40% of the construction cost of the properties.

24 Cash and cash equivalents

	2019 £000	2018 £000
Short term deposits	**16,096**	27,852
Cash at bank and in hand	**17,908**	20,433
	34,004	48,285

Notes to the Financial Statements (*continued)*

25 Creditors: amounts falling due within one year

	Note	2019 £000	2018 £000
Trade creditors		**529**	103
Taxation and social security payable		**137**	-
Pension contributions		**66**	67
Social Housing Pension scheme recovery plan liability	31	**-**	30
VAT Payable		**14**	27
Rent paid in advance		**1,283**	1,100
Service charge over-recovery		**1,590**	814
Amounts due under right to buy sharing agreement		**580**	1,055
Amounts owed to group undertakings		**6,155**	5,779
Capital grant received in advance		**39**	31
Social Housing Grant	27	**243**	233
Recycled capital grant fund	28	**33**	1
Disposal proceeds fund	29	**193**	106
Accrued holiday pay		**10**	5
Other creditors		**650**	776
Accruals and deferred income		**6,011**	3,690
Loan repayable by instalment (within 1 year)		**1,520**	1,520
		19,053	15,337

26 Creditors: amounts falling due after more than one year

	Note	2019 £000	2018 £000
Loans repayable			
In 1 to 2 years		**1,520**	1,520
In less than five years		**54,552**	54,552
In five years or more		**138,193**	129,319
Less deferred arrangement fees		**(487)**	(527)
Plus unamortised premium on issue		**2,506**	2,537
		196,284	187,401
Social Housing Grant	27	**8,842**	8,960
Recycled capital grant fund	28	**230**	226
Disposal proceeds fund	29	**1**	87
Amounts owed to other group companies		**115,514**	113,512
Social Housing Pension scheme recovery plan liability	31	**-**	157
		320,871	310,343

Interest is payable on housing loans at varying commercial rates. Loans are secured by fixed charges on individual properties. Interest rates ranged from 2.7% to 6.0% (2018: 2.7% to 6.0%) for fixed/hedged loans and 0.7% to 1.3% (2018: 0.7% to 1.0%) for variable loans.

At 31 March 2019, the association has a loan facility with Santander of £130 million (2018: £130 million) and a £36.5 million (2018: £38 million) loan facility with the Royal Bank of Scotland Plc. Each facility has its own designated pool of security held with a Security Trustee.

The association at 31 March 2019 also has undrawn loan facilities of £30.5 million (2018: £31.5 million) with Santander to finance future operating cash flows and investments. The loan facility with the Royal Bank of Scotland is fully drawn.

Under the terms of an arrangement with Aster Treasury Plc. Synergy Housing Limited has guaranteed the repayment of all amounts due by Aster Communities to Aster Treasury Plc. In the case of Aster Communities not making any repayments of the loan, Synergy Housing Limited will become liable to settle the amount due. The total amount payable by Synergy Housing Limited as at 31 March 2019 is £ Nil (2018: £ Nil).

Notes to the Financial Statements (*continued)*

27 Social Housing Grant

	2019	2018
	£000	£000
Balance as at 1 April	**9,193**	8,567
Additions	**80**	802
Disposals	**(96)**	(87)
Amortised within Statement of Comprehensive Income	**(92)**	(89)
Balance as at 31 March	**9,085**	9,193
Recognised in:		
Creditors: amounts falling due within one year	**243**	233
Creditors: amounts falling due after one year	**8,842**	8,960
	9,085	9,193

Social housing grant ('SHG') is receivable from the Regulator for Social Housing ('RSH'). Grant received for properties under construction is classified as a creditor due in less than one year. Once properties have been completed the grant is classified as a long-term creditor and amortised to the profit or loss for the period over the life of the properties' structure.

Social housing grants received

	2019	2018
	£000	£000
Social Housing Grant	**96,994**	96,914

The total accumulated amount of SHG relates to properties owned at the balance sheet date.
The grant is recognised in:

	2019	2018
	£000	£000
Profit and loss reserve	**87,909**	87,721
Creditors: amounts falling due within one year	**243**	233
Creditors: amounts falling due after one year	**8,842**	8,960
	96,994	96,914

Notes to the Financial Statements (*continued)*

28 Recycled Capital Grant Fund

	2019	2018
	£000	£000
Funds relating to activities within areas covered by the RSH:		
Balance as at 1 April	**227**	33
Additions:		
Grants recycled	**35**	193
Interest accrued	**1**	1
Withdrawals:		
New build	**-**	-
Transfers to other Private Registered Providers	**-**	-
Other	**-**	-
Balance as at 31 March	**263**	227
Analysis of Maturity:		
- in less than one year	**33**	1
- in one to two years	**143**	32
- in more than two years	**87**	194
	263	227

The Recycled Capital Grant Fund ('RCGF') relates to Social Housing or Housing Association Grant previously received on social housing properties that have been sold, demolished or which there has been a change of use which does not meet the original conditions of the Grant. The Regulator for Social Housing ('RSH') permits grants to be reinvested within a three year period into schemes within the Approved Development Programme. The RSH requires funds which have not been reinvested within three years to be repaid. A waiver granted for elapsed balances which are all committed and awaiting allocation when schemes are in contract.

Notes to the Financial Statements (*continued)*

29 Disposal Proceeds Fund

	2019	2018
	£000	£000
Funds relating to activities within areas covered by the RSH:		
Balance as at 1 April	**193**	193
Additions:		
Funds recycled	1	-
Withdrawals:		
New build	**-**	-
Balance as at 31 March	**194**	193
Analysis of Maturity:		
- in less than one year	**193**	106
- in one to two years	**1**	87
- in more than two years	**-**	-
	194	193

Following the deregulation changes made to the Housing and Planning Act 2016, which came into force on 6 April 2017, the requirement to recycle grant into the Disposal Proceed Fund was removed. The Disposal Proceeds Fund will continue to have interest added and withdrawals made to fund new builds until the fund is exhausted or until the wind down period ends on 6 April 2020. After this date any unused funds will be repaid. A waiver was granted for elapsed balances which are all committed and awaiting allocation when schemes are in contract.

Notes to the Financial Statements (*continued)*

30 Financial instruments

30a Financial instruments' descriptions

The association holds several different types of financial instrument which it uses to fund its activities and manage its interest rate risk. The characteristics of the main classes of financial instrument held are given below:

Fixed rated loans

The association's fixed rated loans have a base fixed interest rate plus a margin that varies over the life of the borrowing. Due to this variation these loans are recognised using the effective interest method which averages the interest rate over the life of the loan. As with the group's bonds the interest charged to profit or loss is the effective interest and not the amount actually paid. During the year the effective interest charged to profit and loss was £131,000 (2018: £153,000) higher than the actual interest paid.

At the end of the year the association had drawn £135.5 million (2018: £153.5 million) of fixed rated loans which incurred an effective interest charge during the year of between 2.7% and 6.0% (2018: 2.7% and 6.0%). These loans have a carrying value of £137.4 million (2018: £155.4 million) giving a cumulative effective interest adjustment of £1.9 million (2018: £1.9 million).

Floating rate loans

The interest on these loans varies or floats as the London Inter-Bank Offered Rate (LIBOR) changes. In addition to LIBOR a margin is also charged which makes up the total interest rate. Within the total amount the group can borrow from its lenders there is a set amount designed as floating loans, once this limit is reached the group cannot draw down any more floating rate loans. At the end of the year the association had drawn £50.5 million (2018: £33.0 million) of floating rate loans and was charged interest rates of between 0.7% and 1.3% (2018: 0.7% and 1.0%).

Disposal proceeds fund

Following the deregulation changes made to the Housing and Planning Act 2016, which came into force on 6 April 2017, the requirement to recycled grant into the Disposal Proceed Fund was removed. The Disposal Proceeds Fund will continue to have interest added and withdrawals made to fund new builds until the fund is exhausted or until the wind down period ends on 6 April 2020. The balance on the fund is £194,000 (2018: £193,000).

Notes to the Financial Statements (*continued)*

30 Financial instruments (continued)

30a Financial instruments' descriptions (continued)

Recycled capital grant fund

The group receives SHG from the RSH to build Social Housing. When the tenant of a New Build Home Buy property purchases a further tranche of the property, if there are sufficient sales proceeds, the associated grant will be recycled via the RCGF. Like the DPF a notional amount of interest is added to the fund each year depending on the value of the fund. The balance in the association's RCGF at the end of the year was £263,000 (2018: £227,000), this includes £727 (2018: £568) of interest added during the year.

Loan commitments measured at cost less impairment

The association has various borrowing facilities available to it. The undrawn committed facilities are valued at cost less impairment. The amount of undrawn borrowings at 31 March 2019 was £30.5 million (2018: £31.5 million), and the cost of the undrawn facility is £76,000 (2018: £78,000), is not considered to be impaired.

30b Financial instruments' classifications

Amortised cost

Basic financial instruments such as loans are measured at amortised cost. This is calculated using the effective interest rate method. For floating rated loans and fixed rate loans with no interest rate changes the effective interest will equal the amount of interest paid. For fixed rated loans which have changes in interest rate over the life of the loan the effective interest rate will average the different interest rates over the life of the loan. The effective interest is the amount that is recognised in profit or loss.

Equity

Equity is the difference between an entity's total assets and total liabilities. Where a company has joint or a controlling interest in another company its share of the equity in that company is recognised in its financial statements.

Notes to the Financial Statements (*continued)*

30 Financial instruments (continued)

30c Financial instrument carrying values

The association has the following financial instruments:

	2019	2018
Financial assets that are debt instruments measured at amortised cost	**£000**	£000
Loan to subsidiary	**10,320**	8,520
Intercompany trade debtors	**2,968**	30
Trade and rent debtors	**5,557**	4,007
Affordable Housing Finance ('AHF') liquidity Reserve	**1,446**	1,447
Other debtors	**127**	133
	20,418	14,137

	2019	2018
Financial liabilities measured at amortised cost	**£000**	£000
Intercompany fixed rate loan	**(115,514)**	(113,512)
Fixed rate loans	**(137,431)**	(155,921)
Floating rated loans	**(50,480)**	(33,000)
Convertible financial instruments	**(9,894)**	-
Disposal proceeds fund	**(194)**	(193)
Recycled Capital Grant Fund	**(263)**	(227)
Trade creditors	**(529)**	(103)
Intercompany trade creditors	**(6,155)**	(5,779)
Accruals	**(6,021)**	(3,695)
Other creditors	**(650)**	(776)
	(327,131)	(313,206)

Notes to the Financial Statements (*continued)*

30 Financial instruments (continued)

30d Interest rate profile of borrowings

	2019	2018
	£000	£000
Association borrowings comprise:		
Inter group loans	**110,000**	110,000
MORhomes convertible financial instruments	**10,000**	-
Affordable Housing Finance Fixed rated loans	**50,000**	50,000
Fixed rated loans	**85,500**	103,500
Floating rated loans	**50,480**	33,000
Recycled Capital Grant Fund	**263**	227
Disposal Proceeds Fund	**194**	193
Total	**306,437**	296,920

The above values are the loan principal not the loan's carrying value.

	2019	**2019**	2018	2018
	Weighted average interest rate	**Weighted average period for which rate is fixed**	Weighted average interest rate	Weighted average period for which rate is fixed
At 31 March	**%**	**Years**	%	Years
Inter group loans	**4.50**	**24.7**	4.50	25.7
MORhomes convertible financial instruments	**3.70**	**18.9**	0.00	0.0
Fixed rated loans	**4.15**	**14.3**	4.25	11.9

30e Maturity of borrowings

The maturity profile of the principal value of the association's loans, as shown in note 30d; is:

	2019			2018		
	Repayment			Repayment		
	By instalments	**Not by instalments**	**Total**	By instalments	Not by instalments	Total
	£000	**£000**	**£000**	£000	£000	£000
0 -1 years	**1,520**	**226**	**1,746**	1,520	107	1,627
1 - 2 years	**1,520**	**144**	**1,664**	1,520	119	1,639
2 - 5 years	**54,552**	**87**	**54,639**	54,552	194	54,746
Over 5 years	**68,388**	**180,000**	**248,388**	68,908	170,000	238,908
	125,980	**180,457**	**306,437**	126,500	170,420	296,920

-

The above borrowings are secured against the association's social housing properties. The value of the secured properties is £462.4 million (2018: £446.6 million). At 31 March 2019 properties valuing £101.6 million (2018: £84.4 million) were unsecured and available to be secured.

Notes to the Financial Statements (*continued)*

31 Pension obligations

Group pension schemes

The cost of providing retirement pensions and related benefits is accounted for in accordance with FRS 102 section 28 – 'Employee Benefits'. The group participates in eight pension schemes.

There are six defined benefit schemes:
- Wiltshire Pension Scheme (closed to new members),
- Hampshire County Council Pension Scheme (closed to new members),
- Somerset County Council Pension Scheme (closed to new members),
- Dorset County Council Pension Scheme (closed to new members),
- Social Housing Pension Scheme ('SHPS') final salary defined benefit scheme (closed to new members),
- SHPS career average of earnings scheme ('CARE'),

and two defined contribution ('stakeholder') schemes:
- SHPS defined contribution scheme,
- Friends Provident defined contribution scheme (closed to new members).

Synergy Housing Limited participates in four of the schemes:
- Dorset Pension Scheme (closed to new members),
- Social Housing Pension Scheme ('SHPS') final salary defined benefit scheme (closed to new members),
- SHPS career average of earnings scheme ('CARE'),
- SHPS defined contribution scheme

The accounting treatments for each of the schemes are described below.

The pension cost to the company for the year ended 31 March 2019 was £728,000 (2018: £803,000) in respect of 168 (2018: 187) employees.

Summary of movements and balances in funding

Synergy Housing Limited	**2019**			
	Total cost by scheme	**Total interest on net pension liability by scheme**	**Actuarial (loss)/gain in pension scheme**	**Pension deficit**
	£000	**£000**	**£000**	**£000**
County pension schemes				
Dorset	**530**	**387**	**1,539**	**(14,394)**
SHPS				
Defined benefit schemes	**9**	**9**	**(78)**	**(422)**
Initial recogntion of mulit-employer defined benefit scheme	**-**	**-**	**(174)**	**-**
Defined contribution scheme	**189**	**-**	**-**	**-**
	728	**396**	**1,287**	**(14,816)**

Synergy Housing Limited	2018			
	Total cost by scheme	Total interest on net pension liability by scheme	Actuarial gains in pension scheme	Pension deficit
	£000	£000	£000	£000
County pension schemes				
Dorset	609	456	2,369	(15,395)
SHPS	194	-	-	-
	803	456	2,369	(15,395)

31 Pension obligations (continued)

Dorset County Council Pension Fund

In October 2018 the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions ('GMP').

The association has reviewed the impact of GMP Equalisation in respect of its Local Government Pension Scheme and identified that a range of approaches has been adopted by the scheme actuaries. These approaches range from a detailed assessment of the impact of the requirements in 2019 through to limited recognition of the impact as the scheme actuaries wait for guidance from the Government on the methodology to be applied in calculating the full liability. No further adjustments have been made to the present value of obligations as the effect is not considered material.

In December 2018 the Court of Appeal ruled that 'transitional arrangements' protection in respect of benefit changes to the Judicial and Fire Fighter Pension scheme amounted to unlawful discrimination ('McCloud case'). Due to similar pension reforms to the LGPS in benefits the judgement is expected to be applicable to the LGPS. Whilst the judgement might be appealed by the Government in the Supreme Court it is generally considered unlikely that this will be successful.

The directors have considered the potential impact of the McCloud case on the group and associations defined benefit liability as at 31 March 2019. No additional liability has been recognised given the profile of the scheme members and assuming a very cautious outcome on the LGPS scheme liability (gross obligation: £45.1 million) the directors are satisfied that when fully accounted n the financial statements the impact will not be material to the group or association Financial Statements as at 31 March 2019.

The association participates in the above fund as an admitted body under the Local Government Superannuation Regulations 1995, funded jointly by employer and employee contributions. The fund is a defined benefit final salary multi-employer scheme.

As at the balance sheet date there were 41 (2018: 46) active members of the Scheme employed by Synergy Housing Limited. The annual pensionable payroll in respect of these members was £1.3 million (2018: £1.5 million).

The fund is subject to an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to address the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 31 March 2019. The principal assumptions used by the independent qualified actuaries in updating the latest valuation in order to provide the disclosures required by Financial Reporting Standard No. 102 section 28 – Employee Benefits are stated below. The actuary has used the projected unit credit method of valuation.

The last triennial valuation was performed on 31 March 2016 and the results have been incorporated into the financial statements for 2019.

The next triennial valuation was carried out on 31 March 2019 and the results for this will be incorporated into the financial statements for 2020.

The information in the financial statement relating to the valuation of the pensions scheme's assets and liabilities has been prepared by the scheme's actuaries, Barnett Waddingham.

Notes to the Financial Statements (*continued)*

31 Pension obligations (continued)

Dorset County Council Pension Fund (continued)

Financial assumptions

	2019 %p.a.	2018 %p.a.
Price increases (CPI)	**2.4**	2.4
Pension increases	**2.4**	2.4
Salary increases	**3.9**	3.9
Discount rate	**2.4**	2.6

Mortality	**2019 years**	2018 years
Current pensioners		
Females	**24.8**	26.1
Males	**22.9**	24.0
Future pensioners		
Females	**26.6**	28.4
Males	**24.6**	26.2

Fair value of employer assets

	2019 £000	2018 £000
Equities	**15,596**	16,263
Gilts	**3,988**	3,940
Infrastructure	**1,413**	1,086
Other Bonds	**2,179**	2,109
Diversified Growth Fund	**3,283**	3,235
Property	**3,355**	3,033
Cash	**923**	423
	30,737	30,089

Total cost recognised as expense

	2019 £000	2018 £000
Current service cost	**506**	588
Interest costs	**1,146**	1,238
Expected return on assets employed	**(759)**	(782)
Administration expenses	**24**	21
Total	**917**	1,065
Return on plan assets	**1,349**	1,468

Notes to the Financial Statements (*continued)*

31 Pension obligations (continued)

Dorset County Council Pension Fund (continued)

Reconciliation of defined benefit obligation

	2019	2018
	£000	£000
Opening defined benefit obligation	**45,484**	46,400
Current service cost	**506**	588
Interest cost	**1,146**	1,238
Contributions by members	**85**	94
Actuarial gains	**(949)**	(1,683)
Estimated unfunded benefits paid	**(7)**	(7)
Estimated benefits paid	**(1,134)**	(1,146)
Closing defined benefit obligation	**45,131**	45,484

Reconciliation of fair value of scheme assets

	2019	2018
	£000	£000
Opening fair value of scheme assets	**30,089**	29,303
Expected return on assets	**759**	782
Contributions by members	**85**	94
Contributions by employers	**379**	398
Administration expenses	**(24)**	(21)
Return on assets less interest	**590**	686
Other actuarial gains	**-**	-
Benefits paid	**(1,141)**	(1,153)
Closing fair value of scheme assets	**30,737**	30,089

Net pension liability	**14,394**	**15,395**

Projected pension expense for the year to 31 March 2020	**31 March 2020 £000**
Projected current service cost	**497**
Interest on obligation	**341**
Administration expenses	**25**
Total	**863**

31 Pension obligations (continued)

The Social Housing Pension Scheme

The group participates in the Social Housing Pension Scheme ("the Scheme").

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

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate until 31 March 2007. From April 2007 three defined benefit structures have been available, namely:
- Final salary with a 1/60th accrual rate – now closed to new members.
- Final salary with a 1/70th accrual rate – not available to employees of Aster Group.
- Career average revalued earnings ('CARE') with a 1/60th accrual rate – closed to new members.

From April 2010 a further two defined benefit structures have been available, namely:
- Final salary with a 1/80th accrual rate – not available to employees of Aster Group.
- Career average revalued earnings ('CARE') with a 1/80th accrual rate – not available to employees of Aster Group.

A defined contribution benefit structure was made available from 1 October 2010.

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

Synergy Housing Limited currently operates a final salary with a 1/60th accrual rate (closed to new members), a career average revalued earnings scheme ('CARE') with a 1/60th accrual rate (closed to new members) and a defined contribution scheme for active members offering variable levels of contribution.

In February 2014, Aster Group introduced a career average revalued earnings scheme ('CARE') with a 1/120th accrual rate which closes to new starters in June 2019.

<u>SHPS defined benefit scheme</u>

Synergy Housing Limited 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 funding defined benefit occupational pension schemes in the UK.

Notes to the Financial Statements (*continued*)

31 Pension obligations (continued)

The Social Housing Pension Scheme (continued)

SHPS defined benefit scheme (continued)

The scheme is classified as a 'last-man standing arrangement'. Therefore the association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2017. This showed assets of £4,553m, liabilities of £6,075m and a deficit of £1,522m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme.

Reconciliation of opening and closing SHPS recovery plan liability

	2019	2018
	£000	£000
At 1 April	**187**	215
Derecognition of Social Housing Pension scheme recovery plan liability	**(187)**	-
Unwinding of the discount factor	**-**	4
Deficit contribution paid	**-**	(29)
Remeasurements - changes in assumptions	**-**	(3)
Remeasurements - contribution schedule	**-**	-
At 31 March	**-**	187
Recognised in:		
Creditors: amounts falling due within one year	**-**	30
Creditors: amounts falling due after one year	**-**	157
	-	187

Social Housing Pension scheme recovery plan liability profit and loss impact

	2019	2018
	£000	£000
Recognised in operating profit		
Remeasurements - changes in assumptions	**-**	(3)
Remeasurements - contribution schedule	**-**	-
	-	(3)
Recognised in total finance income and expense		
Interest expense	**-**	4

Notes to the Financial Statements (*continued)*

31 Pension obligations (continued)

The Social Housing Pension Scheme (continued)

SHPS defined benefit scheme (continued)

SHPs defined benefit pension plan – change of accounting policy

SHPS is a multi-employer scheme which provides benefits to non-associated employers. The scheme is classified as a defined benefit scheme. At 31 March 2018 it was not possible for the Association to obtain sufficient information to account for the liability on a full FRS 102 valuation basis so it was accounted for as a defined contribution scheme where the net present value of the deficit contributions were recognised in the accounts as creditors falling within and more than one year.

As a result of additional information, SHPS are now able to split the pension liability by employer which has resulted in the scheme liability being accounted for adopting a full FRS 102 valuation at 31 March 2019. In accordance with FRED 71, no restatement of prior year figures has been made in these accounts. A reconciliation between the closing liability at 31 March 2018 and the opening provision at 1 April 2018 is shown below.

	£000
SHPS recovery plan liability - 31 March 2018	187
Derecognition of SHPS recovery plan liability via other comprehensive income	(187)
Recognition of SHPS net pension liability via other comprehensive income	361
SHPS net pension liability – 1 April 2018	361

In October 2018 the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions ('GMP'). This has consequently been assessed against the Group's defined benefit schemes. The impact of GMP Equalisation in respect of the SHPs Pension Scheme have been recognised in the year.

As at the balance sheet date there were 3 (2018: 3) active members of the Scheme employed by Synergy Housing Limited. The annual pensionable payroll in respect of these members was £83,000 (2018: £79,000).

Due to previously mentioned change in accounting treatment there are no prior year comparisons in the following note.

The fund is subject to an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to address the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 31 March 2019. The principal assumptions used by the independent qualified actuaries in updating the latest valuation in order to provide the disclosures required by Financial Reporting Standard No. 102 section 28 – Employee Benefits are stated below. The actuary has used the projected unit credit method of valuation.

The last triennial valuation was performed on 30 September 2017 and the results have been incorporated into the financial statements for 2019.

The next triennial valuation was carried out on 30 September 2020 and the results for this will be incorporated into the financial statements for 2021.

The information in the financial statement relating to the valuation of the pensions scheme's assets and liabilities has been prepared by the scheme's actuaries, JLT.

Notes to the Financial Statements (*continued)*

31 Pension obligations (continued)

The Social Housing Pension Scheme (continued)

SHPS defined benefit scheme (continued)

Financial assumptions

	2019
	%p.a.
Price increases (CPI)*	2.26
Price increases (RPI)*	3.26
Earnings increases*	3.26
Discount rate*	2.34

Mortality	2019
	years
Current pensioners*	
Females	23.5
Males	21.8
Future pensioners*	
Females	24.7
Males	23.2

Fair value of employer assets

	2019
	£000
Absolute Returns	112
Global Equity	218
Liability Driven Investment	474
Property and Infrastructure	116
Investments	144
Sharing & Alterative Premia Risk	114
Emerging Market and Private debt	62
Other	56
	1,296

Total cost recognised in profit for the year

	2019
	£000
Current service cost	6
Expenses	3
Net interest cost	9
Total	18
Return on plan assets	58

Notes to the Financial Statements (*continued)*

31 Pension obligations (continued)

The Social Housing Pension Scheme (continued)

SHPS defined benefit scheme (continued)

Reconciliation of defined benefit obligation

	2019 £000
Opening defined benefit obligation	**1,589**
Current service cost	**6**
Past service cost	**-**
Contributions by scheme participants	**4**
Expenses	**3**
Interest expense	**41**
Actuarial losses/(gains)	**104**
Benefits paid and expenses	**(29)**
Closing defined benefit obligation	**1,718**

Reconciliation of fair value of scheme assets

	2019 £000
Opening fair value of scheme assets	**1,228**
Interest income	**32**
Actuarial gains/(losses)	**26**
Contributions by the employer	**35**
Contributions by scheme participants	**4**
Benefits paid and expenses	**(29)**
Closing fair value of scheme assets	**1,296**
Net pension liability	**422**

The Social Housing Pension Scheme defined contribution scheme

The scheme is administered by the Pensions Trust. It is open to all members of staff and is the pension scheme for auto-enrolment. The association paid contributions between 2.5% and 10% (2018: 2% and 10%) and employees paid contributions from 2.5% to 7% (2018: from 2% to 7%). On retirement, funds or units earned can be converted into a pension with the Trust, or used to secure a pension with another provider. At 31 March 2019 there were 169 (2018: 146) active members of the scheme.

Notes to the Financial Statements (*continued)*

32 Other provisions

	2019	2018
	£000	£000
At 1 April	**1,850**	140
Additions during the year	**26**	1,850
Release during the year	**(1,500)**	(140)
At 31 March	**376**	1,850

Other provisions as at 31 March 2019 relates to a provision for unused office space rented by the association under an operating lease and legal matters.

33 Called up share capital

	2019	2018
	£	£
Ordinary shares allotted, issued and fully paid of £1 each		
At 1 April	**27**	28
Issued during the year	**3**	2
Cancelled during the year	**(4)**	(3)
At 31 March	**26**	27

During the year 3 shares were issued (2018: 2 shares) and 4 were cancelled (2018: 3) leaving a balance in the share capital of the association of £26 (2018: £27).

Notes to the Financial Statements (*continued*)

34 Other reserves

Other reserves consist of the following amounts:

	2019	2018
	Revaluation reserve	Revaluation reserve
	£000	£000
At 1 April	**164,878**	165,961
Revaluation surplus realised on disposals	**(1,698)**	(1,083)
At 31 March	**163,180**	164,878

Revaluation reserve

Prior to transition to FRS 102, on 1 April 2014, the association's social housing properties were revalued each year. The revaluation reserve represents the increases in value of properties held at this date. On transition to FRS 102 the group moved to recognising its social housing at deemed cost and no longer recorded increases in social housing property valuation.

35 Capital commitments

	2019	2018
	£000	£000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**49,056**	64,988
Capital expenditure that has been authorised by the board but has not yet been contracted	**13,846**	12,372
	62,902	77,360

These commitments will be funded through a mixture of cash and committed borrowings. The association's available committed borrowings are set out in note 31c.

36 Operating Leases

	2019	2018
	£000	£000
The association has total commitments under non-cancellable operating leases due to expire as follows:		
Land and buildings		
Not later than one year	**6**	5
Later than one year but not later than five years	**22**	23
Later than five years	**369**	356
Office premises		
Not later than one year	**214**	224
Later than one year but not later than five years	**676**	776
Later than five years	**1,381**	1,495
	2,668	2,879

Notes to the Financial Statements (*continued)*

37 Homes and bed spaces in management and in development

	2019	2018
	No.	No.
Under development at end of year:		
Housing accommodation	**278**	374
Shared ownership	**149**	206
	427	580
Under management at end of year:		
Owned and managed by the association:		
Housing accommodation		
Social rent	**5,902**	6,002
Affordable rent	**585**	591
Supported housing		
Social rent	**1,735**	1,739
Affordable rent	**4**	4
Shared ownership	**246**	249
Leasehold	**513**	495
Temporary Social Housing	**42**	42
	9,027	9,122
Not owned but managed by the association:		
Housing accommodation		
Social rent	**89**	29
Affordable rent	**27**	6
Shared Ownership	**24**	16
Private Sector Leasing	**2**	3
	142	54
Owned but managed by others at the end of the year:		
Housing accommodation		
Social rent	**317**	272
Affordable rent	**511**	364
Supported housing		
Social rent	**78**	78
Shared ownership	**427**	305
Leasehold	**4**	2
Market Rented	**88**	88
	1,425	1,109
	10,594	10,285

Notes to the Financial Statements (*continued)*

38 Related party transactions

The association receives management and other services from its holding company, Aster Group Limited, and property services from Aster Property Limited and Aster Solar Limited, both fellow group companies under the terms of documented service level agreements.

The association used Zebra Property Solutions Limited, a subsidiary of the association, to undertake commercial and development activities which are outside the charitable rules on its behalf, prior to it ceasing trading on 1 April 2018 following the transfer of its market rent portfolio of assets to the association.

The association has taken advantage of the exemption allowed under FRS 102 Section 33 Related Party Disclosures not to disclose related party transactions within the group. This exemption is available providing the transactions are entered into between two or more members of a group, so long as any subsidiary which is party to the transaction is wholly owned.

The Accounting Direction for Private Registered Providers of Social Housing requires disclosure of the material recharges for services between non-regulated and regulated entities. These are:

From non-regulated entity	To regulated entity	Nature of supply	2019 Total £000	2018 Total £000
Aster Property Limited	Synergy Housing Limited	Property maintenance services	**21,350**	19,316
Aster Homes Limited	Synergy Housing Limited	Property development services	**28,746**	24,421
Aster Living	Synergy Housing Limited	Site management services	**705**	601
Zebra Property Solutions Limited	Synergy Housing Limited	Property development services	**-**	11

Recharges from Aster Property Limited and Aster Homes Limited are at cost plus a profit margin. All other recharges are at cost.

The association received £nil (2018: £29,925) of services from Aster Options Plus Limited, a fellow member of the group, and had an outstanding balance of £nil (2018: £525) with that company at 31 March 2019.

39 Ultimate Parent Company

Synergy Housing Limited is a wholly owned subsidiary of Aster Group Limited, the ultimate parent company and controlling party, and whose consolidated financial statements may be obtained from the following address:

The Company Secretary, Sarsen Court, Horton Avenue, Cannings Hill, Devizes, Wiltshire, SN10 2AZ.

Aster Group Limited is the only group company to consolidate the company's financial statements.