HEXAGON HOUSING ASSOCIATION

Report and Consolidated Financial Statements

31 March 2022

Regulator of Social Housing Registration Number: L1538

HEXAGON HOUSING ASSOCIATION

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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EXECUTIVES AND ADVISORS FOR THE YEAR ENDED 31 MARCH 2022

Board of Management

Simon Fanshawe	(Chair)
Paul Williams	(Vice Chair) (Chair of Horniman)
Ruth Chambers	
Dermot Finn	(Up to 27 September 2021)
Jeanette Kenyon	
Mark Allan	
Ian Watts	
Carol Bernstein	Up to 31 March 2022
Denise Senner	
Tom McCormack	
Louise Richardson	
Roseanne Ayton	(From 28 September 2021)
Claud Williams	(From 28 September 2021)

Audit & Risk Committee

Ian Watts	(Chair)
Ruth Chambers	
Carol Bernstein	Up to 31 March 2022
Paul Williams	

Remuneration Committee

Dermot Finn	(Chair up to 27 September 2021)
Jeanette Kenyon	
Ian Watts	
Simon Fanshawe	
Ruth Chambers	(Chair from 28 September 2021)

Performance Management Committee

Mark Allan	(Chair)
Ian Watts	
Louise Richardson	
Carol Bernstein	Up to 31 March 2022

Executive Management

Tom McCormack	Chief Executive (to 10 June 2022)
Sheron Carter	Chief Executive (from 6 June 2022)
Andrew Green	Housing Services Director (to 7 May 2021)
Rebecca Outram	Housing Services Director (from 4 May 2021)
Kerry Heath	Development and Sales Director
Charles Mtakati	Property Services Director
Izzet Dizdar	Finance and IT Director

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Tom McCormack

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HEXAGON HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2022

The Board has pleasure in presenting its Report and Financial Statements for the year ended 31 March 2022.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Group comprises Hexagon Housing Association, which has charitable status, and Horniman Housing Association, which is non-charitable. The activities of Hexagon Housing Association include the development and management of general needs and supported housing in South East London. The activities of Horniman Housing Association are the management of 16 shared ownership / leasehold dwellings in the London Borough of Southwark together with the freehold of 23 units, and development of outright units for sale on the open market. A review of the Group's business and its likely future developments is provided in the Strategic Report on pages 11-20.

The financial performance of the Group, as set out in the statement of comprehensive income, is shown as operating results plus the impact of fair value measurements of longer-term liabilities such as derivative contracts and pensions payments. Settlement of these longer-term liabilities are included in the Group's business plan, but the movement in the year is determined by market forces which are outside the Board's control. The commentary which follows is therefore solely on the operating results of the business.

Group turnover increased by 15.0% to £40.6m from £35.3m, compared to 20/21. £3.3m of this increase is a one-off income from Brickfield Cottages insurance claim. A further £1.5m of the increase is in income from first tranche sales as there were more handovers and sales this year. The main source of turnover is income from social housing lettings, which increased by 2.4% on average in the year.

Operating costs excluding fair value and pension adjustments decreased by 14.3% to £23.2m from £27.1m. Operating margin from social housing lettings excluding fair value adjustments and all property sales increased to 22% from 7%. This is largely due to a one-off £6.3m impairment charge included in the 2020-21 operating cost relating to a scheme under construction, which did not recur in 2021-22. Excluding this one-off non-cash impairment charge in 2020-21, operating costs excluding fair value and pension adjustments increased by 12% to £23.2m from £20.8m. Similarly, excluding the same impairment charge from 2020-21, the operating margin excluding fair value adjustments and all property sales decreased to 22% from 28%. The reduction in the margin is mainly due to the increase in management costs, service charge costs and responsive repairs.

Net financing costs were 6% higher at £3.6m which was due to the increase in interest costs arising from additional drawdowns from the revolving credit facility. £2.6m (2021: £1.4m) was realised through a combination of staircasing sales of shared ownership properties and the sale of housing properties which were uneconomic to repair.

There is an overall £15.8m total comprehensive income surplus for the year against the £0.017m deficit in the previous year. The main operational cause of the deficit in 2021 is the £6.3m one-off non-cash impairment charge as stated above. There was also a £1.0m gain from actuarial valuation in the year for the SHPS multi-employer defined benefit pension scheme (2021: £4.2m loss). Finally, there was a £5.5m gain arising from change in the value of financial instruments (2021: £5.2m).

Group reserves currently stand at £61.4m (2021: £45.6m). The Board has adopted a policy of using the cash generated by its operating activities to fund the improvement and development of housing stock, thereby reducing borrowing requirement and interest costs and enabling rents to be kept at affordable levels.

The Group spent £8.2m on acquiring and developing properties in the year, of which £0.06m was funded through capital grants. There were no handovers in the year with 153 units under development. The Group's loans increased to £207.4m from £206.7m. £37.6m of loan facilities were available at year end. The weighted average interest rate on the Group's loan portfolio was 2.24% (2021: 2.28%). The Board estimates that the investment value of the Group's properties was £820m, of which £398m were in unsecured properties.

The Board has adopted a policy of converging social rents within the regulatory framework laid down by the Regulator of Social Housing (the Regulator, RSH). Rents for the Group's social rented general needs tenancies were increased by CPI +1% during the year, in compliance with the regulation.

Turnover and operating surplus by activity is as follows:

	Turnover		**Operating surplus / (deficit)**	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
General needs	**25,365**	24,933	**4,981**	2,658
Supported housing	**1,797**	1,679	**163**	68
Shared ownership	**2,579**	2,431	**1,400**	(742)
Sale of first tranche in shared ownership properties	**4,746**	3,248	**603**	163
Sale of outright units		-		-
Other social housing activities	**5,953**	2,866	**3,306**	(302)
Other non-social housing activities	**150**	106	**(1,046)**	(1,298)

	Turnover		Operating surplus / (deficit)	
	2022	2021	**2022**	2021
Surplus on disposal of fixed assets		-	**2,631**	1,448
Total	**40,590**	35,263	**12,038**	1,995

The first tranche sales of shared ownership properties provide a small surplus as most of the sales are on mixed tenure schemes, where surpluses on shared ownership are not recognised but are used to subsidise the rented units at the same scheme.
The Group does not have any nursing homes as the last remaining nursing home was closed in May 2019.

VALUE FOR MONEY

Hexagon's Broad Approach to Value for Money

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

The definitions are where possible the same as those used by the RSH. There are a few exceptions to this in the data we use internally. The themes, measures and our performance during 2021/22 are outlined in the table below.

Theme	Measure	Target	Actual	Whether Met	Comment
Controlling operating costs (including all major repairs) per social housing unit	Operating cost per social housing unit	<£5,018	£5,238	N	The target was missed due to the increase in management, service and repairs costs.
	Operating cost per social housing unit, excluding exceptional items	<£4,122	£4,469	N	The target was missed due to the increase in management, service and repairs costs.
Controlling growth of interest costs per social housing unit	Interest paid as a percentage of average borrowings	<2.40%	2.24%	Y	Due to the lower than forecast drawdown on the facilities.
Making the best use of our properties	Void loss % on rented homes	0.90%	0.93%	N	We marginally missed the target.
Maximising development (within our capacity)	Affordable units developed as a percentage of units owned	2.4%	0%	N	No additional homes were handed over during 2021/22, due to the slow down in the development activity
	Rolling average three-year surplus on outright sales	£252k	£27k	N	There was no income from outright sales in 2021/22 or 2021/21.
Improving resident satisfaction	% satisfied with last repair	>95%	97.7%	Y	Target met. A new survey methodology is in place from April 2022.
Delivering social value	Annual social value delivered per £ spent on employment initiatives	£7.00	£7.28	Y	The emphasis on employment related training, and the partnership with Love London Working (LLW) has enabled considerably increased return.
Addressing climate emergency	Average energy efficiency rating of properties	73.7	72.8	N	There were challenges with access into residents' homes to complete works to improve energy efficiency.

We have an annual VFM Strategy which the Board approves each year. This builds on the broad themes highlighted in our Corporate Plan and uses the performance measure outlined above. We also use HouseMark data to develop a series of VFM initiatives for the year and to look at areas where we would focus on improving performance. For 2021/22 there were 22 VFM initiatives – the table below gives some flavour of these initiatives, both in terms of their breadth as well as the successes and those areas that we need to carry out further work on.

Initiative	Team(s)	Progress to 31 March 2022
Theme: To change our ways of working to achieve maximum Value for Money by working Smarter		
Use our contract monitoring reports to improve the performance of contractors	Responsive Repairs	Monthly contractual performance data was produced throughout the year and used to effectively manage the contractors via monthly contract meetings and weekly targeted meetings. Underperformance was dealt with in line with the terms of the respective contracts.
To work with our contractors to ensure both good quality and sustainable components are utilised in our repairs service	Responsive Repairs	Hexagon's contractors agreed to sign-up to Hexagon's new environmental sustainability strategy and this commitment was included in relevant new contracts. As part of the annual Sustainable Homes Index For Tomorrow (SHIFT) assessment of Hexagon's environmental sustainability performance, our contractors provided relevant evidence to show how they were achieving environmental sustainability.
Make sure all residents have the chance to rate their satisfaction with responsive repairs, including communal repairs	Responsive Repairs	In addition to our contractors seeking residents' feedback when a repair has been completed, we engaged an independent company to also seek residents' feedback for completed repairs and we followed-up with residents who provided negative feedback to ensure their repairs were completed to their satisfaction. This independent service will be used in subsequent years.
Estate improvements identified from estate inspections and responsive referrals are planned in liaison with Housing Management team.	Stock Improvement	Through collaborative working between teams and engagement with residents many improvements were identified and c. £0.1m was invested in estate improvements to improve residents' homes and neighbourhoods.
Implement the asset management strategy, including the selective disposals of poor performing properties	Stock Improvement	We introduced a new software programme and relevant procedures to help us constantly measure the financial performance of all properties and undertake robust options appraisals.
Monitor and evaluate contractor performance for every scheme	Development and New Business	Contractor performance has been monitored via Dunn & Bradstreet flag system, but also on-site by clerk of Works weekly visits and monthly project meetings. There was a contractor failure in Q4, which we were warned about and prepared for, as a result of the close monitoring put in place.
Monitor defect repair performance	Development and New Business	Defect repair performance has improved and is evidenced by the Q4 resident feedback – 87% satisfied with defects service (Target was 89%).
Continue to monitor the roll out of the UC and manage its impact on income collection	Business Improvement Rent & Service Charges	The Housing Services Director receives regular updates from the DWP and we continue to prepare ourselves for the UC migration. Our UC Hub is helping control arrears levels for those customers on UC.
Prepare for purchase to pay system, to dispense with paper invoices and invoice approval slips for purchases that are not already via Cx	Business Improvement	This project was postponed due to a number of high priority projects such as the IDA and the refinancing. It will be considered in the 2022-23 year.
Initiate Electronic Document Management to avoid having to file paper copies	Business Improvement	The paper tenancy files have been reviewed and each file has been separated into sections such as Arrears Letters, Tenancy Agreements, ASB etc. ready for scanning. A scanning company has been engaged to assist with referencing the approx. 500,000 documents to digitalise.
Implement phase 2 of Cx including workflow, complaint handling/analysis, mobile working, and a resident portal	Information Technology	The phase 2 scope has been agreed and the first element to be implemented Complaints and Feedback has gone LIVE. The next steps are document management (see above), Customer Relationship Management and a resident's portal.

Initiative	Team(s)	Progress to 31 March 2022
Continue to implement best practice in IT security	Information Technology	The IT department are commitment to ensuring the Hexagon IT Environment is secure. A penetration test to identify known vulnerabilities has taken place and remedial action carried where necessary. Tools such as anti-virus, anti-malware, anti-phishing are all installed and two factor authentication utilised across known targeted areas such as Office 365.
Theme: To put Residents at the heart of what we do		
Invest in our existing homes to ensure they comply with all Government fire safety guidance and regulations	Property Safety Team	We completed the 3-year cyclical fire risk assessment (FRA) programme and continued to work through the actions arising from the FRAs. Remedial works to the external wall systems of one of our two high rise buildings progressed well and we commenced remedial works to the external wall system of our second high rise building. However, none of these buildings had ACM cladding. The first phase of a two-phase intrusive and structural survey programme for sub-18 metre buildings was completed. The results from these surveys will be assessed by an independent fire engineer and any remedial works will be programmed accordingly.
Re-introduce sending 1/4ly rent statements	Rents and service charges	This is not a legal requirement, and we currently don't have the resources or system to allow this. This will be achieved with the introduction of the Customer portal.
Support the development of the Leaseholder Forum / Leaseholder panel and use this to develop and agree improvement plan for leasehold services related to rents and service charges	Rents and service charges Neighbourhood Services	The homeownership panel is up and running, and they are working with us to prioritise the improvements needed for this service area.
Meet our Love London Working targets for assisting residents into employment	Community Investment	We out-performed our targets with 45 residents helped into employment.
Promote digital inclusion across our service users	Community Investment Information Technology	We helped 81 residents in 21/22 with improving their digital skills.
Theme: Restricting operating costs		
Minimise void losses	Responsive Repairs Neighbourhood Team	We are carrying out a review of all lettings and void processes to ensure they are carried out more efficiently. However, we have introduced a new voids maintenance service, with a streamlined and shorter turnaround time for completing void repairs. This new service is based on a Price Per Void price structure that controls the costs of undertaking the void repairs.
Monitor and mitigate cost overruns on development	Development and New Business	Shifts in the market driven by factors beyond our control (Brexit, Pandemic) have increased construction costs resulting in cost overruns on existing development schemes.
Theme: To respond proactively to the Climate Change Emergency by minimising the harm our business does to the environment in respect of Carbon Emissions		
Decarbonisation of the domestic heating system	Stock Improvement	With the support of independent consultants, we commenced preliminary planning for the future replacement of gas boilers in existing residents' homes. We continued to install low carbon heating systems in our new builds.
Energy efficiency works to existing homes	Stock Improvement	As part our on-going energy efficiency works programme, we completed 76 measures in low energy performing homes to improve their SAP rating.
Start moving away from the provision of fossil fuel boilers in new builds	Development and New Business	Project Brief updated to reflect no fossil fuel boilers on land led procured sites. First three projects identified which will utilise Air Source heat pumps. Due to start on site in 2022/23.

Future VFM themes and targets
For 22/23 onwards the Board has refined the themes, indicators and targets as follows:

Theme	Agreed measures	22/23 Target
Controlling operating costs (including all major repairs) per social housing unit	Operating cost per social housing unit	£7,128
	Operating cost per social housing unit, excluding exceptional items	£4,961
Controlling growth of interest costs per social housing unit	Interest paid as a percentage of average borrowings	3.19%
Making the best use of our properties	Void loss % on rented homes	0.93%
	% of homes with positive net present value	100%
Maximising development (within our capacity)	Affordable units developed as a percentage of units owned	1.13%
	Rolling average three-year surplus on outright sales	£279k
Improving resident satisfaction	% satisfied with last repair	95%
Delivering social value	Annual social value delivered per £ spent on employment initiatives	£7
Addressing climate emergency	Average energy efficiency rating of properties	72*[1]

**[1]: As per our Sustainable Finance Framework*

The budget set for 2022/23 is designed to deliver these targets. However, the continuing ripples of Covid-19 could impact on the outcomes, and in particular on the number of units developed and the social value delivered on employment initiatives. Rent increases are agreed on an annual basis by the Board. The Board has agreed that rents should be raised by the maximum permitted level of CPI +1% in 2022/23.

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

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

Meeting the Regulator's Expectations
While our own value for money targets and performance are set out above, the RSH requires from April 2018 performance against key metrics in relation to VFM that are part of the Sector Scorecard. At the time of compiling the financial statements, Sector Scorecard data for FY2022 was in validation and no benchmarks are available. Therefore, the comparisons have been made with the FY2021 data for associations, both nationally and in London, based on data analysed by HouseMark. The quartiles shown at the below table are represented by top performing associations (quartile 1) ranging to worse performing (quartile 4).

	HHA 2022	**HHA 2021**	**England Top Quartile 2021**	**England Median 2021**	**Hexagon Quartile England 2021**	**London Top Quartile 2021**	**London Median 2021**	**Hexagon Quartile London 2021**
Reinvestment	3.8%	2.0%	8.2%	5.8%	4	6.6%	4.4%	4
New supply delivered (social housing units)	0.0%	0.9%	2.0%	1.3%	3	1.5%	0.7%	2

	HHA 2022	HHA 2021	England Top Quartile 2021	England Median 2021	Hexagon Quartile England 2021	London Top Quartile 2021	London Median 2021	Hexagon Quartile London 2021
New supply delivered (non-social housing units)	0.0%	0.0%	0.09%	0.0%	4	0.1%	0.0%	4
Gearing	41.8%	41.8%	53.2%	43.9%	3	46.35%	40.55%	2
EBITDA MRI interest cover	222.5%	193.7%	247.60%	182.50%	4	166.55%	118.10%	4
Headline social housing cost per unit (£s)	£5,524	£4,763	£3,210	£3,730	4	£5,440	£6,200	1
Operating margin (social housing lettings)	22.00%	6.80% (28.5% excluding exceptional item)	32.63%	26.30%	4	27.8%	23.8%	4
Operating margin (overall)	25.45%	4.12% (21.9% excluding exceptional item)	28.1%	23.9%	4	24.4%	19.4%	4
Return on capital employed	2.61%	0.58% (1.84% excluding exceptional item)	4.20%	3.30%	4	2.83%	2.10%	4

The FY2022 continued to be a challenging year. Our reinvestment metric improved over FY2021 which was a direct result of the increased level of fire safety remedial works undertaken in the year. Overall, however, our performance remained lower than our London peers. This was mainly due to the continued restricted capital spend on new development caused by the legacy gearing covenant that measured debt against grants plus reserves rather than against the historic cost of fixed assets.

There were no new handovers from the development team. This was mainly due to the material shortages arising from the pandemic and the war in Ukraine, which were on top of the labour shortages arising from UK's departure from the EU. These resulted in a general slowdown in schemes on site, which are now forecast to handover in 2022/23.

The gearing measure above is based on the net debt against historic cost of fixed assets and remained on par against the previous year and our peers. This was mainly due to the slowdown in the development programme resulting in lower drawdown on debt.

Our EBITDAMRI improved against the FY2021 performance mainly due to the receipt of £3.3m for the Brickfield Cottages claim. This was a historical event where Hexagon incurred additional repairs costs relating to a sink hole. We were successful in recovering some of the costs incurred.

One of the operational challenges in 21/22 was the rising cost of labour and materials. These impacted negatively on our staffing budgets as well as the repairs and maintenance costs. The higher costs resulted in the increase in social housing cost per unit in 21/22. The higher costs also put pressure on our operating margin, coming in lower than FY2021 (excluding the 2021 impairment charge). The improvement in the overall operating margin and the return on capital employed is mainly due to the receipt of the £3.3m for Brickfield Cottages. Our performance for return on capital employed is lower than our peers due to the high cost of our housing properties. Hexagon is not a Large Scale Voluntary Transfer (LSVT) and therefore the historic cost of its housing properties are relatively high compared to some of its London peers.

COMPLIANCE WITH THE GOVERNANCE AND VIABILITY STANDARD

Hexagon Housing Association has carried out a self-assessment of its compliance with the Governance & Financial Viability Standards. The results of the assessment were reviewed by the Board at its meeting on 26 July 2022. Hexagon is, in all material respects, compliant with the standard except in relation to the annual review of board effectiveness. This was postponed during the Covid-19 pandemic but will be completed during Summer 2022. Hexagon is also updating the contracts section of the assets and liabilities register.

The Regulator of Social Housing completed an in-depth assessment of Hexagon Housing Association in July 2021. The outcome was retention of G1 V2 grading which affirms our compliance but notes that we need to manage material financial risks to ensure continued compliance.

ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROLS

The Board is responsible for the Association's system of internal control and for reviewing its effectiveness. The system, which is also used by the Association's subsidiary, is designed to manage rather than eliminate the risk of failure to achieve business objectives and as such can only provide reasonable, but not absolute assurance against material misstatement or loss. The Board has carried out a review of the effectiveness of the system of internal control for the year under review. The key processes the Board has adopted in reviewing the effectiveness of the Association's system of internal control are as follows:

Control environment: the Association has an organisational structure with clearly defined lines of responsibility, job descriptions and delegation of authority. These are set out in the Delegated Authorities and Standing Orders and in departmental procedure manuals. The staff handbook sets out standards of professionalism and integrity for operations.

Key policies: within the delegation of authority, the Board retains for itself responsibility for approving the key strategies and policies that are designed to provide effective internal control. These include strategies and policies for development projects and new business ventures, fraud, theft and bribery, corporate and business planning, risk and treasury management.

Risk management: the Board and senior officers have a clear responsibility for identifying risks facing the Group and for putting in place procedures to mitigate and monitor risks. Risks are formally assessed through a process of reporting to the Board and the Audit & Risk Committee throughout the year, plus an annual report to the Board by the Chief Executive. The system for managing the significant risks faced by the Group is on-going and it has been in place for the year under review and up to the date of approval of the accounts.

Performance reporting: the Group has a comprehensive system of performance reporting. Key performance indicators are reviewed monthly by senior management and are considered by the Board quarterly. Corrective action is taken by management with respect to areas of adverse performance. During 2017/18, Hexagon's Board established a sub-committee known as the Performance Management Committee to provide even greater scrutiny to the performance information reported to the main Board. The sub-committee reports back to the main Board via its minutes, including any corrective action it would like the main Board to take in response to performance issues. The Committee met four times during 2021/22 leading to a strengthening of internal controls in relation to Key Performance Indicators.

Corporate planning and budgeting: the Board approves the annual budget, 3-year corporate plan and 30-year financial forecast. Monthly financial results are reported against budget and remedial action taken with regard to any significant adverse variances.

Business Improvement: Hexagon has a Business Improvement team which provides analysis and management of improvement projects across areas of the business.

Fraud prevention, detection, and reporting: the Group has a whistle-blowing policy in place to enable staff to report suspicious activities to senior management or the Board without fear of reprisal. The Board has adopted a policy for the investigation and reporting of all cases of actual or suspected fraud theft and bribery from the Group. The Audit & Risk Committee receives regular reports on all such cases and actions taken to improve controls where necessary.

The Board has received the Chief Executive's Annual Report on internal controls, has conducted its annual review of the effectiveness of the system of internal control, and has taken account of any changes required to maintain the effectiveness of the risk management and control process.

The Board confirms that there is an on-going process for identifying and managing significant risks faced by the Group. This process has been in place throughout the year under review, up to the date of the approval of the Financial Statements and is regularly reviewed by the Board.

Internal audit: the Group's control procedures are subject to review by Mazars, whose work is focused on the areas of greatest risk. The Audit & Risk Committee monitors the work of internal audit on a regular basis.

Internal Audit Opinion by Mazars

On the basis of our audit work, our opinion on the framework of governance, risk management, and control is 'Moderate' in its overall adequacy and effectiveness. We did note some areas in which the control environment requires further improvement. In particular, we provided 'Limited' assurance in our Fire Safety strategic review, and raised a fundamental recommendation around Electrical Safety in our third Compliance Review. In addition, the Complaints & Customer Engagement audit had 'Needs Improvement' assurance provided, with ten recommendations raised in total, including four with significant priority. Areas for improvement identified have been discussed with management, to whom we have made several recommendations. We are satisfied that management have plans in place to address recommendations raised. Hexagon has commissioned a dedicated Fire Safety Follow Up and Electrical Safety deep dive review to be undertaken as a part of the 2022/23 Internal Audit Plan.

EFFECTS OF MATERIAL ESTIMATES AND JUDGEMENTS UPON PERFORMANCE

The financial statements have been prepared in accordance with the relevant financial reporting standards and legislation, as set out in note 2 of the financial statements. The key judgements and sources of estimation are set out in note 3. None of these affect the consolidated cashflow statement. The effect on the operating results and the underlying financial position has been limited by disclosing the results before and after fair value adjustments.

GOING CONCERN

The Board has adopted the going concern basis in the preparation of these financial statements, as explained in the Principal Accounting Policies note on page 29.

POST BALANCE SHEET EVENTS

A material post balance sheet event is explained in note 38.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Group has no qualifying third-party indemnity provisions in place for the directors of Hexagon Housing Association Ltd or its subsidiary Horniman Housing Association Ltd.

AUDITOR

All of the current board members have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Association's auditor for the purpose of their audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information of which the auditor is unaware.

KPMG LLP were appointed as auditor for the year end 31st March 2022 and have expressed their willingness to continue. A competitive tender exercise will be carried out in 2022-23 to select the external auditors.

By order of the Board

Simon Fanshawe (Chair)
27th September 2022

HEXAGON HOUSING ASSOCIATION

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

Our business model

Hexagon is a charitable not for profit Housing Association which is based in South East London. We are a community-based association working primarily in the boroughs of Lewisham, Southwark, Greenwich, Bexley and Croydon. Our local focus means that we are in the business of working with people to build sustainable communities and not just new homes. This focus is reflected in our development, resident involvement and community investment work.

Hexagon was formed in August 1990 from the merger of Shackleton and Solon South East, with origins going back to 1969. Since its formation, Hexagon has more than doubled in size and today manages just under 4,500 homes across several London boroughs. Hexagon has a subsidiary company, Horniman Housing Association, which is non-charitable and thus able to undertake commercial activities for the benefit of the Group. Horniman owns and manages a further 39 properties.

Our core business is permanent homes for general needs tenants. Hexagon is unique for its size, however, in that we also provide a wide range of other housing choices for tenants. Hexagon provided 305 supported housing homes for people who need care and support in addition to housing. This includes, amongst other client groups, people with a history of mental illness, people with learning difficulties and young people with support needs.

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

Today Hexagon employs 121 staff (full time equivalent). Approximately 7% of our staff are involved in the provision of care and support to residents and the remainder are involved in the provision of housing and related services.

The Group has the following mix of housing stock in management:

	2022	2021
General needs	3,687	3,692
Supported housing	305	313
Low cost home ownership	339	345
Other	147	141
Total housing	**4,478**	**4,491**

42% of the rented housing stock comprises properties originally built pre (and including) -1950, generally Victorian street properties, with some converted into flats post construction. About 29% were originally constructed from 1951 – 2000. The remaining 29% were built from 2001 onwards. The state of the stock is considered by external consultants to be good. 100% of the housing stock complies with the Decent Homes Standard.

The Group is regulated by the Regulator of Social Housing (RSH), formerly known as The Homes and Communities Agency or HCA, with whom it is registered. It has to comply with the RSH's Regulatory Framework. Performance is assessed by means of Regulatory Judgements made against two criteria, namely Governance and Financial Viability. In January 2021, the RSH published a strapline judgement for Hexagon following the completion of a "stability check" which they carry out as part of their regulatory engagement. This confirmed that Hexagon retained its G1 Governance grading but our V1 Financial Viability grading was re assessed as V2. Both of these grades are "compliant" grades meaning that the Regulator has concluded that we continue to meet their compliance requirements on the Governance and Financial Viability standard. The Regulator stated the ongoing fire safety remedial works costs together with exposure to market related activity potentially putting pressure on our lender gearing covenant over the early years of our long-term business plan. We note and take onboard the Regulator's concerns which are common to a number of developing associations like Hexagon who are using their asset base to leverage funding to develop new homes to meet the housing need in South London whilst also carry out the fire safety works on existing homes.

Hexagon aims to recruit and retain diverse, high quality staff that share our values and are committed to achieving our aims. As an accredited Investor in People organization, we are one of a relatively small group of IIP recognised organisations assessed as having achieved the Gold Standard. We are committed to ensuring that our staff are trained and developed both to enable them to perform their roles effectively, and to develop their careers. Employees and their representatives are regularly consulted on decisions that are likely to affect employees' interests, through a Staff Consultative Forum, annual staff conference, intranet and other mechanisms.

We endeavor to ensure that we are a family friendly employer and that staff are able to achieve a work life balance, by for example, offering flexible working and job-sharing opportunities. Employee information is set out in note 9 to the financial statements. Hexagon offers pension arrangements, participating in the multi-employer Social Housing Pension Scheme (SHPS). Further details are given in note 39 to the financial statements.

<u>Our objectives and strategies to achieve these</u>

The objectives and strategy of the association are set out in a corporate plan that is reviewed every three years and approved by the board. The Group's main objectives and strategies for 2020-23 are as follows:

Objectives	**Strategies**
To put residents at the heart of what we do	• To show continuous improvement on residents' satisfaction with the Repairs and Maintenance Service by focusing on good communication with residents • To drive up satisfaction levels with estate services by focusing on the things that matter most to residents • To drive up satisfaction levels with all leaseholders by focusing on consistently high quality • To work closely with the Residents' Advisory Group to ensure that the residents' voice is reflected in the development of strategy and policy • To maximise opportunities for effectively communicating with all our residents by accurately capturing their concerns and working flexibly with them to drive forward improvements • To work with our residents in developing a Digital Strategy that ensures our communications with residents are as efficient and effective as possible • To get things right the first time, or if we don't, to listen to our residents to understand their concerns and to respond efficiently and effectively to complaints • To further embed 'learning from complaints' across the organisation by analysing patters so that underlying systemic solutions can be identified and implemented • To ensure full compliance with all statutory and best practice regulations relating to landlord health and safety requirements. • To ensure all Fire Risk Assessments (FRAs) are carried out in a timely manner and that all actions arising are implemented without delay. • To ensure all Hexagon buildings comply with all Government fire safety guidance and regulations, and where they do not, that remedial action is taken. • To ensure Co-ops and supported housing managing agents manage and maintain Hexagon properties meet the required standards for all Hexagon residents • To ensure excellence in the provision of high support schemes • To ensure we support our residents via our Community Investment activities including employment training, financial inclusion, digital engagement and by building community spirit • To keep the promises we make to residents and to provide excellent customer services and communication by continuing to embed our 'customers at the heart' training programme • To provide money advice and other suitable support to residents moving onto Universal Credit to help them sustain their tenancies
To change our ways of working to achieve maximum value for money by working smarter	• To minimise our rent arrears and maximise our rent collection • To minimise void loss in general needs and supported housing homes. • To exercise strong control over the day to day repair budgets • To work with our contractors to ensure both good quality and sustainable components are utilised in our repairs service • To implement the Asset Management Strategy, including an agreed methodology for measuring the performance of our assets, including both their financial and social value, to inform when property disposals might be appropriate. • To ensure the Service Charges Project Group implements the agreed action plan for improving all elements of our service work, including budgeting, recording of expenditure, maximising recovery, and communicating effectively with all affected tenants and leaseholders • To monitor the on-going financial viability of agency managed supported housing schemes and to develop alternative uses as appropriate where schemes are no longer financially viable
To change our ways of working to achieve maximum value for money by working smarter (Contd.)	• To implement Phases 1b and 2 of the Cx implementation to improve efficiency and effectiveness and to ensure staff have the best tools to improve communication with residents • To ensure our Business Improvement Team undertakes reviews of service areas where improvements are needed to drive up resident satisfaction and improve efficiency and effectiveness • To ensure the Board keeps our strategic approach to merger and partnership working under periodic review • To keep our IT infrastructure up to date to support the demands of the business and maintain resilience against threats

Objectives	Strategies
	• To ensure we obtain good Value for Money from our Community Investment spending by using the HACT methodology to measure the social value outputs for every £ spent • To develop an annual, clear Value for Money Strategy that focuses both on costs and outputs, and monitor performance annually against agreed targets • To ensure that our quality of data is sufficient to provide a high level of assurance to the Board and directors in relation to compliance matters, particularly health and safety matters
To respond proactively to the Climate Change Emergency by minimising the harm our business does to the environment in respect of Carbon Emissions	• When we develop spending priorities for improving existing homes, we consider how we can help residents to reduce their energy bills and reflect that objective in our overall programme • To begin the process of transitioning away from fossil fuel boilers in existing homes • To respond positively to the climate emergency by designing new homes which incorporate meaningful carbon reduction measures and that minimise fossil fuel heating • To minimise the harm the running of our office does to the environment (i.e. by reducing waste, increasing recycling, reducing energy consumption, and encouraging sustainable transport options for staff) • To respond positively to the climate emergency by designing new homes and improving existing homes to enable residents to lead zero-carbon lifestyles
To ensure that Hexagon continues to grow in a financially, socially, and environmentally sustainable manner	• To provide new homes for those in housing need • To provide subsidised rented housing to those for whom home ownership or market renting is not financially possible • To meet the housing needs of those who wish to become home owners, but who cannot afford to purchase outright in the open market by providing shared ownership homes • To keep our new build rents affordable by producing additional cross subsidy via developing housing for outright sale, whilst carefully managing the risks that accompany such commercial activity • To focus on the design and quality of new build homes so as to improve resident satisfaction, minimise defects and thereby reduce complaints • To ensure we work with construction partners who are financially robust, embrace diversity and are committed to our social values objectives (supporting apprenticeships, offering training opportunities and embracing our environmental sustainability ambitions) • To ensure full fire safety compliance in relation to the use of non-combustible materials and in the installation of property installed fire safety breaks that ensure proper compartmentation between dwellings • To pilot a new build scheme using a suitable Modern Method of Construction and to evaluate its applicability across the wider programme • To deliver the Island Yard estate infill project • To maintain our position as a GLA Investment Partner that delivers on our promises
Cross cutting work/activities	• To ensure that our lettings, our staffing and our Board composition reflects the diversity of the communities that we serve • To ensure that the housing regulator maintains a high level of confidence in Hexagon • To ensure that we communicate clearly and effectively with a wide range of stakeholders that have an interest in Hexagon's business, our performance and our achievements working with residents • To ensure full compliance with all Data Protection requirements, including the protection of information we hold about residents • To work with our legal advisors to recoup the unanticipated expenditure arising from the rehousing and remediation costs arising at Brickfields Cottages • To gather business intelligence as the external operating environment changes to inform any key strategic decision-making

Hexagon exerts control over Horniman Housing Association as it has the right to nominate members to the Board of Horniman. Hexagon provides management and maintenance services to its subsidiary, which are charged at a commercial rate. From time to time Horniman donates some of its surplus to Hexagon by way of gift aid, in order to further the charitable objectives of the Group.

How we measure progress

Hexagon's board and senior management team uses a set of key performance indicators to monitor achievement of the Group's objectives. These are listed in the section on performance on page 17, together with the results for the current and previous year.

Development and performance during the financial year and financial position at the year end

Providing new homes

During the year, there were no new handovers. This is due to delays on a number of sites as a result of market changes caused by Brexit and the pandemic and impacting on contractors. We were expecting 20 new homes for rent and 25 for shared ownership to be completed but these are now pushed back to 2022/23 and 2023/24.

We continued to sell homes for shared ownership at two legacy projects funded under the previous 2015-18 programme. As at year end, of the 13 available, 12 were sold, leaving one to reach sales completion during 2022/23. We expect the final sale to complete in Autumn 2022. These two projects had been hit by market slowdown issues linked to the pandemic but also local competition and remedial works.

Our current affordable homes programme totals 299 affordable homes (184 for London Shared Ownership and 115 for London Affordable Rent). No new sites were bought during the year, so we continue to report over 87% of the affordable programme being secured with 132 homes on-site at the end of the year and 46 homes completed, the balance (84) being on land already in our ownership with planning consent and scheduled to start on site in 2022/23.

The spike in construction cost inflation is unprecedented and linked to three key factors Brexit, pandemic, and the most recently the situation in Ukraine. The combination of all three, along with increasing demand, is affecting materials and labour availability and prices. This has put particular strain on contractors who are tied in to fixed price contracts and impacted on delivery timescales. We did suffer a contractor failure affecting two sites during the year and are making progress in sourcing a contractor to complete these two projects. As a result, we continue to monitor our live projects closely and support contractors where we can.

We expect to start on site with the as yet unsecured remaining 20 grant funded homes by the end of 2022/23, and plan to secure the remaining 17 homes in the programme via s106 opportunities.

Following the development contractor on one of our schemes becoming insolvent in 2021, which resulted in a one-off £6.3m impairment charge in 2021, the Board decided to complete this project. Following procurement of a new contractor, it is expected to reach completion in the 2023/24 financial year.

In addition to the affordable homes, two outright sale projects (21 homes) have been delayed due to the reasons set out above. One is now expected to reach completion Q2 of 2022/23 and the other during Q1 of 2023/24. Our sales agents will revise the marketing plan for these homes following the delays. We plan to secure a further circa 21 outright sale homes to generate cross subsidy to support our affordable rent programme, provided the market conditions are suitable for these outright sale products.
We plan to start construction of three projects which will incorporate hot water and heating installations which do not rely on fossil fuels ahead of the Government's 2025 plan to phase out gas boilers to newbuild homes by 2025 in line with the Future Homes Standard. We have appointed a consultant to assist us in meeting the 'Golden Thread' and Gateway one requirements of the new Building Safety Act. to ensure we are ready when the new Regulator enacts the requirements. Cladding remediation works on two 18m+ blocks are underway and expected to reach completion in 2022/23. Both have secured BSF grant for leaseholder costs.

Maintaining and improving existing homes

We continue to invest in improving our existing homes. In 2021/22, we spent £8.8m on major and cyclical works. These works included major improvements to void properties, energy efficiency improvements (including new energy efficient boilers), together with kitchen, bathroom, roof and window replacements where these components had reached the end of their useful life, as well as external and internal communal area decoration programmes.

Our responsive repairs expenditure for 2021/22 totalled £4.6m, including works to bring voids back to lettable standard. During 2021/22 we entered into the final year of our 6-year contracts with our two main contractors (KNK and Purdy). We completed the procurement of a new responsive and void repairs service, which commences in July 2022. This new service will aim to provide a more resident-focussed service that provides greater flexibility for residents in getting repairs completed in their homes coupled with a more proactive approach to maintaining residents' homes to avoid future high repair costs.

Our gas servicing compliance continued to be excellent right through the Covid-19 pandemic, with 99.9% compliance at year end through our good relationship with BSW. Further analysis of our performance in this area can be found on page 17.

In March 2021, the Board approved the new 5-year Asset Management Strategy with improved stock appraisal methodology to ensure we drive the most out of our limited resources and achieve value for money from our stock improvement and maintenance programmes and have an on-going exercise that looks at all the different variables/drivers for NPVs. We introduced a new IT system to regularly and accurately measure the financial performance of all properties. This system will ensure we drive the most out of our limited resources and achieve value for money from all our on-going investment in residents' homes.

Working in partnership to invest in our communities

Our Community Investment team has continued to focus on getting our residents into work. Hexagon is part of The Love London Working Partnership consisting of 8 housing providers across London, receiving funding from the European Social Fund. In 2021/22 we were allocated £74,651 funding from the European Social Fund.

During 2021/22, 84 participants accessed employment support (65 in 2020/21), 45 participants secured employment (32 in 2020/21), 13 secured employment progression (10 in 2020/21). The numbers taking part are lower than in 2020/21, however there has been a significant increase in positive outcomes. In 2021/22 69% of residents accessing employment support secured employment or employment progression (34% in 2020/21).

Our Universal Credit (UC) Hub continues to manage the transition for our legacy based benefit claimants to UC. There is a continued support offer given to all new UC claimants via our financial inclusion provision including budgeting, accessing welfare grants, digital skills, welfare grants, employment support and ensuring our residents are receiving the correct benefit entitlement to maximise their income. The Hub utilises the tools available in way of managed payments (MAPA's) and alternative payment arrangements (APA's) to request direct payments for rental charges and arrears for those residents having difficulty in making payments to Hexagon, which are protecting the income stream for the organisation. Through this work, we have continued to show a reduction in arrears to 11.6%, against arrears of 12.6% in 2020/21.

We secured 70 welfare grants on behalf of residents to help them purchase essential items to improve their quality of life (60 in 2020/21), we also distributed 26 energy vouchers to residents struggling to pay their energy bills.

We offer a one to one financial inclusion service to help our residents manage their money and in 2021/22 we helped 233 individuals gain £192,967 of additional income in benefits and grants (219 individuals and £286,754 in 2020/21). £92,559 of this additional income was in the form of Housing related benefits (2020/21 £105,602).

Hexagon generated £7.28 in social value for every £1 spent in Employment and Skills service.

Residents Helping us to achieve our objectives

Residents from our Repairs Group played a strong role in procuring the new Responsive Repairs contractor, ensuring that the contract included a strong social value offer and improved services for residents. They interviewed contenders and then spent many workshops shaping the offer to residents. Our consultants, Echelon described it as the best resident engagement that they had ever seen.

The Resident Advisory Group reviewed 18 policies to ensure we were more customer focused.

Changes in Care and Support

Hexagon continued to provide care and support to residents with mental health issues. The funding regime for supported housing remains uncertain and as a result, we have worked towards exiting care in 2021/22

Making Hexagon more planet-friendly

In March 2022, the Board approved the new 2022 – 2026 Environmental Sustainability Strategy, building on the achievements of the previous strategy. The strategy focuses on achieving the key targets of getting all residents' homes to a minimum EPC Rating C by 2030 and Net Zero Carbon by 2050 and working very closely with residents to ensure these targets are met. Our holistic approach to sustainability that balances the achievement of social, environmental and economic benefits for all our stakeholders was reviewed in an in-depth independent assessment by Sustainable Homes Index For Tomorrow (SHIFT). This resulted in Hexagon being awarded a further successive Gold award in 2021 for its efforts to reduce its environmental impact.

As part of our debut own name public bond issuance in April 2022, we created our Sustainable Finance Framework (SFF), which details our social and environmental ambitions and sets out how the proceeds raised from our debt issuance will be used to deliver our objectives over the coming years. The SFF compliments the 2022-26 Environmental Sustainability Strategy and includes targets such as improving the energy efficiency in our existing homes at least 30%, building new homes that meet the London Mayor's Net Zero Carbon target and investing in our communities. Our SFF can be accessed through ***https://hexagon.org.uk/about-us/sustainability-ed-vfm/*** .

Financial performance

The Group's financial performance and financial position at the year end are summarised in the report of the Board of Management on page 3. Further analysis of borrowings and treasury management policies are set out below.

Managing our borrowings

Borrowings at the period end were £207.4m. This debt is mainly borrowed from UK banks and building societies, with £58.0m from the UK capital market and the European Investment Bank.

Borrowings management is the responsibility of the Finance & IT Director. Strategy is set annually and approved by the Board. Current policy is to maintain a sufficient proportion of borrowings at fixed rates of interest to enable the business plan to withstand interest rate rises within defined parameters.

Maturity profile: The Group ensures that its borrowings are structured so that the maturity profiles are managed with a view to obtaining offer terms for renewing or refinancing, if required, under competitive terms. Refinancing risk is mitigated by staging the maturity dates of the loans. The table below provides an analysis of when the debt falls due for repayment:

	£m
Less than one year	16.7
1-5 years	49.7
6-10 years	29.6
11-15 years	51.7
16-20 years	20.9
21-25 years	38.8
25-30 years	0.0
Total	**207.4**

The Group used hedging instruments to fix variable rates in accordance with the Treasury Strategy, and after taking advice from treasury advisors. The hedged position as at 31 March 2022 is set out in note 25 to the financial statements. The Group borrows only in sterling and so does not have any currency risk. Cash surpluses are invested in approved UK institutions.

Hexagon issued its own name £250m public bond in April 2022 to refinance £165m of its floating rate legacy debt and repay £15.7m of its hedging instruments. The bond was issued at a discounted coupon of 3.625% and attracted considerable interest from capital debt market investors. This refinancing of floating rate legacy debt places Hexagon in an advantageous position by fixing 92% of its debt and therefore mitigating against future rises in interest rates. Although the weighted average interest rate rises to c3.5%, the refinancing allows Hexagon to move away from its restrictive legacy gearing covenant and allows it to use its strong asset base to borrow funds for its capital investment programme. Around 2,100 units remain uncharged and available for future borrowing, estimated to bring additional funding of £335m.

Managing cash flows

Cash inflows and outflows for the period under review are set out in the Consolidated Statement of Cash Flows. Net cash inflows from operating activities are from the management of housing stock. Returns on investment and servicing of finance are due to interest income and interest charges. The net cash outflow from capital expenditure is the spend on properties new and existing which has been capitalised, less grant less sale proceeds plus spend on other fixed assets. The net movement on financing is the difference between loans repaid and new loans.

Group policy is to keep cash and bank balances at a minimum consistent with working capital requirements.

Monitoring liquidity and compliance with loan covenants

Cash and bank balances at the year-end were £3m. The Group has secured facilities in place to borrow a further £37.6m. Because the Group can draw funds at short notice it has adopted an active cash flow management strategy which aims to minimise cash balances, only drawing funds as and when required. The Board monitors compliance with financial covenants to lenders every quarter and considers the impacts of covenants in all business planning and budgeting decisions.

For the year to March 2022 the tightest interest cover was 5.04 which is significantly better than the minimum of 1.10 required. As at 31 March 2022 the gearing ratio was 60.5% (strictest calculation), which is significantly lower than the 72.1% maximum agreed with some lenders. Compliance with covenants is the responsibility of the Finance & IT Director.

Measuring performance - Key financial and non- financial indicators

Objectives & Indicators	2021/22	2020/21	Improving?	Comments
Satisfaction with the last repair	97.7%	99.2%	✓	Although it has decreased year on year, we have met our target of 89%.
Customer service calls answered	82%	73%	✓	Improved resource planning and telephony system following to support the new remote working.
Gas safety checks completed within target time	99.9%	99.7%	✓	Small number of cases outstanding due to lack of access as a result of residents giving access and delays in obtaining court orders.
Number of complaints	256	213	x	Volumes for the year are up compared with 20/21 and we are liaising with our residents to ensure we understand and respond effectively to their complaints.
% of complaints with full response within target	77%	81%	x	Performance is lower than target. We reviewed our complaints handling process to implement efficiencies to ensure we respond within target.
Void re-let (days) General needs	0	0	-	As in previous year, we had no 'normal' voids in the year. We are keen to improve the number of days it takes to let our homes in general and are working closely with our Local Authorities, Partners and Hexagon colleagues.
Void re-let (days) Supported Housing	107	110	✓	Obtaining referrals for some schemes remains a major challenge.
Rent collection % - General needs	99%	98.6%	✓	The UC hub that was introduced in 2019/20 continues to assist residents with their claims and has led to a reduction of 1% in arrears for UC claimants. UC related arrears reduced to 11.6% as at March 2022 from 12.6% in previous year. Furthermore, the team remained committed to reducing current tenant arrears.
Rent collection % - Supported housing	98.4%	97.2%	✓	We have had some helpful partnership working to increase supported housing rent collection and have achieved some positive outcomes for our customers.
% working days lost through staff sickness	2.4%	1.9%	X	The increase in sickness absence is due to Covid related absences.
Housing management cost per GN unit	£875	£863	✓	This is below both the London median £1,071.50 for housing management costs, and the national median which stands at £931.
% Operating margin excluding all property sales and pension and fair value adjustments	22%	1.2% (20.8% excluding the one-off impairment charge)	✓	The improvement in the operating margin is due to the £3.3m one-off insurance claim for Brickfield Cottages and the higher surpluses from asset sales.
Average SAP (energy efficiency) Ratings	73	72.74	✓	We maintained our performance over the previous year with further improvements in early 2022/23.
Units failing Decent Homes Standard	0	0	-	All of the properties meet the Decent Homes criteria.
New homes completed	0	38	x	The target was that 45 homes (three projects) would be completed. Hangover from Brexit and the pandemic continued to put pressures on labour and materials availability and costs. This impacted on the delivery of these projects.
Loan covenants -interest cover (must be >110%)	553%	268%	✓	Improvement is mainly due to the £3.3m one off income for Brickfield Cottages and the 2021 year being impacted by the £6.3m one off impairment charge.
Loan covenants - gearing (must be < 72.1%)	60.5%	61%	✓	On par with previous year.
% weighted average interest	2.24%	2.28%	✓	The Association is taking advantage of low variable interest rates on 48% of its debt.

Future prospects

The Board is committed to improving residents' homes in accordance with our stock condition survey and business plan, and to ensure that all homes continue to meet the Government's Decent Homes Standard. This is in addition to the expenditure on day-to-day responsive and major repairs and cyclical works which amounted to £8.4m in 2021/22.
In addition to investing in its existing stock the Board aims to achieve a new build housing programme of circa 98 homes per year, of which the following are already committed and uncommitted but earmarked for delivery:

Handover year	**2021-22**	**2022-23**	**2023-24**	**2024-25**
General needs	0	20	67	6
Shared ownership	0	51	75	50
Other	0	0	5	21
Total	0	71	147	77

Committed expenditure on the above is shown in note 36 to the financial statements, together with an explanation as to how it is to be funded.

Principal risks and uncertainties

This section analyses the main factors and influences that will have an effect on the future performance of the Association irrespective of whether they were significant in the period under review.

The main risks faced by the Group are considered at each Board meeting as part of the risk management process. Changes which occur between Board meetings are reviewed by the senior management team at monthly Risk Appraisal Panels. The definition of risk for this purpose is an event that could prevent the corporate plan from being achieved if it were to crystallise. Risks are recorded in a suite of risk maps which also record key strategies to manage each risk, who is responsible for the control and what further actions are needed. Risks are analysed according to their impact and probability given the current environment.

The senior management team has assessed that the risks in the next table are those that are most likely to influence future performance.

Risk	**Comments and mitigation**
Cost inflation pressures on tenants, impacting on our rental receipts, arrears and bad debts	The recent surge in energy and gas costs as well as the general cost increases in everyday consumables is putting additional pressures on our residents some of whom may struggle to pay their rents and service charge bills. This could have an adverse effect on our rent collection, and could increase our arrears and ultimately our bad debt write off. Our revenues team is liaising closely with our financially vulnerable residents and signposting them to various benefits that they may be entitled to. There is also pressure on our ability to increase rents fully by CPI + 1% in April 2023 which could create further affordability issues for our tenants. We will monitor the CPI performance and any government guidance in the Autumn 2022.
Cost inflation pressures impacting on our operating surplus resulting in below legal covenant performance	The latest surge in inflation resulting from Covid pandemic and the events in Europe has pushed the costs up which impact negatively on our operations. We experienced significant cost increases in relation to our interim staffing and there are also pressures in responsive repairs and cyclical works. These cost increases supress our operating surplus which can result in lower interest cover performance. The executive team carried out a robust review of our 2022/23 revenue and capital budgets and we carry out periodic review of our economic assumptions used in our long term financial model. Our recent refinancing exercise, which concluded in April 2022 has resulted in us eliminating a number of floating rate debt which had an interest cover covenant. We will monitor our revolving credit facility with NatWest closely and take necessary action if we identify a potential breach of our interest cover covenant during the term of this facility. We are not forecasting any such breaches at this present time.
Build cost inflation pressures on our development programme resulting in higher than anticipated development costs as well as financial standing of our development partners	The spike in construction cost inflation is unprecedented and linked to three key factors Brexit, pandemic, and the most recently the situation in Ukraine. The combination of all three, along with increasing demand, is affecting materials and labour availability and prices. This has put particular strain on contractors who are tied in to fixed price contracts and impacted on delivery timescales. We did suffer a contractor failure affecting two sites during the year and are making progress in sourcing a contractor to complete these two projects. As a result, we continue to monitor our live projects closely and support contractors where we can. We have secured Performance Bonds / Escrow retentions, insolvency cover as mitigations for when contractors fail, and will consider revised payment terms and direct payments to sub-contractors where the risk / reward balance merits these approaches. We have adjusted our cost assumptions for as yet unsecured sites and the future 2021/26 programme so that land prices reflect the impact of increased costs.
Continuing roll out of Universal Credit	The Government is changing the benefit system by phasing in Universal Credit (UC), and capping benefit payments to workless households. Payment of UC is being made direct to the claimant and, as a result, Hexagon is likely to suffer a reduction in its rent collection percentage. Rising arrears have been included in the 30-year financial plan. In order to mitigate the risk, Hexagon has restructured its

Risk	Comments and mitigation
	housing management operations to create a dedicated revenue team and to increase resources around financial inclusion.
Availability of capital grant	The Greater London Authority in its 2016/2022 programme has allocated grant on fixed rates per unit (£28k for shared ownership and £60k for rent). These have been increased to £30k / £70k for the 21/22 addendum programme. These grant levels are low, and do not fully subsidise the rent levels mandated by the grant. Hexagon's Board has agreed a modest programme of development for outright sale in order to provide further subsidy for new rented homes in this programme. A GLA programme based on competitive grant rates has been secured for £22,950,000 to deliver 180 homes in the future 2021/26 programme, where no o/sale cross subsidy is assumed.
Availability of finance	The Group's 30-year business plan is based on the premise that Hexagon can borrow new funding to repay it's debt and continue to build the new homes detailed in the development programme. A severe downturn in the economy could restrict the new funding available to Hexagon, which could impact negatively on the development programme and be detrimental to Hexagon's going concern. The Board and the senior management team monitor the bank and capital markets in liaison with our treasury advisors on a quarterly basis and take note of any adverse indicators in the markets. The recent, Board approved refinancing exercise concluded in April 2022 which currently provides adequate liquidity.
Interest rates	The Group's borrowings are summarised in the financial review (see below). The Group had a number of floating debt facilities as at 31 March 2022, which were repaid in April 2022 with the proceeds from the refinancing exercise. The only floating rate facility remaining is the revolving credit facility with NatWest. The Group's treasury policy is to ensure that the 30-year financial plan can withstand both a 1% increase in real interest rates and a 1% drop in inflation beyond those already forecast. Sensitivity analysis is undertaken once a quarter to assess the impact of adverse movements in interest rates on the Group.
Reliance on maintenance contractors	One contractor is responsible for servicing, and undertaking gas safety checks on gas boilers. Three contractors are responsible for the delivery of all day-to-day repairs. Failure of one of these key contractors to perform could have a significant impact on the services to residents. This is monitored via monthly meetings with each contractor.
Demand and cost of responsive repairs	The Group's financial plan assumes that the rise in cost per home of responsive repairs can be limited to CPI inflation plus 1%. There is a risk that costs rise more quickly than assumed, despite a programme of competitive tendering.
Reliance on shared ownership and outright sales	As at March 2022, the Group part-owned 339 shared ownership homes. A further 176 shared ownership homes are in development. The 30-year plan also assumes that in each year 4% of the retained equity is sold to shared owners who are staircasing. Were this level of sales not to be achieved due to reductions in property prices or non-availability of mortgage finance, the financial plan would be at risk.

How we are governed

Hexagon Housing Association's rules, which are based upon National Housing Federation model rules, form the governing document of the Association. The Association may not trade for profit, may not transfer any profit to its shareholders and may not receive money on deposit. The funds of the Association may be invested by the Board as it determines.

Structure and membership of the Board

The Association has a unitary Board structure with 12 members, of which up to one third may be tenant members. Other than the Chief Executive, all of the board members are non-executive. An Audit & Risk Committee, a Performance Management Committee, and a Remuneration Committee are the three sub-committees that report directly to the Board. The Board meets six times a year, the Audit & Risk Committee and Performance Management Committee both meet four times a year, and the Remuneration Committee meets twice per year. The Association operates a system of lead board members, who cover the main strategic areas of the Association. This gives members a greater understanding of particular areas of activity and informs decision making.

Board members are paid. Total payments to non- executive board members in 2021/22 were £76k (2021: £65k). Each board member, with the exception of the Chief Executive, holds a £1 share in the Association.

Horniman Housing Association, its wholly owned subsidiary, is managed by a Board of Management composed of 5 non-executive members one of which is an independent and two are senior management team members.

Compliance with the NHF Code of Governance

The Board's aim is to achieve the highest standards of governance, accountability and probity. With this in mind the Hexagon Board adopted the revised National Housing Federation's Code of Governance 2020 from 26th January 2021. During the year, the Group complied with all elements of the Code, bar having completed a 3-yearly review of governance. This was delayed during lockdown but is currently progressing and will be completed during 2022/23 to ensure full compliance.

Role of the Board

The essential functions of the Board include the following:

* to define and ensure compliance with the values and objectives of the Association;
* to consider and approve policies and plans to achieve those objectives;

* to consider and approve each year's budget and accounts prior to publication;
* to establish and oversee a framework of delegation and systems of control;
* to agree policies and make decisions on all matters that might create significant financial or other risk to the Association, or which raise material issues of principle;
* to monitor the Association's performance in relation to these plans, budgets, controls and decisions;
* to appoint and, should the occasion arise, dismiss the Chief Executive and be represented in the appointment of Directors;
* to satisfy itself that the Association's affairs are conducted lawfully and in accordance with generally accepted standards of performance and propriety and the requirements of relevant regulatory bodies.

Executive Management
The Group is managed by a senior management team headed by a chief executive and supported by directors of finance, housing, development and property services. Senior management team members attend board meetings. Remuneration of the senior management team is set out in note 10.

Statement of Board's responsibilities in respect of the Board's report and the financial statements
The Board is responsible for preparing the Board's Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

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

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

By order of the Board

Simon Fanshawe (Chair)
27th September 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEXAGON HOUSING ASSOCIATION

Opinion

We have audited the financial statements of Hexagon Housing Association ("the association") for the year ended 31 March 2022 which comprise the group and the association's Statements of Comprehensive Income, the Consolidated and Association Statements of Changes in Reserves, the Consolidated and Association Statements of Financial Position, the Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the group and the association as at 31 March 2022 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

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

Going concern

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

In our evaluation of the Board's conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group's and the association's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

- we have not identified, and concur with the Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group's and the association's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the group or the association will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Board, the Audit and Risk Committee and internal audit as to the Group's and Association's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's and Association's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board and Audit and Risk Committee minutes.

- Using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition in particular:

- the risk that management may be in a position to make inappropriate accounting entries; and
- the risk that income from property sales and non-social housing income is recorded in the wrong period.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Group wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts involving a fraud risk, unusual combinations of journal posting to cash and borrowings and post close journals.

- Assessing whether the judgements made in the accounting estimates are indicative of potential bias including assessing the assumptions used in the value of properties developed for sale held in current assets and valuation of defined benefit obligation.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's and Association's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group and Association is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related co-operative & community benefit society legislation), and taxation legislation, pensions legislation and specific disclosures required by housing legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group and Association is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the need to include significant provisions. We identified the following areas as those most likely to have such an effect: health and safety and employment law recognising the regulated nature of the Group's and Association's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Group and Association's Board is responsible for the other information, which comprises the Board's Annual Report and the Statement on Internal Control. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.
Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.
We have nothing to report in these respects.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Board's responsibilities

As explained more fully in their statement set out on page 19, the group's and association's Board is responsible for: the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group's and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the group and association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the group and association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association, for our audit work, for this report, or for the opinions we have formed.

Ben Lazarus
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

28 September 2022

HEXAGON HOUSING ASSOCIATION

Statement of Comprehensive Income
for the year ended 31 March 2022

Group				**2022**			2021
	Notes	**Operating results**	**Fair value and pension adjustments**	**Total**	Operating results	Fair value and pension adjustments	Total
		£000	**£000**	**£000**	£000	£000	£000
Turnover	4	**40,590**		**40,590**	35,263		35,263
Cost of sales	4	**(4,143)**		**(4,143)**	(3,085)		(3,085)
Operating costs	4	**(27,040)**	**924**	**(26,116)**	(31,631)	904	(30,727)
Surplus on disposal of fixed assets	12	**2,631**		**2,631**	1,448		1,448
Operating surplus	4,8	**12,038**	**924**	**12,962**	1,995	904	2,899
Interest receivable	13	**1**		**1**	13		13
Interest payable and finance costs	14	**(3,502)**	**(133)**	**(3,635)**	(3,362)	(68)	(3,430)
Movement in fair value of financial instruments	14		**2,610**	**2,610**		2,565	2,565
Surplus for the year		**8,537**	**3,401**	**11,938**	(1,354)	3,401	2,047
Tax	15				31	-	31
Actuarial gains/(losses) on defined benefit pension scheme	39		**1,006**	**1,006**	-	(4,180)	(4,180)
Change in fair value of hedged financial instrument	14		**2,854**	**2,854**	-	2,660	2,660
Movement in fair value of investment properties	19				-	(575)	(575)
Total comprehensive (expenditure)/income for the year	8,14	**8,537**	**7,261**	**15,798**	(1,323)	1,306	(17)

All amounts relate to continuing activities.

Statement of Changes in Reserves

				2022				2021
Group	**Income and expenditure reserve**	**Cashflow hedge reserve**	**Revaluation reserve**	**£000 Total Reserves**	Income and expenditure reserve	Cashflow hedge reserve	Revaluation reserve	£000 Total Reserves
Balance at 1 April 2021 / 1 April 2020	**57,615**	**(12,761)**	**752**	**45,606**	59,404	(15,421)	1,640	45,623
Surplus for the year (net of tax)	**11,938**			**11,938**	2,078	-	-	2,078
Actuarial gains/(losses) on defined benefit pension scheme	**1,006**			**1,006**	(4,180)	-	-	(4,180)
Change in fair value of hedged financial instrument		**2,854**		**2,854**	-	2,660	-	2,660
Movement in fair value of investment properties					313	-	(888)	(575)
Balance at 31 March 2022/ 31 March 2021	**70,559**	**(9,907)**	**752**	**61,404**	57,615	(12,761)	752	45,606

The Financial Statements were approved and authorised for issue by the Board of Management on 27th September 2022 and were signed on its behalf by:

S. Fanshawe, Chair P. Williams, Vice Chair S. Carter, Secretary

The accompanying notes form part of these financial statements.

HEXAGON HOUSING ASSOCIATION

Statement of Comprehensive Income
for the year ended 31 March 2022

Association				**2022**			2021
	Notes	**Operating results**	**Fair value and pension adjustments**	**Total**	Operating results	Fair value and pension adjustments	Total
		£000	**£000**	**£000**	£000	£000	£000
Turnover	4	**40,478**		**40,478**	35,284		35,284
Cost of sales	4	**(4,142)**		**(4,142)**	(3,085)		(3,085)
Operating expenditure	4	**(26,952)**	**924**	**(26,028)**	(31,580)	904	(30,676)
Surplus on disposal of fixed assets	12	**2,508**		**2,508**	1,448		1,448
Operating surplus	4,8	**11,892**	**924**	**12,816**	2,067	904	2,971
Interest receivable	13	**431**		**431**	428		428
Interest payable and finance costs	14	**(3,932)**	**(133)**	**(4,065)**	(3,776)	(68)	(3,844)
Change in fair value of financial instruments	14		**2,610**	**2,610**	-	2,565	2,565
Surplus for the year		**8,391**	**3,401**	**11,792**	(1,281)	3,401	2,120
Actuarial gains/(losses) on defined benefit pension scheme	39		**1,006**	**1,006**	-	(4,180)	(4,180)
Change in fair value of hedged financial instrument	14		**2,854**	**2,854**	-	2,660	2,660
Movement in fair value of investment properties	19				-	(575)	(575)
Total comprehensive (expenditure/ income for the year	8,14	**8,391**	**7,261**	**15,652**	(1,281)	1,306	25

All amounts relate to continuing activities.

Statement of Changes in Reserves

Association				**2022**				2021
	Income and expenditure reserve	**Cashflow hedge reserve**	**Revaluation reserve**	**£000 Total Reserves**	Income and expenditure reserve	Cashflow hedge reserve	Revaluation reserve	£000 Total Reserves
Balance at 1 April 2021 / 1 April 2020	**57,174**	**(12,761)**	**752**	**45,165**	58,921	(15,421)	1,640	45,140
Surplus for the year	**11,792**			**11,792**	2,120	-	-	2,120
Actuarial gains/(losses) on defined benefit pension scheme	**1,006**			**1,006**	(4,180)	-	-	(4,180)
Change in fair value of hedged financial instrument		**2,854**		**2,854**	-	2,660	-	2,660
Movement in fair value of investment properties					313	-	(888)	(575)
Balance at 31 March 2022/ 31 March 2021	**69,972**	**(9,907)**	**752**	**60,817**	57,174	(12,761)	752	45,165

The Financial Statements were approved and authorised for issue by the Board of Management on 27th September 2022 and were signed on its behalf by:

S. Fanshawe, Chair

P. Williams, Vice Chair

S. Carter, Secretary

The accompanying notes form part of these financial statements.

HEXAGON HOUSING ASSOCIATION

Statement of Financial Position as at 31 March 2022

Group				**2022**			2021
	Notes	**Before fair value and pension measurements**	**Fair value and pension measurements**	**Total**	Before fair value and pension measurements	Fair value and pension measurements	Total
		£000	**£000**	**£000**	£000	£000	£000
Fixed assets							
Intangible assets	16	1,632		1,632	1,625		1,625
Housing properties	17	493,217		493,217	484,143		484,143
Investment properties	19	135	815	950	135	815	950
Other	18	2,774		2,774	2,227		2,227
		497,758	815	498,573	488,130	815	488,945
Current assets							
Stock – properties developed for sale	20	18,208		18,208	18,018		18,018
Debtors – receivable within one year	21	2,484		2,484	2,895		2,895
Debtors – receivable after one year	21	1,761		1,761	1,760		1,760
Cash and cash equivalents	22	3,441		3,441	5,027		5,027
Less: creditors – amounts falling due within one year including short term pension deficit liability	23	(28,395)		(28,395)	(16,850)		(16,850)
Net current assets		(2,501)		(2,501)	10,850		10,850
Total assets less current liabilities		495,257	815	496,072	498,980	815	499,795
Creditors: amounts falling due after one year	24	(412,710)	(17,086)	(429,796)	(424,941)	(22,550)	(447,491)
Provisions for liabilities	31	7		7	(22)		(22)
Net assets excluding pension liability		82,554	(16,271)	66,283	74,017	(21,735)	52,282
Pension liability	39		(4,879)	(4,879)		(6,676)	(6,676)
Net assets		82,554	(21,150)	61,404	74,017	(28,411)	45,606
Capital and reserves							
Income and expenditure reserve		82,554	(11,995)	70,559	74,017	(16,402)	57,615
Cash flow hedge reserve		-	(9,907)	(9,907)		(12,761)	(12,761)
Revaluation Reserve	19	-	752	752		752	752
		82,554	(21,150)	61,404	74,017	(28,411)	45,606

The Financial Statements were approved and authorised for issue by the Board of Management on 27th September 2022 and were signed on its behalf by:

S. Fanshawe, Chair P. Williams, Vice Chair S. Carter, Secretary

The accompanying notes form part of these financial statements.

HEXAGON HOUSING ASSOCIATION

Statement of Financial Position as at 31 March 2022

Association				**2022**			2021
	Notes	**Before fair value measurements**	**Fair value measurements**	**Total**	Before fair value measurements	Fair value measurements	Total
		£000	**£000**	**£000**	£000	£000	£000
Fixed assets							
Intangible assets	16	1,632		1,632	1,625		1,625
Housing properties	17	492,454		492,454	483,276		483,276
Investment properties	19	135	815	950	135	815	950
Other	18	2,774		2,774	2,227		2,227
		496,995	815	497,810	487,263	815	488,078
Current assets							
Stock – properties developed for sale	20	11,243		11,243	13,052		13,052
Debtors – receivable within one year	21	2,465		2,465	2,991		2,991
Debtors – receivable after one year	21	8,678		8,678	6,686		6,686
Cash	22	2,896		2,896	4,672		4,672
Less: creditors – amounts falling due within one year including short term pension deficit liability	23	(28,249)		(28,249)	(16,826)		(16,826)
Net current assets		(2,967)		(2,967)	10,575		10,575
Total assets less current liabilities		494,028	815	494,843	497,838	815	498,653
Creditors: amounts falling due after one year	24	(412,068)	(17,086)	(429,154)	(424,240)	(22,550)	(446,790)
Provisions for liabilities	31	7		7	(22)		(22)
Net assets excluding pension liability		81,967	(16,271)	65,696	73,576	(21,735)	51,841
Pension liability	39		(4,879)	(4,879)		(6,676)	(6,676)
Net assets		81,967	(21,150)	60,817	73,576	(28,411)	45,165
Capital and reserves							
Income and expenditure reserve		81,967	(11,995)	69,972	73,576	(16,402)	57,174
Cash flow hedge reserve			(9,907)	(9,907)	-	(12,761)	(12,761)
Revaluation Reserve	19		752	752	-	752	752
		81,967	(21,150)	60,817	73,576	(28,411)	45,165

The Financial Statements were approved and authorised for issue by the Board of Management on 27th September 2022 and were signed on its behalf by:

S. Fanshawe, Chair   P. Williams, Vice Chair   S. Carter, Secretary

The accompanying notes form part of these financial statements.

HEXAGON HOUSING ASSOCIATION

Consolidated Statement of Cash Flows for the year ended 31 March 2022

Group

	Notes		**2022**		2021
		£000's	**£000's**	£000's	£000's
Cash flows from operating activities					
Surplus for the year		**15,798**		(17)	
Adjustments for:					
Depreciation of fixed assets – housing		**7,100**		6,718	
Depreciation of fixed assets – other		**362**		339	
Impairment				6,286	
Amortised grant		**(2,014)**		(2,005)	
Net fair value losses/ (gains) recognised in income statement		**(5,464)**		(4,651)	
Interest payable and finance costs		**3,502**		3,362	
Tax expense				(31)	
Interest receivable		**(1)**		(13)	
Difference between net pension expense and liability		**(1,797)**		3,344	
Surplus on the sale of fixed assets		**(2,631)**		(1,448)	
Decrease/(increase) in stocks		**339**		(775)	
Decrease/(increase) in trade and other debtors		**370**		(442)	
(Decrease)/increase in trade creditors		**(913)**		605	
(Decrease)/increase in provisions		**29**		(94)	
Net cash generated from operating activities			**14,680**		11,178
Cash flows from investing activities					
Proceeds from sale of fixed assets		**4,618**		3,570	
Purchase of fixed assets - housing		**(17,968)**		(8,726)	
Purchase of fixed assets –other		**(916)**		(186)	
Receipt of grant		**1,604**		81	
Interest received				13	
Net cash from investing activities			**(12,662)**		(5,248)
Cash flows from financing activities					
Interest paid		**(4,239)**		(4,419)	
New loans		**9,025**		12,775	
Debt issue costs incurred				148	
Repayment of loans		**(8,390)**		(15,440)	
Net cash from financing activities			**(3,604)**		(6,936)
Net increase/(decrease) in cash and cash equivalents			**(1,586)**		(1,006)
Cash and cash equivalents at beginning of year			**5,027**		6,033
Cash and cash equivalents at end of year			**3,441**		5,027

The accompanying notes form an integral part of the financial statement.

Notes to the Financial Statements for the year ended 31 March 2022

1 Legal Status

The Association and its subsidiary undertaking are registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014. They are both registered with the Regulator of Social Housing as social housing providers.

2 Principal accounting policies

Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 102 – the applicable financial reporting standard in the UK and Republic of Ireland (FRS 102) and the Statement of Recommended Practice: Accounting 2019 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019. In preparing the separate financial statements of the parent, advantage has been taken of the following disclosure exemptions available in FRS102:

- No cash flow statement has been presented for the parent
- Disclosures in respect of the parent's financial instruments have not been presented as equivalent disclosures have been provided for the Group as a whole

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

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and investment property.

Going concern

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

The Group prepares a 30-year business plan which is updated and approved on an annual basis. The most recent business plan was approved in May 2021 by the Board. As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure and/or increase income. Following the outbreak of Covid-19 the Group has included in the scenario testing severe but plausible downsides in the multi variate worst-case assessment.

The Board, after reviewing the Group and Association budgets for 2021-22 and the Group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the Group and Association have adequate resources to continue in business for the foreseeable future. In order to reach this conclusion, the Board have considered:

- The property market – cashflow forecasts and business plan scenarios have taken account of delays in handovers, lower numbers of property sales and reductions in sales values;
- Maintenance and development costs – cashflow forecasts and business plan scenarios have been modelled to take account of cost increases in maintenance and development expenditure;
- Rent and service charge receivable – assumptions about arrears and bad debts have been increased to allow for customer difficulties in making payments and business plan scenarios take account of potential future reductions in rents;
- Liquidity – current available cash and unutilised loan facilities of £42.6m which gives significant headroom for committed spend and other forecast cash flows that arise;
- The Group's ability to withstand other adverse scenarios such as higher interest rates and increased pension costs

The Board believe the Group and Association have sufficient funding in place and have agreed a set of mitigating actions to enable the Group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

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

2 Principal accounting policies (continued)

Basis of consolidation

The consolidated financial statements present the results of Hexagon Housing Association and its subsidiary ("the Group") as if they formed a single entity. Intercompany transactions and balances between the two are therefore eliminated in full.

Income

Income is measured at the fair value of the consideration received or receivable. The group generates the following material income streams:

- rental income receivable (after deducting lost rent from void properties available for letting)
- service charges receivable
- net rental income from properties managed by agents and co-operatives
- revenue grants for the operation of nursing homes
- first tranche sales of shared ownership housing properties developed for sale
- properties built for sale
- amortisation of social housing grant

Rental income is recognised from the point when properties under development reach practical completion and are formally let. Agents and co-operatives manage a number of properties owned by the Association. Where the agent or co-operative carries the financial risk the income and expenditure arising from these properties is excluded from these financial statements. Grants for the operation of high support homes is recognised in the year for which the grant is given. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

Supported housing schemes and nursing homes

The Group received Supporting People grants from a number of London Boroughs and other grants for nursing care from a local Health Authority. The grants received in the period as well as costs incurred by the Group in the provision of support services have been included in the consolidated statement of comprehensive income. Any excess of cost over the grant is borne by the Group.

Service charges

The Group adopts the fixed method for calculating and charging service charges to its tenants and the variable method for leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

Value added tax

The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

Tax

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiary operates and generates taxable income. The subsidiary operated in England, United Kingdom.

Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount.

Pension costs

Contributions to the Social Housing Pension Scheme ("SHPS") defined contribution scheme are charged to the Statement of Comprehensive Income in the year in which they become payable.

Until 31st March 2016, Hexagon participated in the SHPS defined benefit scheme. A liability for its obligations under the scheme net of scheme assets has been included in the Statement of Financial Position and the net change in that liability during the accounting period as the cost of the Defined Benefit scheme.

2 Principal accounting policies (continued)

Holiday pay accrual
A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at 31st March and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement.

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

Tangible fixed assets – housing properties
Housing properties constructed or acquired (including land) are stated at cost less depreciation and impairment (where applicable). The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which includes an appropriate amount for staff costs and other costs of managing development. Directly attributable costs include capitalised interest calculated, on a proportionate basis, using finance costs on drawn loans. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Expenditure on major refurbishment to properties, other than installation or replacement of major components, is charged to the Statement of Comprehensive Income.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in the first tranche, are included in housing properties and held at the cost less any impairment, and are transferred to completed properties when ready for letting.

Depreciation of housing property

Housing land and property for rent is split between land, structure and other major components that are expected to require replacement over time. The portion of shared ownership property retained is split between land and property. Land is not depreciated on account of its indefinite useful economic life. Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

The cost of all other freehold and long leasehold housing property is depreciated over the useful economic lives of the structure and major components as follows:

	Years		Years
Structure	125	Bathroom	30
Roof	60	Mechanical systems	25
Windows and external doors	30	Electrics	30
Boiler	15	Aids and adaptations	10
Kitchen	20		

Where individual components of a property are replaced the costs are capitalised and the cost of the replaced components is written off.

Shared ownership properties and staircasing
Under low cost home ownership arrangements, the Group disposes of a long lease on shared ownership homes for a share ranging between 25% and 75% of value. The buyer has the right to purchase further proportions up to 100% based on the market value of the property at the time each purchase transaction is completed. This is known as staircasing.
Shared ownership properties under construction or awaiting first tranche sale are split proportionately between current and fixed assets based on the element related to expected first tranche sale. The first tranche proportion is classed as current asset and related sales proceeds included in turnover. The remaining element is classed as a fixed asset and is included in completed housing property at cost less depreciation and any provision for impairment. Sales of subsequent tranches are treated as a part disposal of housing properties. Such staircasing sales may result in capital grant being deferred or abated and any abatement is credited to the sale account in arriving at the surplus or deficit.

Maintenance of shared ownership properties is the responsibility of the shared owners, who pay for repairs to common parts and for major repairs via service charges. Any impairment in value of such properties is charged to the Statement of Comprehensive Income.

Allocation of costs for mixed tenure and shared ownership developments
Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where this is not possible, build costs are allocated on a floor area basis.

2 Principal accounting policies (continued)

Tangible fixed assets – other
Other tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Group adds to the carrying amount of fixed assets the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is de-recognised. Repairs and maintenance are charged to the Statement of Comprehensive Income during the period in which they are incurred.

Depreciation of other tangible fixed assets
Depreciation of other fixed assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

	Years
Office buildings	40-60
Office fittings	10-25
Housing furniture and equipment	5-10
IT hardware and software	5
Motor vehicles	4

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within other operating income in the Statement of Comprehensive Income.

Government and other capital grants

Grants received for the construction of housing properties is accounted for using the accrual method set out in FRS102 and the Housing SORP 2014. Grant is carried as deferred income in the balance sheet and released to the Statement of Comprehensive Income on a systematic basis over the useful economic life of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected.

Where a property funded by Social Housing Grant (SHG) is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property.

SHG and other grants due from government organisations or received in advance are included as current assets or liabilities.

Turnover includes an element of Social Housing Grant to cover the proportion of the development administration and overhead costs that are not capitalised.

Recycled capital grant fund (RCGF)
On the occurrence of certain events, primarily the sale of homes, the GLA can direct the Group to recycle capital grants or to make repayments of the recoverable amount. The Group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three-year period, it will be repayable to the GLA with interest. Any unused recycled grant held with the RCGF which it is anticipated will not be used within one year is disclosed in the Statement of Financial Position under creditors due within one year. The remainder is disclosed under creditors due after one year

Investment Properties
Investment properties consist of commercial properties not held for social benefit. Investment properties are held at fair value determined by external valuers. The difference between the fair value and historic cost and subsequent changes in value are recognised in the Statement of Comprehensive Income.

Impairment of fixed assets
The housing property portfolio of the Group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. The recoverable amount is taken to be the higher of the fair value less costs to sell or the value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets/cash generating units.

The Group defines cash generating units as individual schemes for properties in use, and as individual development programmes for properties under construction. Where the recoverable amount of an asset/cash generating unit is lower than its carrying value an impairment is recorded through a charge to the Statement of Comprehensive Income.

2 Principal accounting policies (continued)

Stock
Stock represents work in progress and completed properties, including properties developed for shared ownership or for outright sale. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche. Stock is stated at the lower of cost and net realisable value. Cost comprises land, materials, direct staff and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

Debtors and creditors
Debtors and creditors with no stated interest rate and receivable and payable within one year are recorded at transaction price. Any losses from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

Recoverable amount of rental and other trade receivables
The Group estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair it considers the class of debt and the amounts collected after the balance sheet date. The Group has made arrangements with individuals and households for arrears payments of rent and service charges. The arrangements are effectively loans granted at nil interest rates.

Loans and short-term deposits
All loans and short-term deposits held by the Group are classified as basic financial instruments in accordance with FRS102. These instruments are initially recorded at the transaction price less any transactions costs (historical cost). FRS102 requires that basic financial instruments are subsequently measured at amortised cost. However, the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans that are payable or receivable within one year are not discounted.

Financial liabilities
Financial liabilities are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Cash and cash equivalents
Cash and cash equivalents in the Group's Statement of Financial Position consists of cash at bank, in hand and bank deposits with an original maturity of less than 3 months.

Derivative instruments and hedge accounting
The Group holds floating rate loans which expose the Group to interest rate risk. To mitigate against this risk the Group uses interest rate swaps. These instruments are measured at fair value at each reporting date and carried as assets where the fair value is positive and as liabilities when the fair value is negative.

The Group has designated each of the swaps against existing drawn floating rate debt. To the extent the hedge is effective, movements in fair value, other than adjustments for own or counter party credit risk, are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any movements in fair value relating to ineffectiveness (i.e. cancellable swaps) and adjustments for our own or counterparty credit risk are recognised in the surplus for the year.

Leased assets
Where assets are financed by leasing arrangements that give rights approximately to ownership (finance leases), the assets are treated as if they have been purchased outright and are included in tangible assets – housing property at cost less depreciation and any impairment.

All other leases are treated as operating leases. Their annual rentals are charged as operating costs.

Provision for liabilities
The Group has recognised provisions for liabilities of uncertain timing or amounts. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material the amount expected to be required to settle the obligation is recognised at the present value using a discount rate. The unwinding of the discount is recognised as a finance cost in the Statement of Comprehensive Income in the period it arises.

Repairs and Equipment Replacement Funds
Unexpended amounts collected from third parties for major repairs or equipment replacement under contractual arrangements are included in creditors.

Contingent liabilities
A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made.

Notes to the Financial Statements for the year ended 31 March 2022

3 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the key judgements have been made in respect of the following:

- Whether there are indicators of impairment of the Group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. Management has considered the measurement basis to determine the recoverable amount of assets where there are indicators if impairment based on EUV-SH or depreciated replacement cost.
- What constitutes a cash generating unit when indicators or impairment require there to be an impairment review
- The anticipated costs to complete on a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on costs to complete management then determines the recoverability of the cost of properties developed for shared ownership or outright sale. The judgement is also based on management's best estimate of sales values based on economic conditions in Hexagon's area of operation.
- Assumptions that apply to SHPS defined benefit scheme including,
    - The discount rate used to value the SHPS defined benefit obligation
    - The assumption for price inflation which impacts the liability calculation for pensions in payment whose increases are linked to inflation, along with the revaluation of deferred pensions. It is also used as the basis for setting the earnings growth assumption.
    - Increases to pensions in payment are typically either at a fixed rate, or in line with inflation subject to certain caps and collars.
    - The earnings growth assumption is used to project accrued pensions for current active members.
    - Mortality rates
    - Commutation allowance
    - GMB equalisation
- Whether leases entered into by the Group are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- The appropriate allocation of costs for mixed tenure developments, and the allocation of costs relating to shared ownership between current and fixed assets.
- Whether loans are basic or other.
- The categorisation of housing properties as investment properties or property plant and equipment based on the use of the asset.

Other key sources of estimation uncertainty

- *Tangible fixed assets*
  Tangible fixed assets are depreciated over their useful lives. The actual lives of the assets are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as whether an IT system is still being used are taken into account. For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.
- *Rental and other trade receivables*
  The estimate for receivables relates to the recoverability of the balances outstanding at the year end. A full provision is made for debt on which a court possession order has been issued.
- *Fair value measurement of derivatives*
  The fair value of interest rate swaps is assessed as the value calculated by the counter party at or close to the reporting date. If this is not available, then an estimate provided by the Group's treasury advisors is used.
- *Pension liabilities*
  Key assumptions used to calculate the Group's net pension liability for the SHPS defined benefit scheme are set out at the end of note 38.
- *Provisions*
  Dilapidation: for properties leased by Hexagon, dilapidation provision is built up over the term of the lease to the estimated value of repair works required at the end of the lease term.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2022

4 Turnover and operating surplus

Group

					2022		2021
	Turnover	Cost of	Operating	Surplus on disposal of	Operating	Turnover	Operating
		sales	costs	Fixed Assets	Surplus/(deficit)		Surplus/(deficit)
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Directly managed social housing activities (note 5)							
General needs lettings	**25,365**		**(20,384)**		**4,981**	24,933	2,658
Supported housing lettings	**1,797**		**(1,634)**		**163**	1,679	68
Low cost home ownership lettings	**2,579**		**(1,179)**		**1,400**	2,431	(742)
	29,741		**(23,197)**		**6,544**	29,043	1,984
Other social housing activities							
First tranche shared ownership sales	**4,746**	**(4,143)**			**603**	3,248	163
Outright sales						-	-
Surplus on disposal of fixed assets				**2,631**	**2,631**	-	1,448
Accommodation managed by agents	**1,513**		**(923)**		**590**	1,692	625
Development administration	**16**		**(610)**		**(594)**	15	(504)
Charges for support services under contract	**1,071**		**(1,031)**		**40**	1,080	112
Other	**3,353**		**(83)**		**3,270**	79	(535)
	10,699	**(4,143)**	**(2,647)**	**2,631**	**6.540**	6,114	1,309
Non-social housing activities							
Nursing home lettings						-	-
Other	**150**		**(1,196)**		**(1,046)**	106	(1,298)
	150		**(1,196)**		**(1,046)**	106	(1,298)
Total before fair value and pension adjustments							
	40,590	**(4,143)**	**(27,040)**	**2,631**	**12,038**	35,263	1,995
Pensions deficit contribution paid				**924**	**924**		904
Impact of changes to pension assumptions							-
Total after fair value and pension adjustments					**12,962**		2,899

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2022

4 Turnover and operating surplus

Association

					2022		2021
	Turnover	**Cost of**	**Operating**	**Surplus on disposal of**	**Operating**	Turnover	Operating
		sales	**costs**	**Fixed Assets**	**Surplus/ (deficit)**		Surplus/ (deficit)
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	£000's	£000's
Directly managed social housing activities (note 5)							
General needs lettings	**25,365**		**(20,384)**		**4,981**	24,933	2,658
Supported housing lettings	**1,797**		**(1,634)**		**163**	1,679	68
Low cost home ownership lettings	**2,467**		**(1,091)**		**1,376**	2,333	(790)
	29,629		**(23,109)**		**6,520**	28,945	1,936
Other social housing activities							
First tranche shared ownership sales	**4,746**	**(4,142)**			**604**	3,248	163
Outright sale						-	-
Surplus on disposal of fixed assets				**2,508**	**2,508**	-	1,448
Accommodation managed by agents	**1,513**		**(923)**		**590**	1,692	625
Development administration	**16**		**(610)**		**(594)**	15	(504)
Charges for support services under contract	**1,071**		**(1,031)**		**40**	1,080	112
Other	**3,353**		**(83)**		**3,270**	79	(534)
	10,699	**(4,142)**	**(2,647)**	**2,508**	**6,418**	6,114	1,310
Non-social housing activities							
Nursing home lettings						-	-
Other	**150**		**(1,196)**		**(1,046)**	225	(1,179)
	150		**(1,196)**		**(1,046)**	225	(1,179)
Total before fair value and pension adjustments	**40,478**	**(4,142)**	**(26,952)**	**2,508**	**11,892**	35,284	2,067
Pensions deficit contribution paid				**924**	**924**		904
Impact of changes to pension assumptions							
Total after fair value and pension adjustments					**12,816**		2,971

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2022

5 Income and expenditure from directly managed social housing lettings

Group

						2022		2021
		General needs lettings		**Supported housing lettings**	**Low cost home ownership**	**Total**		Total
		£000's		**£000's**	**£000's**	**£000's**		£000's
Income								
Rent receivable net of identifiable service charges		**22,799**		**972**	**1,995**	**25,766**		25,149
Service charge income		**905**		**655**	**448**	**2,008**		1,969
Amortised government grants		**1,648**		**81**	**136**	**1,865**		1,824
Net rents receivable and amortised government grant		**25,352**		**1,708**	**2,579**	**29,639**		28,942
Other revenue grants				**89**		**89**		85
Other income		**13**				**13**		16
Turnover from social housing lettings		**25,365**		**1,797**	**2,579**	**29,741**		29,043
Expenditure								
Management		**3,946**		**540**	**435**	**4,921**		3,808
Service charge costs		**1,956**		**584**	**304**	**2,844**		2,590
Routine maintenance		**4,320**		**202**	**40**	**4,562**		4,018
Planned maintenance		**1,646**		**58**	**7**	**1,711**		1,680
Major repairs expenditure		**2,167**				**2,167**		2,125
Major repairs – Brickfield Cottages ground collapse		**41**				**41**		13
Bad debts		**109**		**12**		**121**		86
Lease charges						**-**		-
Depreciation of housing properties								
– annual charge		**5,915**		**235**	**334**	**6,484**		6,207
– accelerated on disposal of components		**218**				**218**		129
Impairment of housing properties						**0**		6,286
Other costs		**66**		**3**	**59**	**128**		117
Operating costs on social housing lettings		**20,384**		**1,634**	**1,179**	**23,197**		27,059
Operating surplus on social housing lettings		**4,981**		**163**	**1,400**	**6,544**		1,984
Void losses		**178**		**58**	**58**	**294**		468

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2022

5 Income and expenditure from directly managed social housing lettings

Association

	General needs lettings	Supported housing lettings	Low cost home ownership	2022 Total	2021 Total
	£000's	£000's	£000's	£000's	£000's
Income					
Rent receivable net of identifiable service charges	**22,799**	**972**	**1,946**	**25,717**	25,093
Service charge income	**905**	**655**	**422**	**1,982**	1,934
Amortised government grants	**1,648**	**81**	**99**	**1,828**	1,819
Net rents receivable and amortised government grant	**25,352**	**1,708**	**2,467**	**29,527**	28,846
Other revenue grants		**89**		**89**	85
Other income	**13**			**13**	14
Turnover from social housing lettings	**25,365**	**1,797**	**2,467**	**29,629**	28,945
Expenditure					
Management	**3,946**	**540**	**386**	**4,872**	3,791
Service charge costs	**1,956**	**584**	**273**	**2,813**	2,566
Routine maintenance	**4,320**	**202**	**35**	**4,557**	4,018
Planned maintenance	**1,646**	**58**	**7**	**1,711**	1,680
Major repairs expenditure	**2,167**			**2,167**	2,125
Major repairs – Brickfield Cottages ground collapse	**41**			**41**	13
Bad debts	**109**	**12**		**121**	86
Lease charges					-
Depreciation of housing properties					
– annual charge	**5,915**	**235**	**331**	**6,481**	6,203
– accelerated on disposal of components	**218**			**218**	129
Impairment of housing properties			**0**	**0**	6,286
Other costs	**66**	**3**	**59**	**128**	112
Operating costs on social housing lettings	**20,384**	**1,634**	**1,091**	**23,109**	27,009
Operating surplus on social housing lettings	**4,981**	**163**	**1,376**	**6,520**	1,936
Void losses	**178**	**58**	**58**	**294**	468

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2022

6 Housing Stock

Association						
	At start of period	Units developed or newly built units acquired	Units sold	Transfers	Other movements	Period end
Social housing units owned and / or managed (excluding leasehold units)						
Social rent general needs housing	**3,178**	0	-2	0	-2	**3,174**
Affordable Rent general needs housing	**514**	0	-1	0	0	**513**
Social rent supported housing and housing for older people (	**260**	0	-12	0	-1	**247**
Affordable Rent supported housing	**14**	0	0	0	0	**14**
Low Cost Home Ownership	**328**	0	-5	0	-1	**322**
Care homes	**39**	0	0	0	5	**44**
Other social housing	**0**	0	0	0	0	**0**
Total social housing units owned and / or managed	**4,333**	**0**	**-20**	**0**	**1**	**4,314**
Total social housing units managed but not owned	**18**	0	0	0	0	**18**
Total social housing units owned	**4,315**	**0**	**-20**	**0**	**1**	**4,296**
Total social housing units owned but not managed	**402**	0	0	0	0	**402**
Total social housing units managed	**3,931**	**0**	**-20**	**0**	**1**	**3,912**
Non-social rental housing units (excluding leasehold units)						
Total non-social rental housing units owned	**0**	0	0	0	0	**0**
Total non-social rental housing units managed but not owned	**0**	0	0	0	0	**0**
Leasehold units						
Social leasehold units owned	**96**	0	0	0	6	**102**
Social leasehold units managed but not owned	**0**	0	0	0	0	**0**
Non-social leasehold units owned	**22**	0	0	0	0	**22**
Non-social leasehold units managed but not owned	**1**	0	0	0	0	**1**

Horniman

Low cost home ownership	17	0	0	0	0	**17**
Total social housing units owned and managed	**17**	**0**	**0**	**0**	**0**	**17**
Leasehold units						
Social leasehold units owned and managed	16	0	0	0	0	**16**
Non-social leasehold units owned and managed	6	0	0	0	0	**6**

6 Housing Stock (continued)

Units in development		**Group**				**Association**		
		2022		2021		**2022**		2021
Social Housing:								
General needs		**88**		74		**88**		74
Shared ownership		**117**		58		**117**		58
Other								
Housing for sale		**21**		21				-
Total units in development		**226**		153		**205**		132

7 Accommodation managed by agent

Group and Association

	2022		2021
The Association owns property managed by other bodies as follows:			
General needs units and bedspaces	**294**		294
Supported housing units and bedspaces	**108**		108
	402		402

8 Operating Surplus and Total Comprehensive Income

		Group				**Association**		
		2022		2021		**2022**		2021
		£000's		£000's		**£000's**		£000's
Total comprehensive income is stated after charging:								
Depreciation on housing assets								
- Annual charge - Accelerated depreciation of on replaced components		**6,882** **218**		6,590 129		**6,879** **218**		6,587 129
Depreciation on other tangible fixed assets		**362**		339		**362**		339
Impairment of housing properties				6,286				6,286
Operating lease rental on land and buildings				88				88
Auditor's remuneration (*excluding VAT):*								
- Fees payable for the audit of the annual accounts - Fees payable for the audit of service charges				48 6				36 5
- Fees for tax computations - Fees for tax advice				5				-
Pension costs (see note 9 below)		**490**		496		**490**		496
Overall surplus is stated after charging:								
Pension adjustments (see note 31):								
Initial recognition of multi-employer defined benefit scheme				-				-
Actuarial (gains)/losses on defined benefit pension scheme		**(1,006)**		4,180		**(1,006)**		4,180
Change in fair value of financial instruments (see note 25):								
- Not treated as hedges - Treated as hedges		**(2,610)** **(2,854)**		(2,565) (2,660)		**(2,610)** **(2,854)**		(2,565) (2,660)
Change in fair value of investment properties				575				575

9 Employees

Group and Association

		2022		2021
The average number of employees (including the Executive Directors) during the year, expressed as full-time equivalents at 35 hours a week was as follows:		**number**		number
Office staff		**103**		105
Other staff		**18**		19
Total		**121**		124
		2022		2021
		£000's		£000's
Staff costs (for the above persons)				
Wages and salaries		**4,521**		4,709
Social security costs		**463**		471
Cost of defined benefit scheme (excluding contribution to past service deficits)				-
Cost of defined contribution scheme		**490**		496
		5,474		5,676

See note 41 for further information the Group's pension schemes

10 Directors' and senior staff emoluments

Group and Association

The directors and key management personnel, as defined in FRS102 are defined as members of the Board, the Chief Executive and other Directors as set out on page 2.

		Group				**Association**		
		2022		2021		**2022**		2021
		£000's		£000's		**£000's**		£000's
Executive directors' emoluments		**496**		543		**496**		543
Amounts paid to non-executive directors		**75**		65		**70**		60
Contributions to the SHPS defined benefit scheme		**-**		-		**-**		-
Contributions to the SHPS defined contribution scheme		**75**		71		**75**		71
Total expenses re-imbursed to Directors (including Board members) not chargeable to United Kingdom income tax		**-**		-		**-**		-

The total amount payable to the Chief Executive (CE), who was also the highest paid director in respect of emoluments was £145k (2021: £145k). Pension contributions of £22k (2021: £22k), of which the CE contributes half, were made to the SHPS defined contribution scheme on their behalf. The CE is an ordinary member of that scheme. No enhanced or special terms apply, and the CE has no individual pension arrangement to which the Group makes a contribution. There were 4 directors in the defined contribution scheme.

10 Directors' and senior staff emoluments (continued)

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

		2022 Number	**2022 Number**	2021 Number	2021 Number
		Including Pension	**Excluding Pension**	Including Pension	Excluding Pension
£60,001 to £70,000		5	1	4	6
£70,001 to £80,000		2	4	5	2
£80,001 to £90,000		2	1	2	2
£90,001 to £100,000		1	1	1	-
£100,001 to £110,000		-	1	-	1
£110,001 to £120,000		2	-	2	-
£120,001 to £130,000		-	-	-	-
£130,001 to £140,000		-	1	-	-
£140,001 to £150,000		-	-	-	1
£150,001 to £160,000		1	-	-	-
£160,001 to £170,000		-	-	1	-
£170,001 to £180,000		-	-	-	-

11 Board members

		Member of:				
Board member	**Remuneration £**	**Hexagon Board**	**Audit & Risk Committee**	**Remuneration Committee**	**Performance Management**	**Horniman Board**
Simon Fanshawe	**11,520**	**X**		**X**		**X**
Roseann Ayton (started Sept 21)	**2,967**	**X**				
Ruth Chambers	**5,800**	**X**	**X**	**X**		
Claud Williams (started Sept 21)	**2,967**	**X**		**X**		
Dermot Finn (left Sept 21)	**2,900**	**X**				
Jeanette Kenyon	**5,800**	**X**		**X**		
Ian Watts	**6,773**	**X**	**X**	**X**	**X**	
Mark Allan	**6,286**	**X**			**X**	
Carol Bernstein (left March 22)	**5,800**	**X**				
Denise Senner	**5,800**	**X**				
Christopher Lloyd	**5,800**					**X**
Tom McCormack	**(see note 10)**	**X**				**X**
Paul Williams	**7,403**	**X**	**X**			**X**
Louise Richardson	**5,800**	**X**			**X**	

Four of the Board members are also tenants of the Association. Their tenancies, including policies on rent arrears, are on the same terms as those for other tenants and they cannot use their position to their advantage. The Chief Executive is also a member of the Board.

12 Surplus on disposal of fixed assets

Group	**Shared ownership**	**Other housing properties**	**2022 Total**	2021 Total
	£000's	**£000's**	**£000's**	£000's
Housing properties:				
Disposal proceeds	**2,057**	**2,661**	**4,718**	3,594
Grant proceeds		**48**	**48**	16
Cost of disposals	**(1,302)**	**(947)**	**(2,249)**	(2,209)
Selling costs	**(5)**	**19**	**14**	(6)
Depreciation eliminated	**40**	**207**	**247**	88
Grant abated	**(23)**	**(124)**	**(147)**	(35)
	767	**1,864**	**2,631**	1,448
Surplus on disposal of other tangible fixed assets			-	-
Surplus	**767**	1,864	**2,631**	1,448

Association	**Shared ownership**	**Other housing properties**	**2022 Total**	2021 Total
	£000's	**£000's**	**£000's**	£000's
Housing properties:				
Disposal proceeds	**1,824**	**2,661**	**4,485**	3,594
Grant proceeds		**48**	**48**	16
Cost of disposals	**(1,197)**	**(947)**	**(2,144)**	(2,209)
Selling costs	**(5)**	**19**	**14**	(6)
Depreciation eliminated	**37**	**207**	**244**	88
Grant eliminated	**(15)**	**(124)**	**(139)**	(35)
	644	**1,864**	**2,508**	1,448
Surplus on disposal of other tangible fixed assets				-
Surplus	**644**	1,864	**2,508**	1,448

13 Interest receivable and income from financial instruments

		Group		Association	
		2022	2021	**2022**	2021
		£000's	£000's	**£000's**	£000's
Interest receivable from subsidiary		**-**	-	**430**	415
Interest receivable and similar income		**1**	13	**1**	13
Total		**1**	13	**431**	428

14 Interest payable and finance costs

		Group				Association		
		2022		2021		**2022**		2021
		£000's		£000's		**£000's**		£000's
Bank and capital market loans		**4,639**		4,743		**4,639**		4,743
Recycled capital grants fund		**9**		8		**9**		8
Disposal proceeds fund		**-**		-		**-**		-
Total		**4,648**		4,751		**4,648**		4,751
Indexation of loan principal		**77**		58		**77**		58
Amortisation of deferred financing costs		**183**		260		**183**		260
Amortisation of loan premium		**(87)**		(87)		**(87)**		(87)
Interest capitalised		**(1,319)**		(1,620)		**(889)**		(1,206)
		3,502		3,362		**3,932**		3,776
Net interest on net defined benefit liability		**133**		68		**133**		68
Total		**3,635**		3,430		**4,065**		3,844
Other financing costs through comprehensive income								
(Gain) / Loss on fair value of hedged derivative instruments		**(2,854)**		(2,660)		**(2,854)**		(2,660)
Gain) / Loss on fair value of unhedged derivative instruments		**(2,610)**		(2,565)		**(2,610)**		(2,565)

The weighted average rate of interest on borrowings of 2.24% (2021: 2.28%) was used for calculating capitalised interest.

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2022

15 Taxation on surplus on ordinary activities

The Association is an exempt Charity and its activities in the year did not give rise to a tax liability. Horniman Housing Association is non charitable and is liable to Corporation Tax. A tax liability of £nil (2021: (£31k) existed at 31 March 2022.

UK Corporation Tax - Group	**2022**	2021
	£'000	£'000
Current tax on profits of the year	**-**	-
Adjustments in respect of previous/current periods	**-**	(31)
Total current tax	**-**	(31)
The tax assessed for the year differs to the standard rate of corporation tax in the UK applied to the surplus before tax		
Profit on ordinary activities before tax	**146**	18
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2020: 19%)	**28**	3
Effects of:		
Fixed asset differences	**(25)**	1
Expenses not deductible for tax purposes	**2**	
Chargeable gains / (losses)	**15**	
Income not taxable	**(1)**	(1)
Adjustments to tax charge in respect of previous year		(31)
Gift aid payment	**(19)**	(3)
Deferred tax not recognised	**-**	-
Current tax charge	**-**	(31)

16 Intangible fixed assets

Group & Association

		Software
		Development costs
		2022
		£000's
Cost		
At 1 April		1,787
Additions		175
At 31 March		1,962
Depreciation		
At 1 April		162
Charge for year		168
At 31 March		330
Net book value		
At 31 March 2022		**1,632**
At 31 March 2021		1,625

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2022

17 Tangible fixed assets - Housing Property

Group

	Tenanted property held for social housing letting	Tenanted property under construction	Shared ownership property held for letting	Shared ownership property under construction	Tenanted property held for non-social housing letting	Tenanted property held for non-social housing Letting under construction	Short-life property	2022 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost								
At 1 April	**481,799**	**15,806**	**59,972**	**20,327**	**-**	**-**	**1,596**	**579,500**
Transfer from properties held for sale & investment properties			**(530)**					**(530)**
Additions – construction costs		**3,990**		**4,186**				**8,176**
Additions – new components	**4,895**		**9**					**4,904**
Additions – other works to existing properties	**2,020**		**3,597**					**5,617**
Schemes completed								
Disposals: - **Property sales**	**(947)**		**(1,302)**					**(2,249)**
- **Replaced components**	**(1,178)**							**(1,178)**
Prior year adjustment	**7**	**491**	**(52)**	**(439)**				**7**
At 31 March 2022	**486,596**	**20,287**	**61,694**	**24,074**			**1,596**	**594,247**
Depreciation								
At 1 April	**85,569**		**1,906**				**1,596**	**89,071**
Charge for the year	**6,545**		**337**					**6,882**
Transfer from properties held for sale								
Eliminated on disposal:								
- **Property sales**	**(208)**		**(41)**					**(249)**
- **Replaced components**	**(960)**							**(960)**
At 31 March	**90,946**		**2,202**				**1,596**	**94,744**
Impairment:								
At 1 April		**3,882**		**2,404**				**6,286**
Charge for the year	**-**		**-**		**-**	**-**	**-**	
Released in the year								
At 31 March		**3,882**		**2,404**				**6,286**
	-		**-**					
Net book value								
At 31 March 22	**395,650**	**16,405**	**59,492**	**21,670**				**493,217**
At 31 March 21	**396,230**	**11,924**	**58,066**	**17,923**			-	484,143
The net book value of housing properties comprises:								**2022 £000's**
Freeholds								**478,806**
Long leasehold								**14,728**
Short leasehold								
Total								**493,534**

17 Tangible fixed assets - Housing Property (continued)

Association

	Tenanted property held for social housing letting	Tenanted property under construction	Shared ownership property held for letting	Shared ownership property under construction	Tenanted property held for non-social housing letting	Tenanted property held for non-social housing Letting under construction	Short-life property	2022 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost								
At 1 April	**481,799**	**15,806**	**58,987**	**20,327**	**-**	**-**	**1,596**	**578,515**
Transfer from properties held for sale			**(530)**					**(530)**
Additions – construction costs		**3,990**		**4,186**				**8,176**
Additions – new components	**4,895**		**9**					**4,904**
Additions – other works to existing properties	**2,020**		**3,597**					**5,617**
Schemes completed								
Disposals: - **Property sales**	**(947)**		**(1,197)**					**(2,144)**
- **Replaced components**	**(1,178)**							**(1,178)**
Prior year adjustment	**7**	**491**	**(52)**	**(439)**				**7**
At 31 March	**486,596**	**20,287**	**60,814**	**24,074**			**1,596**	**593,367**
Depreciation								
At 1 April	**85,569**		**1,788**	**-**	**-**	**-**	**1,596**	**88,953**
Charge for the year	**6,545**		**334**					**6,879**
Transfers between tenures								
Eliminated on disposal:								
- **Property sales**	**(208)**		**(37)**					**(245)**
- **Replaced components**	**(960)**							**(960)**
484015At 31 March	**90,946**		**2,085**				**1,596**	**94,627**
Impairment:								
At 1 April	**-**	**3,882**	**-**	**2,404**	**-**	**-**	**-**	**6,286**
Charge for the year								
Released in the year								
At 31 March	**-**	**3,882**	**-**	**2,404**				**6,286**
Net book value								
At 31 March 22	**395,650**	**16,405**	**58,729**	**21,670**			**-**	**492,454**
At 31 March 21	396,230	11,924	57,199	17,923	-	-	-	483,276
The net book value of housing properties comprises:								**2022 £000's**
Freeholds								**478,046**
Long leasehold								**14,725**
Short leasehold								
Total								**492,771**

17 Tangible fixed assets - Housing Property (continued)

	Group		Association	
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
Interest capitalisation				
Interest capitalised in the year	**730**	998	**730**	998
Works to properties				
New components capitalised	**4,904**	3,200	**4,904**	3,200
Major repairs expenditure charged to comprehensive income account	**1,030**	1,489	**1,030**	1,489
Total expenditure	**5,934**	4,689	**5,934**	4,689
Total Social Housing Grant received or receivable to date is as follows:				
Capital grant for housing properties	**220,540**	221,267	**220,065**	220,727
Revenue element taken to comprehensive income	**3,197**	3,213	**3,196**	3,212
Recycled to Recycled Capital Grant Fund	**1,884**	1,517	**1,816**	1,517
Recycled to Disposals Proceeds Fund	**(342)**	(342)	**(342)**	(342)
Total	**225,279**	225,655	**224,735**	225,114

Due to housing property development dating back many years, it has not been possible to determine the cumulative amount of capitalised interest included in the cost of housing properties.

Finance Leases
The net book value of housing properties for the Group includes an amount of £14,762k (2021: £14,728k) in respect of assets held under finance leases. Such assets are generally classified as finance leases as the lease period amounts to the estimated useful economic life of the assets concerned.

Impairment Review

The Group considers individual tenanted and shared ownership properties to represent separate cash generating units when assessing for impairment in accordance with the requirements of FRS102 and SORP 2018. For properties in development, the group treats each development programme as a cash generating unit.

We identified one commercial unit where the market value decline resulting in £79k impairment in 2021-22. This has been reflected in the Statement of Comprehensive Income.

In 2020-21, the development contractor on one of the schemes became insolvent resulting in additional costs to be incurred on the scheme. The carrying value of the scheme was lowered with the £6.3m one-off impairment charge, which is reflected on the Statement of Comprehensive Income for 2020-21.

During 2019, the Government has published further guidance on ensuring the fire safety of properties. Where the Association has identified that this will lead to major works (predominately to wall systems and balconies), an impairment review has been performed. As the intention is to repair and make safe, the housing properties were considered to be providing a social housing service. For these, the cost to replace was calculated using rebuilding cost figure for which each property is insured. As this depreciated replacement cost is more than the carrying value, no impairment charge was booked. A similar exercise was completed for the development programme.

Properties held for security – Association & Group

	2022 **£m**	2021 £m
Carrying value of properties charged as security for loans and derivatives		
Estimated tenanted open market value of properties so charged	**422**	418
Estimated tenanted open market value of unsecured properties	**398**	340

18 Other fixed assets

Group & Association

				2022
	Freehold	Office	Motor	Total
	offices	equipment	vehicles	
	£000's	£000's	£000's	£000's
Cost				
At 1 April	**3,608**	**3,424**	**25**	**7,057**
Additions	**738**	**171**		**909**
Disposals				
At 31 March	**4,346**	**3,595**	**25**	**7,966**
Depreciation				
At 1 April	**1,306**	**3,023**	**25**	**4,354**
Charge for year	**84**	**278**		**362**
Disposals				
At 31 March	**1,390**	**3,301**	**25**	**4,716**
Impairment				
At 1 April	**476**	**-**	**-**	**476**
Charge for year				
At 31 March	**476**			**476**
Net book value				
At 31 March 2022	**2 480**	**294**		**2,774**
At 31 March 2021	1,826	401	-	2,227

19 Investment Properties

	Group		Association	
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
At 1 April	**950**	1,775	**950**	1,775
Additions		-		-
Disposals		(250)		(250)
Schemes Completed		-		-
Revaluations		(575)		(575)
At 31 March	**950**	950	**950**	950

20 Properties developed for sale

	Group		Association	
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
Completed	**2,261**	5,550	**2,261**	5,550
Under construction	**15,947**	12,468	**8,982**	7,502
	18,208	18,018	**11,243**	13,052

Properties developed for sale include capitalised interest as follows:

	Group		Association	
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
Completed	**-**	-	**-**	-
Under construction	**154**	592	**154**	207
	154	592	**154**	207

21 Debtors

	Group		Association	
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
Amounts receivable within one year:				
Rent arrears	**1,448**	1,955	**1,444**	1,936
Less: Provision for bad debts	**(334)**	(624)	**(334)**	(624)
Net rent arrears	**1,114**	1,331	**1,110**	1,312
Amounts owed by subsidiary	**-**	-	**-**	-
Other debtors	**947**	1,241	**932**	1,356
Prepayments and accrued income	**383**	323	**383**	323
Social housing grant receivable	**40**	-	**40**	-
	2,484	2,895	**2,465**	2,991
Amounts receivable in more than one year:				
Amounts owed by subsidiary	**-**	-	**6,917**	4,926
Other debtors: Cash charged to lenders	**1,761**	1,760	**1,761**	1,760
Total debtors	**4,245**	4,655	**11,143**	9,677

22 Cash at bank and short-term deposits

	Group		Association	
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
Cash at bank:				
: held in trust for shared ownership leaseholders	**1,219**	1,039	**1,132**	916
: unencumbered	**2,222**	3,988	**1,764**	3,756
	3,441	5,027	**2,896**	4,672

23 Creditors: Amounts falling due within one year

	Group		Association	
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
Loans and borrowings – note 25	**16,679**	4,329	**16,679**	4,329
Deferred capital grant – note 27	**2,026**	2,027	**2,021**	2,021
Trade creditors	**967**	2,044	**967**	2,044
Rent and service charges received in advance	**1,389**	1,397	**1,389**	1,397
Amounts owed to subsidiary		-		-
Taxation and social security payable	**(5)**	132	**(5)**	132
Other creditors	**2,452**	3,030	**2,452**	3,041
Recycled Capital Grant Fund – note 28	**1,056**	816	**1,056**	816
Accruals and deferred income	**3,146**	2,392	**3,005**	2,363
Short term pension deficit liability – note 32		-		-
Accrued interest	**685**	683	**685**	683
	28,395	16,850	**28,249**	16,826

24 Creditors: Amounts falling due after more than one year

	Group		Association	
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
Loans and borrowings – note 25	**191,300**	203,183	**191,300**	203,183
Deferred capital grant – note 27	**218,519**	219,240	**218,044**	218,706
Recycled Capital Grant Fund - note 28	**923**	825	**866**	768
Repairs and equipment replacement funds - note 30	**1,968**	1,693	**1,858**	1,583
Total before fair value adjustments	**412,710**	424,941	**412,068**	424,240
Financial liabilities measured at fair value of (see note 25):				
- Interest rate swaps designated as hedges	**9,906**	12,761	**9,906**	12,761
- Interest rate swaps not designated as hedges	**7,180**	9,789	**7,180**	9,789
Total fair value adjustments	**17,086**	22,550	**17,086**	22,550
Total after fair value adjustments	**429,796**	447,491	**429,154**	446,790

25 Loans and borrowing – Group and Association

Maturity of debt	**Bank loans**	**Other loans**	**Total**
	2022	**2022**	**2022**
	£000's	**£000's**	**£000's**
In one year or less, or on demand	**16,284**	**395**	**16,679**
Due between one and two years	**4,355**	**395**	**4,750**
Due between two and five years	**37,813**	**1,726**	**39,539**
Due in five years or more	**91,372**	**55,062**	**146,434**
Total of all loans	**149,824**	**57,578**	**207,402**
Short term creditors	**(16,284)**	**(395)**	**(16,679)**
Deferred Finance Charges	**(544)**	**(783)**	**(1,327)**
Loan premium		**1,904**	**1,904**
	132,996	**58,304**	**191,300**

Maturity of debt	Bank loans	Other loans	Total
	2021	2021	2021
	£000's	£000's	£000's
In one year or less, or on demand	3,938	391	4,329
Due between one and two years	12,534	391	12,925
Due between two and five years	36,601	1,171	37,772
Due in five years or more	95,664	56,000	151,664
Total of all loans	148,737	57,953	206,690
Short term creditors	(3,938)	(391)	(4,329)
Deferred Finance Charges	(706)	(465)	(1,171)
Loan premium	-	1,993	1,993
	144,093	59,090	203,183

25 Loans and borrowing – Group and Association (continued)

Details of borrowings, which are secured by fixed charges on some of the Group's housing properties, are set out below

Loans are secured by fixed charges on the Group's housing properties and are repayable with varying terms as follows:					
Bank loans:	**Repayment type**	**Year of final repayment**	**Interest rate**	**2022 £000's**	2021 £000's
Bank of Scotland	Amortising	2029/30	Variable	**2,970**	3,197
Abbey National Treasury Services	Amortising	2042/43	Variable	**65,154**	68,115
Newcastle Building Society	Bullet	2036/37	Variable	**25,000**	25,000
Lloyds TSB	Amortising	2034/35	Variable	**19,250**	20,000
Other loans:					
The Housing Finance Corporation	Amortising	2024/25	RPI + 5.50%	**1,578**	1,953
AHF EIB Loan 2014	Amortising	2043/44	3.29%	**7,500**	7,500
AHF Bond Loan 2014	Bullet	2041/42	3.8%	**7,500**	7,500
AHF Bond Loan 2015	Bullet	2043/44	2.89%	**17,000**	17,000
AHF EIB Loan 2016	Amortising	2046/47	1.72%	**17,000**	17,000
The Housing Finance Corporation	Bullet	2042/43	5.2%	**7,000**	7,000
Yorkshire Building Society	Amortising	2021/22	Variable	**12,450**	8,700
National Westminster Bank	Amortising	2023/24	Variable	**25,000**	23,725
Total				**207,402**	206,690

During the year, the Group drew on its revolving credit facilities from Yorkshire Building Society and National Westminster Bank. At 31 March 2022 the Group had undrawn loan facilities available of £37.6m (2021: £42.6m).

26 Interest rate swaps

Group and Association

Interest rate swaps	**Nominal amount**	Nominal amount	**Fair value**	Fair value
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
Treated as hedges:				
LIBOR to fixed (fixed leg ranges from 3.043% to 4.96%)	**20,000**	20,000	**(6,087)**	(8,752)
LIBOR to RPI plus margin (of up to 1.19%)	**9,500**	9,500	**(3,819)**	(4,009)
Not treated as hedges as can be cancelled by the counter party before the full term (fixed leg ranges from 4.035% to 4.44%)	**20,000**	20,000	**(7,180)**	(9,789)
Total	**49,500**	49,500	**(17,086)**	(22,550)

26 Interest rate swaps (continued)

To hedge the potential volatility in further interest cash flows arising from movements in LIBOR, the Group has entered into floating to fixed interest or inflation-linked swaps with a nominal value less than borrowings. The interest re-pricing dates are identical to those of the matching variable rate loans, and the terms are the same as or less than the matching loans. These result in the Association paying up to 4.96% and receiving LIBOR (though cash flows are settled on a net basis) and effectively fix the total interest cost on the matching loans. These derivatives are accounted for as a hedge of variable rate interest risks, in accordance with FRS102 and had a fair value of £9.9m (2021: £12.8m) at the balance sheet date. The change in fair value in the period was -£2.9m with the gain being recognised in other comprehensive income as the swaps were 100% effective hedges.

A further three interest swaps which result in the Association paying up to 4.44% and receiving LIBOR cannot be accounted for as a hedge in accordance with FRS102, as the counterparty has at least one opportunity to cancel the swap at a future date. These derivatives had a fair value of £7.2m (2021: £9.8m) at the balance sheet date. The change in fair value in the period was -£2.6m with the gain being recognised as part of the surplus for the year.

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

As part of the refinancing exercise that concluded in April 2022, the above interest swaps were terminated in 2022/23.

27 Deferred Capital Grants

Group	**Tenanted property held for social housing letting**	**Tenanted property under construction**	**Shared ownership property held for letting**	**Shared ownership property under construction**	**Tenanted property held for non-social housing letting**	**Short-life property**	**2022 Total**	2021 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**238,599**	**5,014**	**13,299**	**1,496**	**-**	**1,755**	**260,163**	260,242
Additions		**(11)**		**70**			**59**	405
Grant additions to existing properties	**686**		**1,204**				**1,890**	-
Recycled to RCGF	(507)		**(302)**				**(809)**	(484)
At 31 March	**238,778**	**5,003**	**14,201**	**1,566**		**1,755**	**261,303**	260,163
Amortisation								
At 1 April	**36,191**	**-**	**950**	**-**	**-**	**1,755**	**38,896**	36,926
Charge for the year	**1,910**		**104**				**2,014**	2,005
Eliminated on disposal:	**(124)**		**(23)**				**(147)**	(35)
At 31 March	**37,977**		**1,031**			**1,755**	**40,763**	38,896
Amortised value								
At 31 March 2022	**200,801**	**5,003**	**13,170**	**1,566**			**220,540**	221,267
At 31 March 2021	202,408	5,014	12,349	1,496	-	-	221,267	

Association	**Tenanted property held for social housing letting**	**Tenanted property under construction**	**Shared ownership property held for letting**	**Shared ownership property under construction**	**Tenanted property held for non-social housing letting**	**Short-life property**	**2022 Total**	2021 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**238,599**	**5,014**	**12,651**	**1,496**	**-**	**1,755**	**259,515**	259,594
Additions		**(11)**		**70**			**59**	405
Grant additions to existing properties	**686**		**1,204**				**1,890**	-
Recycled to RCGF	**(507)**		**(234)**				**(741)**	(484)
At 31 March	**238,778**	**5,003**	**13,621**	**1,566**		**1,755**	**260,723**	259,515
Amortisation								
At 1 April	**36,191**	**-**	**842**	**-**	**-**	**1,755**	**38,788**	36,822
Charge for the year	**1,910**		**99**				**2,009**	2,001
Eliminated on disposal:	**(124)**		**(15)**				**(139)**	(35)
At 31 March	**37,977**		**926**			**1,755**	**40,658**	38,788
Amortised value								
At 31 March 2022	**200,801**	**5,003**	**12,695**	**1,566**			**220,065**	220,727
At 31 March 2021	202,408	5,014	11,809	1,496	-	-	220,727	

28 Recycled Capital Grant Fund

		Group		Association	
		2022	2021	**2022**	2021
		£000's	£000's	**£000's**	£000's
At 1 April		**1,641**	1,568	**1,584**	1,511
Inputs to fund:	Grants recycled	**442**	485	**374**	485
	Interest accrued	**9**	8	**9**	8
	Transfer from subsidiary		-	**30**	-
Recycling of grant:	New build	**(75)**	(420)	**(75)**	(420)
At 31 March		**2,017**	1,641	**1,922**	1,584
Amount due within one year		**1,056**	816	**1,056**	816
Amount due after more than one year		**961**	825	**866**	768
		2,017	1,641	**1,922**	1,584

29 Repairs and equipment replacement funds

Group	**Leaseholders sinking fund**	**Equipment replacement**	**Total**
	£000's	**£000's**	**£000's**
31 March 2021	**906**	**677**	**1,583**
Additions	**275**		**275**
Used in year			
31 March 2022	**1,181**	**677**	**1,858**
Association			
31 March 2021	**906**	**677**	**1,583**
Additions	**275**		**275**
Used in year			
31 March 2022	**1,181**	**677**	**1,858**

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

30 Financial instruments

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

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Financial assets measured at historical cost				
Debtors receivable in one year	**2,484**	2,895	**2,465**	2,991
- Debtors receivable after one year	**1,761**	1,760	**1,761**	1,760
- Cash and cash equivalents	**3,441**	5,027	**2,896**	4,672
- Financial assets that are debt instruments measured at amortised cost				
Intercompany loan		-	**6,917**	4,926
- **Total financial assets**	**7,686**	9,682	**14,039**	14,349
Financial liabilities				
Financial liabilities measured at amortised costs				
- Loans payable in one year	**16,679**	4,329	**16,679**	4,329
- Loans payable after one year	**191,300**	203,183	**191,300**	203,183
Financial liabilities measured at fair value				
- Interest rate swaps designated as hedges	**9,906**	12,761	**9,906**	12,761
- Interest rate swaps not designated as hedges	**7,180**	9,789	**7,180**	9,789
Financial liabilities measured at historical cost				
Creditors receivable in one year				
- Other creditors	**8,634**	9,678	**8,493**	9,660
Total financial liabilities	**233,699**	239,740	**233,558**	239,722

31 Provisions for Other Liabilities - Group and Association

	Dilapidations
	£000's
31 March 2021	**22**
Additions	
Used in year	**(29)**
31 March 2022	**(7)**

31 Pension Liabilities and Provisions for Other Liabilities - Group and Association (continued)

Hexagon participates in the SHPS pension scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. For more details see note 40.

The dilapidations provision is for repair obligations for short term leases, primarily for supported housing and care schemes, ending between 2021 and 2023.

32 Cash Flow Statement Notes)

Group	**2022**		2021
	£000's		£000's
(a) Reconciliation of operating surpluses to net cash inflow from operating activities			
Operating surplus	**12,038**		1,995
Depreciation of fixed assets	**5,448**		5,052
Impairment			6,286
Change in properties developed for sale	**339**		(775)
Change in debtors	**370**		(442)
Change in creditors	**(913)**		605
Change in provisions	**29**		(94)
(Surplus)/deficit on sale of fixed assets - housing properties	**(2,631)**		(1,449)
Net cash inflow from operating activities	**14,680**		11,178

(b) Reconciliation of net cash flow to movement in net debt			
Change in cash	**1,586**		1,006
Loans received	**9,025**		12,775
Loans repaid	**(8,390)**		(15,440)
Other noncash movements			148
Change in net debt	**2,221**		(1,511)
Net debt at 1 April	**202,486**		203,997
Net debt at 31 March	**204,707**		202,486

33 Non-equity Share Capital

	Group		**Association**	
	2022	2021	**2022**	2021
	£	£	**£**	£
Allotted issued and fully paid				
At 1 April	**16**	17	**16**	17
Issued during the year	**-**	-	**-**	-
Surrendered during the year		(1)		(1)
At 31 March	**16**	16	**16**	16

Each share has a nominal value of £1 and carries no right to interest, dividend, bonus or distribution on winding up. When a shareholder ceases to be a member, their share is cancelled, and the amount paid up becomes the property of the Association. Shareholders have the right to vote at general meetings of the Association, subject to the rules of the Association.

34 Contingent Liabilities

The Group and Association had no material contingent liabilities at the balance sheet date.

35 Operating leases

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

	Group				Association		
	2022		2021		**2022**		2021
	£000's		£000's		**£000's**		£000's
Not later than one year	**18**		-		**18**		-
Later than one year and not later than five years	**80**		-		**80**		-
Total	**98**		-		**98**		-

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

	Group				Association		
	2022		2021		**2022**		2021
	£000's		£000's		**£000's**		£000's
Not later than one year	**2,051**		1,894		**1,998**		1,838
Later than one year and not later than five years	**8,203**		7,575		**7,993**		7,350
Later than five years	**232,766**		214,166		**227,550**		208,566
Total	**243,020**		223,635		**237,541**		217,754

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

36 Capital Commitments – Group and Association

	Group		Association	
	2022	2021	**2022**	2021
	£000's	£000's	**£000's**	£000's
Commitments contracted for but not provided for:				
Construction	**24,516**	33,420	**22,303**	30,187
Maintenance				
Other	**-**	1,351	**-**	1,351
Capital expenditure approved by the board but not contracted for:				
Construction	**50,935**	19,974	**43,768**	19,974
Maintenance				
Other				
	75,451	54,745	**66,071**	51,512
These commitments to be financed as follows:				
Social Housing Grant	**7,999**	2,295	**7,999**	2,295
Proceeds from the sales of properties	**20,324**	28,985	**20,324**	28,985
Committed loan facilities	**47,128**	23,465	**37,748**	20,232
	75,451	54,745	**66,071**	51,512

37 Related party disclosures

The association provides management services, development agency services and loans to its subsidiary, Horniman Housing Association, which is a non-charitable registered provider. The quantum and basis for these charges are set out below:

Management charges		Development agency charges		Interest charges	
2022	2021	**2022**	2021	**2022**	2021
£'000	£'000	**£'000**	£'000	**£'000**	£'000
33	33	**0**	116	**860**	415

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

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

In Hexagon Housing Association's Financial Statements is the sum of £6,917k (2021: £4,926k) owed by Horniman Housing Association. This is made up of two loans of £43k (2021: £55k) and £6,874k (2021: £4,871k). The first loan was taken out in 2004 in accordance with commercial lending terms. The second loan was taken out in 2016 also with commercial lending terms. Hexagon Housing Association received £16.5k Gift Aid from Horniman Housing Association during the year.

The directors and key management personnel, as defined in FRS102 are defined as members of the Board, the Chief Executive and other Directors as set out on page 2 (see note 10 for Directors and senior staff emoluments). Members of the Governing Board received payment totalling £76k in the year (2021: £65k). Expenses paid to Board members during the year amounted to £nil (2021: £nil). Four of the Board members are also tenants of the Association. Their tenancies, including policies on rent arrears, are on the same terms as those for other tenants and they cannot use their position to their advantage. The total rental income from board members for the year was £20k and there were no arrears at the end of the financial year.

38 Post balance sheet event

The refinancing of the Group's variable rate debt portfolio concluded in April 2022 with the Group issuing its debut named Sustainable Finance linked £250m public bond. The discounted coupon was 3.625%. The 26-year bond has a bullet repayment. The bond proceeds were used to repay £165m floating rate debt and the early repayment of the derivatives (£15.7m).

39 Pension Obligations Defined Benefit Scheme

Hexagon has participated in the Social Housing Pension Scheme (SHPS), but there are now no active members of the scheme at Hexagon. The Scheme is funded and is contracted out of the state scheme.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate until 31 March 2007. From April 2007 there are three benefit structures available, namely:

1.1 Final salary with a 1/60th accrual rate.
1.2 Final salary with a 1/70th accrual rate.
1.3 Career average revalued earnings with a 1/60th accrual rate.

From April 2010 there are a further two benefit structures available, namely:

1.4 Final salary with a 1/80th accrual rate
1.5 Career average revalued earnings with a 1/80th accrual rate

A defined contribution option was made available from 1 October 2010.

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

Hexagon elected to operate the final salary with a 1/60th accrual rate benefit structure for active members as at 30/09/2010 and a defined contribution scheme for new entrants from 1/10/2010.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period Hexagon paid no contributions to the defined benefit scheme and a maximum of 7.4% to the defined contribution scheme.

As at the balance sheet date there were no active members of the Scheme employed by Hexagon. From 1/10/2010 new employees have only been eligible to join the defined contribution scheme.

39 Pension Obligations (continued)

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2020. This valuation revealed a deficit of £1,560m. A Recovery Plan has been put in place with the aim of removing this deficit by 31 March 2028.

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

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

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

For accounting purposes, a valuation of the scheme is carried out with an effective date of 30 September each year. The liability figures from this valuation are rolled forward for accounting year-ends from the following 31 March to 28 February inclusive.

The latest accounting valuation was carried out with an effective date of 30 September 2021. The liability figures from this valuation were rolled forward for accounting year-ends from the following 31 March 2022 to 28 February 2023 inclusive.

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

	31 March 2022 (£000s)	31 March 2021 (£000s)
Fair value of plan assets	30,690	30,389
Present value of defined benefit obligation	35,569	37,065
Surplus (deficit) in plan	(4,879)	(6,676)
Unrecognised surplus	-	-
Defined benefit asset (liability) to be recognised	(4,879)	(6,676)
Deferred tax	*	*
Net defined benefit asset (liability) to be recognised	*	*

* to be completed by the employer if required

39 Pension Obligations (continued)

RECONCILIATION OF THE IMPACT OF THE ASSET CEILING

	Period from 31 March 2021 to 31 March 2022 (£000s)
Impact of asset ceiling at start of period	-
Effect of the asset ceiling included in net interest cost	-
Actuarial losses (gains) on asset ceiling	-
Impact of asset ceiling at end of period	-

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE DEFINED BENEFIT OBLIGATION

	Period from 31 March 2021 to 31 March 2022 (£000s)
Defined benefit obligation at start of period	37,065
Current service cost	-
Expenses	23
Interest expense	787
Member contributions	- -
Actuarial losses (gains) due to scheme experience	1,606
Actuarial losses (gains) due to changes in demographic assumptions	(564)
Actuarial losses (gains) due to changes in financial assumptions	(2,491)
Benefits paid and expenses	(857)
Liabilities acquired in a business combination	-
Liabilities extinguished on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-

Exchange rate changes	-
Defined benefit obligation at end of period	35,569

39 Pension Obligations (continued)

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

	Period from 31 March 2021 to 31 March 2022 (£000s)
Fair value of plan assets at start of period	30,389
Interest income	654
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	(443)
Employer contributions	947
Member contributions	-
Benefits paid and expenses	(857)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rate changes	-
Fair value of plan assets at end of period	30,690

The actual return on plan assets (including any changes in share of assets) over the period from 31 March 2021 to 31 March 2022 was £211,000.

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

	Period from 31 March 2021 to 31 March 2022 (£000s)
Current service cost	-
Expenses	25
Net interest expense	133
Losses (gains) on business combinations	-
Losses (gains) on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-

Defined benefit costs recognised in Statement of Comprehensive Income (SoCI)	156

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2022

39 Pension Obligations (continued)

DEFINED BENEFIT COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME (OCI)

	Period from 31 March 2021 to 31 March 2022 (£000s)
Experience on plan assets (excluding amounts included in net interest cost) - gain (loss)	(443)
Experience gains and losses arising on the plan liabilities - gain (loss)	(1,606)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	564
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	2,491
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	1,006
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in Other Comprehensive Income - gain (loss)	1,006)

ASSETS	31 March 2022 (£000s)	31 March 2021 (£000s)
Global Equity	5,890	4,843
Absolute Return	1,231	1,677
Distressed Opportunities	1,098	878
Credit Relative Value	1,020	956
Alternative Risk Premia	1,012	1,145
Fund of Hedge Funds	-	3
Emerging Markets Debt	893	1,227
Risk Sharing	1,010	1,106
Insurance-Linked Securities	716	730
Property	829	631
Infrastructure	2,186	2,026
Private Debt	787	725
Opportunistic Illiquid Credit	1,031	773
High Yield	264	910
Opportunistic Credit	109	833
Cash	104	-
Corporate Bond Fund	2,047	1,795
Liquid Credit	-	363
Long Lease Property	790	596
Secured Income	1,144	1,264
Over 15 Year Gilts	-	-
Index Linked All Stock Gilts	-	-
Liability Driven Investment	8,564	7,723
Currency hedging	(120)	
Net Current Assets	85	185

Total assets	30,690	30,389

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

39 Pension Obligations (continued)

KEY ASSUMPTIONS

	31 March 2022 % per annum	31 March 2021 % per annum
Discount Rate	2.79%	2.15%
Inflation (RPI)	3.62%	3.29%
Inflation (CPI)	3.21%	2.86%
Salary Growth	4.21%	3.86%
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2022 imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2022	21.1
Female retiring in 2022	23.7
Male retiring in 2042	22.4
Female retiring in 2042	25.2