HEXAGON HOUSING ASSOCIATION

Report and Consolidated Financial Statements

31 March 2023

Regulator of Social Housing Registration Number: L1538

HEXAGON HOUSING ASSOCIATION

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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EXECUTIVES AND ADVISORS FOR THE YEAR ENDED 31 MARCH 2023

Board of Management

Simon Fanshawe	(Chair)
Paul Williams	(Vice Chair) (Chair of Horniman)
Ruth Chambers	
Dawn Reid	(From 27 September 2022)
Jeanette Kenyon	(To 26 September 2022)
Mark Allan	
Ian Watts	(To 31 March 2023)
Denise Senner	
Tom McCormack	(To 10 June 2022)
Sheron Carter	(From 6 June 2022)
Louise Richardson	(To 26 September 2022)
Roseann Ayton	
Claud Williams	
Marcus Keys	(From 27 September 2022)
Tom Heys	(From 27 September 2022)
Gursh Bains	(From 5 December 2022)

Audit & Risk Committee

Ian Watts	(Chair, to 28 February 2023)
Gursh Bains	(Chair, from 1 March 2023)
Paul Williams	
Ruth Chambers	
Mark Allan	

People & Governance Committee

Ruth Chambers	(Chair)
Tom Heys	
Simon Fanshawe	
Claud Williams	

Growth & Viability Committee

Marcus Keys	(Chair)
Paul Williams	
Simon Fanshawe	

Customer Services Committee

Mark Allan	(Chair)
Roseann Ayton	
Denise Senner	
Dawn Reid	

Executive Management

Tom McCormack	Chief Executive (To 10 June 2022)
Sheron Carter	Chief Executive (From 6 June 2022)
Izzet Dizdar	Finance and IT Director (To 31 August 2023)
Edith Parker	Interim Finance and IT Director (From 01 August 2023)
Kerry Heath	Development and Sales Director
Charles Mtakati	Property Services Director
Rebecca Outram	Housing Services Director (To 2 June 2023)

Secretary

Tom McCormack (To 5 June 2022)
Sheron Carter (From 6 June 2022)

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Solicitor
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External auditor
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London, EC3N 1LS

Tax Advisors
RSM UK
25 Farringdon Street,
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HEXAGON HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2023

The Board has pleasure in presenting its Report and Financial Statements for the year ended 31 March 2023.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Group comprises Hexagon Housing Association, a non-profit registered society with a charitable status, and Horniman Housing Association, a non-profit registered society undertaking non-charitable activity. The activities of Hexagon Housing Association include the acquisition, development and management of general needs, shared ownership and supported housing in South East London. The activities of Horniman Housing Association are the management of 14 shared ownership / leasehold dwellings in the London Borough of Southwark together with the freehold of 25 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 12-22.

Group reported a turnover of £32.9m, a decline of 19.0% from £40.6m in 2021/22. The decrease is mainly related to £4.7m lower first tranche sales attributed to the adverse impact of the market changes caused by Brexit and the pandemic which impacted our contractors negatively. During 2021/22, we received a £3.3m one-off income from Brickfield Cottages insurance claim. In response to the prevailing operating environment, the board took a strategic decision to exit from the care business attributing to a decline of £1.1m from supporting people income. Overall reduction has been partially offset by an increase of 4.1% from our core social housing rental income.

Despite the turbulent operating environment, the group has withstood the inflationary pressures and increased cost of living whilst continuing investment in existing homes and customers services. Consequently, operating costs increased by 18.3% to £30.9m (March 2022, £26.1m). Our overall total comprehensive income deficit was £4.4m (March 2022: surplus of £15.8m), the financial position has been impacted by a number of one-off costs which included debt restructuring which strengthened the Group's credit position, net financing costs were £7.6m compared to £3.6m in 2021/22 arising from the £250m public bond, issued at 3.625%, £1.0m impairment charge on one of the development schemes and an expenditure of £2.7m attributable to our strategic decision to commit substantial funds towards building safety and fire safety works in our properties. The deficit was partially offset by £1.7m (2022: £2.6m) realised through a combination of staircasing sales of shared ownership properties and the sale of housing properties which were uneconomic to repair.

The Group has maintained a strong liquidity position. Unrestricted cash and deposits immediately available to the group totalled £70.2m (March 22: £2.2m). The current net asset position with reserves stands at £66.9m (March 2022: £61.4m). The Board maintains a policy of using the cash generated by its operating activities to fund the improvement and development of housing stock where possible, thereby reducing borrowing requirement and interest costs. During the year we committed surplus funds to exceptional building safety and fire safety works. Looking forward, the Group maintains a solid foundation from which we can continue to deliver on our mission.

Despite the challenges, the Group's performance was in line with its growth strategy, £10.2m was spent on acquiring and developing properties in the year, of which £0.9m was funded through capital grants. There were 20 handovers in the year and 196 start on site homes under construction.

The Group's loans increased to £307.1m from £207.4m. We issued our debut £250m public bond in April 2022. During this refinancing project, we repaid £165.0m of legacy floating debt and repaid the hedging instruments (swaps) at a cost of £15.7m. The weighted average interest rate on the Group's loan portfolio was 3.52% (2022: 2.24%). The Board estimates that the investment value of the Group's properties was £870m, of which £426m were in unsecured properties. The Board sets the social rents in line with the Rent Standard set by the Regulator of Social Housing (the Regulator, RSH). Rents for the Group's social rented general needs tenancies were increased by CPI +1% for the 2022/23 year, in compliance with the regulation.

Turnover and operating surplus by activity is as follows:

	Turnover		**Operating surplus / (deficit)**	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
General needs	**26,396**	25,365	**1,365**	5,687
Supported housing	**1,838**	1,797	**341**	186
Shared ownership	**2,722**	2,579	**1,513**	1,595
Sale of first tranche in shared ownership properties	**34**	4,746	**32**	603
Sale of outright units	**-**	-	**-**	-
Other social housing activities	**1,716**	5,953	**(1,039)**	3,306
Other non-social housing activities	**191**	15	**(1)**	(1,046)
Surplus on disposal of fixed assets	**-**	-	**1,733**	2,631
Total	**32,897**	40,590	**3,944**	12,962

The first tranche sales of shared ownership properties provide a small surplus and are used to subsidise the rented units at the same scheme.

VALUE FOR MONEY

Hexagon's Broad Approach to Value for Money

Hexagon's Corporate Plan sets out our strategic approach to Value for Money (VFM) which has 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 2022/23 are outlined in the table below.

Theme	Measure	Target	Actual	Comment
Controlling operating costs (including all major repairs) per social housing unit	Operating cost per social housing unit.	<£7,128	£6,869	The target was achieved, due to operational savings achieved against the March 23 budget..
	Operating cost per social housing unit, excluding exceptional items.	<£4,961	£6,508	The target was missed due to the increase in repairs and maintenance costs in the year.
Controlling growth of interest costs per social housing unit	Interest paid as a percentage of average borrowings.	<3.1%	3.52%	The bond was issued at 3.625%. Although this was a good rate attained during unpredictable capital markets behaviour arising from the crisis in Ukraine, it was higher than the initial expectations when the VFM target was set.
Making the best use of our properties	Void loss % on rented homes.	0.90%	0.96%	We carried out a LEAN review in January 2023 and expect the interventions put in place to improve performance.
	Percentage of homes with a positive net present value.	100%	98.5%	Hexagon undertaking options appraisals, which includes disposals, of the properties with negative net present values if they are uneconomical to maintain to ensure value for money.
Maximising development (within our capacity)	Affordable units developed as a percentage of units owned.	1.1%	0.0045%	20 additional homes were handed over during 2022/23. Due to delays to projects reaching completion the planned additional 35 homes were not completed during the year.
	Rolling average three-year surplus on outright sales.	£279k	£0k	There was no income from outright sales in 2022/23 or 2021/22. Due to delays to projects reaching completion the planned 21 homes were not completed during the year.
Improving resident satisfaction	% satisfied with last repair.	89%	59.6%	Hexagon introduced a new approach to capture residents' feedback by using an independent company rather than via the contractors' on-site surveys as per previous years. A new repairs contractor started mid-year and had to clear a backlog of repairs not completed by the previous contractors plus there were teething problems with embedding the new repairs contract. However, in the latter part of 2022/23, the residents' satisfaction continued to increase as the new repairs service stabilised. Although the target was missed, we are continuing our work to improve on the satisfaction levels.
Delivering social value	Annual social value delivered per £ spent on employment initiatives.	£7.00	£4.02	Number of residents securing employment lower than expected, key reasons - high level of concern from residents engaging with service regarding cost of living and any change to their income including benefits. Engaged with more residents who were long term unemployed and/or experiencing poor mental and/or physical health made it more challenging to move residents into employment.

Theme	Measure	Target	Actual	Comment
Addressing climate emergency	Average energy efficiency rating of properties	72	72.81	Through the ongoing planned maintenance work, the average SAP ratings of the housing portfolio slightly increased and this upwards trajectory is expected to continue.

[1]: As per our Sustainable Finance Framework

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 2022/23 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 2023
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 new repairs contractor signed-up to Hexagon's new environmental sustainability strategy and this commitment was included in their contract. As part of the annual Sustainable Homes Index For Tomorrow (SHIFT) assessment of Hexagon's environmental sustainability performance, previous repairs 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	With effect from 2022/23, Hexagon's sole source of customer satisfaction feedback on completed repairs was via an independent company. Hexagon's officers, and from mid-year, the repairs contractor's Resident Liaison Officer, followed-up with residents who provided negative feedback to ensure their repairs were completed to their satisfaction and incorporate lessons learnt into the ongoing service improvement of the repairs service.
Estate improvements identified from estate inspections and responsive referrals are planned in liaison with Housing Management team.	Stock Improvement	Through ongoing 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	Strategic Asset Management	Hexagon continued to monitor the financial performance of all its tenanted properties to ensure ongoing investment in all these properties was achieving value for money. The properties that were financially underperforming were disposed of when they became void.
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. This close monitoring and site inspections extends to the cladding defect remediation work at Parkspring/Atrium and Patrick Court. There was a contractor failure in Q1, which we were warned about and prepared for, as a result of the close monitoring put in place.
Monitor defect repair performance (during the 12 months defects liability period following the completion of new homes)	Development and New Business	There were no homes in defects repair during the year.
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 the refinancing project. It is being implemented in the 2023-24 year.
Initiate Electronic Document Management to avoid having to file paper copies	Business Improvement	All house files have been scanned and are available on Sharepoint that can be accessed through CX.
Implement phase 2 of Cx including workflow, complaint handling/analysis, mobile working, and a resident portal	Information Technology	The phase 2 scope was reassessed in the year and the first element to be implemented was agreed to be the rent and service charge setting. This element of the project has been progressing in 2023/24 and will be completed by the Autumn 2023. The Customer Relationship Management is up and running. Once

Initiative	Team(s)	Progress to 31 March 2023
		the rent and service charge element is completed, the Customer portal implementation will start.
Continue to implement best practice in IT security	Information Technology	The IT department are committed to ensuring the Hexagon IT Environment is secure. A penetration test to identify known vulnerabilities has taken place and remedial action carried out 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. An internal audit on cyber security took place and the management are in the process of implementing the recommendations from this review.
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	The number of outstanding high risk fire risk assessment (FRA) remedial actions was significantly reduced throughout the year and Hexagon expects to complete the few remaining high-risk actions within the six months of 2023/24 year. Hexagon continued to complete its cyclical fire risk assessments and incorporate new actions into its existing programme. Remedial works to the external wall systems of Hexagon's two high rise buildings progressed relatively well. None of these buildings had ACM cladding. Hexagon started developing the building safety cases for its above-mentioned two high rise buildings. The first phase of a two-phase intrusive and structural survey programme for sub-18 metre buildings was completed. Independent fire engineers are reviewing the results of these intrusive surveys and Hexagon will develop a programme to undertake and recommended remedial works. Hexagon commenced work to plan for the cyclical fire door inspections across all relevant buildings.
Re-introduce sending 1/4ly rent statements	Rents and service charges	This will be achieved with the introduction of the Customer portal once the rent and service charge module is completed in 2023/24.
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 met three times during 2022-23 and helped us set priorities for improving the way we deliver the service to our home-owners. They disbanded in December 2022.
Meet our Love London Working targets for assisting residents into employment	Community Investment	We helped 26 residents into employment.
Promote digital inclusion across our service users	Community Investment Information Technology	We helped 33 residents in 2022/23 with improving their digital skills.
Theme: Restricting operating costs		
Minimise void losses	Responsive Repairs Neighbourhood Team	An end-to-end Lean Review of the voids and letting process was completed and Hexagon's repairs contractor and all internal teams adopted this new process to ensure it help reduce the void turnaround times. The new process is based on a Price Per Void price structure that controls the costs of undertaking the void repairs, where all teams are being proactive, efficient and making greater use of the IT systems to achieve swifter turnaround times.
Monitor and mitigate cost overruns on development	Development and New Business	Shifts in the market driven by factors beyond our control (EU exit, Pandemic, Ukraine, Autumn announcement) have increased construction costs resulting in costs being exceeded against estimates on newly contracted projects.

Initiative	Team(s)	Progress to 31 March 2023
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	Hexagon continued to install the most efficient boilers and its initial approach is to improve the insulation of residents' homes before its planned adoption of low carbon energy heating systems is adopted in later years for the existing stock. Hexagon continued to install low carbon heating systems in our new builds.
Energy efficiency works to existing homes	Stock Improvement	As part of our on-going energy efficiency works programme, Hexagon completed measures that led to an increase in overall SAP ratings of Hexagon's housing portfolio to 72.8 as shown in the Value for Money update above.
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. Started on site in Q4 of 2022/23.

Future VFM themes and targets
For 23/24 onwards the Board has refined the themes, indicators and targets as follows:

Theme	Agreed measures	23/24 Target
Controlling operating costs (including all major repairs) per social housing unit	Operating cost per social housing unit	£6,685
	Operating cost per social housing unit, excluding exceptional items	£5,607
Controlling growth of interest costs per social housing unit	Interest paid as a percentage of average borrowings	3.52%
Making the best use of our properties	Void loss % on rented homes	0.8%
	% of homes with positive net present value	100%
Maximising development (within our capacity)	Affordable units developed as a percentage of units owned	1.97%
	Rolling average three-year surplus on outright sales	£484k
Improving resident satisfaction	% satisfied with last repair	60%
Delivering social value	Annual social value delivered per £ spent on employment initiatives	£7
Addressing climate emergency	Average energy efficiency rating of properties	72

The budget set for 2023/24 is designed to deliver these targets. However, the continuing ripples of the war in Ukraine could impact on the outcomes, and in particular on the number of units developed. Rent increases are agreed on an annual basis by the Board. The Board has agreed to cap the 2023/24 social rents at 7% as directed by the Government. The Board also agreed to apply rent forgiveness of 3.1% to shared ownership rents reducing the increase to 10%. Supported Housing rents are increased by CPI + 1% (11.1%).

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 RSH, 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 FY2023 was in validation and no benchmarks are available. Therefore, the comparisons have been made with the FY2022 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). The Hexagon results detailed below reflect the Group performance.

	HHA 2023	HHA 2022	London Top Quartile 2022	London Median 2022
Reinvestment	4.1%	3.8%	8.3%	5.4%
New supply delivered (social housing units)	0.5%	0.0%	1.8%	1.0%
New supply delivered (non-social housing units)	0.0%	0.0%	0%	0.0%
Gearing	46.5%	41.5%	48.3%	43.1%
EBITDA MRI interest cover	48.7%	109.0%	166.5%	92.0%
Headline social housing cost per unit (£s)	£6,869	£6,820	£5,820	£6,760
Operating margin (social housing lettings)	10.4% (13.6% excluding exceptional item)	22.0%	27%	20.4%
Operating margin (overall)	6.1% (9.1% excluding exceptional item))	25.5%	21.2%	15.1%
Return on capital employed	0.6% (0.8% excluding the exceptional item)	2.6%	2.7%	2.2%

The reinvestment metric improved over FY2022 which was a direct result of the increase in the spend for new development and the investment in our existing stock in the year. The FY2022 level was suppressed due to the tight gearing covenant (that measured debt against grants plus reserves rather than against the historic cost of fixed assets) restricting additional borrowing to spend on development projects and the impact of the pandemic. The successful issuance of our named bond has allowed us to spend on the development projects and we were also able to resume the capital investment on our existing stock. 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.

There were 20 new handovers from the development team. The development landscape remains challenging with the contractors feeling the full impact of cost increases arising from the war in Ukraine and the labour shortage. This has resulted in delays in the development programme in FY2023. FY2022 was also impacted by the pandemic and the war in Ukraine, which were on top of the labour shortages arising from UK's departure from the EU. We remain below our peers for FY2022, mainly as a result of having to slow down the development programme to remain within the restrictive legacy gearing.

The increase in gearing is due to the issuance of our bond in April 2022 where we also moved to the standard measure of gearing of net debt against the historic net book value of housing assets. The gearing measure for FY2022 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.

The reduction in our EBITDAMRI against the FY2022 performance is due to a number of factors: We had lower first tranche shared ownership sales which resulted in lower operating surplus. The FY2022 income was also boosted by the receipt of £3.3m Brickfield Cottages insurance claim which was a one-off income. We also spent higher amounts in maintaining our existing stock in FY2023 which also supressed our operating surplus. The issuance of our named bond also resulted in higher interest costs for FY2023 which negatively impacted on our EBITDAMRI performance. We expect to remain below our London peers until our development programme delivers the new units, raising our income and therefore improving our interest cover performance.

Our headline social housing cost per unit increased due to the additional maintenance spend on our existing stock, which is lower in FY2022 for the reasons mentioned above. We will be reviewing our operational costs to identify potential efficiencies to generate cost savings which will improve this metric.

Social Housing operating margin in FY2023 was lower. As detailed above, our income in FY2022 was higher as we achieved higher first tranche sales and the one-off income from Brickfield Cottages. Our additional maintenance spend on our existing stock suppressed our operating surplus even further resulting in the lower margins. The lower surplus from fixed assets disposals in FY2023 contributed to the lower overall operating margin compared to FY2022.

The lower operating surplus performance as detailed above has resulted in the reduction in the return on capital employed for FY2023. Our performance for return on capital employed is generally 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 25 July 2023. Hexagon is, in all material respects, compliant with the standard.

Following a self-referral to the Regulator of Social Housing in December 2022 we received a regulatory judgement on 29 March 2023 which downgraded our previous published assessment from G1 to G2 for governance and confirmed our existing V2 grade for financial viability. We continue to meet requirements on governance set out in the Governance and Financial Viability Standard but need to improve some aspects of our governance arrangements to support 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. A new risk framework will be set out by the Board and the Audit & risk Committee in 2023/24.

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 the last quarter of 2022/23, Hexagon's Board established a sub-committee known as the Customer Services 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 in February 2023 with the aim of strengthening the internal controls in relation to key performance areas such as complaints, asset management including damp and mould, arrears management and customer satisfaction.

Corporate planning and budgeting: the Board approves the annual budget, 5-year corporate plan and 40-year financial forecast. The Board approved the new 5-year corporate plan in March 2023. The Plan sets out how the key objectives of the Association are going to be delivered over the next five years.

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 and priority is being given to addressing the audit recommendations arising from reports of limited assurance status.

Internal Audit Opinion by Mazars
On the basis of our internal audit work, our opinion on the framework of governance, risk management, and control is Limited in its overall adequacy and effectiveness. We noted key areas in which the control environment could be improved, for instance, we provided Limited assurance around Electrical Safety and noted fire safety actions still to be implemented in our Fire Safety Follow Up reviews. We also provided Needs Improvement assurance around Lettings, Cyber Security and Data Protection/GDPR. We have noted a declining trend in Hexagon's implementation rate through our follow up reviews. It is essential that Hexagon improves on this moving forward to ensure that recommendations, more particularly those of higher priority gradings, are implemented in a timely manner.

This and all other matters have been discussed with management, to whom we have made several recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.

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 31.

EVENTS AFTER THE END OF THE REPORTING PERIOD
There are no material events events after the end of the reporting period (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.
Beever and Struthers were appointed as auditor for the year end 31st March 2023 after a competitive tender exercise during 2022-23.

By order of the Board

Simon Fanshawe (Chair)
12th September 2023

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

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 undertakes 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 292 supported housing homes for people who need 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 100.5 staff (full time equivalent).

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

	2023	2022
General needs	3702	3,687
Supported housing	292	305
Low cost home ownership	337	339
Other	161	147
Total housing	**4,492**	**4,478**

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. 99.2% of the housing stock complies with the Decent Homes Standard.

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. We have achieved Best Companies 1 Star accreditation. Employees and their representatives are regularly consulted on decisions that are likely to affect employees' interests, through a Colleague 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 hybrid working, flexible working and part-time 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.

Our objectives and strategies to achieve these

The objectives and strategy of the association are set out in a corporate plan approved by the board. The Group's main objectives and strategies for 2020-23 were 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. • 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.

Objectives	Strategies
	• 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 homeowners, 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 Fwork/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.

The Board approved the new 5-year Corporate Plan for Hexagon. The new Corporate Plan has the following key objectives:

- Good landlord services that meet customer's needs
- Safe, decent, and efficient homes
- Residents are supported and making a positive difference.
- A dynamic workforce that delivers our goals
- A growing, sustainable, efficient, and viable business

The first two years of the new Corporate Plan will focus on turning around underperforming services, updating our systems, improving the scope and quality of our data, making better use of our assets, completing our committed development programme, and improving our financial health. The following years will focus on improving our core services, making year on year improvements to achieve our success measures throughout the term of the plan. The Board expects the final two years of the Plan to reactivate our ambition to build more homes and increase our digital offer.

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.

<u>Development and performance during the financial year and financial position at the year end</u>

Providing new homes

At the end of the year, there were 20 new rented homes completed and handed over. Due to contract delays 35 shared ownership homes, due for completion in 2022/23 were deferred. These homes along with an additional 50 homes for rent and 25 for shared ownership are expected to reach completion in 2023/24.

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, but we have agreed Heads of Terms for 19 additional homes, so we continue to report over 87% of the affordable programme being secured with 196 homes on-site at the end of the year and 66 homes completed.

We contracted on the 3 land held sites (87 homes) in the year.

We plan to secure the remaining 27 affordable homes in the programme via s106 opportunities.

We have progressed the scheme which had suffered an impairment in 2021/22. Part of the site has been demolished and a thorough quality review of the existing block has been completed with a partner contractor who we expect to contract with to complete the scheme in Q4 of 2024/25.

In addition to the affordable homes, two outright sale projects (21 homes) have been delayed due to contractors' insolvency. Both are now expected to reach completion in Q4 of 2023/24. 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 homes.

We have started construction on 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. Cladding remediation works on two 18m+ blocks are expected to reach completion in 2023/24. Both have secured additional Building Safety Fund grant for leaseholder costs than was previously expected.

Maintaining and improving existing homes

We continue to invest in improving our existing homes. In 2022/23, we spent £10.3m (2022: £8.8m) on major and cyclical works. These works included property safety related works, 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 2022/23 totalled £5.6m (2022: £4.6m), including works to bring voids back to lettable standard. During 2022/23 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 commenced 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.

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 continued to use our new IT system to monitor the financial performance of all properties and successfully inform ongoing investment in all our properties.

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 2022/23 we were allocated £77218.52 funding from the European Social Fund.

During 2022/23, 79 participants accessed employment support (84 in 2021/22), 26 participants secured employment (45 in 2021/22), 11 secured employment progression (13 in 2021/22). The numbers securing employment has dropped, explained by resident concerns over cost of living and wariness of any change which may impact their income, even if it would rise; and by an increase in residents enrolled on the programme being further away from the labour market so longer to achieve outcomes. In 2022/23 47% of residents accessing employment support secured employment or employment progression (69% in 2021/22).

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, 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 for the organisation. Through this work, we have seen a slight increase in our UC arrears in 2022/23 to 11.9%, against arrears of 11.6% in 2021/22.

We secured 122 welfare and cost of living grants on behalf of residents to help them purchase essential items to improve their quality of life (70 in 2021/22), we also distributed 60 energy vouchers (26 in 2021/22) to residents struggling to pay their energy bills and referred 98 residents to food banks.

We offer a one-to-one financial inclusion service to help our residents manage their money and in 2022/23 we helped 453 individuals gain £238,931 of additional income in benefits and grants (233 individuals and £192,967 in 2021/22). £120,870 of this additional income was in the form of Housing related benefits (2021/22 £92,559). Through this work, we have shown a 15.35% reduction in arrears for cases we have worked on.

Hexagon generated £4.02 in social value for every £1 spent in Employment and Skills service. (£7.28 in 2021/22)

Residents Helping us to achieve our objectives.

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

Changes in Care and Support

The uncertainty of the funding regime saw Hexagon exit the provision of care in 2022/23. We continue to provide supported housing to residents with mental health issues, with care and/or floating support provided by a third party.

Making Hexagon more planet-friendly

We successfully delivered the year one targets of our 2022 – 2026 Environmental Sustainability 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 2022/23 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 by 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 £307.1m. This debt is borrowed 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. 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 99.6% of its debt and therefore mitigating against the current as well as the 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 £341m.

The Group used hedging instruments to fix variable rates in accordance with the Treasury Strategy, and after taking advice from treasury advisors. As stated above, these hedging instruments were repaid in April 2022 with the public bond proceeds as part of the debt refinancing. There are therefore no hedging instruments in use as at 31 March 2023. The hedged position as at 31 March 2022 is set out in note 26 to the financial statements.

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	0.6
1-5 years	4.5
6-10 years	6.1
11-15 years	6.1
16-20 years	13.5
21-25 years	276.3
25-30 years	0.0
Total	**307.1**

Managing cash flows

Cash inflows and outflows for the period under review are set out in the Consolidated Statement of Cash Flows. Net cash outflows 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 £71.4m. This surplus cash is due to the bond issuance in April 2022. All of the facilities are fully drawn. The liquidity is monitored throughout the year and reported to the Board on a regular basis as part of the treasury updates. The Board monitors compliance with financial golden rules every quarter and considers the impacts of business planning and budgeting decisions on the golden rules.

For the year to March 2023 the Board decided to cancel the NatWest revolving credit facility (RCF) due to this facility being surplus to requirements. The long-term financial model identified that we will retain sufficient funds over the life of the RCF to complete the current development programme as well as the committed capital investment programme. Finally, the RCF was incurring commitment fees of c£0.1m per year and cancelling this facility has resulted in c£0.4m savings. Compliance with covenants is the responsibility of the Finance & IT Director.

<u>Measuring performance - Key financial and non- financial indicators</u>

Objectives & Indicators	**2022/23**	**2021/22**	**Comments**
Satisfaction with the last repair	59.6%	97.7%	There were challenges with some contractors' performance who were eventually replaced. Hexagon introduced a new approach to capture residents' feedback by using an independent company rather than via the contractors' on-site surveys as per previous years. A new repairs contractor started mid-year and had to clear a huge backlog of repairs not completed by the previous contractors plus there were teething problems with embedding the new repairs contract. However, in the latter part of 2022/23, the residents' satisfaction continued to increase as the new repairs service stabilised. Although the target was missed, we are continuing our work to improve on the satisfaction levels.

Objectives & Indicators	2022/23	2021/22	Comments
Customer service calls answered	79%	82%	There were resource challenges for a short period when handling of repair calls was moved to a new team.
Gas safety checks completed within target time	98.5%	99.9%	Outstanding cases due to lack of access and delays in obtaining injunctions to complete gas safety checks.
Number of complaints	506	256	Volumes for the year are up compared with 21/22 and we are liaising with our residents to ensure we understand and respond effectively to their complaints.
% of complaints with full response within target	36%	77%	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	106.4	-	Housing has established an Assets Group that meets fortnightly with Responsive Repairs Manager to track progress against all Voids and decants. A dedicated Voids Surveyor has been established to help speed up the process. We have reviewed the lettings and sign up process to encourage sign up at viewings and to manage expectations.
Void re-let (days) Supported Housing	72.9	107	A Dedicated Team Leader and Housing Officers continue to chase local authorities for nominations alongside the Allocations Officer
Rent collection % - General Needs	98.25%	99%	We have seen a slight decrease in the % of rent collection this year. The Rent recovery team remains committed to reducing current tenant arrears.
Rent collection % - Supported Housing	98.4%	98.4%	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	4.2%	2.4%	The increase in sickness absence is due to long term absences relating to recovery periods following operations.
Housing management cost per GN unit	£1,083	£875	The increase is due to the reallocation of costs post-handover of care schemes early in the 22/23 year.
% Operating margin excluding all property sales and pension and fair value adjustments	6%	22%	The reduction in the operating margin is due to the FY2023 additional maintenance spend on the existing stock and lower first tranche sales and the FY2022 £3.3m one-off insurance claim for Brickfield Cottages received in that year which increased the 2022 surplus.
Average SAP (energy efficiency) Ratings	72.8	73	We maintained our steady performance over the previous year with further improvements expected in 2023/24.
Units failing Decent Homes Standard	21	-	These properties are earmarked for component replacement works in early 2023/24.
New homes completed	20	-	The target was that 55 homes (four projects) would be completed. Three projects were affected by contractor insolvency, utility delays and contractual matters impacting on the delivery of these projects.
% weighted average interest	3.52%	2.24%	The increase in the average interest rate is due to the £250m public bond issued in April 2022 at 3.625%. This resulted in the overall increase in debt and also the weighted average rate. However, it safeguards the association from any future interest rate increases as the majority of the debt is now fixed.

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 £11.2m in 2022/23.

In addition to investing in its existing stock the Board aims to achieve a new build housing programme of circa 85 homes per year, of which the following are already committed and uncommitted but earmarked for delivery:

Handover year	**2023-24**	**2024-25**
General needs	42	31
Shared ownership	55	105
Other	5	36
Total	102	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 of living crisis causing decline in residents income and their ability to pay rent, leading to increasing arrears and bad debts	The ongoing high energy and gas costs as well as the general cost in everyday consumables is putting additional pressures on our residents some of whom struggle to pay their rents and service charge bills. This has 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.
Prolonged adverse macro-economic environment caused by world events and climate change, causing further deterioration of financial viability	The ongoing high inflation resulting from the events in Europe has pushed the costs up which impact negatively on our operations. We experienced significant cost increases in our operating and capital investment costs. These cost increases supress our operating surplus and use up our surplus cash quicker than anticipated which can result in lower interest cover performance. After a careful review, the Board agreed to cancel the Revolving Credit Facility in 2022/23 which eliminated the risk of potential interest cover covenant breach. The long-term financial model is reviewed throughout the year and adjusted to reflect any material changes in the assumptions. Corrective action is built in where relevant to improve the financial performance.
Failure to deliver development programme on time and on budget due to labour market pressures, cost inflation, and contractor claims/liquidations - weakening business plan projections	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 pipeline schemes so that land prices reflect the impact of increased costs.
Continuing roll out of Universal Credit	The DWP is continuing to roll out Universal Credit (UC), Hexagon are requesting payments of UC come directly to us rather than get paid to the tenant. Hexagon have a specialist arrears team who focus on income collection, and we have a UC Hub to help support customers who are transitioning over to UC. This coupled with the cost of living crisis is likely to mean Hexagon will suffer from a reduction in its rent collection percentage. Rising arrears have been included in the long-term financial plan.
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.
Rising interest rates	The Group's borrowings are summarised in the financial review (see below). The Group had a number of floating debt facilities, which were repaid in April 2022 with the proceeds from the refinancing exercise. The Group therefore has no material exposure to rising interest rates at this time. However, future funding requirements could create a potential risk of high rates that could be significantly higher than our current 3.52% weighted average interest rate. The long-term financial model includes prudent assumptions on future interest rates to ensure the business can manage future interest costs.
Failure to deliver expected shared ownership and open	As at March 2023, the Group part-owned 322 shared ownership homes. A further 128 shared ownership homes are currently on site. We also have 21 units currently on site for outright sales. The recent

Risk	Comments and mitigation
market sales causing underperformance of income targets and further breach of internal golden rules which impacts financial viability	downturn in the housing market can impact negatively on the expected sales receipts which will impact on our financing performance. The long-term financial model does not assume any staircasing sales which is prudent. Further prudence is built into the model by including delays to sales receipts. We also have the flexibility to switch the tenure of outright sales units to market rent to ride out the depressed housing market and sell the units when the market and sales values improve. We are also reviewing our marketing strategy to ensure new build units are marketing as early as possible and in the right media to reach out to the potential new homebuyers.
Poor data quality leading to service failure, poor decision making and governance	Not having accurate data on our stock and residents could lead to service failures such as homes becoming non-decent. Related to this, poor service provision could also result in rising complaints from our customers and failing to adhere to the Housing Ombudsman Complaint Handling Code. A data cleansing exercise has started in early 2023/24 to confirm and improve the accuracy of data. The current ongoing housing system implementation will also ensure customer information is accurate. A dedicated complaints team was set up in 2022/23 to investigate and respond to customer complaints as per our policies. We will continue monitor the service provision to our customers and implement improvements as and when they are detected/required.
Failure to use bond capital to invest in growth caused by ongoing fire and building safety costs which further weakens financial outlook.	Using the surplus cash from the refinancing on non-income generating activities could result in weaker financial position with low financial metrics. The Board review the long-term financial model on an annual basis and receive quarterly updates on the performance against the budget. The management also review financial performance on a monthly basis. Expenditure on property safety is monitored closely and we liaise with sector experts to inform our future spending decisions.
Failure to comply with the Building Safety Act leading to potential criminal charges against the Board of Management	Failure to comply with the Building Safety Act by failing to register high rise buildings with the Building Safety Regulator (HSE) and submit building safety cases by October 2023 and have the golden thread of information within 28 days thereafter. We are working closely with sector experts on how to register and produce the building safety cases for our relevant stock.
Failure to increase all the homes to SAP 69 and above by 2030	Not meeting the deadline of ensuring our homes meet the EPC C rating could result in our homes failing the efficiency standards, failure to meet the ESG element of our public bond and lead to our customers paying more for their heating costs. Sustainability Statement Asset Management Plan and the planned maintenance programme (energy efficient components) include a detailed programme of the retrofit works required in the properties that have a rating below SAP 69 /below EPC Rating C. The expected costs for these are already included in the long-term financial model.
Future rent cap set below inflation by Government, causing further deterioration to financial viability.	Any future rent caps that are below the cost price index will lead to a weakening financial position. We carry out stress testing on the long-term financial model and set out relevant mitigations to improve the financial position.
Significant breach of cyber security, creating business disruption, financial loss, and/or exposure to harm by use of personal data	There is growing concern within the sector in terms of a cyber attack resulting in service and business failure. We have anti-phishing, anti-virus, mail filtering, web filtering, firewalls with rules setup for only authorised traffic, as well as annual penetration testing and multi-factor authentication for remote access. We work closely with our consultants to ensure we minimise any potential cyber attacks.

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, Customer Services Committee, People and Governance Committee, and Growth and Viability Committee, are the sub-committees that report directly to the Board. The Board meets six times a year, the Audit & Risk Committee meets four times a year, and the People and Governance Committee meets three times per year. The other committees meet on a regular basis and as and when detailed scrutiny is required on any major reports to the Board.

Board members are paid. Total payments to non- executive board members in 2022/23 were £79k (2022: £76k). 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 members one of which is an independent and two are senior management team members.

Compliance with the NHF Code of Governance

Hexagon Housing Association has carried out a self-assessment of its compliance with the NHF Code of Governance 2020.. The results of the assessment were reviewed by the People & Governance Committee at its meeting on 9 June 2023. Hexagon complies with the principles of the code but has some areas of practice that require development. The People & Governance Committee approved an action plan to improve practices which it will keep under review.

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:

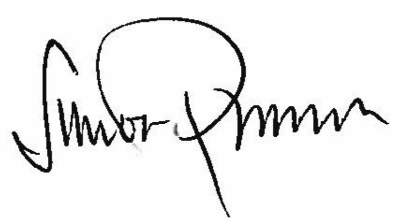
- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent.
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting 2018 have been followed, subject to any.
- material departures 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 2022.

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)
12th September 2023

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

Opinion

We have audited the financial statements of Hexagon Housing Association Limited (the Association) and its subsidiary (together the Group) for the year ended 31 March 2023 which comprise the Statement of Comprehensive Income – Group and Association, the Statement of Financial Position – Group and Association, Statement of Changes in Reserves – Group and Association and the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies in note 2. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2023 and of the Group's income and expenditure and the Association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022.

Basis for opinion

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

We were first appointed as auditor of Hexagon Housing Association Limited by the Board for the period ending 31 March 2023. The period of total uninterrupted engagement for the Group is for one financial year ending 31 March 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Association in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £657,940, determined with reference to a benchmark of Group Turnover (of which it represents 2%). We consider Group turnover to be the most appropriate benchmark and more appropriate than a profit-based benchmark as the Group is a not-for-profit organisation and the focus is on turnover rather than any surpluses, which are reinvested in the Group.

Materiality for the parent association financial statements as a whole was set at £656,300, determined with reference to a benchmark of Association Turnover (of which it represents 2%).

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £32,897, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's two reporting components, we subjected both to full scope audits for Group purposes. The work on all components including the audit of the parent Association, was performed by the Group team.

Key Audit Matters

Recoverability of stock and work in progress
Group and Association
The risk – significant risk medium value
At 31 March 2023, the Group held within current assets work in progress with cost value of £33.0m.

Refer to pages 31-36 (accounting policies) and page 52 (financial disclosures).

Our response
Our procedures included the following tests of detail:

- **Test of detail:** Agreeing the calculation of the surplus on sale for a sample of sales in the period**.**
- **Assessment of recoverability:** For a sample of development schemes, we reviewed the carrying value of the Group's stock and work-in-progress at the year-end including the financial appraisals of each scheme. This included testing on a sample basis the expected profitability of the current schemes and reviewing post year-end sales of properties held in stock at 31 March 2023.

Our results
We found no evidence that the year-end balance of stock and work in progress is overstated at the year end.

An impairment charge of £1.0m for the Group, and £0.7m for the Association was recognised in the year in respect of a scheme where a contractor went into insolvency. We reviewed the calculations and basis for the impairment and were satisfied with it. Our review of schemes under development did not identify any further indication of work in progress that required provision or impairment write down.

We found no errors in the calculation of surplus on sale of properties.

Valuation of defined benefit pension obligations
Group and Association
The risk – significant risk high value
The Group participates in one defined benefit pension scheme, the Social Housing Pension Scheme. The actuaries of the scheme valued the pension liabilities for Section 28 of FRS 102 purposes, the net pension liability is £4.7m.

The financial statements disclose the assumptions used by the Group in completing the valuation of the pension deficit and the movements. The effect of these matters is that we determined that post-retirement benefits obligation has a high degree of estimation uncertainty.

Refer to pages 31-36 (accounting policies) and page 63 (financial disclosures).

Our response
Our procedures included the following:

- **Assessing the credentials of the scheme's actuaries:** We reviewed the credentials of the scheme actuaries to assess that they are one of the small number of experienced, skilled advisors appointed to undertake the pension scheme valuations, as we place reliance on their valuation.
- **Confirmation of value:** We challenged, with the support of our own actuarial expert, the key assumptions and actuarial methodology applied, including the discount rate, inflation rate and mortality/life expectancy.
- **Test of detail:** We agreed the relevant accounting entries and disclosures in the financial statements to the reports prepared by the scheme actuaries.

Our results
We confirmed that the assumptions used in the calculation of the balances in the financial statements are within reasonable parameters and are in line with the recommendations of the scheme's actuaries. We are satisfied that whilst there is some uncertainty in relation to the pension scheme valuation due to the current economic conditions, this does not impact on the truth and fairness of the financial statements.

Treasury management and going concern
Group and Association
The risk – significant risk high value
The Group posted a full year deficit of £3.7m before actuarial movements on pension schemes (refer to pages 31-36 (accounting policies) and page 27 (financial disclosures)).

At 31 March 2023 the Group had borrowings of £307.1m (refer to pages 31-36 (accounting policies) and page 55 (financial disclosures)).

The risk is that the Group might have insufficient liquidity to finance its significant development programme, or might breach a funding covenant set out within the agreements in place with a range of funders.

The Association posted a full year deficit of £2.9m before actuarial movements on pension schemes (refer to pages 31-36 (accounting policies) and page 27 (financial disclosures)).

Our response
Our procedures included the following:

- **Assessment of recoverability:** Reviewed the Group's and Association's 2023/24 budget and longer-term financial forecasts, and the underlying assumptions, to assess the Group's ability to service and repay the debt. We also reviewed the stress testing performed by the Group on its long-term financial plan.
- **Confirmation of value:** Agreed loan balances to the accounting records and to external confirmation from the funders.
- **Test of detail:** Tested the detailed calculations for loan covenant compliance prepared by management, both for the year ended 31 March 2023 and projected future performance.

Our results
Our audit work concluded that all loan covenants were comfortably met at 31 March 2023. We confirmed that the Group held cash reserves of £71.4m at 31 March 2023 and had no undrawn loan facilities. This available funding is sufficient to meet committed capital expenditure at 31 March 2023.

The Association held cash reserves of £70.5m at 31 March 2023. This available funding is sufficient to meet committed capital expenditure at 31 March 2023.

Forecast performance at 31 March 2024 shows that covenants are expected to be met.

We concluded that across a range of stress testing scenarios carried out on its longer-term financial forecasts, including those linked to the current economic conditions, the Group and Association remains within its existing funding covenants.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 requires us to report to you if, in our opinion:

- the Association has not maintained a satisfactory system of control over transactions; or
- the Association has not kept adequate accounting records; or
- the Association's financial statements are not in agreement with books of account; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Board

As explained more fully in the Statement of Board's Responsibilities set out on page 21, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

In identifying and addressing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of laws and regulations that affect the Group and Association, focusing on those that had a direct effect on the financial statements or that had a fundamental effect on its operations. Key laws and regulations that we identified included the Co-operative and Community Benefit Societies Act, the Statement of Recommended Practice for registered housing providers: Housing SORP 2018, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2022, tax legislation, health and safety legislation, and employment legislation.
- We enquired of the Board and reviewed correspondence and Board meeting minutes for evidence of non-compliance with relevant laws and regulations. We also reviewed controls the Board have in place, where necessary, to ensure compliance.
- We gained an understanding of the controls that the Board have in place to prevent and detect fraud. We enquired of the Board about any incidences of fraud that had taken place during the accounting period.
- The risk of fraud and non-compliance with laws and regulations and fraud was discussed within the audit team and tests were planned and performed to address these risks. We identified the potential for fraud in the following areas: laws related to the construction and provision of social housing recognising the nature of the Group's activities and the regulated nature of the Group's activities.
- We reviewed financial statements disclosures and tested to supporting documentation to assess compliance with relevant laws and regulations discussed above.
- We enquired of the Board about actual and potential litigation and claims.
- We performed analytical procedures to identify any unusual or unexpected relationships that might indicate risks of material misstatement due to fraud.
- In addressing the risk of fraud due to management override of internal controls we tested the appropriateness of journal entries and assessed whether the judgements made in making accounting estimates were indicative of a potential bias.

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

Use of our report

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

Beever and Struthers

Beever and Struthers
Chartered Accountants
Statutory Auditor

150 Minories
London
EC3N 1LS

Date: 26 September 2023

HEXAGON HOUSING ASSOCIATION

Statement of Comprehensive Income
for the year ended 31 March 2023

Group		**2023**		2022	
	Notes	**Group**	**Association**	Group	Association
		£000	**£000**	£000	£000
Turnover	4	**32,897**	**32,815**	40,590	40,478
Cost of sales	4	**(2)**	**(2)**	(4,143)	(4,142)
Operating costs	4	**(30,893)**	**(30,434)**	(26,116)	(26,028)
Surplus on disposal of fixed assets	12	**1,733**	**1,450**	2,631	2,508
Movement in fair value of investment properties	19	**209**	**209**	-	-
Operating surplus	4,8	**3,944**	**4,038**	12,962	12,816
Interest receivable	13	**370**	**1,031**	1	431
Interest payable and finance costs	14	**(7,990)**	**(7,989)**	(3,635)	(4,065)
Movement in fair value of financial instruments	14	**-**	**-**	2,610	2,610
Surplus for the year		**(3,676)**	**(2,920)**	11,938	11,792
Tax	15	**-**	**-**	-	-
Actuarial gains/(losses) on defined benefit pension scheme	39	**(729)**	**(729)**	1,006	1,006
Change in fair value of hedged financial instrument	14	**-**	**-**	2,854	2,854
Total comprehensive (expenditure)/income for the year	8	**(4,405)**	**(3,649)**	15,798	15,652

All amounts relate to continuing activities.

The Financial Statements were approved and authorised for issue by the Board of Management on 12th September 2023 and were signed on its behalf by:

S. Fanshawe, Chair

Paul 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 2023

		2023		2022	
	Notes	**Group**	**Association**	Group	Association
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	16	**1,858**	**1,858**	1,632	1,632
Housing properties	17	**501,078**	**500,779**	493,217	492,454
Investment properties	19	**1,159**	**1,159**	950	950
Other	18	**2,687**	**2,687**	2,774	2,774
		506,782	**506,483**	498,573	497,810
Current assets					
Stock – properties developed for sale	20	**33,017**	**26,076**	18,208	11,243
Debtors – receivable within one year	21	**1,940**	**1,924**	2,484	2,465
Debtors – receivable after one year	21	**1,789**	**9,660**	1,761	8,678
Cash and cash equivalents	22	**71,444**	**70,524**	3,441	2,896
		108,190	**108,184**	25,894	25,282
Less: creditors – amounts falling due within one year including short term pension deficit liability	23	**(16,568)**	**(16,715)**	(28,395)	(28,249)
Net current assets		**91,622**	**91,469**	(2,501)	(2,967)
Total assets less current liabilities		**598,404**	**597,952**	496,072	494,843
Creditors: amounts falling due after one year	24	**(526,770)**	**(526,150)**	(429,796)	(429,154)
Provisions for liabilities	31	**1**	**1**	7	7
Net assets excluding pension liability		**71,634**	**71,803**	66,283	65,696
Pension liability	39	**(4,728)**	**(4,728)**	(4,879)	(4,879)
Net assets		**66,906**	**67,075**	61,404	60,817
Capital and reserves					
Income and expenditure reserve		**65,945**	**66,114**	70,559	69,972
Cash flow hedge reserve		**-**	**-**	(9,907)	(9,907)
Revaluation Reserve	19	**961**	**961**	752	752
		66,906	**67,075**	61,404	60,817

The Financial Statements were approved and authorised for issue by the Board of Management on 12th September 2023 and were signed on its behalf by:

S. Fanshawe, Chair

Paul Williams, Vice Chair

S. Carter, Secretary

The accompanying notes form part of these financial statements.

HEXAGON HOUSING ASSOCIATION

Statement of Changes in Reserves

				2023				2022
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 2022 / 1 April 2021	**70,559**	**(9,907)**	**752**	**61,404**	57,615	(12,761)	752	45,606
Surplus for the year (net of tax)	**(3,676)**	**-**	**-**	**(3,676)**	11,938	-	-	11,938
Actuarial gains/(losses) on defined benefit pension scheme	**(729)**	**-**	**-**	**(729)**	1,006	-	-	1,006
Change in fair value of hedged financial instrument	**-**	**9,907**	**-**	**9,907**	-	2,854	-	2,854
Movement in fair value of investment properties	**(209)**	**-**	**209**	**-**	-	-	-	-
Balance at 31 March 2023/ 31 March 2022	**65,945**	**-**	**961**	**66,906**	70,559	(9,907)	752	61,404

Statement of Changes in Reserves

Association				**2023**				2022
	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 2022 / 1 April 2021	**69,972**	**(9,907)**	**752**	**60,817**	57,174	(12,761)	752	45,165
Surplus for the year	**(2,920)**	**-**	**-**	**(2,920)**	11,792	-	-	11,792
Actuarial gains/(losses) on defined benefit pension scheme	**(729)**	**-**	**-**	**(729)**	1,006	-	-	1,006
Change in fair value of hedged financial instrument	**-**	**9,907**	**-**	**9,907**	-	2,854	-	2,854
Movement in fair value of investment properties	**(209)**	**-**	**209**	**-**	-	-	-	-
Balance at 31 March 2023/ 31 March 2022	**66,114**	**-**	**961**	**67,075**	69,972	(9,907)	752	60,817

The accompanying notes form part of these financial statements.

HEXAGON HOUSING ASSOCIATION

Consolidated Statement of Cash Flows for the year ended 31 March 2023

Group

	Notes		2023		2022
		£000's	**£000's**	£000's	£000's
Cash flows from operating activities					
Surplus for the year		**(4,405)**		15,798	
Adjustments for:					
Depreciation of fixed assets – housing		**8,398**		7,100	
Depreciation of fixed assets – other		**161**		362	
Impairment		**993**		-	
Amortised grant		**(2,031)**		(2,014)	
Net fair value losses/ (gains) recognised in income statement		**(209)**		(5,464)	
Interest payable and finance costs		**7,866**		3,502	
Tax expense					
Interest receivable		**(370)**		(1)	
Difference between net pension expense and liability		**(151)**		(1,797)	
Surplus on the sale of fixed assets		**(1,733)**		(2,631)	
(Increase)/decrease in stocks		**(14,809)**		339	
(Increase)/decrease in trade and other debtors		**452**		370	
(Decrease)/increase in trade creditors		**492**		(913)	
(Decrease)/increase in provisions		**(6)**		29	
Net cash generated from operating activities			**(5,352)**		14,680
Cash flows from investing activities					
Proceeds from sale of fixed assets		**2,742**		4,618	
Purchase of fixed assets - housing		**(22,026)**		(17,968)	
Purchase of fixed assets –other		**(300)**		(916)	
Receipt of grant		**332**		1,604	
Interest received					
Net cash from investing activities			**(19,252)**		(12, 662)
Cash flows from financing activities					
Interest paid		**(7,124)**		(4,239)	
New loans		**250,000**		9,025	
Debt issue costs incurred					
Repayment of loans		**(150,269)**		(8,390)	
Net cash from financing activities			**92,607**		(3,604)
Net increase/(decrease) in cash and cash equivalents			**68,003**		(1,586)
Cash and cash equivalents at beginning of year			**3,441**		5,027
Cash and cash equivalents at end of year			**71,444**		3,441

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

Notes to the Financial Statements for the year ended 31 March 2023

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 2018 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2022. In preparing the separate financial statements of the parent, advantage has been taken of the following disclosure exemptions available in FRS 102:

- 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 (for FY2022) 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 40-year business plan which is updated and approved on an annual basis. The most recent business plan was approved in May 2023 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. The Group has also 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 2022-23 and the Group's medium term financial position as detailed in the 40-year business plan, 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 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 relating to the support services are 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. 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 FRS 102 and the Housing SORP 2018. Grant is carried as deferred income in the Statement of Comprehensive Income 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 2018 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 reporting 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 reporting 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 FRS 102. These instruments are initially recorded at the transaction price less any transactions costs (historical cost). FRS 102 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 reporting date 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 12 months.

Derivative instruments and hedge accounting
The Group held floating rate loans which exposed the Group to interest rate risk. To mitigate against this risk the Group used interest rate swaps. These instruments were measured at fair value at each reporting date and carried as assets where the fair value was positive and as liabilities when the fair value was negative.

The Group designated each of the swaps against existing drawn floating rate debt. To the extent the hedge was effective, movements in fair value, other than adjustments for own or counter party credit risk, were 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 were recognised in the surplus for the year.

The Group paid and cancelled the interest rate swaps in April 2022.

Leased assets
Where assets are financed by leasing arrangements that give rights approximately to ownership, 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 reporting 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 2023

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 of 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
- Types of leases entered into by the Group. 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 39.
- *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 2023

4 Turnover and operating surplus

Group

						2023		2022
	Turnover	Cost of	Operating	Surplus on disposal of	Movement in fair values of	Operating	Turnover	Operating
		sales	costs	Fixed Assets	Investment Properties	Surplus/(deficit)		Surplus/(deficit)
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Directly managed social housing activities (note 5)								
General needs lettings	26,396	-	(25,031)	-	-	1,365	25,365	5,687
Supported housing lettings	1,838	-	(1,497)	-	-	341	1,797	186
Low cost home ownership lettings	2,722	-	(1,209)	-	-	1,513	2,579	1,595
	30,956	-	(27,737)	-	-	3,219	29,741	7,468
Other social housing activities								
First tranche shared ownership sales	34	(2)	-	-	-	32	4,746	603
Outright sales								
Surplus on disposal of fixed assets	-	-	-	1,733	-	1,733	-	2,631
Accommodation managed by agents	1,625	-	(1,209)	-	-	416	1,513	590
Development administration	-	-	(957)	-	-	(957)	16	(594)
Charges for support services under contract	13	-	(96)	-	-	(83)	1,071	40
Other	78	-	(702)	-	-	(624)	3,353	3,270
	1,750	(2)	(2,964)	1,733	-	517	10,699	6,540
Non-social housing activities								
Nursing home lettings	-	-	(1)	-	-	(1)	-	-
Other	191	-	(191)	-	-	-	150	(1,046)
	191	-	(192)	-	-	(1)	150	(1,046)
Movement in fair value of investment properties	-	-	-	-	209	209	-	-
Total	32,897	(2)	(30,893)	1,733	209	3,944	40,590	12,962

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2023

4 Turnover and operating surplus

Association

						2023		2022
	Turnover	**Cost of**	**Operating**	**Surplus on disposal of**	**Movement in fair values of**	**Operating**	Turnover	Operating
		sales	**costs**	**Fixed Assets**	**Investment Properties**	**Surplus/ (deficit)**		Surplus/ (deficit)
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's	£000's
Directly managed social housing activities (note 5)								
General needs lettings	**26,396**	**-**	**(25,031)**	**-**	**-**	**1,365**	25,365	5,687
Supported housing lettings	**1,838**	**-**	**(1,497)**	**-**	**-**	**341**	1,797	186
Low cost home ownership lettings	**2,603**	**-**	**(864)**	**-**	**-**	**1,739**	2,467	1,571
	30,837	**-**	**(27,392)**	**-**	**-**	**3,445**	29,629	7,444
Other social housing activities								
First tranche shared ownership sales	**34**	**(2)**	**-**	**-**	**-**	**32**	4,746	604
Outright sale								
Surplus on disposal of fixed assets	**-**	**-**	**-**	**1,450**	**-**	**1,450**	-	2,508
Accommodation managed by agents	**1,625**	**-**	**(1,209)**	**-**	**-**	**416**	1,513	590
Development administration	**-**	**-**	**(844)**	**-**	**-**	**(844)**	16	(594)
Charges for support services under contract	**13**	**-**	**(96)**	**-**	**-**	**(83)**	1,071	40
Other	**78**	**-**	**(702)**	**-**	**-**	**(624)**	3,353	3,270
	1,750	**(2)**	**(2,851)**	**1,450**	**-**	**347**	10,699	6,418
Non-social housing activities								
Nursing home lettings	**-**	**-**	**(1)**	**-**	**-**	**(1)**	-	-
Other	**228**	**-**	**(190)**	**-**	**-**	**38**	150	(1,046)
	228	**-**	**(191)**	**-**	**-**	**37**	150	(1,046)
Movement in fair value of investment properties	**-**	**-**	**-**	**-**	**209**	**209**	-	-
Total	**32,815**	**(2)**	**(30,434)**	**1,450**	**209**	**4,038**	40,478	12,816

5 Income and expenditure from directly managed social housing lettings

Group

	General needs lettings	Supported housing lettings	Low cost home ownership	2023 Total	2022 Total
	£000's	£000's	£000's	£000's	£000's
Income					
Rent receivable net of identifiable service charges	23,452	963	2,120	26,535	25,766
Service charge income	1,278	713	460	2,451	2,008
Amortised government grants	1,652	79	142	1,873	1,865
Net rents receivable and amortised government grant	26,382	1,755	2,722	30,859	29,639
Other revenue grants	-	83	-	83	89
Other income	14	-	-	14	13
Turnover from social housing lettings	26,396	1,838	2,722	30,956	29,741
Expenditure					
Management	4,009	418	117	4,544	3,997
Service charge costs	1,878	535	347	2,760	2,844
Routine maintenance	5,357	190	16	5,563	4,562
Planned maintenance	2,077	71	5	2,153	1,711
Major repairs expenditure	3,430	5	-	3,435	2,167
Major repairs – Brickfield Cottages ground collapse	-	-	-	-	41
Bad debts	175	37	-	212	121
Depreciation of housing properties					
– annual charge	6,473	238	368	7,079	6,484
– accelerated on disposal of components	529	-	-	529	218
Impairment of housing properties	688	-	305	993	-
Other costs	415	3	51	469	128
Operating costs on social housing lettings	25,031	1,497	1,209	27,737	22,273
Operating surplus on social housing lettings	1,365	341	1,513	3,219	7,468
Void losses	190	56	11	257	294

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2023

5 Income and expenditure from directly managed social housing lettings

Association

	General needs lettings	Supported housing lettings	Low cost home ownership	2023 Total	2022 Total
	£000's	£000's	£000's	£000's	£000's
Income					
Rent receivable net of identifiable service charges	**23,452**	**963**	**2,068**	**26,483**	25,717
Service charge income	**1,278**	**713**	**428**	**2,419**	1,982
Amortised government grants	**1,653**	**79**	**107**	**1,839**	1,828
Net rents receivable and amortised government grant	**26,383**	**1,755**	**2,603**	**30,741**	29,527
Other revenue grants	**-**	**83**	**-**	**83**	89
Other income	**13**	**-**	**-**	**13**	13
Turnover from social housing lettings	**26,396**	**1,838**	**2,603**	**30,837**	29,629
Expenditure					
Management	**4,009**	**417**	**119**	**4,545**	3,948
Service charge costs	**1,878**	**535**	**333**	**2,746**	2,813
Routine maintenance	**5,357**	**190**	**11**	**5,558**	4,557
Planned maintenance	**2,077**	**71**	**5**	**2,153**	1,711
Major repairs expenditure	**3,430**	**5**	**-**	**3,435**	2,167
Major repairs – Brickfield Cottages ground collapse	**-**	**-**	**-**	**-**	41
Bad debts	**175**	**37**	**-**	**212**	121
Depreciation of housing properties					
– annual charge	**6,473**	**238**	**365**	**7,076**	6,481
– accelerated on disposal of components	**529**	**-**	**-**	**529**	218
Impairment of housing properties	**688**	**-**	**-**	**688**	-
Other costs	**415**	**4**	**31**	**450**	128
Operating costs on social housing lettings	**25,031**	**1,497**	**864**	**27,392**	22,185
Operating surplus on social housing lettings	**1,365**	**341**	**1,739**	**3,445**	7,444
Void losses	**190**	**56**	**11**	**257**	294

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2023

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	**3,174**	15	-	-	-	**3,189**
Affordable Rent general needs housing	**513**	-	-	-	-	**513**
Social rent supported housing and housing for older people	**247**	-	-	(8)	-	**239**
Affordable Rent supported housing	**14**	-	-	-	-	**14**
Low Cost Home Ownership	**322**	-	-	-	-	**322**
Care homes	**44**	-	-	(5)	-	**39**
Other social housing	**-**	-	-	-	-	**-**
Total social housing units owned and / or managed	**4,314**	**15**	-	**(13)**	**-**	**4,316**
Total social housing units managed but not owned	**18**	-	-	-	-	**18**
Total social housing units owned	**4,296**	**15**	**-**	**(13)**	**-**	**4,298**
Total social housing units owned but not managed	**402**	-	-	-	-	**402**
Total social housing units managed	**3,912**	**15**	**-**	**(13)**	**-**	**3,914**
Non-social rental housing units (excluding leasehold units)						
Total non-social rental housing units owned	**-**	-	-	-	-	**-**
Total non-social rental housing units managed but not owned	**-**	-	-	-	-	**-**
Leasehold units						
Social leasehold units owned	**102**	8	-	-	-	**110**
Social leasehold units managed but not owned	**-**	-	-	-	-	**0**
Non-social leasehold units owned	**22**	4	-	-	-	**26**
Non-social leasehold units managed but not owned	**1**	-	-	-	-	**1**

Horniman

Low cost home ownership	17	-	(2)	-	-	**15**
Total social housing units owned and managed	**17**	**-**	**(2)**	**-**	**-**	**15**
Leasehold units						
Social leasehold units owned and managed	16	2	**-**	-	-	**18**
Non-social leasehold units owned and managed	6	-	-	-	-	**6**

6 Housing Stock (continued)

Units in development		**Group**				**Association**		
		2023		2022		**2023**		2022
Social Housing:								
General needs		**149**		88		**149**		88
Shared ownership		**175**		117		**175**		117
Other								
Housing for sale		**21**		21		**-**		-
Total units in development`		**345**		226		**324**		205

7 Accommodation managed by agent

Group and Association

	2023		2022
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 Surplus/(deficit) on ordinary activities

		Group				**Association**		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
The operating surplus / (deficit) is stated charging/(crediting): -								
Auditors remuneration including expenses (*excluding VAT):*								
Current Auditors								
-Audit of the Group financial statements		**76**		-		**76**		-
-Audit of subsidiaries		**7**		-		**-**		-
Previous Auditors								
-Audit of the Group financial statements		**-**		48		**-**		48
-Audit of subsidiaries		**-**		7		**-**		-
Auditors remuneration including expenses (*excluding VAT):*								
Current Auditors								
-Taxation compliance services								
-Service charge certification		**6**		-		**6**		-
- ESG reporting		**6**		-		**6**		-
Previous Auditors								
-Taxation compliance services		**-**		-		**-**		-
-Service charge certification		**-**		10		**-**		6
- ESG reporting		**-**		-		**-**		-
Impairment losses of housing properties		**993**		-		**688**		-
Depreciation on housing assets		**8,398**		7,100		**8,395**		7,097
Depreciation of other owned fixed assets		**347**		362		**347**		362
Surplus on sale of fixed assets		**1,733**		2,631		**1,450**		2,508
Change in fair value of investment properties		**209**		-		**209**		-

9 Employees

Group and Association

		2023		2022
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		106		103
Other staff		1		18
Total		107		121
		2023		2022
		£000's		£000's
Staff costs (for the above persons)				
Wages and salaries		4,925		4,521
Social security costs		480		463
Cost of defined benefit scheme (excluding contribution to past service deficits)		-		-
Cost of defined contribution scheme		451		490
		5,856		5,474

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 FRS 102 are defined as members of the Board, the Chief Executive and other Directors as set out on page 2.

		Group				**Association**		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
Executive directors' emoluments		**544**		496		**544**		496
Amounts paid to non-executive directors		**79**		75		**73**		70
Contributions to the SHPS defined benefit scheme		**-**		-		**-**		-
Contributions to the SHPS defined contribution scheme		**77**		75		**77**		75
Total expenses re-imbursed to Directors (including Board members) not chargeable to United Kingdom income tax		**-**		-		**-**		-

The total amount payable to the Finance and IT Director (F&IT), who was also the highest paid director in respect of emoluments was £108k (2022: £103k). Pension contributions of £9k (2022: £9k), of which the F&IT contributes 62%, were made to the SHPS defined contribution scheme on their behalf. The F&IT is an ordinary member of that scheme. No enhanced or special terms apply, and the F&IT has no individual pension arrangement to which the Group makes a contribution. There were 5 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:

		2023 Number	**2023 Number**	2022 Number	2022 Number
		Including Pension	**Excluding Pension**	Including Pension	Excluding Pension
£60,001 to £70,000		2	2	5	1
£70,001 to £80,000		1	1	2	4
£80,001 to £90,000		2	2	2	1
£90,001 to £100,000		2	1	1	1
£100,001 to £110,000		-	1	-	1
£110,001 to £120,000		3	2	2	-
£120,001 to £130,000		-	-	-	-
£130,001 to £140,000		-	-	-	1
£140,001 to £150,000		-	-	-	-
£150,001 to £160,000		-	-	1	-
£160,001 to £170,000		-	-	-	-
£170,001 to £180,000		-	-	-	-

11 Board members

		Member of:					
Board member	**Remuneration £**	**Hexagon Board**	**People & Governance**	**Audit & Risk Committee**	**Customer Services Committee**	**Growth & Viability**	**Horniman Board**
Simon Fanshawe	**11,776**	**X**	**X**			**X**	**X**
Roseann Ayton	**5,807**	**X**			**X**		
Ruth Chambers	**5,807**	**X**	**X**	**X**			
Claud Williams	**5,807**	**X**	**X**				
Gursh Bains (started 5 Dec22)	**2,288**	**X**	**X**				
Jeanette Kenyon (left 26 Sept 22)	**2,795**	**X**	**X**				
Ian Watts (left 31 Mar 23)	**6,797**	**X**	**X**	**X**	**X**		
Mark Allan	**6,896**	**X**				**X**	
Tom Heys – (started 28 Sep22	**2,966**	**X**					
Marcus Keys - started 28 Sep22	**2,966**	**X**				**X**	
Dawn Reid - started 28 Sep22	**2,966**	**X**			**X**		
Denise Senner	**5,807**	**X**			**X**		
Christopher Lloyd							**X**
Sheron Carter (Started 6 June 22)	**(see note 10)**	**X**					**X**
Tom McCormack (left 6 June 22)	**(see note 10)**	**X**					**X**
Paul Williams	**7,713**	**X**		**X**		**X**	**X**
Louise Richardson (left 26 Sept 22)	**2,795**	**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**	**2023 Total**	2022 Total
	£000's	**£000's**	**£000's**	£000's
Housing properties:				
Disposal proceeds	**1,810**	**1,497**	**3,307**	4,718
Grant proceeds	**-**	**32**	**32**	48
Cost of disposals	**(1,240)**	**(389)**	**(1,629)**	(2,249)
Selling costs	**(3)**	**(7)**	**(10)**	14
Depreciation eliminated	**45**	**52**	**97**	247
Grant abated	**(36)**	**(28)**	**(64)**	(147)
	576	**1,157**	**1,733**	2,631
Surplus on disposal of other tangible fixed assets	**-**	**-**	-	-
Surplus	**576**	1,157	**1,733**	2,631

Association	**Shared ownership**	**Other housing properties**	**2023 Total**	2022 Total
	£000's	**£000's**	**£000's**	£000's
Housing properties:				
Disposal proceeds	**1,360**	**1,498**	**2,858**	4,485
Grant proceeds	**-**	**32**	**32**	48
Cost of disposals	**(1,068)**	**(390)**	**(1,458)**	(2,144)
Selling costs	**(3)**	**(7)**	**(10)**	14
Depreciation eliminated	**29**	**52**	**81**	244
Grant eliminated	**(25)**	**(28)**	**(53)**	(139)
	293	**1,157**	**1,450**	2,508
Surplus on disposal of other tangible fixed assets	**-**	**-**	**-**	-
Surplus	**293**	1,157	**1,450**	2,508

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2023

13 Interest receivable and income from financial instruments

		Group		Association	
		2023	2022	**2023**	2022
		£000's	£000's	**£000's**	£000's
Interest receivable from subsidiary		**-**	-	**661**	430
Interest receivable and similar income		**370**	1	**370**	1
Total		**370**	1	**1,031**	431

14 Interest payable and finance costs

		Group				Association		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
Bank and capital market loans		**9,493**		4,639		**9,493**		4,639
Recycled capital grants fund		**11**		9		**11**		9
Disposal proceeds fund				-		**-**		-
Total		**9,504**		4,648		**9,504**		4,648
Indexation of loan principal		**74**		77		**74**		77
Amortisation of deferred financing costs		**466**		183		**466**		183
Amortisation of loan premium		**(87)**		(87)		**(87)**		(87)
Interest capitalised		**(2,091)**		(1,319)		**(2,091)**		(889)
		7,866		3,502		**7,866**		3,932
Net interest on net defined benefit liability		**123**		133		**123**		133
Total		**7,989**		3,635		**7,989**		4,065
Other financing costs through comprehensive income								
(Gain) / Loss on fair value of hedged derivative instruments		**-**		(2,854)		**-**		(2,854)
Gain) / Loss on fair value of unhedged derivative instruments		**-**		(2,610)		**-**		(2,610)

The weighted average rate of interest on borrowings of 3.52% (2022: 2.24%) was used for calculating capitalised interest.

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 (2022: £nil) existed at 31 March 2023.

UK Corporation Tax - Group	**2023**	2022
	£'000	£'000
Current tax on profits of the year	**-**	-
Adjustments in respect of previous/current periods	**-**	-
Total current tax	**-**	-
The tax assessed for the year differs to the standard rate of corporation tax in the UK applied to the surplus before tax	**-**	-
Profit on ordinary activities before tax	**21**	146
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2020: 19%)	**4**	28
Effects of:		
Fixed asset differences	**(55)**	(25)
Expenses not deductible for tax purposes	**60**	2
Chargeable gains / (losses)	**34**	15
Income not taxable	**(1)**	(1)
Adjustments to tax charge in respect of previous year		
Gift aid payment	**(42)**	(19)
Deferred tax not recognised	**-**	-
Current tax charge	**-**	-

16 Intangible fixed assets

Group & Association

		Software	**Software**
		Development costs	**Development costs**
		2023	**2022**
		£000's	**£000's**
Cost			
At 1 April		1,962	1,787
Additions		413	175
At 31 March		2,375	1,962
Depreciation			
At 1 April		330	162
Charge for year		187	168
At 31 March		517	330
Net book value			
At 31 March 2023		**1,858**	**1,632**
At 31 March 2022		1,632	1,625

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2023

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	Short-life property	2023 Total
	£000's	£000's	£000's	£000's	£000's	£000's
Cost						
At 1 April	486,596	20,287	61,694	24,074	1,596	594,247
Transfer from properties held for sale & investment properties						
Additions – construction costs	-	9,495	-	789	-	10,284
Additions – new components	4,735	-	4	-	-	4,739
Additions – other works to existing properties	2,514	-	715	-	-	3,229
Schemes completed	7,574	(7,574)	-	-	-	-
Disposals: - Property sales	(107)	-	(959)	-	-	(1,066)
- Replaced components	(1,318)	-	(4)	-	-	(1,322)
At 31 March	499,994	22,208	61,450	24,863	1,596	610,111
Depreciation						
At 1 April	90,946	-	2,206	-	1,596	94,748
Charge for the year	8,030	-	368	-	-	8,398
Transfer from properties held for sale						
Eliminated on disposal:						
- Property sales	(28)	-	(42)	-	-	(70)
- Replaced components	(1,322)	-	-	-	-	(1,322)
At 31 March	97,626	-	2,532	-	1,596	101,754
Impairment:						
At 1 April	-	3,882	-	2,404	-	6,286
Charge for the year	-	688	-	305	-	993
Released in the year						
At 31 March	-	4,570	-	2,709	-	7,279
Net book value						
At 31 March 23	402,368	17,638	58,918	22,154	-	501,078
At 31 March 22	395,650	16,405	59,492	21,670	-	493,217
The net book value of housing properties comprises:						2023 £000's
Freeholds						486,353
Long leasehold						14,728
Short leasehold						
Total						501,078

HEXAGON HOUSING ASSOCIATION

Notes to the Financial Statements for the year ended 31 March 2023

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	Short-life property	2023 Total
	£000's	£000's	£000's	£000's	£000's	£000's
Cost						
At 1 April	486,596	20,287	60,814	24,074	1,596	593,367
Transfer from properties held for sale						
Additions – construction costs	-	9,495	-	789	-	10,284
Additions – new components	4,735	-	4	-	-	4,739
Additions – other works to existing properties	2,514	-	715	-	-	3,229
Schemes completed	7,574	(7,574)	-	-	-	-
Disposals: - **Property sales**	(107)	-	(789)	-	-	(896)
- **Replaced components**	(1,318)	-	(4)	-	-	(1,322)
At 31 March	499,994	22,208	60,740	24,863	1,596	609,401
Depreciation						
At 1 April	90,946	-	2,085	-	1,596	94,627
Charge for the year	8,031	-	364	-	-	8,395
Transfers between tenures						
Eliminated on disposal:						
- **Property sales**	(28)	-	(24)	-	-	(52)
- **Replaced components**	(1,322)	-	-	-	-	(1,322)
At 31 March	97,627	-	2,425	-	1,596	101,648
Impairment:						
At 1 April	-	3,882	-	2,404	-	6,286
Charge for the year	-	688	-	-		688
Released in the year						
At 31 March	-	4,570	-	2,404	-	6,974
Net book value						
At 31 March 23	402,367	17,638	58,315	22,459	-	500,779
At 31 March 22	395,650	16,405	58,729	21,670	-	492,454
The net book value of housing properties comprises:						2023 £000's
Freeholds						486,054
Long leasehold						14,725
Short leasehold						-
Total						500,779

17 Tangible fixed assets - Housing Property (continued)

	Group		Association	
	2023	2022	**2023**	2022
	£000's	£000's	**£000's**	£000's
Interest capitalisation				
Interest capitalised in the year	**2,091**	730	**2,091**	730
Works to properties				
New components capitalised	**7,968**	4,904	**7,968**	4,904
Major repairs expenditure charged to comprehensive income account	**3,436**	1,030	**3,436**	1,030
Total expenditure	**11,404**	5,934	**11,404**	5,934
Total Social Housing Grant received or receivable to date is as follows:				
Capital grant for housing properties	**219,208**	220,540	**218,824**	220,065
Revenue element taken to comprehensive income	**2,031**	3,197	**2,026**	3,196
Recycled to Recycled Capital Grant Fund	**580**	1,884	**485**	1,816
Recycled to Disposals Proceeds Fund	**-**	(342)	**-**	(342)
Total	**221,819**	225,279	**221,335**	224,735

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.
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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 FRS 102 and SORP 2018. For properties in development, the group treats each development programme as a cash generating unit.

During the year, a contractor became insolvent resulting in one of the schemes being impaired. The £1.0m impairment charge for this scheme is reflected in the Statement of Comprehensive Income.

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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

	2023 £m	2022 £m
Carrying value of properties charged as security for loans and derivatives		
Estimated tenanted open market value of properties so charged	**444**	422
Estimated tenanted open market value of unsecured properties	**426**	398

Notes to the Financial Statements for the year ended 31 March 2023

18 Other fixed assets

Group & Association

								2023
		Freehold		**Office**		**Motor**		**Total**
		offices		**equipment**		**vehicles**		
		£000's		**£000's**		**£000's**		**£000's**
Cost								
At 1 April		**4,346**		**3,595**		**25**		**7,966**
Additions		**21**		**52**		**-**		**73**
Disposals								
At 31 March		**4,367**		**3,647**		**25**		**8,039**
Depreciation								
At 1 April		**1,390**		**3,301**		**25**		**4,716**
Charge for year		**146**		**14**		**-**		**160**
Disposals								
At 31 March		**1,536**		**3,315**		**25**		**4,876**
Impairment								
At 1 April		**476**		**-**		**-**		**476**
Charge for year								
At 31 March		**476**		**-**		**-**		**476**
Net book value								
At 31 March 2023		**2,355**		**332**		**-**		**2,687**
At 31 March 2022		2,480		294		-		2,774

19 Investment Properties

		Group				**Association**		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
At 1 April		**950**		950		**950**		950
Additions		**-**		-		**-**		-
Disposals		**-**		-		**-**		-
Schemes Completed		**-**		-		**-**		-
Revaluations		**209**		-		**209**		-
At 31 March		**1,159**		950		**1,159**		950

Investment properties were valued at 31 March 2020 by Jenner Jones, professional qualified external valuers. The valuation of properties was undertaken in accordance with the Royal Institute of Chartered Surveyors Valuation Standards. They have been uplifted in line with RPI during the year ended 31 March 2023.

20 Properties developed for sale

		Group				Association		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
Properties developed for sale								
First Tranche Shared ownership properties								
Completed		**-**		2,261		**-**		2,261
Under construction		**26,076**		8,982		**26,076**		8,982
Outright Sales Properties:								
Completed		**-**		-		**-**		-
Under construction		**6,941**		6,965		**-**		-
		33,017		18,208		**26,076**		11,243

Properties developed for sale include capitalised interest as follows:

		Group				Association		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
Completed		**-**		-		**-**		-
Under construction		**181**		154		**160**		154
		181		154		**160**		154

21 Debtors

		Group				Association		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
Amounts receivable within one year:								
Rent arrears		**1,126**		1,448		**1,112**		1,444
Less: Provision for bad debts		**(534)**		(334)		**(534)**		(334)
Net rent arrears		**592**		1,114		**578**		1,110
Amounts owed by subsidiary		**-**		-		**-**		-
Other debtors		**921**		947		**919**		932
Prepayments and accrued income		**363**		383		**363**		383
Social housing grant receivable		**64**		40		**64**		40
		1,940		2,484		**1,924**		2,465
Amounts receivable in more than one year:								
Amounts owed by subsidiary		**-**		-		**7,871**		6,917
Other debtors: Cash charged to lenders		**1,789**		1,761		**1,789**		1,761
Total debtors		**3,729**		4,245		**11,584**		11,143

22 Cash at bank and short-term deposits

		Group				Association		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
Cash at bank:								
: held in trust for shared ownership leaseholders		**1,211**		1,219		**1,211**		1,132
: unencumbered		**70,233**		2,222		**69,313**		1,764
		71,444		3,441		**70,524**		2,896

23 Creditors: Amounts falling due within one year

		Group				Association		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
Loans and borrowings – note 25		**599**		16,679		**599**		16,679
Deferred capital grant – note 27		**2,124**		2,026		**2,119**		2,021
Trade creditors		**1,606**		967		**1,606**		967
Rent and service charges received in advance		**2,032**		1,389		**2,032**		1,389
Amounts owed to subsidiary		**-**		-		**-**		-
Taxation and social security payable		**(4)**		(5)		**(5)**		(5)
Other creditors		**366**		2,452		**360**		2,452
Recycled Capital Grant Fund – note 28		**747**		1,056		**747**		1,056
Accruals and deferred income		**4,334**		3,146		**4,493**		3,005
Accrued interest		**4,764**		685		**4,764**		685
		16,568		28,395		**16,715**		28,249

24 Creditors: Amounts falling due after more than one year

		Group				Association		
		2023		2022		**2023**		2022
		£000's		£000's		**£000's**		£000's
Loans and borrowings – note 25		**306,534**		**191,300**		**306,534**		**191,300**
Deferred capital grant – note 27		**217,084**		**218,519**		**216,705**		**218,044**
Recycled Capital Grant Fund - note 28		**1,078**		**923**		**885**		**866**
Repairs and equipment replacement funds -note 29		**2,074**		**1,968**		**2,026**		**1,858**
Total before fair value adjustments		**526,770**		**412,710**		**526,150**		**412,068**
Financial liabilities measured at fair value of (see note 25):								
- **Interest rate swaps designated as hedges**		**-**		**9,906**		**-**		**9,906**
- **Interest rate swaps not designated as hedges**		**-**		**7,180**		**-**		**7,180**
Total fair value adjustments		**-**		**17,086**		**-**		**17,086**
Total after fair value adjustments		**526,770**		**429,796**		**526,150**		**429,154**

25 Loans and borrowing – Group and Association

Maturity of debt		**Bank loans**		**Other loans**		**Total**
		2023		**2023**		**2023**
		£000's		**£000's**		**£000's**
In one year or less, or on demand		**-**		**599**		**599**
Due between one and two years		**-**		**720**		**720**
Due between two and five years		**-**		**750**		**750**
Due in five years or more		**-**		**305,064**		**305,064**
Total of all loans		**-**		**307,133**		**307,133**
Short term creditors		**-**		**(599)**		**(599)**
Deferred Finance Charges		**-**		**(2,406)**		**(2,406)**
Loan premium		**-**		**(121)**		**(121)**

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

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	2023 £000's	2022 £000's
Bank of Scotland	Amortising	2029/30	Variable	-	2,970
Abbey National Treasury Services	Amortising	2042/43	Variable	-	65,154
Newcastle Building Society	Bullet	2036/37	Variable	-	25,000
Lloyds TSB	Amortising	2034/35	Variable	-	19,250
Yorkshire Building Society	Amortising	2021/22	Variable	-	12,450
National Westminster Bank	Amortising	2023/24	Variable	-	25,000
Total bank loans				-	149,824
Other loans:					
The Housing Finance Corporation	Amortising	2024/25	RPI + 5.50%	1,133	1,578
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
M&G 250M Bond (2022)*	Amortising	2048/49	3.625%	**250,000**	-
Total other loans				**307,133**	57,578
Total bank & other loans				**307,133**	207,402

At 31 March 2023 the Group had no undrawn loan facilities available (2022: £37.6m).
* M&G 250M Bond (2022-The bond was issued on the International Securities Market of the London Stock Exchange

26 Interest rate swaps

Group and Association

Interest rate swaps	Nominal amount 2023 £000's	Nominal amount 2022 £000's	Fair value 2023 £000's	Fair value 2022 £000's
Treated as hedges:				
LIBOR to fixed (fixed leg ranges from 3.043% to 4.96%)	-	20,000	-	(6,087)
LIBOR to RPI plus margin (of up to 1.19%)	-	9,500	-	(3,819)
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	-	(7,180)
Total	-	49,500	-	(17,086)

26 Interest rate swaps (continued)

Prior year, to hedge the potential volatility in further interest cash flows arising from movements in LIBOR, the Group had entered had into various swap contracts. As part of the refinancing exercise that concluded in April 2022, they were all terminated. Swap break costs settled in the year was £15,7m and resulted in a net gain of £1.4m. being recognised as part of the surplus for the year and as an exceptional one-off item. As at 31st March 2023 fair values totalled £Nil (2022: £17.1m).

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**	**2023 Total**	2022 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**238,778**	**5,003**	**14,201**	**1,566**	**-**	**1,755**	**261,303**	260,163
Additions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	59
Grant additions to existing properties	**-**	**142**	**-**	**802**	**-**	**-**	**944**	1,890
New Schemes Completed	1,130	(1,130)	**-**	-	**-**	**-**	**-**	-
Recycled to RCGF	(3)	-	**(306)**	-	**-**	**-**	**(309)**	(809)
At 31 March	**239,905**	**4,015**	**13,895**	**2,368**		**1,755**	**261,938**	261,303
Amortisation								
At 1 April	**37,977**	**-**	**1,031**	**-**	**-**	**1,755**	**40,763**	38,896
Charge for the year	**1,918**	**-**	**112**	**-**	**-**	**-**	**2,030**	2,014
Eliminated on disposal:	**(28)**	**-**	**(36)**	**-**	**-**	**-**	**(64)**	(147)
At 31 March	**39,867**	**-**	**1,107**	**-**	**-**	**1,755**	**42,729**	40,763
Amortised value								
At 31 March 2023	**200,037**	**4,015**	**12,788**	**2,368**	**-**	**-**	**219,208**	220,540
At 31 March 2022	200,801	5,003	13,170	1,566	-	-	220,540	-

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**	**2023 Total**	2022 Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	£000's
At 1 April	**238,778**	**5,003**	**13,621**	**1,566**	**-**	**1,755**	**260,723**	259,515
Additions	**-**	**-**	**-**	**--**	**-**	**-**	**-**	59
Grant additions to existing properties	**-**	**142**	**-**	**802**	**-**	**-**	**944**	1,890
New Schemes Completed	1,130	(1,130)	**-**	**-**	**-**	**-**	**-**	-
Recycled to RCGF	**(4)**	**-**	**(209)**	**-**	**-**	**-**	**(213)**	(741)
At 31 March	**239,904**	**4,015**	**13,412**	**2,368**	**-**	**1,755**	**261,454**	260,723
Amortisation								
At 1 April	**37,977**	**-**	**926**	**-**	**-**	**1,755**	**40,658**	38,788
Charge for the year	**1,919**	**-**	**107**	**-**	**-**	**-**	**2,026**	2,009
Eliminated on disposal:	**(28)**	**-**	**(25)**	**-**	**-**	**-**	**(53)**	(139)
At 31 March	**39,868**	**-**	**1,008**	**-**	**-**	**1,755**	**42,631**	40,658
Amortised value								
At 31 March 2023	**200,037**	**4,015**	**12,404**	**2,368**	**-**	**-**	**218,824**	220,065
At 31 March 2022	200,801	5,003	12,695	1,566	-	-	220,065	

28 Recycled Capital Grant Fund

			Group				Association		
			2023		2022		**2023**		2022
			£000's		£000's		**£000's**		£000's
At 1 April			**2,017**		1,641		1,922		1,584
Inputs to fund:	Grants recycled		**580**		442		484		374
	Interest accrued		**12**		9		11		9
	Repaid		**(785)**		-		(785)		-
	Transfer from subsidiary		**-**		-		-		30
Recycling of grant:	New build		**-**		(75)		-		(75)
At 31 March			**1,824**		2,017		1,632		1,922
Amount due within one year			**747**		1,056		747		1,056
Amount due after more than one year			**1,077**		961		885		866
			1,824		2,017		1,632		1,922

29 Repairs and equipment replacement funds

Group	**Leaseholders sinking fund**	**Equipment replacement**		**Total**
	£000's	**£000's**		**£000's**
31 March 2022	**1,181**	**677**		**1,858**
Additions	218	-		218
Used in year				
31 March 2023	**1,399**	**677**		**2,076**
Association				
31 March 2022	**1,181**	**677**		**1,858**
Additions	166	--		166
Used in year				
31 March 2023	**1,347**	**677**		**2,024**

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	
	2023	2022	**2023**	2022
	£'000	£'000	£'000	£'000
Financial assets				
Debtors receivable in one year measured at amortised cost	**1,940**	2,484	1,924	2,465
- Debtors receivable after one year measured at amortised cost	**1,789**	1,761	1,789	1,761
- Cash and cash equivalents held at cost	**71,444**	3,441	70,524	2,896
- Financial assets that are debt instruments measured at amortised cost				
Intercompany loan	**-**	-	7,871	6,917
- **Total financial assets**	**75,173**	7,686	82,108	14,039
Financial liabilities				
Financial liabilities measured at amortised costs				
- Loans payable in one year	**599**	16,679	599	16,679
- Loans payable after one year	**306,534**	191,300	306,534	191,300
Financial liabilities measured at fair value				
- Interest rate swaps designated as hedges	**-**	9,906	-	9,906
- Interest rate swaps not designated as hedges	**-**	7,180	-	7,180
Financial liabilities measured at historical cost				
Creditors receivable in one year				
- Other creditors	**13,097**	8,634	13,249	8,493
Total financial liabilities	**320,230**	233,699	320,382	233,558

31 Provisions for Other Liabilities - Group and Association

	2023	**2022**
	Dilapidations	
	£000's	**£000's**
31 March 2022	**(7)**	**22**
Additions		
Used in year	**6**	**(29)**
31 March 2023		
	(1)	**(7)**

Notes to the Financial Statements for the year ended 31 March 2023

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 39.

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	**2023**		2022
	£000's		£000's
(a) Reconciliation of operating surpluses to net cash inflow from operating activities			
Surplus for the year	**(4,405)**		12,038
Depreciation of fixed assets	**6,528**		5,448
Impairment	**993**		-
Change in properties developed for sale	**(14,808)**		339
Change in debtors	**452**		370
Change in creditors	**491**		(913)
Change in provisions	**(6)**		29
(Surplus)/deficit on sale of fixed assets - housing properties	**(1,733)**		(2,631)
Net cash inflow from operating activities	**(12,488)**		14,680

(b) Reconciliation of net cash flow to movement in net debt			
Change in cash	**(68,003)**		1,586
Loans received	**250,000**		9,025
Loans repaid	**(150,269)**		(8,390)
Other noncash movements			
Change in net debt	**31,728**		2,221
Net debt at 1 April	**204,707**		202,486
Net debt at 31 March	**236,435**		204,707

33 Non-equity Share Capital

	Group		**Association**	
	2023	2022	**2023**	2022
	£	£	**£**	£
Allotted issued and fully paid				
At 1 April	16	16	16	16
Issued during the year	4	-	4	-
Surrendered during the year	(6)	-	(6)	-
At 31 March	14	16	14	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 31 March 2023 (31 March 2022: £nil).

35 Operating leases

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

	Group				Association		
	2023		2022		**2023**		2022
	£000's		£000's		**£000's**		£000's
Not later than one year	**20**		18		**20**		18
Later than one year and not later than five years	**60**		80		**60**		80
Total	**80**		98		**80**		98

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

	Group				Association		
	2023		2022		**2023**		2022
	£000's		£000's		**£000's**		£000's
Not later than one year	2,342		2,051		2,294		1,998
Later than one year and not later than five years	9,370		8,203		9,178		7,993
Later than five years	264,314		232,766		259,686		227,550
Total	276,026		243,020		271,158		237,541

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	
	2023	2022	**2023**	2022
	£000's	£000's	**£000's**	£000's
Commitments contracted for but not provided for:				
Construction	39,056	24,516	37,182	22,303
Maintenance				
Other	**-**	-	**-**	-
Capital expenditure approved by the board but not contracted for:				
Construction	40,211	50,935	32,822	43,768
Maintenance	10,109	-	10,109	-
Other	450	-	450	-
	89,826	75,451	80,563	66,071
These commitments to be financed as follows:				
Social Housing Grant	4,691	7,999	4,691	7,999
Proceeds from the sales of properties	38,656	20,324	20,786	20,324
Committed loan facilities	46,479	47,128	55,086	37,748
	89,826	75,451	80,563	66,071

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	
2023	2022	**2023**	2022	**2023**	2022
£'000	£'000	**£'000**	£'000	**£'000**	£'000
37	33	**-**	-	**661**	860

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 £7,872k (2022: £6,917k) owed by Horniman Housing Association. This is made up of two loans of £28k (2022: £43k) and £7,844k (2022: £6,874k). 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 £99.6k (2022: £16.5k)Gift Aid from Horniman Housing Association during the year.

The directors and key management personnel, as defined in FRS 102 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 £79k in the year (2022: £76k). Expenses paid to Board members during the year amounted to £nil (2022: £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 £17k (2022: £20k) and there were no arrears at the end of the financial year.

38 Events after the end of the reporting period

There were no events arising from the end of the financial year to the signing of the accounts that are material enough to impact on the financial position detailed in these accounts.

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 31 March 2023 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 2023 **(£000s)**	**31 March 2022** **(£000s)**
Fair value of plan assets	20,993	30,690
Present value of defined benefit obligation	25,721	35,569
Surplus (deficit) in plan	(4,728)	(4,879)
Unrecognised surplus	-	-
Defined benefit asset (liability) to be recognised	(4,728)	(4,879)
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 2022 to 31 March 2023 (£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 2022 to 31 March 2023 (£000s)
Defined benefit obligation at start of period	35,569
Current service cost	-
Expenses	23
Interest expense	979
Member contributions	-
Actuarial losses (gains) due to scheme experience	16
Actuarial losses (gains) due to changes in demographic assumptions	(61)
Actuarial losses (gains) due to changes in financial assumptions	(9,835)
Benefits paid and expenses	(970)
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	25,721

39 Pension Obligations (continued)

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

	Period from 31 March 2022 to 31 March 2023 (£000s)
Fair value of plan assets at start of period	30,690
Interest income	856
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	(10,609)
Employer contributions	1,026
Member contributions	-
Benefits paid and expenses	(970)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rate changes	-
Fair value of plan assets at end of period	20,993

The actual return on plan assets (including any changes in share of assets) over the period from 31 March 2022 to 31 March 2023 was (£9,753,,000).

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

	Period from 31 March 2022 to 31 March 2023 (£000s)
Current service cost	-
Expenses	23
Net interest expense	123
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)	146

39 Pension Obligations (continued)

DEFINED BENEFIT COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME (OCI)

	Period from 31 March 2022 to 31 March 2023 (£000s)
Experience on plan assets (excluding amounts included in net interest cost) - gain (loss)	(10,609)
Experience gains and losses arising on the plan liabilities - gain (loss)	(16))
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	61
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	9,835
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	(729)
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)	(729)

ASSETS	31 March 2023 (£000s)	31 March 2022 (£000s)
Global Equity	392	5,890
Absolute Return	227	1,231
Distressed Opportunities	635	1,098
Credit Relative Value	792	1,020
Alternative Risk Premia	39	1,012
Fund of Hedge Funds	-	-
Emerging Markets Debt	113	893
Risk Sharing	1,546	1,010
Insurance-Linked Securities	530	716
Property	904	829
Infrastructure	2,398	2,186
Private Debt	934	787
Opportunistic Illiquid Credit	898	1,031
High Yield	73	264
Opportunistic Credit	1	109
Cash	151	104
Corporate Bond Fund	-	2,047
Liquid Credit	-	-
Long Lease Property	633	790
Secured Income	964	1,144
Over 15 Year Gilts	-	-
Index Linked All Stock Gilts	-	-
Liability Driven Investment	9,669	8,564
Currency hedging	40	120
Net Current Assets	54	85
Total assets	20,993	30,690

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 2023	**31 March 2022**
	% per annum	**% per annum**
Discount Rate	4.88%	2.79%
Inflation (RPI)	3.20%	3.62%
Inflation (CPI)	2.74%	3.21%
Salary Growth	3.74%	4.21%
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2023 imply the following life expectancies:

	Life expectancy at age 65
	(Years)
Male retiring in 2023	21.1
Female retiring in 2023	23.4
Male retiring in 2043	22.2
Female retiring in 2043	24.9