Solon South West Housing Association Limited

Report and Financial Statements

Year ended 31 March 2020

Registered Society Number 21136R
Registered with the Regulator of Social Housing Number L0125

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Report and Financial Statements for the year ended 31 March 2020

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Solon South West Housing Association Limited

Board Members, Executive Directors, Advisors and Bankers

The Board

Chair:	Graham Oliver
Vice Chair:	Myriam Kniveton
Vice Chair:	Richard Marshall
Chair: Audit & Finance Committee	Tim Jenkinson
Chair: Customer Service Improvement Committee	Mike Smith
Other Members:	Tim Jenkinson Adam Booth Richard Marshall Gill Risdale Kay Dovey Stephen Cook Julie Summerhayes Mike Grist

Senior Staff:

Chief Executive & Company Secretary	Paul Ville
Finance Director	Nasreen Razak (resigned 30th November 2019)
Interim Finance Director	Rob Wharton (appointed 10th September 2019)
Director of Development and Asset Management	Richard James
Director of Housing Services	Darryl Harkin

Auditors:

Beever and Struthers, Chartered Accountants
St. George's House
215 - 219 Chester Road
Manchester M15 4JE

Solicitors:

Bevan Brittan
Kings Orchard
1 Queen Street
Bristol BS2 OHQ

Burges Salmon
Narrow Quay Hse
Prince Street
Bristol BS1 4AH

Clarke Willmott
1 Georges Square
Bath Street
Bristol BS1 6BA

Principal Bankers:

HSBC Bank Plc.
62 George White Street, Cabot Circus,
Bristol BS1 3BA

Registered Office:

1 Newfoundland Court, St Paul Street,
Bristol BS2 8AN

Website: www.solonswha.co.uk

Solon is a charitable housing association registered under the Co-operative and Community Benefit Societies Act 2014, No.21136R.

Report of the Board

The Board presents the Board Report and audited financial statements for Solon South West Housing Association Limited for the year ended 31 March 2020.

Principal activities

Solon is a not for profit Registered Provider of Social Housing, registered with the Regulator of Social Housing as a charity under the Co-operative and Community Benefit Societies Act 2014. Our principal activities comprise the development and management of affordable homes for people in housing need. Our performance during the year and position at the year-end are summarised below.

Performance for the year

The Board reports a surplus on ordinary activities (after interest charges) of £872,000 (2019: £1,992,000). Solon uses annual surpluses to meet the cost of larger-scale reinvestment in existing homes and to fund, or support borrowing to fund the development of new homes.

Reserves

After transfer of the surplus for the year, Solon's total reserves amounted to £29,987,000 (2019: £29,115,000).

Housing assets

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

Post balance sheet events

On 22nd April 2020, the Board agreed to enter into negotiations with United Communities Housing Association with a view to merging to create a new housing association. It is envisaged that the new structure will be completed in two parts. Firstly, from 1st October 2020, a Strategic Alliance will be in place, prior to a full merger effective from April 2021. This alliance/merger will enable a stronger offering to our customer base, and build capacity for much needed new homes.

Financing and treasury management

Solon's approach to financial risk management is outlined below and in the Directors Performance Report.

Payment of creditors

Solon's policy is to pay purchase invoices by the end of the month following receipt, or earlier if agreed with the supplier.

Employees

Much of our strength lies in the quality of our staff and their commitment to Solon, strong performance and the delivery of good customer service. Our ability to meet our objectives

and commitments to residents in an efficient and effective manner depends on the dedication and contribution of all our people.
Colleagues are fully informed about Solon's objectives, progress and activities through regular staff and departmental meetings, training and supervision sessions. We provide training programmes focusing on quality and customer service, and generally tailored to business plan objectives, and we consult our colleagues on proposed improvements to services and other matters of common concern. Views and opinions are also sought via regular staff Pulse Surveys. Solon is recognised as an Investor in People. IIP accreditation was re-confirmed in January 2019. We are committed to equality of opportunity for all of our colleagues.

Health and safety

The Board understands its responsibilities on all matters relating to health and safety. Solon maintains comprehensive health and safety policies and provides staff training and education on health and safety matters.

Board Members and Executive Directors

The Board Members and Executive Directors of the Association serving during the year are listed on page 1.

Board Members are drawn from a wide background, bringing together a broad range of professional, financial, commercial, and local community skills and experience, including significant expertise in developing, maintaining, managing and living in affordable housing.

Solon maintains insurance policies which indemnify Board Members and Executive Directors against liability when acting for the Association.

Internal controls assurance report

The Board has overall responsibility for establishing and maintaining the whole system of internal control and for regularly reviewing its effectiveness.

The Board has reviewed the extent and adequacy of Solon's internal control systems and affirms that sound and effective systems of internal control are maintained.

The systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

In meeting its responsibilities, the Board has adopted a risk-based approach to establishing and maintaining internal controls which are embedded within day-to-day management and governance processes.

A process for identifying, evaluating and managing the principal risks faced by the Association has been in place throughout the period commencing 1 April 2019 up to the date of approval of the report and financial statements. The Board receives and considers reports from management on risk management and control arrangements at meetings

during the year, either directly, or via the Audit & Finance Committee under delegated authority.
The arrangements adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework are set out below:

Governance framework

Solon is governed by the Board. The Terms of Reference of the Board and the quality of Solon's governance are reviewed annually against the recommendations of the current National Housing Federation (NHF) Code of Governance. The Code has been developed to help housing associations achieve the highest standards of governance. We generally comply with the recommendations of the Code. Exceptions i.e. areas of non-compliance, together with rationale/mitigating circumstances are set out below

Statement of area of non-compliance with the NHF Code of Governance

- **NHF Code E4**. Solon conducts an annual review of Board and Committee effectiveness, including collective performance as a governing body. However, whilst we also review governing instruments, delegations, standing orders and other formal documentation regularly, this is not always done annually (as recommended by the NHF for the first time in 2015). This would be onerous and impractical. It is also unnecessary. It does not represent good use of resources/value for money and the Board considers this to be a justifiable potential area of non-compliance.

Two principal Sub-Committees report to the Board: The Audit & Finance Committee has responsibility for internal and external audit and most financial matters. The AFC also oversees IT. The Customer Service Improvement Committee has responsibility for customer service improvement, equality and diversity and resident participation. Other Sub-Committees meet as required to oversee remuneration, Board recruitment and appeals. The terms of reference of these committees are also reviewed regularly and kept up-to-date.

Job descriptions and job specifications have been agreed and adopted for the Chairs and Vice-Chairs of the Board, Committees and Working Groups. The roles and responsibilities of individual Board members are set out in a detailed letter, in accordance with the recommendations of the NHF Code of Governance.

The Regulator of Social Housing's most recent Regulatory Judgement (November 2019) confirmed that Solon achieved the highest possible 'scores' of G1 for governance, and V1 for financial viability. This reflects the fact that we fully meet the regulator's requirements on governance and viability and value for money as set out in the Governance and Financial Viability standard.

Previous annual viability reviews have also confirmed that Solon has consistently achieved a 'score' of V1 for financial viability, as we continue to meet the regulator's viability requirements and have the financial capacity to deal with a wide range of adverse scenarios.

Internal control framework

The Board has put in place Standing Orders and Financial Regulations which set Solon's high-level internal control framework. These are reviewed regularly. The Standing Orders were last reviewed in May 2018. The Financial Regulations were last reviewed in July 2019.

The Standing Orders, incorporating the Board and sub-committee Terms of Reference set out the powers delegated to committees and working groups, managers and staff. They are widely circulated and accessible to all staff. Regular review of the Standing Orders ensures that the correct balance of authority between the Board, Senior Management Team (SMT) and Sub-Committees, and a wide range of critical internal controls are maintained.

Solon has put in place a business plan which sets out the Association's vision, business objectives, and key targets. This is reviewed every three years, or more regularly if necessary. The business plan is developed in conjunction with the 30-year financial plan which tests the financial implications and viability of the proposals, and includes sensitivity analysis and robust doomsday and other stress testing. The financial plan is reviewed and updated annually.

Work required to achieve the objectives of the Business Plan is incorporated into action plans which define tasks to be completed by named staff within set deadlines. Depending on whichever is appropriate, the Board, Audit & Finance Committee, Customer Service Improvement Committee or SMT subsequently monitor progress against action plans during the year.

The business plan was last reviewed in May 2017 when a new plan covering the period 2017–2020 was approved by the Board. The objectives and principal actions of the current plan are still extant. Consequently, and also due to the intention to create a new housing association via a Merger, the Board has agreed to retain the current plan objectives and actions in 2020–2021 pending the development of a new business plan by the new organisation.

The Board agreed to enter into final discussions with United Communities HA regarding a possible merger on 22nd April 2020. It is envisaged that the new structure will be in place by 30th September 2020 and that the new entity will be fully operational by winter-2020.

The Audit & Finance Committee and Board have however carried out a comprehensive review of a new 30-year financial plan which stands behind the business plan and tests the financial implications of the principal plans and assumptions - including proposed investment in new and existing homes - and demonstrates that they are affordable and deliverable. The new forward financial plan was approved by the Board on 25th March 2020. A revised plan taking into account the known and projected impact of the Covid-19 pandemic will be received and reviewed by the Board in September 2020.

Risk identification and evaluation

Solon maintains a rolling risk assessment process, concentrating on risk identification and evaluation and monitoring of suitable controls. This is led by the Chief Executive, who has overall responsibility for advising the Board and Audit & Finance Committee on risk management, and reporting any significant changes affecting key risks. A range of stakeholders including senior managers, Board and sub-committee members are involved in the initial identification of risks and assessment of risk controls and mitigating actions.

Potentially high, medium and low gross risks are analysed to assess the probability of the risks arising and the possible impact should they do so. The SMT subsequently identifies and assesses the existing controls available to avoid occurrence of the highest priority risks, and, where weaknesses exist, proposes actions to mitigate them. The highest strategic risks and progress with risk mitigation are regularly reported to the Audit & Finance Committee and the Board.

Previous reviews of the risk management process by the internal audit service have concluded that there are robust arrangements in place for the identification and monitoring of key risks and that Solon maintains good risk management arrangements.

The last audit identified areas of excellence, in particular, the linking of the 'Doomsday' stress testing exercise to risk management activity and the thorough and detailed analysis documented in risk controls assessments. However the auditors also found a number of areas where Solon could improve the transparency and efficiency of its risk management processes and make Board-level oversight of risk management more effective. The risk management process was revised and refreshed in 2018 to make these improvements.

The Risk Management Strategy was also revised in March 2018 to reflect the audit recommendations and revised risk management process.

Decisions relating to all high risks, including decisions on the acceptance of risk, and particularly those involving financial or political risk are taken by the Board, based on recommendations of the Audit and Finance Committee or other sub-committees or working groups where appropriate.

Solon's key risks are as follows:

- Economic environment risk including impact of hard Brexit - the risk of non-compliance with financial covenants (breach of interest cover covenant) under a range of interest rate and other cost and income scenarios.
- The economic and social impact of the Covid-19 pandemic.
- The impact of welfare reform (benefit cuts) and low pay on residents' income and ability to pay rents, and subsequent impact on Solon's income/cashflow, viability and capacity to achieve business objectives.

- Failure to maintain full statutory compliance i.e. fire, gas, asbestos, electric, legionella, mechanical risk etc. and impact on resident health and safety, reputation and regulatory intervention.

- Failure to keep up with and comply with the RSH's Home Standard generally, and other standards (exc. H&S) leading to regulatory and reputational issues.

- Failure to deliver good asset management related customer service, when customer expectation is increasing. Risk of regulatory and reputational issues.

- Collapse or devaluation of the housing market. Risk of loss of doomsday mitigation. Loss of capacity to subsidize new homes.

- Failure to develop new homes to refresh stock and deliver net increase of new homes that are cost effective to maintain. Issues with increasing maintenance costs and falling quality increasing viability and reputational risks medium-term. Increased costs per unit and regulator perception of falling VFM.

- Risks associated with IT. Failure to design and implement an appropriate system – failure to deliver improved functionality and customer service. Impact on service leading to regulatory and reputational issues.

- Cyber security and risk of data loss leading to regulatory and reputational issues.

- Weaknesses in staff recruitment and retention. Difficulties attracting and retaining good staff, with a social purpose and customer focus.

- Impact on operational delivery from new strategic priorities, business plan objectives and one-off projects. Including additional work generated by the current merger discussions.

- Lack of support for vulnerable residents in general needs accommodation putting them at risk or causing other issues.

- Failure to deliver good customer service in housing management and support when customer expectation is increasing. Risk of regulatory and reputational issues.

- Failure to complete the proposed merger with United Communities successfully, i.e. without maintaining staff morale and risking loss of staff.

Solon has in place controls to mitigate the above risks and as part of the annual disaster planning scenario analysis maintains an action plan to ensure such risks will not crystallise.

Solon's has agreed the following risk appetite statement:

- We have a balanced and pragmatic appetite for risk and the nature and extent of the risks we will take.

- We are highly risk averse in relation to, and will not take risks with statutory compliance and the health and safety of our residents and staff.

- We have a minimal appetite for actions which could jeopardise our financial viability, and capacity to deliver our core objectives. This includes the pursuit of new (non-traditional) development for private rent and open market sale which increases our financial exposure and/or reduces our capacity to provide affordable homes.

- On the other hand, we are much more open to the typical risks associated with maximising available development opportunities. This is conditional on meeting our financial golden rules and maintaining financial viability. However, we are prepared to push the boundaries of, and occasionally break the rules if this is necessary to achieve successful delivery, and the financial risks can be adequately mitigated.

- We are also open minded as to the characteristics of our overarching delivery model, and the way each element of the business is delivered. We constantly seek opportunities for improvement through innovation and will consider a wide range of different models to achieve this.

- We take more of a middle-ground in terms of the risks we will take with regulatory compliance and the working arrangements for our staff. We are prepared to challenge traditional ways of doing things if this helps to achieve our objectives and can therefore be justified.

Fraud

Solon complies with the regulator's requirements on fraud. There is a clear Fraud Policy which has been approved by Board and distributed to all staff. The Fraud (including Bribery) Policy was last reviewed in November 2018.

The Fraud Policy requires a register to be maintained of all actual and attempted fraud. All such cases will be reported to the Board and all cases in excess of £5,000 or any case involving senior management and Board irrespective of the amount will be reported promptly to the regulator. Solon's policy on anti-fraud covers the prevention and detection of fraud, the internal and external reporting requirements and the recovery of assets which include legal resolution.

There was minor case of fraud in 2019 – 2020 for less than £50, and which resulted in no financial loss for Solon. This was picked up by the Finance Team through their regular reconciliation work, and resolved within days.

Solon also has an established whistle-blowing policy which was last reviewed in February 2019. There were no whistleblowing incidents in 2019/20.

Operation of controls and monitoring

Solon maintains and upholds comprehensive policies and procedures which incorporate all necessary controls. Managers are required to ensure that they and their staff follow policies and procedures.

There is some reliance on Director and other staff certifications, and management certification used in conjunction with internal audit. Follow-up reviews by internal audit test the validity of certifications.

The Board has affirmed that, where appropriate, Solon's core policies have been reviewed and, if necessary updated.

Independent assurance

Solon currently employs Mazars as internal auditors to provide independent assurance that appropriate controls are operated.
Mazars carried out the following reviews/audits in 2019/20 over 22 days, each designed to ascertain and give assurance on the extent to which the internal controls in the respective systems are sufficient to ensure that activities and procedures are operating to achieve Solon's objectives:

- Strategic risk review audit of Responsive Repairs.
- Strategic risk review audit of Customer Experience.
- Strategic risk review audit of Financial Risk Management.
- Strategic risk review audit of Landlord Health & Safety
- Compliance review 1-June 2019
- Compliance review 2-November 2019
- Annual follow-up review (2018/19 and early 2019/20 audits).

Of the four strategic risk review audits, two concluded that there was adequate assurance and two concluded that there was substantial assurance. There were nine recommendations in total of which two were regarded as 'significant' and seven were regarded as minor 'housekeeping' items. No fundamental issues were identified.

There were four recommendations from the two compliance reviews, one of which was significant. The remaining three were minor 'housekeeping' items. Again, no fundamental issues were identified. No areas were identified where controls were not effective.

Mazars' overall opinion of audit work conducted during the year was that Solon has in place an appropriate framework for identifying, evaluating and managing the significant risks faced by the Association. In respect of the areas of activity which were reviewed, and subject to the weaknesses identified and reported in the internal audit reports, Solon also has an adequate, effective and reliable framework of internal control and effective risk management and governance processes which provides reasonable assurance regarding the effective and efficient achievement of the Association's objectives.

All of the recommendations that were made to further strengthen the control environment in the above areas were accepted by Solon and have been, or are being implemented.

Mazars also noted that no instances of actual or suspected fraud were encountered during their audit work.

Mazars' follow-up review found that 8 or 53% of recommendations from previous audits had been implemented appropriately, with a further 3 (20%) in progress, Four had not been implemented. Of the latter, one was a 'significant' recommendation and three were 'housekeeping' items. These were subsequently implemented.

Further assurance is provided by Solon's accreditation as an Investor in People and regular customer and staff surveys. IIP accreditation was reaffirmed in 2019. Regular quarterly pulse staff surveys have been carried out since November 2016. A comprehensive customer survey was completed in January 2019.

Financial control

Long-term financial forecasts (30-year financial plans) are reviewed and approved annually by the Audit & Finance Committee and Board. The financial forecasts demonstrate, and help to ensure long-term financial viability. The 30-year financial plan relating to 2020/21 and beyond was reviewed and approved by both the Audit & Finance Committee and the Board in March 2020.

Annual budgets are prepared, approved by the Board, and monitored monthly, and quarterly via the preparation of management accounts. Short and medium-term cash flow forecasts are prepared regularly to ensure control over liquidity.

Emergency planning

Solon has a disaster recovery plan, copies of which are held off site by all senior staff and the Board Chair and Vice-Chairs. The plan was last updated in 2019. Plans are in place for regular testing of the plan. Plans are also in place to deal with the impact of a hard Brexit.

Compliance with regulatory standards

The Board regularly assesses the extent to which Solon meets the regulator's economic and consumer standards, including the Governance and Financial Viability Standard in particular. The last assessment between July and September 2019 confirmed that Solon was compliant with the standards.

The next internal assessment will take place between July and September 2020. It is expected that the Board will confirm that Solon continues to comply with the regulator's Standards.

The last detailed In Depth Assessment verification of Solon's compliance with the Governance and Financial Viability Standard (GFVS) was carried out by the regulator in October 2016. Subsequent annual stability checks (desktop reviews) and Regulatory Judgements (the last one in November 2019) have confirmed that Solon has maintained 'scores' of G1 for governance, and V1 for financial viability.

Assets & Liabilities Register

Solon maintains a comprehensive Assets & Liabilities Register Policy and complies with this, and the regulator's requirement to maintain a comprehensive and up-to-date Asset & Liabilities Register. The Register was subject to internal audit in September 2017. The status of the Register was last reviewed in 2019. The data in the Register is linked to live data contained within Solon Housing IT system and is reviewable at any time. The next scheduled review is planned for October 2020.

Mergers, group structures and partnerships – adoption of a voluntary code

Solon's Board has adopted and complies with the 'code' entitled 'Form Follows Function' developed by the Place Shapers Group in 2016. However, for the merger discussions referred to above, the Board has agreed to adopt the NHF Merger Code ('Mergers, Group Structures and Partnerships: A voluntary code for housing associations) which United Communities has previously adopted.

Going concern

After making enquiries, the Board has a reasonable expectation that Solon has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in the financial statements.

Statement of the responsibilities of the Board for the Report and Financial Statements

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of its income and expenditure for that period.

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

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

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. The Board has general responsibility for taking reasonable steps to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The Board is also responsible for ensuring that the Report of the Board is prepared in accordance with the 2018 Statement of Recommended Practice: "Accounting by Registered Social Housing Providers"

We certify that there is no relevant audit information of which the Association's auditors are unaware and that the Board Members have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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.

Annual General Meeting

The Annual General Meeting will be held at 6.00pm on Thursday 24th September 2020 at 1 Newfoundland Court, St Paul Street, Bristol, BS2 8AN.

External Auditors

The Board proposes to re-appoint Beevers and Struthers as external auditors to audit the accounts for the financial year 2020/21.

Approval

The report of the Board was approved by the Board on 10 September 2020 and signed on its behalf by:

Graham Oliver
Chair

Chief Executive's Strategic Review

The financial statements, the report of the Board and associated reports demonstrate that Solon continues to be a successful and financially sound social business and housing association. We continue to work in a very challenging business environment, which sadly, due to the pandemic has recently become much more difficult. Despite this, Solon has continued to maintain financial viability, protect rent affordability and invest significant resources in existing homes and the development of new ones.

The financial statements and reports demonstrate and reflect tangible achievements during the last financial year, including:

- Continuing to meet the Regulator of Social Housing's Governance and Financial Viability Standard, and maintaining the financial capacity needed to deal with a wide range of adverse scenarios.
- Maintaining the highest possible 'scores' of G1 for Governance and V1 for financial viability.
- Maintaining financial strength and capacity to borrow to build new affordable homes, assisted by relatively low gearing and interest liabilities.
- Conclusion of £15m of funding from two key lenders, underlining continued confidence in Solon, and which will enable the Association to expand the development programme and produce more much needed housing.
- Construction, completion and successful letting of six new homes for affordable rent.
- Entry into £7.5m worth of contracts to develop 47 new homes for rent.
- Consistent good performance, marginally exceeding the Housemark benchmark median, controlling rent arrears and maximising income, assisted by initiatives to maximise take-up of benefits in the face of universal credit and other welfare cuts.
- Consistent performance, marginally exceeding Housemark benchmark median, letting vacant homes to people in the greatest need and maximising the use of scarce affordable housing assets.
- Consistent performance maintaining a good level of responsive and planned repairs performance and cost competitiveness, close to benchmarked median.
- Continuing strong performance meeting landlord statutory, health and safety compliance requirements.

During the year, we have also continued to invest significant resources in improving the quality of our services, condition of our homes and general efficiency, including:

- Review of the 30-year financial plan, ensuring financial provision to meet the projected costs identified by the stock condition survey and the requirements of the forward development programme.
- On-going corporate planning to achieve key business plan objectives.
- Investment of £2.515m (2019: £2.4m) in existing homes to ensure they are maintained in good condition, continue to meet the Decent Homes Standard and other safety standards, and are safe to live in.

- Work in progress with Solon's prospective IT supplier - Orchard Information Systems - and IT implementation consultant to firm up the detailed specification in preparation for mobilisation of the contract for the new system in 2020/21.
- Ongoing investment in staff training and support. Maintenance of IIP accreditation.
- Rolling programmes of internal audit and risk management to improve controls and systems and minimise risk, particularly surrounding statutory compliance and customer health and safety.
- Implementation of action plans to achieve continuous improvements to services.
- Ongoing resident engagement, maintaining and developing estate and site walkabouts and inspections and other methods of customer engagement.
- Work to identify, negotiate and secure replacement offices in Bristol which best meet Solon's needs and brief.
- A robust and effective approach to tackling anti-social behaviour.
- Carrying out risk assessments and detailed due diligence into the advantages and risks of merger with United Communities to create a new local housing association.
- Latterly making preparations to deliver services as close as possible to business as usual in anticipation of a Coronavirus lockdown.

Development of new homes – net growth

The development of new homes contributes to meeting the increasingly desperate need for affordable housing, while also achieving net growth which spreads overhead costs and improves efficiency. New homes also replace and renew Solon's ageing housing stock, some of which is no longer suitable for use as social housing. This reduces future financial liabilities and improves cost effectiveness, value for money and overall financial strength. The higher quality achieved from newly built homes is also important in meeting increasing customer expectations. It is a key business plan objective to provide homes that people want to live in. Development of new homes makes a big contribution to achieving this.

We have continued to deliver new homes during the year. We were pleased to complete 6 new homes, all of which were for affordable rent. We also acquired an additional development site, and approved proposals and entered into contracts to build a further 47 new homes in 2020/21 and beyond. Currently 52 of these properties are under construction.

We intend to make full use of our financial capacity and ability to obtain private finance to develop more new homes in 2020/21, and beyond, and are continuing to seek and secure new development opportunities.

Availability of public grant is essential to provide the level of affordable housing needed in the West of England. We are pleased that there is now more certainty and positivity about the availability of grant. Bristol City Council is now providing good levels of funding and Homes England is currently following suit. Solon received £1.734m in total during the year from both parties.

While grant funding is being made available, land and development opportunities continue to be scarce. This has become a big challenge and obstacle to growth.

Competition for good development sites has intensified as house and land prices have continued to rise. Bristol continues to struggle to maximise provision of social housing from the planning system. There has also been fierce competition between housing associations for such opportunities. This includes local authority sites, some of which have been offered for sale solely to housing associations. Furthermore, where they are available, such sites usually have legal and other constraints and are therefore difficult and expensive to develop.

Despite these local challenges, we are confident that Solon will continue to maintain a modest forward development programme to develop the new homes that people want to live in. We are a HomesWest development partner and have a strong track record of developing affordable housing in Bristol and South Gloucestershire. We have an investment contract with Homes England enabling us to develop in our own right. Our financial strength gives banks the confidence to lend to us and we are continuing to take full advantage of our borrowing capacity, securing additional long-term finance to maximise development of new homes. We have a competent and effective Development Team. We will continue to seek and challenge for development opportunities in our core operating areas.

Development and urban regeneration and sustainable communities

Many of our new homes are the result of the regeneration of derelict and disused land. This is often difficult to acquire and develop and consequently involves more work and risk. However such developments make best use of scarce resources and bring the additional benefits of environmental improvement. Urban regeneration and the development of sustainable communities continue to be high priorities for Solon.

Our involvement in regeneration does not end with the completion and letting of new homes. We actively manage the homes we build, and continue to work with our residents, partners, neighbours and other stakeholders to enhance residents' quality of life, and maintain thriving, sustainable and desirable communities.

Value for money/efficiency

Our success in securing additional long-term finance, increasing future borrowing capacity and subsidising new development has depended on achieving better value for money and financial margins from cost efficiency and improved performance. Concerted action has been taken to deliver efficiencies, including the management of cost effective maintenance contracts and repair programmes, ongoing review of operations, staffing structure and a wide variety of other costs.

The Value for Money Strategy and annual VFM review, (from page 4.10 Directors' Performance Report), set out Solon's commitment and approach to achieving value for money and demonstrate continued compliance with the regulator's expectations. A robust approach to value for money will continue to be critically important. However this will never be achieved at the cost of failing to invest in maintaining the standard of existing homes, and customer health and safety. Indeed, such investment, alongside other characteristics of good service, is an important tenet of a value for money service.

Asset management and maintenance

Growth complements, and is complemented by the delivery of the Asset Management Strategy.

The implementation of the Strategy is essential to improve the effectiveness of the maintenance service, the quality of Solon's existing homes, and the cost effectiveness of the stock.

There has been a determined effort over a number of years to maintain statutory compliance, and improve property condition, response and planned repairs performance, service quality and overall customer satisfaction.

Ongoing investment in Solon's existing homes continues to yield results, achieving substantial improvements in the quality and safety of existing homes and, notwithstanding obstacles created by the coronavirus pandemic at the start of the year, maintaining consistent statutory and Decent Homes compliance.

Customer satisfaction with the quality of the home varies significantly by both property age and type. Residents living in new or purpose built homes report higher levels of satisfaction with quality and condition than occupants of older rehabilitated or converted properties, usually inner city street properties. It therefore remains a high priority to continue to invest in major repairs and improvements to existing homes, while also considering the option of disposal and replacement of stock when it is too expensive to occupy and maintain, and therefore no longer really suitable as affordable housing.

It is also a source of disappointment that customer surveys continue to identify low levels of satisfaction with the repairs and maintenance service, particularly for older inner city stock. We still need to do better on this. Continued focus on improving the repairs service – the highest priority for residents – remains the highest priority for the Board and the Senior Management Team.

Customer complaints and survey feedback indicate a need for sustained investment in the general condition of Solon's older stock, together with more focus on internal management of the maintenance process and quality of repair work, and more effective communication with residents throughout the ordering and repair process. Over the last year we have made adjustments to staffing levels to manage this work, within a re-structured team, introduced more streamlined processes and ensured more focus on the key drivers of satisfaction. These include time taken before work starts, repairs being done right first time, contractors doing the job expected, speed of completion and quality of the work. Above all it is important that we listen to our customers when they report issues and concerns about their homes.

It is anticipated that this continued focus and further improvements will ultimately deliver a significant increase in satisfaction with the repairs service overall which is in line with that of our peers.

Investment in planned maintenance/major repairs and improvements is based on the comprehensive stock condition survey. This is updated via an annual rolling programme of new surveys of up to 20% of total stock. The annual review of the 30-year Financial Plan earlier this year demonstrated that Solon continues to make sufficient financial

provision to meet the projected costs from the survey. Major repair and other programmes continue to be delivered to ensure that this expenditure is properly targeted and that the Decent Homes Standard is maintained.
The Asset Management Strategy also drives the disposal of unsatisfactory properties. The receipts are reinvested in the provision of new homes which are more suitable for, and less costly to occupy by residents. Three unsuitable flats were sold during the year. We also handed back 18 small flats in a former school house in Gloucester which had previously been occupied by a supported housing project which was no longer required.

Repairs arising with respect to River Street properties resulted in a compensatory payment from the NHBC. Ongoing works and monitoring will continue in 2020/21.

The future

Solon faces a number of important tasks and challenges in the year ahead, including:

- Ensuring that we continue to deliver services as close as possible to business as usual, and without prejudicing resident and staff health and safety during the current Coronavirus lockdown.
- Ensuring that we satisfactorily restore all services as we emerge from lockdown.
- Ongoing robust management of all of our asset management contracts to ensure that contracting arrangements continue to run smoothly, and performance targets are achieved.
- Continuing to improve the internal management of these contracts, and communication with residents on all aspects of the service, eliminating complaints and increasing satisfaction.
- Delivering the major repairs programme to maintain compliance with the Decent Homes Standard.
- Dealing effectively with the implications of benefit reductions, particularly the impact of Universal Credit, to protect Solon's financial position whilst minimising the impact on residents, and helping them to maintain their tenancies.
- Working to identify and deliver additional new homes in challenging conditions. Raising additional private finance to fund them.
- Disposal of unsatisfactory properties and sound investment of the receipts in replacements.
- Delivering a work programme to achieve successful completion of the first phase of the merger with United Communities resulting in agreement to proceed unconditionally.
- Completing the implementation phase of the merger through autumn and winter.
- Continuing to work with partners, local residents and other stakeholders to enhance residents' quality of life, and maintain thriving, sustainable and desirable communities.
- Implementing new IT system.

Financial strength for the future

The most recent regulatory engagement confirmed that Solon has maintained the highest possible 'score' of V1 for financial viability. We continue to meet the regulator's viability requirements and have the financial capacity to deal with a wide range of adverse scenarios.

The financial statements demonstrate that we are continuing to use our underlying financial strength to produce new homes, maintain significant investment in current stock, and meet the needs of local communities. Increasingly this involves financial risks. However the financial statements and the regulator's judgement on Solon demonstrates that we are managing these risks effectively and responsibly.

Subject to continuing to deliver good value for money, control operating costs and improve margins in future years, our relative financial strength, including low borrowing, high value stock, and a sound 30-year financial plan mean we can continue to look forward to the future with confidence.

Thanks

I would like to thank all those who have supported us during the year: our staff, our partners, Board members and members of the Audit & Finance and Customer Service Improvement Committees for their hard work and commitment.

Paul Ville
Chief Executive
10 September 2020

Directors Performance Report

Solon is an independent, locally-controlled and community focused housing association. Our core business is the provision, management and maintenance of good quality, affordable rented homes in Bristol, South Gloucestershire, and surrounding areas where we can manage homes effectively.

Our services are provided directly (in-house) or in partnership with other agencies where this is more appropriate or cost effective. We invest in a trained and motivated workforce to deliver our services and are accredited as an Investor in People.

Development review

Stock profile summary	**2020 No:**	**2019 No:**	**2018 No:**	**2017 No:**	**2016 No:**
General needs					
- social rent:	**977**	980	972	956	945
- affordable rent (inc. 1 intermediate rent)	**108**	102	83	82	23
Supported housing:	**133**	138	141	141	124
Temporary social housing:	**24**	24	27	30	54
Shared ownership (LCHO):	**66**	66	55	54	52
LCHO leasehold 100% sold:	**1**	1	1	1	0
Commercial properties:	**2**	2	2	2	1
Total	**1,311**	**1,313**	**1,281**	**1,266**	**1,199**

We feel we have a duty to maximise the use of our assets and borrowing capacity to produce rented homes which are genuinely affordable to tackle the growing housing crisis and homelessness. It is also an important strategic objective to develop new homes to replace old stock which is expensive to maintain and live in and no longer really suitable as social housing. Newly developed homes that people want to live in are more desirable for residents and better value for money for their occupants and Solon.

We have continued to achieve this objective in 2019/20, successfully completing the development of 6 new homes in Bristol, representing a growth rate of 0.44%. We also completed negotiations and entered into contracts to develop 47 new homes in Bristol and South Gloucestershire. The new homes will be completed in 2020/21.

We invested over £5.309m in new housing in development during the year with a further £14.243m due to be committed on the provision of new homes in 2020/21 and beyond on schemes identified to date.

As noted in the Chief Executive's report, development of new homes will continue to be an important strategic objective for Solon. We plan to use our financial strength to maintain a modest forward programme, and further net growth. We have sufficient borrowing capacity and private

finance in place to pay for the current pipeline and fund significant additional development. We also have the right team in place to continue to identify and secure the development opportunities and grant funding needed to achieve our objectives.

Financial review

Solon benefits from relatively low gearing and a high level of interest cover, both of which are within sector benchmarks and provide the foundation for current and future investment activity.

Future production of new homes depends on our ability to raise additional private finance which in turn hinges on maintaining financial strength and healthy operating margins and meeting loan covenants. Despite the impact on operating margins from factors such as the Government's previous 1% rent reduction, Solon's margins are still relatively healthy due to additional rental income generated from new homes completed in recent years, combined with concerted action to control costs, maximise income and improve value for money.

Turnover in 2019/20 was 12% lower than in the previous year. This was predominately due to the fact that turnover in 2018/19 was bolstered by significant low cost home ownership/shared ownership (£980k) sales in that year, whereas there were no LCHO sales in 2019/20.

Operating costs were however 5% higher than the previous year due to higher levels of depreciation of housing properties (£1,243k up from £1,167k), and some other increases in management costs.

Operating surplus per division £000	**2020**	**2019**	**2018**	**2017**	**2016**
General needs & shared ownership:	1,461	1,885	2,217	2,787	2,293
Temporary social housing (TSH):	(43)	(27)	2	34	35
Managed by others:	126	79	52	61	52
Supported housing:	7	1	36	18	(10)
Surplus on ordinary activities for the year	**1,741**	**1,992**	**1,539**	**1,906**	**2,370**
Total assets less current liabilities:	**83,748**	**81,221**	**78,985**	**76,349**	**73,698**
Gearing:	27%	30%	32%	32%	35%
Interest cover (including sales):	1.84	3.05	2.42	2.28	3.13
Operating cost as % of turnover:	**79%**	**72%**	**68%**	**61%**	**65%**

Interest cover (including sales) has fallen markedly, largely due to there being no Shared Ownership sales in 2019/20, unlike previous years.

The current 30-year Financial Plan demonstrates that strong financial performance and ongoing cost control and other value for money initiatives will maintain financial margins enabling Solon

to continue to meet its financial commitments and covenants and achieve its business objectives going forward.

Housing and Asset Management performance review

Solon's stock comprises 1,308 homes, (excluding 2 commercial properties and 1 staircased LCHO), of which 118 supported housing units are managed on our behalf by agents. Our core income comes from 1,082 general needs, social and affordable rented homes. Key performance indicators for the management of this stock are outlined below.

Performance Indicator	2019/20 Target	Outturn 2019/20	Outturn 2018/19	Outturn 2017/18	Comments	Target 2020/21
% of repairs completed within target timescale (all categories)	98.5%	**95.38%**	97.5%	97.5%	Performance was slightly worse than previous years due to the main response contractors struggling with resources and staff changes over the winter period. However, performance improved towards the end of the year.	98.5%
Average number of calendar days to complete day-to-day repairs	6 days	**8.6 days**	7.3 days	6.8 days	The number of days to complete a repair was slightly longer than previous years due to the main response contractors struggling with resources and staff changes over the winter period. However, performance is better than the Housemark Median of 9.5 days.	5 days
% of residents satisfied with the repairs & maintenance Service	80%	**66.4%**	66.4%	66.4%	Results are from last (2018) customer Survey and out of date. This needs to be refreshed but this is on hold due to merger discussions. Lower than target and HM median of 92%. Lower quartile. Improving the service, and customer satisfaction remains a high priority.	85%

Performance Indicator	2019/20 Target	Outturn 2019/20	Outturn 2018/19	Outturn 2017/18	Comments	Target 2020/21
% of dwellings that are non-decent	0%	**0.7%**	0%	0%	Seven properties were classed as 'non decent' at end of March due to delays caused directly or indirectly by the coronavirus pandemic. All necessary works have either been completed or are in the process of being carried out.	0%
% of residents satisfied with the quality of their home	85%	**76%**	76%	84%	Results are from last (2018) customer Survey and out of date. This needs to be refreshed Below (worse than) target and HM median of 85%. Lower quartile. Improving satisfaction is a high priority.	87%
% of properties with a valid gas certificate	100%	**99.91%**	100%	100%	Strong performance maintained. Slight drop caused by 2 properties falling out of anniversary dates: one in Sept. for 1 day and one in March for 10 days (until year-end) on a void property awaiting disposal. Delay due to COVID-19. Target very close to HM upper quartile of 100%.	100%
% of fire safety inspections, servicing & high risk remedial work delivered	100%	**100%**	100%	100%	Strong performance maintained. Target achieved.	100%
% of HHSRS compliant properties	100%	**99.9%**	100%	99.9%	Two properties have HHSRS failures. Remedial works delayed slightly due to COVID-19 lockdown in March.	100%
Performance Indicator	**2019/20**	**Outturn**	**Outturn**	**Outturn**	**Comments**	**Target**

	Target	2019/20	2018/19	2017/18		2020/21
Customer satisfaction with the overall service provided by landlord - Star survey	86%	**73.5%**	73.5%	81%	Results are from last (2018) customer Survey and out of date. Needs to be refreshed but this is on hold due to merger discussions. Below (worse than) target and HM median of 87.50%. Improving the service, and customer satisfaction remains a high priority.	90%
Customer satisfaction with the overall service – phone surveys.	86.0%	**77.06%**	86.5%	NA	Influenced by drivers of dissatisfaction including responsive repair issues May be due largely to issues with main contractor earlier in the year. However, the bi-annual customer survey is a more reliable gauge of actual satisfaction. This needs to be refreshed.	86.0%
Percentage of residents satisfied that their views are being listened to	69.2%	**58%**	58%	63%	Results are from last (2018) customer Survey and out of date. Refreshed on hold due to merger discussions Below (worse than) target and HM median of 73.8%. Improving this feedback continues to be a high priority.	
Number of complaints received since start of year (cumulative)	Reducing Trend.	**18**	23	24 (27 in 2016/17)	A further (22%) reduction exceeding target. However, action is required to reduce number of complaints further.	Reducing Trend.
Performance Indicator	**2019/20 Target**	**Outturn 2019/20**	**Outturn 2018/19**	**Outturn 2017/18**	**Comments**	**Target 2020/21**

Current rent arrears net o unpaid HB as a % of rent due	3.20%	**3.65%**	3.55%	3.25%	Marginally higher (worse) than target but marginally lower (better) than Housemark median of 3.68%. Results reflect the increasing impact of benefit cuts and Universal Credit roll out with 240 residents now claiming UC.	3.20%
Void turnaround (general needs properties) – Average re-let time (days) Standard re-lets.	18.1 days	**24.9 days**	21.1 days	21.7 days	Higher (worse than target) but marginally lower (better) than Housemark median of 25.6 days. 77 properties become void in 2019/20 compared with 41 in 2018/19 (an 87% increase). This coincided with a high level of staff absence (now resolved) and contributed to delays in lettings in quarter 4. The absence issue has been resolved. However we are reviewing staffing levels and capacity and resilience of the team to prevent recurrence.	18.1 days
Rent loss for empty properties:	NA	**2.13%**	0.87%	0.6%	A deterioration on the previous two years.	NA

Following a downward trend over the previous five years reflecting a robust approach to rent arrears control, arrears started to rise in 2018/19. This was, and largely continues to be due to benefit cuts, the increasing impact of Universal Credit and the irregularity of benefit payment cycles. We have however continued to work hard to mitigate the impact and risk by initiatives such as our long-standing partnership with Talking Money which provides tailored benefits and debt advice for residents. This has maximised take-up of benefits and residents' incomes and helped to offset the impact of benefit cuts on the level of rent arrears. The risk has been further mitigated by the development of a dedicated income management team, with specialist staff, and a manager with specific responsibility for income collection. These changes have enabled Solon to maintain a strong focus on, and resources dedicated to rent collection.

The roll out of Universal Credit, together with the potentially devastating economic impact of the pandemic and a hard Brexit on residents' incomes will continue to place greater pressure on the income recovery team. However, the quality and focus of the team, together with probable further mitigating actions including additional income and support staff give us the confidence that we will be able to continue to maximise rental income and helping residents to remain in their homes

The average time to re-let general needs homes in 2019/20 was 24.9 days. This represented an increase in comparison to the previous year and remains above Solon's robust target of 18.06 days. Performance was affected by the high number of properties becoming vacant during the year compared with previous years. 74 properties became empty compared to just 41 in 2018/19. The extent and complexity of the works needed on some of these properties also affected turnaround times. Staff absence towards the end of the year also interrupted the allocations and lettings process. However this has now been resolved largely due to the establishment of a dedicated rehousing officer in the Customer Services team. The staff who were absent have also now returned to work.

Rent loss on empty properties has increased. This would be expected with the high number of empty properties and the increased turnaround time. There have been a larger number of properties requiring major works this year and there have also been properties held vacant pending disposal.

Asset management review

2019/20 was another busy and challenging year for asset management and the maintenance of Solon's homes.

Completions performance for all response repairs was as follows:

Completions on time - categories of repair	Target	2019-20	2018-19	2017-18	2016-17	2015-16
Emergency	99.3%	96.54%	99.0%	98.3%	99.1%	99.8%
Urgent	98.4%	95.77%	97.1%	97.0%	98.0%	98.0%
Routine	98.2%	94.30%	96.4%	97.0%	98.0%	94.0%

Completions performance for all repair categories dipped during the year for both general and heating repairs. This was mainly due to significant staff changes within the main response contractors (Novus and Gregor Heating) teams over the winter period. Asset management staff have been working closely with the contractors to resolve these issues. This has largely been successful and performance had improved towards the end of the financial year. It is anticipated that this, and ongoing attention to the relationship with the contractors will feed through into improvements in performance in 2020/21.

Planned maintenance and major repair programmes are based on comprehensive condition surveys which have identified the need for significant ongoing financial investment in the stock. The annual review of the 30-year Financial Plan includes sufficient financial provision to meet the projected costs. During the year £577K was spent on larger planned works including: kitchen and bathroom replacements, door/window replacements, boiler replacements, roof replacements and other major repairs.

Properties were maintained in line with the Decent Homes Standard throughout the year.

Performance in relation to health and safety compliance was as follows:

Health and safety Indicator	Target	2019-20	2018-19
% of properties with a valid gas certificate	100%	99.91%	100%
% of required asbestos surveys & high risk remedial work delivered	100%	100%	98.69%
% of mechanical & electrical inspections, servicing & high risk remedial work delivered	100%	100%	99.03%
% of fire safety inspections, servicing & high risk remedial work delivered	100%	99.61%	100%
% of structural element inspections, servicing & high risk remedial work delivered	100%	100%	100%
% of HHSRS compliant properties	100%	99.8%	100%

Meeting our statutory obligations as a landlord continues to be a significant focus. Compliance performance was strong throughout the year. Gas, electrical and fire safety continue to be our highest priorities.

The cyclical decoration programme was impacted by prolonged negotiations with the preferred contractor following a recent procurement. Contracting on the proposed long-term partnering contractor was also postponed due to the ongoing discussions about forming a new housing association via a merger with United Communities. Due to this a reduced programme was delivered involving limited £86K expenditure. Depending on the impact of COVID-19, the 2020/21 programme will be significantly larger to pick up priority works not completed in 2019/20.

The CEO's report, and the value for money report show that, despite seemingly good performance across a wide range of asset management services, customer satisfaction with the repairs and maintenance service is unacceptably low. We believe that this reflects a need for sustained investment in the general condition of Solon's older stock, together with better internal management of the maintenance process and quality of repair work, and more effective communication with residents when they contact us to report repairs and other concerns. In order to achieve this, during the year we completed a re-organisation of the Asset Management Department and created a customer services team within the Housing Services Department. We think we now have the right staff in the right places with the appropriate skills to manage and deliver the wide range of repair and servicing programmes and engage effectively with residents when they report repairs.

It is an objective of the Asset Management Strategy to achieve best practice and deliver better value for money by investing higher proportions of expenditure in planned maintenance and proportionately less on routine maintenance. A total of £2.515m (2018/19: £2.4m) was invested in asset management works in 2019/20. Of this 35% (2018/19: 28%) was spent on routine maintenance and 65% on planned, cyclical maintenance and major repairs to meet the Decent Homes Standard.

The Asset Management Strategy also drives the disposal of unsatisfactory properties which are no longer suitable as social housing, and are uneconomic to occupy and maintain and/or unpopular with residents. The receipts from disposals are reinvested in the development of new homes which

are more economic and desirable for residents. We sold one property during the year and identified others for disposal in 2020/21 and 2021/22.

Capital structure

Solon is financed predominantly from reserves, and benefits from relatively low gearing of 28% (2019:30%) which in turn has relatively low servicing costs. Total debt includes a £0.8m syndicated Natwest/Housing Corporation loan with relatively high fixed rate servicing costs and three loan facilities: £13.7m with Royal Bank of Scotland, £7.8m with Dexia public finance bank and £4m with Triodos Bank. At the year-end, £26.3m was drawn (2019: £26.3m).

During the year an additional £5m facility was agreed with Triodos and a £10m revolving credit facility agreed with Lloyds. Security for these facilities is currently being put in place.

The Finance Director manages Solon's treasury operation. The Audit & Finance Committee has adopted the Chartered Institute of Public Finance & Accountancy's best practice policy document on treasury management. To manage interest rate risk, the Treasury Policy sets a maximum target of 60% variable rate debt. Given the low cost of funds currently available in the market, Solon has fixed 75% of all drawn loans with varying durations, achieving an average cost of funds of 5.3% for the year.

Cash flows

Cash flows are outlined on page 9. The main inflow of cash comes from rental income. Capital expenditure of £5.63m on housing assets was funded by loans, sales and working capital. Undrawn loan facilities with Triodos Bank amount to £8m.

Value for money review

This review demonstrates how Solon is achieving value for money in delivering its purpose and objectives.

1.0 Introduction and executive summary

1.1 All of Solon's expenditure is used to meet the Association's main purpose and objectives - the development, management and maintenance of good quality homes for people in housing need. Solon aims to use its resources as effectively and efficiently as possible to maximize the benefits and deliver good value for money (VFM). The review demonstrates that this is generally achieved. Inevitably there are things that can be done better so the report also sets out proposed areas and actions to improve VFM.

2.0 Benchmarking of performance against key value for money metrics set by the regulator

2.1 The following table sets out Solon's performance in 2018/19 and 2019/20 compared with the housing association sector median for all (229) housing associations in 2018/19. (2019/20 data is not yet available). Future targets for 2020/21 are also included in the table.

Regulator of Social Housing VFM metrics	Sector median 2018-2019	Solon outturn 2018-2019	Solon outturn 2019-2020	Solon targets 2019-2020 (VFM Strategy)	Solon targets 2020-2021 (2020 Financial Plan Review)
Reinvestment.	**6.2%**	**5.1%**	**6.87%**	**11.5%**	**16.17%**
New supply – social housing units	**1.4%**	**2.9%**	**0.46%**	**5.1%**	**4.92%**
New supply – non-social housing units	**0%**	**-**	**-**	**-**	**-**
Gearing (relates to new supply)	**43.4%**	**27.5%**	**24.46%**	**35.1%**	**36.68%**
EBITDA MRI	**184%**	**249.6%**	**184.33%**	**138%**	**150.41%**
Headline social housing cost per unit	**£3,690**	**£3,665**	**£3,827**	**£3,595**	**£4,223**
Operating margin - social housing lettings	**29.2%**	**25.9%**	**18.25%**	**23.8%**	**13.30%**
Operating margin – social and non-social housing lettings	**25.8%**	**25.9%**	**24.13%**	**23.8%**	**14.55%**
Return on capital employed (ROCE)	**3.8%**	**3.8%**	**2.81%**	**2.8%**	**1.48%**

2.2 The metrics reflect continuing investment by Solon in maintaining existing housing stock and developing new homes. This protects our current assets and ensures they remain habitable, while also creating additional new assets which are more cost effective to maintain and occupy. Over the last year Solon added significant value by:

- Investing £2.5m in day-to-day maintenance, planned and major repairs, achieving substantial improvements in the quality of existing homes and maintaining compliance with the Decent Homes Standard, statutory compliance and customer safety. Investment in properties as a percentage of homes has increased from 5.1% to 6.87% between 2018/19 and 2019/20. This is 0.67% higher than the 2018/19 median, but under our own target of 11.5%, due largely to slower than anticipated output of new homes, as noted below

- An increase in new affordable homes to meet the pressing need for affordable (primarily rented) housing, and replace existing stock which is uneconomic and no longer suitable as social housing.

  The output of 6 homes in 2019/20, representing 0.46% of affordable housing stock, was below the sector median, and Solon's more ambitious 5.1% internal target for new supply. This was due to delays with the Development Programme which reflected the complexity of the schemes being pursued and, as described on page 3.3 of the CEO's Strategic Review Report, the difficulty of working in the West of England in general and Bristol in particular. However, local constraints notwithstanding, the majority of the programme (53 new homes) is now on site and, assuming there are no further delays due to the pandemic, performance against the new supply metric will return to its previous position, (of being significantly above median), in 2020/21.

2.3 At 27.5%, gearing is below our 35.1% target and 43.4% median. However, this will increase as development completions trigger drawdown of private finance. An important point to highlight is that Solon has a positive gearing position which will facilitate delivery of the current programme and enable the Association to plan further investment in new homes in 2020/21 and beyond.

2.4 As noted in previous VFM reports, substantial investment in the maintenance of existing assets and the production of new homes impacts on the Association's operating margin. Our margin and interest cover (EBITDA MRI) results in 2019/20 also reflected the fact that there were no shared ownership sales during the year (compared with £960k in 2018/19), and that sizeable additional costs were incurred, including major repairs at River Street, Bristol. Despite this we have maintained our financial strength and capacity, and our interest cover is on the median. This enables Solon to retain lender confidence and ultimately deliver the objective of significant additional future growth.

2.5 Solon's costs per unit (CPU) also increased over the last year and, at £3,827 have now moved 3.7% above the median and also above our internal target. This will partially reflect inflation in the intervening period and the higher costs noted above. Our CPU would also have been much closer to the median but for our particular characteristics, described in more detail below, which place upward pressure on maintenance and management costs, and also local difficulties associated with developing in Bristol and the West of England, which limit the supply of new homes against which our costs are spread.

2.6 Higher asset management costs are partly explained by our unique stock profile with 50% older rehabilitated properties, often larger buildings converted to flats, some of which are also listed. It is acknowledged that our historic stock is more complex, labour intensive and therefore more expensive to improve and maintain than newer, purpose built social housing.

2.7 Solon's last two years' VFM reviews predicted that asset management costs, (already high due to investment in statutory/health & safety compliance), would continue to remain at a similar level due to additional pressure for expenditure on other priorities. Whilst health and safety remains our highest priority, customer complaints and survey feedback had previously indicated a need for more investment to improve the condition of older stock, combined with better management and quality of repair work, and communication with residents. As noted above, significant costs were also being incurred to rectify defects on a new-build scheme at River Street, Bristol, albeit these were expected to be partially offset by NHBC insurance.

2.8 Higher management costs are partially explained by stock location and customer profile. Associations operating in neighbourhoods ranked in the 1% most deprived areas according to the Index of Multiple Deprivation have costs on average £500 per unit higher than average. Many of Solon's homes are in inner-city wards with higher than average levels of deprivation. Similarly, operating supported housing is recognized as being more expensive, although with 157 supported and temporary housing units or 12% of total stock, our exposure is more limited than that of some of our supported housing peers.

2.9 During the year, upward pressure has also been placed on management costs by factors such as:

- Additional staffing costs associated with fire risk assessments and recommended actions.
- Staffing, decanting and compensation costs of damp and other disrepair claims due to age and condition of stock.
- Cost of restructuring and staffing to improve services including re-organisation of the Asset Management Department and creation of a customer services team.
- Higher costs of rent collection and arrears control due to benefit cuts and Universal Credit.
- Costs associated with a possible merger with United Communities, including due diligence and more expensive additional temporary staffing arrangements in lieu of permanent recruitment.

3.0 Performance against Solon's own/internal VFM targets and how this compares to our peers

3.1 The Board regularly reviews performance against Solon's generic targets and, where data is available, how this compares to our peers. This is a further test of the extent to which the Association delivers value for money and the further action that needs to be taken to improve it.

3.2 Details of housing and asset management performance are provided on pages 4.3–4.6 of the 2019-20 Directors' Performance Report above. Resident health and safety is our highest priority. We consistently meet or exceed targets for statutory compliance/health and safety (gas servicing, HHSRS compliance, fire safety and the Decent Homes Standard), with performance in these areas similar to, or better than many of our peers. Over the last year, performance for indicators such as percentage of repairs completed within target timescales, number of days to complete response repairs, void turnaround times and rent arrears control has been below target, marginally in some cases, and more so in others. However, as described on pages 4.6–4.7, this reflects some very difficult operating conditions and circumstances during the year, and, given this situation, we believe this level of performance to be satisfactory.

3.3 The last customer satisfaction survey was carried out end-2018. The results were reported in the 2019 VFM report. It was noted that there was significant room for improvement in customer satisfaction with the repairs service, quality of the home, the extent to which we listen to and act on customers' views and the overall service provided. These results, which we were not satisfied

with, were largely driven by dissatisfaction with certain aspects of the maintenance service, particularly responsive repairs.

3.4 It was noted that customer feedback and benchmarking with our peers indicated strongly that we should be seeking much better value for money from our investment in asset management. We should be improving the way the service is run and how our money is spent to enhance performance and customer satisfaction with the service.

3.5 As noted on page 4.8 of the Directors' Performance Report, this reflected a need for sustained investment in the general condition of older stock, together with better internal management of the maintenance process and quality of repair work, and more effective communication with residents contacting us to report repairs and other concerns. This led to the re-organisation of the Asset Management Department during the year and creation of a customer services team with enough staff with the appropriate skills to manage and deliver the wide range of repair and servicing programmes and engage effectively with residents on a range of contacts and issues. We believe that this re-organisation is starting to work and that customer service is improving. This won't be tested fully until a new customer satisfaction survey is carried out. This is currently on hold pending the merger. Nevertheless, the new operational arrangements will be kept under regular review.

3.3 Regular benchmarking against a peer group of smaller (1,000-5,000 unit) housing associations via the Housemark benchmarking club also identifies good comparative performance on statutory compliance/health and safety, void turnaround, rent collection, repair times etc. However, resonating with the comments above, it also identifies the poorer, and generally lower quartile results for the four key indicators of customer satisfaction.

4.0 Proposed future actions to improve value for money

4.1 As highlighted in the 2019 VFM report, for the reasons outlined above, it is expected that Solon's future asset management costs - the direct costs of responsive and major repairs and improvements and the costs of processing and managing busy and complex programmes - will remain at the current relatively high levels. Further upward pressure on expenditure is also likely as health and safety and other standards and expectations rise and labour and materials costs increase.

4.2 As also highlighted in 2019, we will be continuing to seek better value for money from our investment, improving the way the asset management service is run and how money is spent to enhance performance and customer satisfaction with the service. Steps taken, or to be taken to achieve this include:

- Better internal management of the maintenance process by recruiting a skilled and experienced Asset Manager to ensure a robust relationship with contractors at both strategic and operational management levels.
- Creation of a customer service team to ensure effective communication with residents throughout the maintenance process.
- Maintaining and developing better communication with other teams such as the dedicated income team in conjunction with the customer services team.
- Working with contractors to focus on the key drivers of satisfaction. These include reducing the time taken before work starts, doing repairs right first time and the job expected, increasing the speed of completion and improving the quality of the work.

- Implementation of a new IT system in 2020/21 to provide significantly improved technical resources to facilitate better communication and positive service outcomes.
- Above all it is important that the management team ensures that we all listen to our customers when they report issues and concerns about their homes, and work collaboratively to ensure they are satisfied with the outcome.

4.3 All of these steps will continue if Solon merges with United Communities. The new association is being proposed with an ambitious customer service offer. This will not only incorporate the above actions and management style. It will also go further by delivering new services as well as enhancing existing ones. Among other things, a successful merger is expected to deliver modest financial savings which will be reinvested in service provision, and efficiencies in the staffing structure which will help to allow our people to concentrate on the service provided to our customers.

4.4 The result will be that, over the next two years, Solon will hit its current targets for satisfaction and achieve median, and subsequently upper quartile performance. During this period we will also be aiming for a further significant reduction of customer complaints, maintaining the positive downward trend already witnessed over the last three years.

4.5 We will also continue to add value by using our financial strength to increase our output of new affordable homes. We expect to reclaim upper quartile performance for new supply relative to existing stock. This will be complemented by pro-active disposal of unsatisfactory properties and reinvestment of the receipts in new provision. This also delivers better VFM by replacing old stock which is expensive to maintain and live in and no longer suitable as social housing.

4.6 Better value for money will also be achieved by maximizing income, minimising rent loss and improving satisfaction with wider housing services. This will be achieved by continuing to resource and maintain pro-active management of rent arrears, voids and other estate management processes and meeting or exceeding median performance in these areas.

5.0 Projected future VFM gains/cost savings

5.1 The following potential short-term savings areas were proposed as part of Solon's doomsday planning in March 2020, to reduce future costs and maintain adequate financial headroom and viability. A number of the actions noted below reflect or complement actions proposed above.

- Maintain firm control of 2020/21 budget and subsequent budgets to prevent overspend.
- Elimination of defects and reduction of complaints and compensation claims from improved asset management performance and knowledge of condition of stock. This will also be facilitated in part by implementation of the new IT system), together with improvements in service culture and other changes to the staffing structure implemented in 2019/20.
- Competitive re-procurement of asset management and other contracts in line with the procurement strategy.
- Careful management of the cost of borrowing.
- Regular review of work processes and workload, staffing and allocation of staff resources to generate cost savings or ensure levels of service that are valued by our customers.
- Reduction of consultancy fees and temporary agency staffing.
- Collaboration and cost sharing with other housing association partners, including joint procurement where practicable, membership of purchasing clubs and other consortia.

As noted at 4.3, it is anticipated that future merger with United Communities would deliver economies of scale and operating efficiencies in the medium to long-term, for re-investment, while also ensuring that we have enough staff in the right places, and make the necessary investment in existing stock to provide better services than are currently delivered by the separate organisations.

6.0 Conclusions

6.1 For a small association working in the inner city, Solon's development output, increasing and planned level of investment in existing stock and costs per unit demonstrate reasonably good value for money when compared with its peers. We have developed and maintained financial strength and capacity, and will continue to use this pro-actively to achieve our key objectives, and add value. However we also expect to improve service quality, through listening to our tenants, particularly in the delivery of asset management over the next year. This will enable us to achieve better value for money, manifesting itself in significant improvements in customer satisfaction.

Independent Auditor's Report to the Members of Solon South West Housing Association Limited

Opinion

We have audited the financial statements of Solon South West Housing Association Limited "the Association" for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income , the Statement of Financial Position, the Statement of Changes in Reserves, the Statement of Cash Flows and notes to the financial statements including a summary of significant accounting policies (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 Association's affairs as at 31 March 2020 and of its 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 Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

Conclusions relating to going concern

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

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The 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 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 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Association has not kept proper accounting records; or
- the financial statements are not in agreement with the 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 pages 2.9 and 2.10, 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Use of our report

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

Beever and Struthers

Beever and Struthers, Statutory Auditor
St George's House
215/219 Chester Road
Manchester
M15 4JE
Date: 25 September 2020

Statement of Comprehensive Income

For the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Turnover - continuing operations	3	7,567	8,567
Operating costs	3	(5,825)	(6,220)
Surplus on sale of properties	10	458	746
Operating surplus	3	2,200	3,093
Interest receivable	7	26	18
Interest payable and similar charges	8	(1,270)	(1,119)
Exceptional Item (Merger)		(84)	-
Surplus on ordinary activities for the financial year	9	872	1,992

Results for the year relate entirely to continuing operations.

The notes on pages 10-24 form an integral part of these financial statements.

The financial statements were approved by the Board on 10th September 2020 and signed on its behalf by:

G Oliver

Graham Oliver
Chair

Tim Jenkinson
Chair - Audit and Finance Committee

Paul Ville
Secretary

Statement of Financial Position

As at 31 March 2020.

	Notes	2020 £'000	2019 £'000
Tangible fixed assets			
Housing properties - depreciated cost	12	81,170	76,907
Other tangible fixed assets	13	234	248
		81,404	77,155
Current assets			
Shared ownership properties in progress		-	-
Debtors	14	189	1,220
Cash and cash equivalents		3,312	5,210
		3,501	6,430
Creditors:			
Amounts falling due within one year	15	(2,433)	(2,364)
Net current assets		1,068	4,066
Total assets less current liabilities		82,472	81,221
Creditors			
Amounts falling due after more than one year	16	(52,485)	(52,106)
		29,987	29,115
Non-equity share capital	18	-	-
Revenue reserves		29,987	29,115
		29,987	29,115

The notes on pages 10-24 form an integral part of these financial statements.

The financial statements were approved by the Board on 10th September 2020 and signed on its behalf by:

G Oliver

Graham Oliver
Chair

Tim Jenkinson
Chair - Audit and Finance Committee

Paul Ville
Secretary

Statement of Changes in Reserves

For the year ended 31 March 2020.

	Income and expenditure reserve £'000 2020 £'000	Income and expenditure reserve £'000 2019 £'000
Balance as at 1 April	29,115	27,123
Surplus from Statement of Comprehensive Income	872	1,992
Balance at 31 March	**29,987**	**29,115**

The notes on pages 10-24 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 March 2020

	Note	2020	2019
		£'000	£'000
Net cash generated from operating activities	**1**	3,496	2,815
Cash flow from investing activities			
Purchase of tangible fixed assets		(5,631)	(3,918)
Proceeds from sale of tangible fixed assets		530	1,927
Grants received		1,734	750
Interest received		26	18
Cash flow from financing activities			
Interest paid		(1,270)	(1,119)
New secured loans		-	-
Repayment of borrowings		(783)	(565)
Net change in cash and cash equivalents		(1,898)	(92)
Cash and cash equivalents at beginning of the year		5,210	5,302
Cash and cash equivalents at end of the year		3,312	5,210

Note 1	**2020**	**2019**
	£'000	**£'000**
Cash flow from operating activities		
Surplus for the year	872	1,992
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	1,310	1,267
Decrease/(increase) in trade and other debtors	854	(5)
Increase/(decrease) in trade and other creditors	168	146
Adjustments for investing or financing activities:		
RCGF qualifying works	(123)	(122)
Proceeds from the sale of tangible fixed assets	(458)	(1,174)
Government grants utilised in the year	(371)	(390)
Interest payable	1,270	1,119
Interest received	(26)	(18)
Net cash generated from operating activities	**3,496**	**2,815**

Notes to the Financial Statements

For the year ended 31 March 2020

1. Legal Status

The Association is a Private Registered Provider of Social Housing in England under the Co-operative and Community Benefit Societies Act 2014. The registered office is 1 Newfoundland Court, St Paul Street, Bristol BS99 9AN.

2. Principal accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2014. The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2015.

The accounts are prepared on the historical cost basis of accounting and are presented in £'000.

The Association's financial statements have been prepared in compliance with FRS 102.
As a public benefit entity, Solon SW Housing Association has applied the public benefit entity 'PBE' prefixed paragraphs of FRS102.

Going concern

The Association's financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. Government's announcements in July 2015 impacting on the future income of the Association have led to a reassessment of the Association's business plan as well as an assessment of imminent or likely future breach in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

Judgements and key sources of estimation uncertainty

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

a. **Development expenditure**. The Association capitalises development expenditure in accordance with the accounting policy given below. Costs are capitalized when development contracts are in place. Otherwise, they are held in Sundry Debtors until contractual completion. If no contractual commitment is realized, at-risk development costs are written off.

Other key sources of estimation uncertainty:

a. **Tangible fixed assets**. Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

b. **Impairment of non-financial assets:** Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified. An impairment review has been carried out which did not identify the need to recognise any impairment.

Turnover and revenue recognition

Turnover comprises rental income net of voids receivable in the year, income from shared ownership first tranche sales, sales of properties built for sale and other services included at the invoiced value (excluding VAT) of goods and services supplied in the year and revenue grants receivable in the year.

Rental income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion. Supporting People Income is recognised under the contractual arrangements.

Support income and costs including Supporting People income and costs

Supporting People (SP) contract income received from Administering Authorities is accounted for as SP income in the Turnover as per note 3a. The related support costs are matched against this income in the same note. Support charges included in the rent are included in the Statement of Comprehensive Income from social housing lettings note 3b and matched against the relevant costs.

Shared ownership accounting and property disposals.

Properties developed for shared ownership sale are divided into first tranche sales and other sales. First tranche sales are included within Turnover with the attributable costs of the tranche relating to acquisition and works included within Cost of Sales. Subsequent tranches are not included in Turnover and Cost of Sales, but are shown as a separate item before the operating surplus in the Statement of Comprehensive Income. All other sales of fixed asset properties are dealt with in this latter way.

Interest

Interest payable is charged to the Statement of Comprehensive Income account in the year.

Pensions

The Association contributes to personal pensions for employees through a group stakeholder arrangement. This is a defined contribution scheme, and the assets are invested and managed independently of the finances of the Association. The costs are charged to management expenses over the periods benefiting from the employee's services.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

Supported housing managed by agencies

Social housing capital grants are claimed by the Association as owner of the property and included in the Statement of Financial Position of the Association. The treatment of other income and expenditure in respect of supported housing projects depends on whether the Association carries the financial risk.

Where the Association holds the support contract with the Supporting People Administering Authority and carries the financial risk, all the project's income and expenditure is included in the Association's Statement of Comprehensive Income (see note 3a)

Where the agency holds the support contract with the Supporting People Administering Authority and carries the financial risk, the Statement of Comprehensive Income includes only that income and expenditure which relates to the Association. Other income and expenditure of projects in this category is excluded from the Association's Statement of Comprehensive Income.

Taxation

Because of its charitable status, the Association is exempt from tax on its income from investments, revenue account surplus and capital gains, provided they are applied for charitable purposes.

Value added tax

The Association does not charge value added tax (VAT) on its income and is unable to recover the VAT it incurs on expenditure. The financial statements include the irrecoverable VAT suffered by the Association.

Housing properties and depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation. Cost includes the cost of acquiring land and buildings and development costs incurred during the development period.

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction.

Freehold land is not depreciated.

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual useful economic life. Expenditure relating to subsequent replacement or renewal of components is capitalised when incurred. The residual cost of the replaced components is set off against the amount capitalised.

The Association depreciates freehold housing properties by component on a straight-line basis over the estimated useful economic lives of the component categories.

Useful economic lives for identified components are as follows:

	Years		Years
Structure	80	Boilers	15
Roofs	70	Kitchens	20
Windows	30	Bathrooms	30

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

Properties held on leases are amortised over the life of the lease or their estimated useful economic lives in the business if shorter.

Shared ownership properties are subject to leases which places the liability for maintenance of structure and components on shared owners. They are not depreciated on the basis that their current realizable values are in in excess of their residual costs.

Capitalisation of improvements to housing properties

Expenditure incurred in respect of improvements is capitalised where it results in an increase in the net rental stream over the useful life of the property. An increase in net rental stream may arise through: an increase in the rental income, a reduction in future maintenance costs, or as a result of a significant extension of the useful economic life of the property in the business.

Only the direct overhead costs associated with new developments or improvements are capitalised. Land donated by local authorities and others is added to cost at the market value of the land at the time of the donation.

Stock and properties held for sale

Stock of materials and properties developed for outright sale are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell.

At each reporting date, properties held for sale are assessed for impairment. If there is evidence of impairment, the carrying amount is recued to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Non-government grants

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. Where grant is received with specific performance requirements it is recognised as a liability until the conditions are met and then it is recognised as Turnover.

Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other government grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure (not land), under the accruals model.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

When Social Housing Grant (SHG) in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG received for items of cost written off in the Statement of Comprehensive Income Account are matched against those costs as part of Turnover.

SHG can be recycled by the Association under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes England. However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as Turnover.

In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

Recycling of Capital Grant

Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund which appears as a creditor until used to fund the acquisition of new properties. Where recycled grant is known to be repayable it is shown as a creditor within one year.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

Financial Instruments

Financial assets and financial liabilities are measured at transaction price initially, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

At the end of each reporting period, financial instruments are measured as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

Debt instruments that meet the conditions in paragraph 11.8(b) of FRS 102 are measured at amortised cost using the effective interest method, except where the arrangement constitutes a financing transaction. In this case the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt.

Commitments to receive or make a loan to another entity which meet the conditions in para 11.8(c) of FRS 102 are measured at cost less impairment.

Financial instruments held by the Association are classified as follows:

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method;
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method;
- Commitments to receive or make a loan to another entity which meet the conditions above are held at cost less impairment;

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

Other tangible fixed assets

Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates for other assets are:

- Office improvements & short leasehold property - over the life of lease.
- Furniture, fixtures and fittings - 3 to 5 years, depending upon type.
- Computers and office equipment - 3 years.
- Motor vehicles - 4 years.

Leased assets

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their economic useful lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income account on a straight-line basis over the term of the lease.

Reverse premiums and similar incentives received on leases to enter into operating lease agreements are released to the Statement of Comprehensive Income over the term of the lease.

Notes to the Financial Statements
For the year ended 31 March 2020

3a. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS

	2020			2019		
	Turnover	**Operating costs/cost of sales**	**Operating surplus / (deficit)**	**Turnover**	**Operating costs**	**Operating surplus / (deficit)**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Social housing lettings:	7,461	(5,632)	1,829	7,486	(5,548)	1,938
Other social housing activities:						
Supporting people	79	(82)	(3)	79	(82)	(3)
Other income and expenditure	27	(111)	(84)	22	(38)	(16)
Shared ownership first tranche sales	-	-	-	980	(552)	428
	7,567	(5,825)	1,742	8,567	(6,220)	2,347

Notes to the Finacncial Statements
For the year ended 31 March 2020

3b. PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	2020					2019				
	General Needs	Supported Housing	Properties managed by others	Temporary Social Housing	Total	General Needs	Supported Housing	Properties managed by others	TSH	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income from social housing lettings										
Rent receivable net of identifiable service charges and void losses	5,860	100	457	156	6,573	5,755	89	482	162	6,488
Service charges receivable	310	54	18	12	394	240	41	16	11	308
Net rental income	6,170	154	475	168	6,967	5,995	130	498	173	6,796
Revenue grants from local authorities & other agencies	123 -	-	-	-	123 -	300	-	-	-	300
Amortised Government Grants	371	-	-	-	371	390	-	-	-	390
Turnover from social housing lettings	6,664	154	475	168	7,461	6,685	130	498	173	7,486
Expenditure on social housing lettings										
Management	(1,543)	(13)	(195)	(4)	(1,755)	(1,339)	(42)	(238)	(2)	(1,621)
Service charge costs	(204)	(37)	(25)	(11)	(277)	(241)	(41)	(9)	(10)	(301)
Routine maintenance	(806)	(6)	(12)	(53)	(877)	(620)	(5)	(3)	(8)	(636)
Planned maintenance	(1,029)	(1)	(32)	(18)	(1,080)	(1,176)	(16)	(30)	(82)	(1,304)
Major repairs expenditure	(270)	(2)	(18)	(1)	(291)	(339)	-3	(5)	(18)	(365)
Bad debts	(16)	-	-	-	(16)	(106)	(2)	-	-	(108)
Property lease charges	(7)	0	(8)	(9)	(24)	(7)	0	(10)	(29)	(46)
Depreciation of housing properties	(1,064)	(6)	(59)	(115)	(1,244)	(972)	(20)	(124)	(51)	(1,167)
Other Depreciation	(68)				(68)					
Operating costs on social housing lettings	(5,007)	(65)	(349)	(211)	(5,632)	(4,800)	(129)	(419)	(200)	(5,548)
Operating surplus on social housing lettings	1,657	89	126	(43)	1,829	1,885	1	79	(27)	1,938
Rent losses from voids	(71)	(14)	(45)	(22)	(152)	(58)	(23)	(55)	(11)	(147)

Notes to the Financial Statements
For the year ended 31 March 2020

4. SUPPORTED HOUSING MANAGED BY AGENTS

Where the agency carries the financial risk, the Association's income and expenditure account includes only the income and expenditure for which it retains responsibility. The Association has 118 (2019: 121) supported bedspaces that are managed on its behalf, under management agreements, by other bodies who contract with Supporting People Administering Authorities. Under Solon's management agreements, the agents carry the financial risk relating to the Supporting People income, whilst Solon bears the financial risks relating to the properties themselves.

5. DIRECTORS AND SENIOR OFFICERS

Directors are defined as the members of the Board, the Chief Executive and any other person who is a member of the Senior Management Team or its equivalent.

No remuneration was paid to Board members during the year but expenses remunerated to them, not chargeable to income tax, were £2,797 (2019: £2,014).

Key management personnel information:

The remuneration paid to the Chief Executive and the senior officers:

	2020 £'000	2019 £'000
Emoluments - including pensions and benefits in kind	296	300
Emoluments - excluding pension contributions	283	287
The emoluments of the highest paid director, the Chief Executive were:		
Emoluments - excluding pension contributions	80	77

The Chief Executive is a member of the pension scheme on the same terms as all other eligible employees. A contribution of £3,751 (2019: £3,704) was paid in addition to the personal contributions of the Chief Executive.

The number of full time equivalent staff whose remuneration payable fell within bands of:

£40,000 to £49,999	1	
£50,000 to £59,999	1	1
£60,000 to £69,999	1	1
£80,000 to £89,999	1	1

6. EMPLOYEE INFORMATION

The average weekly number of persons employed during the year (expressed in full time equivalents based on a 37.5 hour week) was:

	2020 No.	2019 No.
Central services	3	3
Finance & IT	3	5
Development	2	2
Housing, support and care	23	19
	31	29

Staff costs (for the above persons) was as follows:

	2020 £'000	2019 £'000
Wages and Salaries	972	951
Social security costs	86	89
Other pension costs (see note 17)	54	68
	1,112	1,108

Notes to the Financial Statements

For the year ended 31 March 2020

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020	2019
	£'000	£'000
Interest received on bank balances	26	18

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2020	2019
	£'000	£'000
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in less than 5 years	904	356
Repayable wholly or partly in more than 5 years	366	762
Recycled Capital Grant Fund	-	1
	1,270	1,119

9. SURPLUS ON ORDINARY ACTIVITIES

Surplus on ordinary activities is stated after charging the following:

	2020	2019
	£'000	£'000
Depreciation - housing properties	1,243	1,167
Depreciation - other tangible fixed assets	68	103
Operating lease rentals	57	23
External auditors remuneration	13	12
Surplus on disposal of fixed assets	458	746

10. SALE OF PROPERTIES NOT DEVELOPED FOR OUTRIGHT SALE

	2020	2019
	£'000	£'000
Proceeds of sales	530	1,008
Less: costs of sales	(72)	(262)
Total	458	746

11. TAXATION

Because of its charitable objectives, the Association is exempt from tax on its income from investments, revenue account surplus and surplus on sale of properties provided they are applied for charitable purposes.

Notes to the Financial Statements
For the year ended 31 March 2020

12. Housing Properties

	Completed Housing Properties	Completed shared ownership properties	Short leaseholds Properties	Affordable Rent: Housing Properties in construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1 April 2019	82,426	3,507	687	237	86,857
Additions			-	5,309	5,309
Components capitalized	267	-	-	-	267
Components written off	(89)	-	-	-	(89)
Transferred to completed schemes	1,368	7	-	(1,375)	-
Disposals	(383)	(1)		236	(148)
At 31 March 2020	83,589	3,513	687	4,407	92,196
Depreciation:					
At 1 April 2019	9,854	-	96	-	9,950
Charge for year	1,129	-	114	-	1,243
Written off components	(89)				(89)
Disposals	(78)	-	-	-	(78)
At 31 March 2020	10,816	-	210	-	11,026
Net book value:					
At 31 March 2020	72,773	3,513	477	4,407	81,170
At 31 March 2019	72,572	3,507	591	237	76,907

£2,515k (2019: £2,405k) was spent on works to existing properties of which £267k (2019: £455k) was components capitalised and the remainder was revenue.

An impairment review has been carried out which did not identify the need to recognise any impairment

The insured value of the Association's freehold/long leasehold housing properties for reinstatement purposes is £141m (2019: £147m).

Housing properties at depreciated cost comprise:	2020	2019
	£'000	£000
Freeholds	78,946	74,569
Long leaseholds	1,747	1,747
Short leaseholds	477	591
	81,170	76,907

13. Other Tangible Fixed Assets

	Furniture and equipment £'000	Motor Vehicles £'000	Total £'000
Cost:			
At 1 April 2019	798	40	838
Additions	54	-	54
Disposals	-	-	-
At 31 March 2020	852	40	892
Depreciation:			
At 1 April 2019	576	14	590
Charge for year	58	10	68
Disposals		-	-
At 31 March 2020	634	24	658
Net book value:			
At 31 March 2020	218	16	234
At 31 March 2019	222	26	248

14. Debtors

	2020 £'000	2019 £'000
Rental debtors	420	316
Less Bad debt provision	(142)	(120)
Net rental debtors	278	196
Other debtors	(89)	274
Social housing grant	-	750
	189	1,220

15. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Housing loans	904	787
Trade creditors	461	191
Rental prepayments	178	164
Other taxation and social security	-	22
Accruals and deferred income	517	781
Other creditors	2	9
Capital Grant	371	410
	2,433	2,364

Notes to the Financial Statements

For the year ended 31 March 2020

16. Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Housing loans	24,694	25,594
Long term Grants	27,470	26,351
Recycled Capital Grant Fund	321	161
	52,485	52,106

The loans are at varying rates of interest and are repayable by instalments as follows:

In one year or less	904	787
Between one and two years	1,390	1,002
Between two and five years	7,635	6,606
In five years or more	15,669	17,986
	25,598	26,381

Allocated housing loans for completed schemes are advanced to the Association by:

Royal Bank of Scotland	13,563	13,775
Orchardbrook Ltd	792	852
Dexia Public Finance Bank	7,243	7,754
Triodos Bank NV	4,000	4,000
	25,598	26,381

Housing loans are secured by first fixed charges on housing properties.

Undrawn facilities with Triodos Bank NV amount to £8m.

Recycled Capital Grant Fund	2020 £'000	2019 £'000
As at 1st April	161	173
Inputs to Reserve	283	109
Grants recycled	(123)	(122)
Interest accrued	0	1
As at 31 March	321	161

17. Pension Obligations

The Association contributes 6% of employee salaries into personal pension schemes on their behalf. The amount contributed was £53,850 (2019: £68,000).

The Chief Executive participates in the scheme on the same terms as all other eligible staff. No enhancement or special terms apply.

Notes to the Financial Statements
For the year ended 31 March 2020

18. Non Equity Share Capital

	2020	2019
	£	£
Shares of £1 each, issued and fully paid at 1 April 2019	38	38
Shares issued during the year		3
Shares cancelled during the year	(17)	(3)
At the end of the year 31 March 2020	21	38

The shareholders do not have a right to any dividend or distribution on a winding up. Each shareholder has full voting rights.

19. Capital Commitments

	2020 £'000	2019 £'000
Expenditure contracted less certified	3,118	7,110
Expenditure authorised by the Board of Management - not contracted	2,033	1,663
	5,151	8,773

Capital commitments are funded by a mixture of private loans, grants and cash reserves. Capital commitments authorised since 31 March 2020 amount to £2.0m. Contracted projects will be completed by 2021. There are no performance conditions attached to the above commitments.

20. Housing Units/Bedspaces

	2020 No.	2019 No.
Managed by Solon		
General needs owned by Solon	977	980
Affordable rent	107	101
Intermediate rent	1	1
Temporary social housing	24	24
Supported housing	20	20
Commercial properties	2	2
Leasehold (100% staircased out)	1	1
Shared ownership	66	66
Sub-total	**1,198**	**1,195**
Managed by others		
Supported housing	89	101
Temporary supported housing	17	17
Sub-total	**106**	**118**
Total units	**1,304**	**1,313**
Units in development	**52**	**53**

Notes to the Financial Statements
For the year ended 31 March 2020

21. Operating Leases

At 31 March the Association had total commitments under non-cancellable operating leases of:

	2020	2019
Office buildings, lease expiring:	**£'000**	**£'000**
Between 1-5 years	57	23

22. Related Parties

There are currently no tenant members on the Board. Tenant Board Members (when applicable) hold tenancies on normal terms and are not able to use their position to their advantage. There were no Related Part Transactions with any Board Member.

23. Deferred capital grant

	2020	2019
	£'000	**£'000**
At start of year	26,761	25,751
Grant received in the year	1,166	750
Grant receivable in the year	568	760
Grant on disposals transferred to RCGF	(283)	(110)
Released to income in the year	(371)	(390)
At the end of the year	27,841	26,761
Due to be released in less than one year	371	410
Due to be released in greater than one year	27,470	26,351
	27,841	26,761

Grant and financial assistance	2020	2019
	£'000	**£'000**
The total accumulated government grant and financial assistance received or receivable at 31 March:	38,264	36,813
Held as deferred capital grant	27,841	26,761
Recognised as income in Statement of Comprehensive Income	10,423	10,052

24 Analysis of Net Debt

	At Beginning of the Year £'000	Cashflows £'000	Non-Cash Movements £'000	At End of the Year £'000
Cash and Cash Equivalents	(5,210)	1,898	-	(3,312)
Housing Loans Due in One Year	787	(783)	900	904
Housing Loans Due After One Year	25,594		(900)	24,694
	21,171	1,115	0	22,286