

Shropshire Towns and Rural Housing Limited

Company Limited by Guarantee

Directors' Report and
Financial Statements for the year ended
31st March 2021



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COMPANY INFORMATION

Directors

Tenant Members

Nicki Barker (Vice Chair until resignation from the Board 6th September 2021)
Ann Maltby (resigned 10th May 2021)
Valerie Jones (appointed 30th June 2021)
Susan Norris (appointed 30th June 2021)

Shropshire Council Members

Paul Kelly (resigned 14th June 2021)
Cllr Thomas Mark Jones (Vice Chair from 21st September 2021)
Cllr Simon Harris (Chair until resignation from the Board 7th May 2021)
Cllr Chris Schofield (appointed 7th June 2021. Resigned 30th June 2021)
James Willocks (appointed 9th June 2021)
Cllr Julia Buckley (appointed 30th June 2021)

Independent Members

James Wood
Anthony Deakin (Chair from 6th July 2021)
Stephen Robinson

Staff Member

Emma Jones

Co-opted Members (Non-voting)

Paul Hayward
Paul Weston

Senior Management Team

Sue Adams – Managing Director
Steve Ogram – Director of Finance and Resources
Teresa Dagnall – Head of Finance
Angela Douglas – Head of Assets
Ayyaz Ahmed – Head of Neighbourhoods (appointed May 2021)

Registered office

Spruce Building
Sitka Drive
Shrewsbury Business Park
Shrewsbury
SY2 6LG

Company Registration

Company Number 08289137
Registered in England and Wales

Auditors

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Actuary

Mercer Limited
No 4 St Paul's Square
Old Hall Street
Liverpool
L3 9SJ

Bankers

NatWest
8 Mardol Head
Shrewsbury
Shropshire
SY1 1HE

STRATEGIC REPORT

The purpose of this report is to explain how the Directors have performed their duty under s172 of the Companies Act 2006 to promote the success of the Company. The report gives a fair view of the development and performance of the Company's business during the 2020/21 financial year and provides an overview of the principal activities undertaken.

Principal Activities

Shropshire Towns and Rural Housing Limited (the Company) is a private company limited by guarantee wholly owned by Shropshire Council (the Council). The Company was formed as an Arm's Length Management Organisation under Section 27 of the Housing Act 1985 to undertake the management and maintenance of Shropshire Council's retained housing stock from 1st April 2013. The Company was incorporated on 12th November 2012 and began trading on 1st April 2013.

The principal activities of the Company listed below are defined in the Management Agreement between the Council and the Company. The Company receives an annual Management Fee for the provision of these services. The Management Agreement runs for 10 years to 31st March 2023 with the option to extend in 5-year periods thereafter.

<u>Service/Operational Area</u>	<u>Principal Activities/Responsibilities</u>
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Tenancies:	Allocations and voids Rent and other charges Leaseholder services Tenancy management Tenancy support Provision of support services Right to buy
Tenant Involvement:	Customer service and information Consultation
Properties:	Improvement works Repairs and maintenance Communal areas Servicing and testing Development of new properties, refurbished properties and estates
Neighbourhood Management:	Local area co-operation Antisocial behaviour, hate crime and domestic abuse Safeguarding vulnerable people

The Company also has responsibility to manage the Council's Housing Revenue Account and Housing Capital Programme.

From May 2018 the Company took responsibility to run a young person's hostel in Oswestry on behalf of the Council and our Management Agreement was amended to include the provision of this service.

The Company operates from 3 principal locations, with customer facing area teams based in the towns of Bridgnorth and Oswestry and central management corporate services based in Shrewsbury. During 2020/21 the coronavirus pandemic caused some disruption to our ability

to access office accommodation. In response we implemented home working where possible and implemented temporary office arrangements to enable the continuation of essential service delivery.

Review of Business Results

The accounts for 2020/21 show an operating profit for the year of £436k. This includes IAS19 pension accounting charges of £672k.

Retained reserves at 31st March 2021, excluding the pension deficit, were £5,986k which relates to the usable reserve. Such reserves can be retained as a contingency against unforeseen events or spent on the furtherance of the Company's objectives.

On 31st March 2021 the pension fund was in deficit of £8,989k.

HMRC have confirmed that the activities and transactions between Shropshire Council and Shropshire Towns and Rural Housing Limited, which is a wholly owned subsidiary of Shropshire Council, do not amount to trading and as such any surpluses in respect of these activities are not taxable nor any losses relievable for corporation tax purposes. It follows that taxable profits or losses should only arise on activities carried out with external organisations. The Community Alarm Service is the only activity carried out by the Company which relates to transactions with external parties and any surplus made in this accounting period can be off-set against losses carried forward from prior years.

Review of Performance

During 2020/21 we identified 34 Management Agreement performance indicators to measure how the Company delivers its objectives. Some of these are the key performance indicators (KPIs) that were included in the original Management Agreement to measure the Company's success in meeting its principal activities and some are new indicators to assess how the Company delivers added value. Performance for the year against target for these indicators is shown below.

Indicator	Target	Tolerance	Actual
Average time in days to re-let empty properties - All Voids (includes general & major work relets)	30	+3	57.17*
Rent loss due to empty properties (voids) as % of rent due.	0.9%	+0.2%	1.66%
Rent collected as a % of rent owed to date, including brought forward arrears.	98.5%	-1.5%	99.37%
Arrears written off as a % of total rent debit to date.	0.2%	+0.3%	0.14%
Number of tenancies terminated as % of properties managed.	8.0%	+2.0%	6.7%
% of dwellings failing to meet the Decent Homes Standard.	0.0%	+0.5%	0.0%
Average time in days to re-let empty properties - General Voids (excludes Major Works)	24	+2	49.8*
Average time in days to re-let empty properties - Major Work Voids (excludes General)	55	+3	100.0*
Number of properties that have a SAP rating of 35 or less.	0	+13	10
Average SAP rating for off-grid properties.	55.5	-0.5	60.17

Average SAP rating for properties on grid.	67.5	-0.5	67.97
% of properties with a valid Gas Safe certificate.	100%	-	100%
% dwellings with an electrical safety certificate less than 5 years old.	100%	-	98.6%
% dwellings with asbestos management re-inspection report less than 5 years old.	100%	-	77.2%*
% properties that have a current EPC.	100%	-0.5%	99.25%*
% of major adaptations for tenants completed on time.	95%	-2%	39%*
Number of new homes including open market acquisition and s106 purchase.	25	-5	10*
% of tenants evicted as a result of rent arrears during the year.	0.15%	+0.1%	0.02%
% of ASB cases resolved successfully.	98.0%	-0.2%	95%*
Customers registered to access services online as a % of properties managed.	15%	-5%	9.6%*
% of respondents satisfied with the lettings process.	98%%	-3%	U/A*
% of housing stock used as temporary housing.	1.8%	+0.2%	2.5%*
% of customers satisfied with outcome of the Anti-Social Behaviour case.	75%	-5%	U/A*
% Complaints responded to within 10 days.	86%	-5%	79%*
Satisfaction with complaint handling.	72%	-5%	U/A*
Satisfaction with complaint outcome.	50%	-5%	U/A*
% Responsive Repairs completed at first visit by DLO.	98%	-0.5%	98%
Appointments kept as % of appointments made.	97%	-5%	96%
% of emergency repairs completed on time (1 day).	100%	-0.1%	100%
% of urgent repairs completed on time (7 days).	98%	-0.5%	99%
% of routine repairs completed on time (28 days).	98%	-0.5%	98%
% of programmed repairs completed on time (6 months).	98%	-0.5%	99%
% satisfied with repairs service.	95%	-7%	89.7%
% of customers satisfied with recent planned maintenance service.	97%	-7%	96.0%

* Target suspended due to the impact of coronavirus

Of the 34 indicators identified, we met or exceeded the target on 13, fell within tolerance on 4 and missed 2. With the agreement of the Board and the Council's Asset Assurance Board the targets for 15 indicators were suspended during the year as the disruption and Health and Safety restrictions imposed by Covid19 rendered them unachievable.

Key achievements against the performance indicators

Rent collection rate at 99.37% has exceeded the level in the previous year (99.17%) despite the disruption caused by coronavirus that has not only impacted our tenants it has also resulted in our Income Management Team working from home throughout the year.

Performance continues to improve year on year and significantly is higher than the level achieved in 2018/19 (99.12%) despite the introduction of Universal Credit in Shropshire from May 2018 and the adverse impact this has had on collection rates in other areas of the country. Over recent years we have implemented a range of measures to improve and maintain high collection rates including increased staff resources in the Income Management Teams, promotion and increased take-up of Direct Debits for rent payments and intervention by our Financial Inclusion Team to assist and give advice to tenants who may experience difficulty in managing their personal finances. We continue to monitor performance on this critical activity and will respond to potential future pressures.

Through continuation of close working between the Planned Maintenance Team, Housing Management Teams and our Contractors to gain access to traditionally "hard to reach" properties we have maintained performance at 100% of our properties with a valid gas safe certificate. This achievement has been particularly challenging during 2020/21 due to the difficulties caused by coronavirus. We recognise that this will continue to need careful management in the future and we will allocate additional resources where necessary.

Whilst lockdown restrictions and Health and Safety considerations inhibited our ability to undertake routine repairs for much of the year, we have met or exceeded the response times for all repairs including 100% compliance on emergency work.

Areas of concern against the performance indicators

Coronavirus disrupted our ability to provide all of our services to full capacity and with the agreement of the Council, the targets for a number of key indicators were suspended during the year. Performance on the turnaround of void properties and the subsequent rent loss were particularly adversely impacted and this is reflected in the figures above for re-let times and void loss. Disruption has continued into 2021/22 and we will continue to manage performance with the aim of making improvements, however our priority remains to ensure that we operate within safe working practices.

Future Developments

During 2021/22 we have allocated £60,000 of additional funding to undertake a number of neighbourhood improvement and regeneration projects. The schemes have been proposed by various stakeholder groups and involve a range of projects including the provision of additional car parking, skip events and soft landscaping.

We have extended fixed-term temporary posts for two part-time Tenant Liaison Officers to support the Planned Maintenance and Local Neighbourhoods Teams. These Officers work with "hard to reach" tenants to arrange appointments and access for regulatory inspections, surveys and health and safety checks. We have also allocated £30,000 to enable enhanced clearing of void properties and address hoarding issues.

To support our expanding new homes development programme we have created a new permanent position of Senior Development Officer to increase the size of our in-house team and allocated a further £55,000 for specialist consultant's advice.

In light of the adverse impact of coronavirus on employment in some sectors of the economy we have allocated over £350,000 to create up to 5 new apprenticeships within the Company. It is intended that these will offer employment and formal training for up to 3-years to enable people to re-skill and gain qualifications in a range of services that will open new career opportunities for them in the future.

In recognition of our growing workforce and the need to adapt and respond to new ways of working, we have created a new permanent position of Assistant HR Officer to increase the capacity of the Team.

As part of a range of measures to maintain the health and safety of our employees during the coronavirus pandemic and in line with Government guidance, we implemented home working for the majority of our office based staff in March 2020. As we anticipate the easing of lockdown restrictions in 2021 we will look to have staff returning to our buildings on a phased and rota basis. To enable this we will review individual and team roles, interactions with others and the needs of the service and our staff and then develop plans for the safe re-opening of our offices and how we will use them to best effect. Work undertaken on this project to date indicates that we are unlikely to return to the pre-coronavirus ways of working but will instead adopt a mixed approach with staff working part remotely and part office based. We recognise that we will need to invest in additional equipment and improvements to facilities to support this transition and we will make funds available for this purpose in 2021. We believe that this investment will help to re-shape our business and enable us to build on the experience we have gained over recent months and adapt our approach to maximise flexibility and leave us well placed to take advantage of new ways of working as we recover from the pandemic.

On 17th November 2020 the Government published the Social Housing White Paper: The Charter for Social Housing Residents which "sets out the actions the Government will take to ensure that residents in social housing are safe, are listened to, live in good quality homes, and have access to redress when things go wrong". The white paper presents a charter that sets out seven commitments that social housing residents should be able to expect from their landlord:

1. To be safe in your home.
2. To know how your landlord is performing.
3. To have your complaints dealt with promptly and fairly.
4. To be treated with respect, backed by a strong consumer regulator for tenants.
5. To have your voice heard by your landlord.
6. To have a good quality home and neighbourhood to live in.
7. To be supported to take your first step to ownership.

In preparation for the implementation of this legislation we have re-structured our Resident Involvement Team and created a new position of Senior Customer Relationship Officer. We will review our practices to ensure that we are compliant with the requirements of the Charter across all areas of our business.

Shropshire Council have set an ambitious target of achieving zero net carbon emissions from its activities by 2030. We recognise that this will require action on the retained housing stock and to help understand the current position and identify opportunities for improvement we have commissioned an independent consultant to review the stock to establish the base position and identify potential works to achieve carbon emission reductions. This information will help inform future discussions with the Council with an aim to agree an action plan and a programme of capital works over the coming years. Alongside this we will consider sustainability in our new homes building programme and to help inform this we are proposing a pilot scheme to build 2 new homes to Passivhaus standard to gain a first-hand understanding the implications of this on the delivery of new affordable housing. We will also review our own working practices and explore opportunities to reduce carbon emissions from the Company's activities.

Our current Management Agreement with Shropshire Council will end on 31st March 2023. In spring 2021 we presented documentation to the Council to summarise our position and request an extension of the Agreement beyond this date. We will enter further discussions with the Council during 2021 and we anticipate reaching an outcome before the end of the year.

Significant Risks and Uncertainties

From March 2020 and throughout the 2020/21 financial year we experienced disruption to service delivery across a number of our activities due to the impact of Covid19, the resulting Government restrictions and our desire to safeguard the wellbeing of our staff and tenants. Whilst a number of non-essential services were temporarily suspended we were able to continue to provide all essential services through a combination of the introduction of new safe working practices, the re-deployment of resources, alternative ways of service delivery and the introduction of remote working. In spring 2021 we moved to reinstate more of our activities as lockdown restrictions were eased. As we return to a more "normal" level of service provision we are aware that the pandemic remains a threat and the operational environment can change rapidly. The experience we have gained over recent months has given us confidence in our ability to provide services under the challenges imposed by coronavirus but we recognise that we need to remain alert and be prepared to face unforeseen events. We will maintain the flexibility to respond quickly to changing circumstances and adapt service delivery as necessary.

Whilst the financial impact of coronavirus on the Company has been largely cost neutral, with additional costs being off-set by savings elsewhere, there remains concern on the impacts on the wider economy at a national level and how this will in turn affect the housing sector in general and the social and financial wellbeing of our tenants and communities. We will continue to monitor the situation and respond to any challenges that arise through evaluation of risk and the allocation or redirection of the resources available to us.

In the weeks following the end of the Brexit transition period on 31 December 2020 we experienced shortages in some material supplies for responsive repairs. The problem has been exacerbated by increasing international demand and the effects of the global pandemic on the supply chain. Any resulting delays in undertaking repairs were short-term and we were generally able to satisfactorily re-schedule appointments. More recently we are seeing supply levels return and we have been able to establish small stocks of some materials as a safeguard. Some contractors undertaking planned maintenance under the HRA Capital Programme that we manage on behalf of the Council have identified material shortages and price pressure on some items. It is likely that the restrictions imposed by coronavirus have masked the underlying problem to some extent and we can anticipate the possibility of further shortages as restrictions are eased and activity within the economy increases. We will monitor the position and prioritise emergency and urgent responsive repairs if necessary and work with our contractors to agree actions if problems are encountered.

The Management Fee paid to the Company is set annually in advance and determines the financial resources available to us to deliver the requirements of the management agreement. Beyond this pre-determined fee the Company has some scope to generate additional income, but this is limited and does not give the opportunity to significantly increase the level of funding. The potential risk from this arrangement is that the Company could be exposed to additional unbudgeted costs arising from events beyond our control. In order to address this potential risk we give high priority to budget control through monitoring of performance against budgets and regular reporting to budget holders and the Board. Our Financial Rules give the ability to re-direct our financial resources in light of changing

circumstances and emerging pressures. As a further safeguard we have a minimum retained reserve equivalent to 5% of our annual turnover.

The continuing success of the Company is dependent on the ongoing viability of the Council's Housing Revenue Account (HRA), and recent legislative changes have had a significant impact on funding of the HRA. The move to self-financing in April 2012 removed the annual uncertainties around the housing subsidy system and was a direct factor that enabled the development of a new homes building programme that has seen the completion of 140 new affordable homes as at 31st March 2021. However the ability to provide an increase in HRA stock level is being adversely affected by a number of factors:

Right to Buy

Changes to the Right to Buy (RTB) discounts have resulted in a significant increase in applications and RTB sales of Council homes in recent years. The number of RTB completions during 2020/21 fell on the previous year (17 compared to 39 in 2019/20) however the number of applications has risen significantly. The indications are that the fall in 2020/21 is attributable to coronavirus and numbers will increase to more typical levels as the uncertainty created by the pandemic recedes. RTB losses not only directly reduce rent income to the HRA, but the current level of sales means that stock numbers are falling faster than our ability to provide new homes. We continue to seek development land to enable the delivery of new housing supply and the Council's Capital Strategy 2020/21 to 2024/25 identifies funding capacity within the HRA if new opportunities can be identified.

Universal Credit

Universal Credit (UC) for new working age benefit claimants or those whose circumstances change was introduced in Shropshire from May 2018. Evidence from pilot schemes and other organisations has shown that there is potential for this to have a significant adverse impact on rent collection rates and the level of rent arrears. During 2020/21 we saw an increase in the number of new UC claimants, rising from 718 in April 2020 to 924 in April 2021 however the average level of arrears per UC case has fallen over this time from £350.15 to £305.37. There remains concern that the number of claimants and level of arrears could raise later in the year as Government support for job retention and self-employed grant ends. We will continue to monitor the position and implement further actions if necessary.

Retirement Benefit Obligations

The Company uses an independent actuary to assess the pension scheme obligations and plan assets. On 26th February 2020 the Board approved the actuary's recommended increase in employer's contribution rate from 14.6% to 18% from 1 April 2020 following the latest triennial valuation that was undertaken during 2019/20. This rate will apply for 3 years until March 2023.

Approval

The Strategic Report was approved and authorised for issue under delegated authority by the Board on 6th July 2021.

Tony Deakin
Chair



DIRECTORS' REPORT

Board Structure

The Board structure comprises of 10 members drawn from constituent groups of tenant representatives (3), Council appointees (3), independents (3) and 1 staff member. The makeup of the Board is such that no single group holds a majority. The Board is supported by 2 co-opted members who participate at Board and sub-Committee meetings in an advisory capacity but have no voting rights.

Working for the Company

We value our staff and recognise the need and benefit of good internal communication. To help deliver this objective we have a staff forum drawn from employees in all operational areas within the Company. The forum meet at least quarterly to discuss issues raised by staff. Members of our Senior Management Team can be invited to attend a forum to contribute or respond to specific matters as necessary.

Coronavirus restrictions prevented some of our traditional methods of staff engagement during 2020 and we were unable to hold our regular staff briefings or our annual staff away day. However team meetings and 1-2-1's continued virtually using Skype or Microsoft teams. Since 24th March 2020 the Managing Director has circulated a weekly Staff Update by email to all staff to help maintain internal communication and provide information on current Company issues and latest coronavirus guidance. In 2020 we replaced our annual staff satisfaction survey with a survey focusing on our response to the pandemic from the staff perspective. This provided information and feedback from our staff on how we were delivering services to tenants, the benefits and problems of home and remote working and identified IT and equipment issues. This helped enable us to understand the benefits and address potential difficulties in our revised working practice.

Training needs are identified in light of legislative changes, service demands and through one-to-one and performance review meetings between staff and their line manager. In addition to formal external training courses and seminars we organise internal training events where appropriate. During 2020/21 we allocated £15,800 to support vocational training schemes for our employees. Applications from our staff are considered for approval by SMT as they arise throughout the year and we were able to continue this throughout lockdown.

The Company has always been open to consider and adopt flexible and new methods of working and utilise technology to enable this to happen where mutual benefits to both the employee and service delivery can be identified. Our willingness to work flexibly combined with our previous investment in our ICT infrastructure enabled us to quickly respond to the restrictions imposed in the first lockdown as the majority of our office based staff switched to remote working virtually overnight on 17th March 2020. As lockdown restrictions are eased in 2021 we will take steps towards adopting a hybrid model of office and remote working and we will increase the number of designated "hot-desks" in our office accommodation to support this approach.

We provide relevant and up to date guidance and support to our staff and we maintain and review a number of HR policies and these are freely available to all our staff on our intranet.

Our commitment to involve our staff in all aspects of our operations is reflected in the Company's Articles of Association which states that one of our Board Members will be selected from our employees.

Insurance

The Company has independent insurance for Directors' and Officers' Liability and this cover was in place throughout the 2020/21 financial year. Other insurance policies are arranged through Shropshire Council with the exception of buildings cover on the Shrewsbury Office which is arranged by the landlord.

Statement of Directors' Responsibility

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:-

- i) select suitable accounting policies and then apply them consistently;
- ii) make judgements and estimates that are reasonable and prudent;
- iii) state whether applicable international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Declaration of Members' Interest

All Directors have signed a declaration of Board Members' Interest and there are no matters to report.

Directors' Remuneration

At the Annual General Meeting held on 16th October 2014 it was approved that the post of Chair and Vice Chair would be eligible to receive annual remuneration payments of £2,500 and £1,500 respectively from November of that year. Payments of £1,500 were recognised

in the 2020/21 financial statements in regard of this. Full payment was not made during the year as the Chair of the Board did not receive remuneration.

Disclosure of information to Auditors

The Directors who were in office on the date of signing this report confirm that:

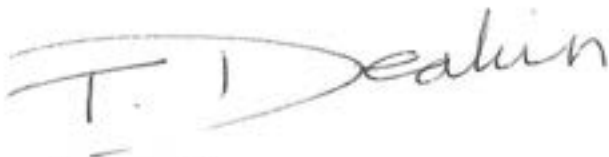
- i) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware;
- ii) the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

A resolution to appoint the Company's auditor for the 2021/22 financial year will be put to the Board at the Annual General Meeting on 12th October 2021.

Approval

The Directors' Report was approved and authorised for issue under delegated authority by the Board on 6th July 2021.

A handwritten signature in black ink, appearing to read 'T. Deakin', with a large, sweeping flourish extending from the end of the name.

Tony Deakin
Chair

STATEMENT OF INTERNAL CONTROL

Internal Control

The governance framework comprises the systems, processes and internal controls in place to give assurance to the Board, Shropshire Council and the tenants of Shropshire Council homes that the Company is fulfilling the requirements of the Management Agreement, complying with the Articles of Association and meeting the Company's aims and objectives.

The system of internal control is intended to manage risk to a reasonable level. It cannot give absolute assurance that the objectives of the Company will be met. The key systems of internal control in operation comprise of the following:

Corporate Governance

The Board is responsible for the business of the Company subject to compliance with the provisions of the Companies Act 2006 and the Articles of Association for Shropshire Towns and Rural Housing Limited.

The Board comprises of 10 members including representatives from tenants, Shropshire Council elected Members and officers, independent members and an employee of the Company. The structure of the Board is such that no single group holds a majority position. The Board is supported by 2 co-opted members who act in an advisory capacity with no voting rights.

The Board meet every two to three months in addition to the annual general meeting. The Board is supported by two sub-committees; Finance, Audit & Risk and Development. Each sub-committee comprises of up to 5 Members of the Board and meet on at least 4 occasions during the year. Sub-committees have delegated powers relevant to their specific terms of reference and report to the Board. In April 2020 the Board approved a resolution to allow Board and sub-committee meetings to take place by electronic conferencing for an initial period of 3 months in response to the coronavirus restrictions. The resolution has since been extended throughout the lockdown and remains in place at the time of this report.

During 2015/16 we established a Remuneration Panel that has responsibility for reviewing remuneration for the Directors and Board Members, the process for appraisal of Board Members and developing the process to appoint the Managing Director should that be necessary.

Review of Board Governance

The Company formally adopted the National Housing Federation (NHF) Code of Governance on 24th November 2016 which requires that a formal review of Board Governance should be undertaken at least every 3 years. It was originally intended that a review would be conducted in 2019 however this was postponed until spring 2020 as at that time we were still awaiting the outcome of the Council's Housing Options appraisal. This was further delayed as our priority in early 2020 was responding to the challenges imposed by coronavirus. In late summer 2020 we commissioned Board Development Agency (BDA) to undertake an independent review of Board Governance and their findings were presented to the Board in May 2021.

The review focused on 4 key areas, Governance Arrangements, Compliance with our Code of Conduct, accountability to stakeholders and how well the Board meets the standards set out in the NHF Code of Governance 2020. The review was undertaken in the context of the

Social Housing White Paper, the NHF Code of Governance 2020 and the Housing Ombudsman's new Complaint Handling Guide published in July 2020.

Overall the review concluded positive findings on our Governance arrangements however it also highlighted a number of challenges where the Board may wish to seek assurance on a range of topics. We have developed an action plan to establish working groups to consider and respond to these matters and this was approved by the Board in May 2021.

We are not a member of the NHF and as such we are not required to follow the Code of Governance 2020, however the Board have agreed that we adopt the Code for 2021/22 and undertake a review in the coming year to establish if an alternative Code may be more appropriate for our Company.

Asset Assurance Board

The Asset Assurance Board was established by Shropshire Council on 1st October 2015 to oversee the activities of the Company. The Board is comprised of Council elected members including the Portfolio Holder and deputy Portfolio Holder for Housing and representatives of the Council's finance, legal, housing and performance services. The Company is represented by the Chair of the Board, the Managing Director and the Director of Finance and Resources. The Asset Assurance Board meets on four occasions during the annual cycle and considers reports on the strategic and performance management of the Company to seek assurance that the key objectives are being delivered and align with the Council's priorities.

In addition to the Asset Assurance Board meetings, quarterly "Client" meetings between officers of the Council and senior employees of the Company are held to review performance data and discuss current and emerging issues relevant to the Company's activities.

Business Plan

As a Council owned Company, our objectives are strongly aligned to the Council's Housing Strategy and its strategic priorities. Our vision, values and key areas of focus are set out in our Business Plan 2020 to 2024, which was considered and approved by the Board in February 2020. This builds on the experience and success of our first 7-years and identifies our aspirations and challenges as we move forward.

The Company's objectives reflect a balanced approach focused on driving efficiency and high performance whilst delivering quality homes and services to our tenants and the communities we work in.

The action plan attached to the business plan and other improvement activities are incorporated into the annual action plan agreed with the Council through the Asset Assurance Board. The plan is monitored quarterly by managers and by the Board. This approach is a key driver in helping to ensure we maintain continuous improvement of our services.

Our Value for Money Strategy 2020 to 2023 was approved by the Board on 22nd September 2020. This runs alongside the Business Plan and identifies how we will approach and measure the delivery of value for money in the services we provide.

Senior Management Team

Day to day management of the Company is delivered under the direction of the five member Senior Management Team (SMT). This Management Team includes suitably qualified and experienced staff with relevant specialised skills and knowledge to the key operational activities of the Company. SMT meet monthly and are responsible for operational and risk management.

Members of SMT have completed declarations of related party relationships. There are no matters to report.

Risk Assessment and Risk Management

The Company places high importance on the identification, monitoring and control of risk. Risk management is reviewed on a regular basis by the Board, the Finance, Audit and Risk sub-committee and by the Senior Management Team. The Opportunity Risk Strategy sets out the Company's approach to risk management and was formally adopted by the Board in March 2013. The Strategy is subject to ongoing review and any substantial changes would be subject to Board approval.

The Board has a fundamental role to play in overseeing the management of risk in corporate activity. They approve major decisions affecting the Company's risk exposure and monitor the management of significant risks. They also satisfy themselves that the less significant risks are being actively managed, with the appropriate controls in place and working effectively.

The Finance, Audit and Risk Committee receives the annual review of Risk Management carried out by Internal Audit and formally reviews the Company's risk registers. Their responsibility is also to ensure that there is a robust and efficient Opportunity Risk Management process in operation across the Company.

Senior managers have responsibility to maintain risk registers for their service areas and identify risks that should be included in the Company's high level risk register. Managers also have responsibility to ensure that risks are being allocated to appropriate risk owners and are managed accordingly. During 2020 we undertook a number of risk assessments regarding safe working practices and use of buildings in light of coronavirus. We also required our contractors to provide copies of their own risk assessments when working in our properties.

Over recent months the Board have received regular reports and updates on our response to the pandemic. In November 2020 a report was presented to the Finance, Risk and Audit Committee on the impact of Covid-19 on the Company's control environment. This report was subsequently present to the Board later that month to provide information of the risks that had been identified and the measures put in place to mitigate them.

Audit

The activities of the Company are subject to review by external and internal auditors. The Finance, Audit and Risk Committee approve the annual audit plans and receive internal audit reports. During 2020/21 the internal audit plan included eight key service areas for review, including Financial Management, Risk Management and Corporate Governance. Of the eight reviews undertaken, 1 was assessed as having a "Reasonable" level of assurance and 7 were assessed as "Good". A total of 10 recommendations were made and accepted by management. On the basis of the work undertaken during the year the Head of Internal Audit was able to deliver a positive year-end opinion on the Company's internal control environment for 2020/21.

The Head of Internal Audit has completed a declaration of related party relationships. There are no matters to report.

Performance Management

The Company monitors performance against a number of indicators and formal performance reports are produced on a quarterly basis for a range of audiences including the Board, senior management, the Asset Assurance Board and our tenants. Wherever performance falls below targets managers are required to explain the cause and, if necessary, identify plans to meet the required standards. The three formal reports comprise of the following:

The Board receive quarterly reports by exception that include the Management Agreement indicators and other performance data.

The Management Agreement currently identifies 34 performance indicators that report on the main business critical activities and aspirational improvement. Performance against these indicators, together with the annual action plan progress report, details of complaints received and a capital monitoring report are provided to the Council's Asset Assurance Board to give an overview of the Company's performance.

A subset of our performance indicators most relevant to our customers are published each quarter on the Company's website.

Financial Control and Budget Management

The Company has sound financial management policies in order to ensure that proper safeguards and controls are in place to manage money and assets. At the heart of this sits the Financial Rules which set out the financial policies of the Company.

The Financial Rules provide the framework for managing the Company's financial affairs and were approved by the Board in March 2013. The rules are subject to regular review and minor amendments have been reported to the Board since that time and most recently in September 2019. They apply to every Board Member, Committee and employee of the Company and anyone acting on behalf of the Company. The rules identify the financial responsibilities of the Board, its Committees, Directors and staff members.

The Financial Rules provide guidance on financial management and control, financial planning, risk management and control of resources, systems and procedures and external arrangements.

Budgetary Control and Reporting

Monthly budget monitoring reports are prepared for Company managers and regular meetings are held with budget holders to monitor income and expenditure, forecast trends and outturn projections and identify potential pressures or underspending. Where a significant budgetary variance is identified the responsible manager will meet with the finance team to identify corrective action.

The Company maintains flexibility with its financial resources and the Financial Rules permit virements between budget heads to enable the redirection of resources in light of emerging pressures or opportunities.

Financial monitoring and update reports are presented to the Board on a quarterly basis.

Service Level Agreements

Where the scale of business or other operational considerations do not justify the Company directly employing specialist staff, a number of support functions are purchased from external suppliers. During 2020/21 most of these services were provided by Shropshire Council under various Service Level Agreements (SLAs). In addition to the terms stated in these SLAs, the Company places a level of assurance on the systems of internal control in place within the Council in respect of these services. Our internal audit service is provided by the Council's Internal Audit Team and it is anticipated that any significant control weakness identified by them in services provided to the Company would be brought to our attention subject to client confidentiality.

Policies and Procedures

The Company's practices and activities are defined in its policies and procedures. These documents ensure that appropriate control and guidance is available to the Board, staff and contractors when undertaking the business of the Company. Policies and procedures are subject to approval of either the Board or delegated authority to a sub-committee, SMT or nominated employee.

All policies and procedures are available to Board Members and staff on the Company's intranet. In addition, relevant policies are published on the Company's website.

Independent auditor's report to the members of Shropshire Towns and Rural Housing Limited

Opinion

We have audited the financial statements of Shropshire Towns and Rural Housing Limited (the 'company') for the year ended 31 March 2021, which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to International Financial Reporting Standards (IFRSs) as issued by the IASB

As explained in Note 1 to the financial statements, the company in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements give a true and fair view of the financial position of the company as at 31 March 2021 and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

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 company 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 are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

In our evaluation of the director's conclusions, we considered the inherent risks associated with the company's business model including effects arising from Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related

disclosures and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

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

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

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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 Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are 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 directors 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 directors are responsible for assessing the company'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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

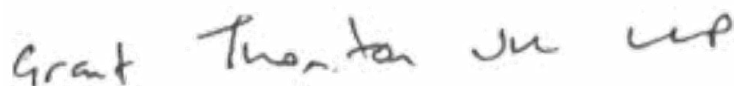
The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Our audit ensured that the financial statements are prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Companies Act 2006;
- We enquired of management concerning the company's policies and procedures relating to:
 - The identification, evaluation and compliance with laws and regulations
 - The detection and response to the risk of fraud; and
 - The establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations
- The assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
 - knowledge of the industry in which the client operates; and

- understanding of the legal and regulatory requirements specific to the entity including, the provisions of the applicable legislation, the regulators rules and related guidance, including guidance issued by relevant authorities that interprets those rules and the applicable statutory provision.
- The team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition and cut off of income; and
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the company's operations, including the nature of its revenue sources, products and services to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risk of material misstatement; and
 - the company's control environment, including:
 - management's knowledge of relevant laws and regulations and how the company is complying with those laws and regulations;
 - the adequacy of procedures for authorisation of transactions; and
 - procedures to ensure that possible breaches of law and regulations are appropriately resolved.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



William Devitt
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
4/10/2021

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2021

	Notes	2020/21 £000	2019/20 £000
Revenue	2	8,506	8,268
Other income	2	4,265	7,349
Total revenue		12,771	15,617
Employee benefits expenses	17	(5,508)	(4,653)
Depreciation & amortisation expenses	5 & 6	(52)	(101)
Other expenses	3	(6,628)	(10,349)
Total expenses		(12,188)	(15,103)
Operating Profit		583	514
Finance costs	10	(179)	(135)
Finance income	21	32	50
Profit before tax		436	429
Taxation	11	0	0
Profit for the year		436	429
Other Comprehensive Income			
Remeasurement of pension assets and liabilities	19	(1,514)	(1,267)
Total Comprehensive Loss for the year		(1,078)	(838)

The notes on pages 25 - 43 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 March 2021

Company registration number 08289137

	Notes	2021 £000	2020 £000
Assets			
<u>Non-Current</u>			
Property, plant and equipment	5	0	5
Finance lease receivables	6	97	144
Non-current assets		97	149
<u>Current</u>			
Inventories		33	31
Trade and other receivables	7	2,310	1,536
Cash and cash equivalent	8	5,493	5,169
Current assets		7,836	6,736
Total assets		7,933	6,885
Equity and liabilities			
Equity	13	3,003	1,925
Total equity		3,003	1,925
Liabilities			
<u>Non-current</u>			
Pension liability	19	(8,989)	(6,803)
Lease liabilities	22	(47)	(94)
Non-current liabilities		(9,036)	(6,897)
<u>Current</u>			
Trade and other payables	9	(1,816)	(1,855)
Employee benefits accrual	18	(84)	(58)
Current liabilities		(1,900)	(1,913)
Total liabilities		(10,936)	(8,810)
Total equity and liabilities		(7,933)	(6,885)

The notes on pages 25 - 43 form part of these financial statements.

Authorised for issue under delegated authority by the Board at its meeting on 6th July 2021.

Tony Deakin
Chair



STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2021

	Notes	2020/21			2019/20		
		Other Components of Equity	Retained Earnings	Total Equity	Other Components of Equity	Retained Earnings	Total Equity
		£000	£000	£000	£000	£000	£000
Balance at 1 April		(3,640)	1,715	(1,925)	(2,373)	1,236	(1,137)
Adjustment from the adoption of IFRS16 ¹	13	-	-	-		50	50
		<u>(3,640)</u>	<u>1,715</u>	<u>(1,925)</u>	<u>(2,373)</u>	<u>1,286</u>	<u>(1,087)</u>
Profit for the year			436	436		429	429
<u>Other Comprehensive income</u>							
Remeasurement of pension assets and liabilities	19	(1,514)		(1,514)	(1,267)		(1,267)
Total Comprehensive Expenditure for the year				<u>(1,078)</u>			<u>(838)</u>
Balance at 31 March		(5,154)	2,151	(3,003)	(3,640)	1,715	(1,925)

¹ The adjustment to the opening balance of 'Retained Earnings' in 2019/20 relates to the impact of the adoption of IFRS16.

The notes on pages 25 - 43 form part of these financial statements

STATEMENT OF CASH FLOWS
for the year ended 31 March 2021

	Notes	2020/21 £000	2019/20 £000
Cash flows from operating activities			
Profit before tax		436	429
Adjustments (non-cash items)	12	727	600
Net changes in working capital	12	(789)	699
Cash generated from operations		374	1,728
Cash flows from financing activities			
Repayment of leasing liabilities	22	(47)	(46)
Interest paid	22	(3)	(4)
Cash used in financing activities		(50)	(50)
Cash flows from investing activities			
Purchase of property, plant & equipment	5	0	0
Right of use asset	6	0	(144)
Cash used in investing activities		0	(144)
Net change in cash or cash equivalents		324	1,534
Cash and cash equivalents at the beginning of the year	8	5,169	3,635
Cash and cash equivalents at the end of the year	8	5,493	5,169

The notes on pages 25 - 43 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies

1.1 Basis of Accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost basis.

1.2 Revenue and Other Income Recognition

Revenue is recognised when the amount and associated costs can be measured reliably net of VAT.

Revenue is measured at the fair value of consideration received or receivable for services provided by the Company and defined as the Service Fee in the Management Agreement.

Other income relates to grant funding, interest received, other income generating activities and the Works Fee defined in the Management Agreement, and is recognised in the accounts on the same basis as revenue.

1.3 Expenditure

Expenditure is recognised in the accounts upon receipt of goods or services when the associated costs can be measured reliably net of VAT.

1.4 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

HMRC have confirmed that the activities and transactions between Shropshire Council and Shropshire Towns and Rural Housing Limited, which is a wholly owned subsidiary of Shropshire Council, do not amount to trading and as such any surpluses in respect of these activities are not taxable nor any losses relievable for corporation tax purposes. Taxable profits or losses should only arise on activities carried out with external parties.

1.5 Property, Plant and Equipment

Assets are recognised at acquisition cost less subsequent depreciation and impairment losses.

Assets are depreciated over their expected useful lives on a straight-line basis to write down the cost less the estimated residual value of the asset.

Gains or losses arising on the disposal of assets are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within Other Income or Other Expenses.

1.6 Financial Instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. Any gains and losses that arise on de-recognition of an asset are credited/debited to the Comprehensive Income and Expenditure Account.

1.7 Inventories

Inventories are stated at cost and relate to van stocks for the responsive repairs service.

1.8 Trade and Other Receivables

All trade and other receivables are made on the basis of normal credit terms and do not bear interest. The carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable.

1.9 Cash and cash equivalents

Cash and cash equivalents comprise cash at the bank and in hand, and other short term deposits held by the Company with maturities less than 3 months.

1.10 Trade and other payables

Trade payables are recognised at fair value.

1.11 Employee Benefits

Employee benefits such as wages, salaries, paid annual leave and sick leave are considered as an expense in the year in which the employee renders the service to the Company.

An accrual is made for the cost of holiday entitlement earned by employees but not taken before the year end, and which may be carried forward into the next financial year. These are included in current liabilities under "employee benefits accrual". An accrual is measured at the undiscounted amount that the company expects to pay as a result of the unused entitlement. Accruals are not made for costs in respect of outstanding car mileage claims.

Termination benefits are amounts payable as a result of a decision by the Company to terminate an employee's contract of employment before the normal retirement date. These costs are required to be recognised immediately in the provision of service.

1.12 Intangible Assets

Intangible assets such as Computer Software are capitalised at the cost of acquisition and amortised on a straight-line basis over the estimated useful economic life of three years.

1.13 Leases

The Company has a number of low value leases in respect of photocopying equipment.

On transition to IFRS16 on the 1st April 2019, leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases for low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term. Payments made under these agreements are charged under other expenses in the Statement of Comprehensive Income.

The Company adopted the new accounting standard IFRS16 – Leases in 2019/20 which replaced IAS17 – Leases. The adoption of this new standard resulted in the Company recognising a right-of-use asset and related lease liability on our Statement of Financial Position in respect of our head office, Spruce Building.

The right-of-use asset has been measured at cost and depreciated on a straight-line basis from the lease commencement date to the end of the lease term.

The Company has measured the lease liability at the present value of the lease payments unpaid at that date, discounted using the Company's incremental borrowing rate of 2%.

On the Statement of Financial Position, right of use assets have been included under non-current assets and short term lease liabilities have been included in trade and other payables and long-term lease liabilities under non-current liabilities.

1.14 Estimation uncertainty

The Company operates a defined benefit pension scheme for its employees and the future obligations and asset returns are based on a number of estimates and assumptions. In recognising these liabilities we take advice from specialist consultants.

We review the useful economic life of equipment and intangible assets and will base depreciation and amortisation charges on these assumptions.

1.15 Pensions

The Company operates a defined benefit scheme and the accounts are prepared in accordance with the requirements of IAS 19. This requires the net pension liability or asset to be disclosed on the Statement of Financial Position. The figures have been prepared using the projected unit actuarial cost method. The pension's liability has been determined using assumptions stated in note 19 to these financial statements.

1.16 Going concern

The financial statements have been prepared on a going concern basis. Forecast profile of income and expenditure for 2021/22 and a three year budget presented to the Board at the meeting on the 23rd February 2021 indicate that cash flows will be sufficient to meet all obligations as they become due. At the time of writing this report we have no reason to believe that the financial consequences of responding to coronavirus will have a significant impact on our projected cash flows, however we will continue to monitor developments and revise our forecast in light of any changing circumstances. The payment of the Management Fee is made quarterly in advance and front loaded with 28% paid in quarter one and three further instalments of 24%. This payment profile helps ensure adequate cash flow is maintained throughout the year. The Management Agreement runs for 10 years to 31 March 2023 with the option to extend in 5-year periods thereafter. Payment of the Works Fee can be made on an immediate basis if necessary for cash flow purposes.

1.17 Key Judgements

The Company has responsibility to project manage the planned repairs and new building programmes for Council Homes. Where financial or operational benefits can be identified, contracts are issued in the name of Shropshire Towns and Rural Housing Ltd and the Company recharges the Council full reimbursement of these costs under a Works Fee. We have reviewed the amendments to IFRS15-Revenue from Contracts

with Customers and we consider that the Company continues to be the principal in this arrangement.

1.18 Government Grants

Grants income is recognised on receipt when the amount can be measured reliably. The Company ensures that it meets any conditions associated with the grant funding.

2. Revenue

Income is derived wholly from within the United Kingdom from the Company's principal activity of housing management.

	2020/21 £000	2019/20 £000
Management Fee paid by Shropshire Council	8,506	8,268
Other income		
Community Alarms	105	107
Intensive Housing Management Charge	212	186
Misc. income & recharges to SC Capital & Revenue	3,619	6,672
Grant income	329	384
	4,265	7,349
Total revenue	12,771	15,617

All grant income is in relation to Supporting People which is received from Shropshire Council via the Sustain Consortium.

3. Other Expenses

Other expenses comprise of:

	2020/21 £000	2019/20 £000
Management and Neighbourhoods	(1,134)	(1,377)
Repairs and Maintenance	(5,286)	(8,700)
Community Support Services	(208)	(272)
Total other expenses	(6,628)	(10,349)

4. Auditor's Remuneration

The operating profit is reported after Auditor's costs as follows:

	2020/21 £000	2019/20 £000
Auditor's Remuneration – Statutory Audit	(19)	(17)

5. Property, Plant and Equipment

The Company's property, plant and equipment comprised of telephone systems purchased in respect of our office in Oswestry and Shrewsbury. Both items have now been fully depreciated. All other items of equipment, fittings and furniture were deemed to be immaterial.

	2020/21 £000	2019/20 £000
Cost (brought forward) at 1 April	26	26
Additions	0	0
Total cost	26	26
	2020/21 £000	2019/20 £000
<u>Depreciation</u>		
Accumulated depreciation 1 April	(21)	(16)
Charge for the year	(5)	(5)
Total depreciation	(26)	(21)
	31 March 2021 £000	31 March 2020 £000
Carrying amount at 31 March	0	5

6. Right of use assets

The Company's right-of-use asset on the balance sheet comprises of the Lease Agreement for our Head Office (Spruce Building). This is a 5 year lease starting in 2018. The new lease standard (IFRS16) states that all leases which are not of low value and with a duration of more than 12 months should be capitalised, depreciated over the life of the lease and a corresponding asset and liability disclosed in the Statement of Financial Position.

	2020/21 £000	2019/20 £000
Cost (brought forward) at 1 April	240	0
Additions	0	240
Total cost	240	240
	2020/21 £000	2019/20 £000
<u>Depreciation</u>		
Accumulated depreciation 1 st April	(96)	0
Charge in the year	(47)	(96)
Total depreciation	(143)	(96)
	31 March 2021 £000	31 March 2020 £000
Carrying amount at 31 March	97	144

7. Trade and Other Receivables

	31 March 2021 £000	31 March 2020 £000
Sundry Debtors	215	55
Amounts due from Shropshire Council	2,053	1,454
Payments in Advance	42	27
Total trade and other receivables	2,310	1,536

8. Cash and Cash Equivalents (Note figures quoted in pounds not thousands)	31 March 2021 £	31 March 2020 £
Bank current account	5,492,660	5,168,939
Petty cash	250	250
Total cash and cash equivalents	5,492,910	5,169,189

9. Trade and Other Payables	31 March 2021 £000	31 March 2020 £000
Trade payables	(1,041)	(1,162)
Amount owed to Shropshire Council	(247)	(419)
Other Creditors (HMRC VAT)	(375)	(129)
Tax and Social Security	(82)	(84)
Other Creditor – LGPS Pension	(71)	(61)
Total trade and other payables	(1,816)	(1,855)

10. Finance Cost	2020/21 £000	2019/20 £000
Interest on pension liabilities	(440)	(402)
Interest on pension plan assets	285	289
Pension administration expenses	(21)	(18)
Interest on leases	(3)	(4)
Total finance cost	(179)	(135)

11. Taxation
HMRC have confirmed that the activities and transactions between Shropshire Council and Shropshire Towns & Rural Housing Limited, which is a wholly owned subsidiary of Shropshire Council, do not amount to trading and as such any surpluses in respect of these activities are not taxable nor any losses relievable for corporation tax purposes. It follows that taxable profits or losses should only arise on activities carried out with external organisations.

The Community Alarms Service is the only activity carried out by the Company which relates to transactions with external parties. Any surplus made in this accounting period for corporation tax purposes will be off-set against losses carried forward from prior years.

12. Cash Flow adjustments and changes in working capital

<u>Adjustments (non-cash items)</u>	2020/21 £000	2019/20 £000
Depreciation & amortisation	52	101
Current service costs	496	584
Past service cost	0	236
Past service cost adjustment for McCloud (2018/19)	0	(456)
Pension administration expenses	21	18
Net pension interest costs	155	113
Lease interest costs	3	4
Total adjustments	727	600

<u>Net changes in working capital</u>	2020/21 £000	2019/20 £000
Change in trade and other receivables	(774)	(222)
Change in trade and other payables	(38)	826
Change in employee benefits accrual	26	8
Movement in Stock (Increase)	(2)	(7)
Change in lease payables	(1)	94
Net changes in working capital	(789)	699

13. Equity/Reserves

	31 March 21 £000	31 March 20 £000
1 April	1,925	1,137
Adjustment on the adoption of IFRS16	0	(50)
Equity 1 April	1,925	1,087
Profit for the year	(436)	(429)
Remeasurement of pension assets & liabilities	1,514	1,267
Total Comprehensive Loss for the year	1,078	838
Total equity 31 March	3,003	1,925

Analysis of Reserves	31 March 2021	31 March 2020
	£000	£000
(Profit)/Loss (usable)	(5,986)	(4,878)
Pension deficit (Note 19)	8,989	6,803
31 March	3,003	1,925

Usable reserves are funds held which are available for reinvestment in the furtherance of the Company objectives. The pension deficit relates to the Company's retirement benefit obligations and is as calculated by the Actuary (see note 19).

14. Related Party Transactions

Shropshire Towns and Rural Housing is an Arms-Length Management Company wholly owned by Shropshire Council. The Company was established with no share capital and is limited by guarantee.

In the event that the Company is wound up, Shropshire Council undertakes to contribute such amounts as may be required for the payment of the debts and liabilities of the Company. After the satisfaction of all debts and liabilities, the remaining assets will be transferred to the Council's Housing Revenue Account.

The Council has delegated the responsibility for overseeing the management and maintenance of its Housing stock to Shropshire Towns and Rural Housing in accordance with a Management Agreement with effect from 1st April 2013.

Details of the status of the company and the composition of the Board of Directors are given on page 2.

During the year the Company charged the Council £12,751k (£15,604k in 2019/20). This included £8,506k (£8,268k in 2019/20) for the annual Management Fee and a further £3,421k (£6,401k in 2019/20) in respect of the Works Fee for planned works paid for by the Company on behalf of the Council. The Works Fee represents full recovery of direct expenditure incurred by the Company in payments to contractors undertaking works on the Council's planned repairs and new build programmes. At 31st March 2021 the Company had no contractual commitments.

During the year the Council charged the Company £799k (£1,094k in 2019/20) for goods and services including support services (SLA's), accommodation costs, IT equipment and telephony recharges.

The net balance owed to the Company by the Council at the end of the year is £1,806k (£737k in 2019/20). The balance is payable on normal commercial terms and does not bear any interest and the Company makes no bad debt provision in respect of this amount.

Transactions with key management personnel

Key management of the Company comprise of the Senior Management Team identified on page 2. Key management personnel remuneration includes the following expenses:

	2020/21	2019/20
	£000	£000
Wages and salaries	339	329
Social security cost	41	40
Pension cost	61	48
Total	441	417

Directors' remuneration

The Directors of the Company are identified on page 2. From November 2014 the posts of Chair and Vice Chair were eligible for remuneration. Expenses during the reporting year are:

	2020/21	2019/20
	£000	£000
Wages and salaries	2	3
Total	2	3

15. Ultimate Parent Undertaking

The company is a wholly owned subsidiary of Shropshire Council and the accounts have been consolidated into the Council's financial statements.

16. Contingent Liabilities

The company has no contingent assets or contingent liabilities.

17. Employee Remuneration

Expenses recognised for employee benefits are analysed as follows:

	2020/21 £000	2019/20 £000
Wages and salaries	3,998	3,550
Social security cost	348	295
Pension cost	1,162	808
Total	5,508	4,653

The average number of employees for the year was 136 which equated to an average number of full time equivalents of 129.

Analysis of the average number of employees by operational area is as follows:

	2020/21 Employees	2019/20 Employees
Management and Neighbourhoods	43	45
Repairs and Maintenance	75	67
Community Support Services	18	15
Total	136	127

18. Employee Related Benefits

The current liabilities recognised for employee remuneration in the Statement of Financial Position consists of the following:

	31 March 2021 £000	31 March 2020 £000
Employee related benefit accruals	(84)	(58)

The accrual relates to untaken holiday entitlement as at 31 March 2021.

19. Retirement Benefit Obligations

The Company is a member of the Local Government Pension Scheme (LGPS) administered by Shropshire Council. This is a funded defined benefit scheme which provides index linked retirement benefits to employees who choose to join.

The scheme was opened on 1st April 2013 when employees of the Company transferred from Shropshire Council under Transfer of Undertakings (Protection of Employment) (TUPE). At the time of admission the Company scheme was fully funded under the actuarial valuation assumptions made. The figures presented in these financial statements are reported under the requirements of IAS19, which are prepared on a different basis to the actuarial valuation.

As at 31st March 2021 the Actuary's valuation of the fund's benefit obligation is £23.534m (31st March 2020 £18.340m) and plan assets is £14.545m (31st March 2020 £11.537m) giving a deficit of £8,989m (31st March 2020 £6.803m), which is a deterioration of £2.186m during the year.

In addition to staff that joined the Company in April 2013 under TUPE transfer from Shropshire Council, the scheme is currently open to new employees. Employees and the Company pay contributions to the fund. A comprehensive actuarial valuation is undertaken every three years and the latest review was undertaken on 31st March 2019 by the actuary Mercer Limited. This resulted in the employer's rate increasing from 14.6% which had applied since April 2017, to 18.0% from April 2020. Employees contribute variable rates which increase on banded salary ranges. At 31st March 2021 the scheme had 126 active members.

The decision of the Supreme Court on 27th June 2019 to deny the Government's request to appeal the McCloud judgement resulted in a potential increase in the pension liability for Local Government Pension Schemes. The McCloud judgment ruled that the transitional protections given to older members when the Public Service Pension Schemes were amended constituted unlawful age discrimination against those members who did not receive this protection. In June 2019 we asked the Actuary to provide an estimate of the impact of the judgement on our scheme and this identified a past service cost of £456k as at 31st March 2019. Our Financial Statements for 2018/19 reflected this increased liability. The disclosure provided by the Actuary for the year ended 31st March 2020 recognised the impact of the McCloud judgement as at that date and as such the estimated figure included in 2018/19 was adjusted for in 2019/20. No further adjustment was required in 2020/21.

Movements in the present value of the defined benefit obligation are as follows:

	2020/21	2019/20
	£000	£000
Opening balance at 1 April	18,340	16,351
Past service cost adjustment for McCloud (2018/19)	0	(456)
Current service cost	1,139	1,018
Past service cost	0	236
Interest cost on pension liabilities	440	402
Contributions by scheme participants	235	197
Remeasurements (liabilities):		
Experience (gain)/loss	(302)	1,757
(Gain)/loss on financial assumptions	3,873	(165)
(Gain)/loss on demographic assumptions	0	(893)
Settlements	0	0
Benefits/transfers paid	(191)	(107)
Closing balance at 31 March	23,534	18,340

For determination of the pension obligation the following actuarial assumptions have been used:

<u>Inflationary assumptions</u>	2020/21	2020/21
	End of	Start of
	Period	Period
	%	%
Rate of inflation (CPI)	2.7	2.1
Rate of increase in salaries	3.95	3.35
Rate of increase in pensions	2.8	2.2
Discount Rate	2.1	2.4
<u>Mortality assumptions:</u>	2020/21	2020/21
	End of	Start of
	Period	Period
	years	years
Life expectancy for current pensioners aged 65:		
Men	23.0	22.9
Women	25.1	25.0
Life expectancy for future pensioners aged 65 in 20 years' time:		
Men	24.3	24.2
Women	26.7	26.6

The weighted average duration of the defined benefit obligation for LGPS Scheme Members is 20 years.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The estimations in the sensitivity analyses have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity analysis of the scheme as at 31 March 2021 is as follows:

	Central	Sensitivity 1 + 0.1% p.a. Discount rate £000	Sensitivity 2 + 0.1% p.a. Inflation rate £000	Sensitivity 3 + 0.1% p.a. Pay growth £000	Sensitivity 4 1 year increase in life expectancy £000	Sensitivity 5 +/-1% change in 2020/21 investment returns £000 +1% -1%	
Liabilities	23,534	23,075	24,002	23,614	24,206	23,534	23,534
Assets	(14,545)	(14,545)	(14,545)	(14,545)	(14,545)	(14,694)	(14,396)
Deficit/(Surplus)	8,989	8,530	9,457	9,069	9,661	8,840	9,138
Projected service cost for next year	1,417	1,383	1,452	1,417	1,463	1,417	1,417
Projected net interest cost for next year	182	181	192	184	196	179	185

Movements in the fair value of plan assets are as follows:

	2020/21 £000	2019/20 £000
Opening balance at 1 April	11,537	11,310
Interest on plan assets	285	289
Remeasurements (assets)	2,057	(568)
Administration expenses	(21)	(18)
Employer contributions	643	434
Contributions by members	235	197
Settlements	0	0
Benefits/transfers paid	(191)	(107)
Closing balance at 31 March	14,545	11,537

Analysis of the plan assets is as follows:

<u>Asset allocation</u>	31 March 2021 £000	31 March 2020 £000
<u>Equities:</u>		
UK quoted	654	555
Global quoted	6,525	5,215
<u>Bonds:</u>		
Overseas – Global fixed income	1,040	1,661
Overseas – Global dynamic	997	0
Other class 2 – absolute return bonds	969	911
Property Funds	556	496
<u>Alternatives:</u>		
Private Equity	1,267	646
Infrastructure	456	415
Hedge Funds	912	738
BMO – LDI manager	499	392
Property Debt	399	173
Insurance Linked Securities	228	185
Cash accounts	43	150
Total	14,545	11,537

Amounts included in the Statement of Financial Position in respect of the defined benefit scheme are as follows:

	31 March 2021 £000	31 March 2020 £000
Fair value of plan assets	14,545	11,537
Present value of funded obligation	(23,534)	(18,340)
(Deficit) in scheme	(8,989)	(6,803)

Amount reported in the Statement of Financial Position:

<u>Non-Current Liabilities</u>	31 March 2021 £000	31 March 2020 £000
Pension liability	(8,989)	(6,803)
Total	(8,989)	(6,803)

Amounts reported in the Statement of Changes in Equity in respect of the defined benefit scheme are as follows:

	2020/21 £000	2019/21 £000
<u>Remeasurment (liabilities):</u>		
Experience Gain/(loss)	302	(1,757)
Gain/(loss) on financial assumptions	(3,873)	165
Gain/(loss) on demographic assumptions	0	893
Remeasurement (assets) gain/(loss)	2,057	(568)
Actuarial loss recognised in the Statement of Changes in Equity	(1,514)	(1,267)

Amounts recognised in the Statement of Comprehensive Income in respect of the defined benefit scheme are as follows:

	2020/21 £000	2019/20 £000
Current service cost	(1,139)	(1,018)
Past service cost	0	(236)
Past service cost adjustment for McCloud (2018/19)	0	456
Interest cost on pension liabilities	(440)	(402)
Interest on plan assets	285	289
Administration expenses	(21)	(18)
Total charged to the Statement of Comprehensive Income	(1,315)	(929)

Current service costs and past service costs are recognised in Employee Benefit Expenses. Interest cost and administration expenses are recognised in Finance Costs.

Remeasurements are recognised in the Statement of Comprehensive Income as follows:

	2020/21 £000	2019/20 £000
<u>Remeasurment (liabilities):</u>		
Experience Gain/(loss)	302	(1,757)
Gain/(loss) on financial assumptions	(3,873)	165
Gain/(loss) on demographic assumptions	0	893
 Remeasurment (assets) gain/(loss)	 2,057	 (568)
 Net actuarial loss recognised in the Statement of Comprehensive Income	(1,514)	(1,267)

The Actuary's estimated employer's contribution for the year ended 31st March 2022 is £642k.

20. Financial Instruments

Assets

The table below analyses the Company's financial assets held for managing liquidity risk which are considered to be readily saleable or are expected to generate cash inflows to meet cash outflows on financial liabilities. The financial assets disclosed all fall within the amortised cost category.

	Current 31 March 2021 £000	Long Term 31 March 2021 £000	Current 31 March 2020 £000	Long Term 31 March 2020 £000
Trade and other receivables	2,268	0	1,508	0
Cash and cash equivalents	5,492	0	5,169	0
Total	7,760	0	6,677	0

Liabilities

The table below analyses the Company's Current and Long-Term financial liabilities on a contractual gross undiscounted cash flow basis at the reporting date up to the contractual maturity date. Financial liabilities are all measured on an amortised cost basis.

	Current 31 March 2021 £000	Long Term 31 March 2021 £000	Current 31 March 2020 £000	Long Term 31 March 2020 £000
Trade and other payables	(1,288)	0	(1,581)	0
Employee benefits	(84)	0	(58)	0
Total	(1,372)	0	(1,639)	0

Cash Flow

The Company's primary source of revenue is Shropshire Council either through the Management Fee (£8,506k 2020/21), the Housing Service Support Service Grant (£329k 2020/21) or the Works Fee (£3,421k 2020/21). The Management Fee is fixed annually and paid quarterly in advance. The Works Fee is paid as the expenditure is incurred and the Grant is paid in monthly instalments. The timing of these cash inflows ensures the Company can meet its financial obligations.

Credit and Liquidity Risk

The Company ensures that all liabilities are met as they fall due. As stated above the nature of cash inflows gives a safeguard that the Company is exposed to low credit and liquidity risk.

The Company is exposed to liquidity and credit risk principally in the event that the Council were to experience cash flow difficulties. However, based on the Council's own high credit rating this is assessed to be a very unlikely scenario of low risk.

Interest Rate Risk

The Company has no borrowing and no long term investments. Short term deposits are limited to cash held at the bank and interest received from these short term investments (£32k 2020/21) is not critical to the Company's revenue. We therefore consider that the Company is not exposed to interest rate risk.

21. Finance Income

	2020/21 £000	2019/20 £000
Interest income from cash and cash equivalents	32	50
Total	32	50

22. Lease liabilities

The Company has a five year lease for its Head Office building in Shrewsbury. The future minimum lease payments for this right-of-use asset are as follows:

	Within 1 year £000	2 to 5 years £000	Total £000
Lease payments	50	47	97
Finance charges	2	1	3

Expenditure on right-of-use leases in the year totalled £50k. Interest of £3k was included in finance costs in the Statement of Comprehensive Income. Repayment of the principal balance of £47k was charged as a reduction in lease liabilities to the Statement of Financial Position.

Lease payments not recognised as a liability

The Company has elected not to recognise a lease liability for short term leases (leases of a term of less than 12 months) or for leases for low value assets. Payment made under such leases are expensed on a straight-line basis and the amount expended in 2020/21 was £5k. As at 31st March 2020 the Company was committed to short term leases and the total commitment at that date was £6k per annum.

23. Post Reporting Date Events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

