

Shropshire Towns and Rural Housing Limited
Company Limited by Guarantee

Directors' Report and
Financial Statements for the year ended
31st March 2020



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COMPANY INFORMATION

Directors

Tenant Members

Nicki Barker (Vice Chair)
Charlotte Parry (resigned 26th February 2020)
Ann Maltby

Shropshire Council Members

Paul Kelly
Cllr Thomas Mark Jones
Cllr Simon Harris (Chair)

Independent Members

Richard Grounds (resigned 26th February 2020)
Margaret Wright (resigned 15th October 2019)
Norman John Wood (resigned 20th January 2020)
James Wood (appointed 2nd March 2020)
Anthony Deakin (appointed 2nd March 2020)
Stephen Robinson (appointed 2nd March 2020)

Staff Member

Emma Jones

Senior Management Team

Sue Adams – Managing Director
Steve Ogram – Director of Finance and Resources
Teresa Dagnall – Finance Manager
Angela Douglas – Asset Manager
Martin Whitelegg – Neighbourhoods Manager

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 2019/20 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 with central management corporate services based in Shrewsbury.

Review of Business Results

The accounts for 2019/20 show an operating profit for the year of £429k. This includes IAS19 pension accounting charges of £495k.

Retained reserves at 31st March 2020, excluding the pension deficit, were £4,878k 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 2020 the pension fund was in deficit of £6,803k.

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, which was loss-making in this accounting period for corporation tax purposes.

Review of Performance

During 2019/20 we identified 27 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)	24	+2	31.5
Rent loss due to empty properties (voids) as % of rent due.	0.85%	+0.3%	1.55%
Rent collected as a % of rent owed to date, including brought forward arrears.	98%	-1.5%	99.17%
Former tenant dwelling arrears outstanding as a % of rent due.	0.8%	+0.2%	0.66%
Arrears written off as a % of total rent debit to date.	0.3%	+0.3%	0.24%
Number of tenancies terminated as % of properties managed.	8.0%	+2.0%	8.1%
% of residents satisfied that their rent provides value for money.	88%	-2%	88%
% of respondents satisfied their service charges provide value for money.	78%	-5%	78%
% of dwellings failing to meet the Decent Homes Standard.	0.0%	+0.5%	0.0%

Number of properties that have a SAP rating of 35 or less.	0	0	12
Average SAP rating for off-grid properties.	55.5	-0.5	59.8
Average SAP rating for properties on grid.	67.5	-0.5	67.9
% of properties with a valid Gas Safe certificate.	100%	-0.2%	100%
Number of new homes completed.	25	-5	23
% of tenants evicted as a result of rent arrears during the year.	0.15%	+0.1%	0.25%
% of ASB cases resolved successfully.	98.0%	-0.2%	97.2%
Customers registered to access services online as a % of properties managed	20%	-5%	7.5%
% respondents satisfied with their neighbourhood as a place to live.	91%	-2%	90%
% of residents satisfied with the most recent repair.	92%	-10%	91.2%
% of respondents satisfied with the lettings process.	96.5%	-5%	97%
% Complaints responded to within 10 days.	86%	-5%	88.3%
Satisfaction with complaint handling.	72%	-5%	U/A
Satisfaction with complaint outcome.	68%	-5%	U/A
% satisfied with the service provided (General Needs).	88%	-2%	88%
% satisfied STaR listens to views and acts on them.	65%	-2%	72%
% satisfied with repairs and maintenance.	81%	-3%	84%
% satisfied with service from their landlord (older people).	90%	-5%	92%

Of the 27 indicators identified, we met or exceeded the target on 14, fell within tolerance on 7 and missed 4. We are unable to report on 2 as the low number of responses made the result unreliable.

Key achievements against the performance indicators

Rent collection rate at 99.17% continues to exceed the target and remains higher than levels achieved before the introduction of Direct Payment of Housing Benefit during 2012, implications of Welfare Reform during 2013 and our participation in the DWP Universal Credit pilot from February 2016. Significantly performance has risen above 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. We recognise that this will continue to need careful management in the future and we will allocate additional resources where necessary. This will require particular attention during 2020/21 as the impact of coronavirus may disrupt our ability to access homes to undertake this work within the required deadlines.

Areas of concern against the performance indicators

Average re-let times and the consequential impact on rent loss due to void properties both missed their target and fell outside tolerance. There is no single reason for this but a combination of factors have had adverse impacts. An exceptionally high level of staff turnover within our Lettings Teams and operational difficulties experienced by the contractor appointed to undertake void property repairs disrupted our ability to deliver the service efficiently. In early 2020 we increased the size of our directly employed repairs team and now undertake all void works "in-house" and we believe this action will help to improve our performance in 2020/21. However at the time of writing this report restrictions imposed in response to coronavirus have significantly limited our ability to re-let void properties. We continue to monitor developments and operate within Government guidance and safe working practice.

Future Developments

During 2020/21 we have allocated £73,000 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 also allocated £25,000 to enable enhanced clearing of void properties and address hoarding issues and over £40,000 to support a range of Health and Safety initiatives.

In order to continue to deliver high performance in rent collection and arrears management, we are investing in new bespoke software to help our Income Teams target and contact tenants in arrears using a range of media which will enable early intervention where potential problems are identified. As an additional benefit the software also has an automated customer satisfaction module to collect data on a range of services we provide.

A key area of our service is to support elderly and vulnerable tenants to maintain independence and continue to live in their own homes. These tenants live in sheltered housing and receive assistance from our dedicated Housing Support Officers (HSOs). In April 2020 we rebranded our sheltered schemes to Independent Living Communities to better reflect the nature of this type of accommodation. As a further development of this service we aim to designate some of these facilities to become Enhanced Independent Living Communities where tenants will receive a higher level of HSO support. The first of these will be introduced during 2020 and we have allocated £120,000 to undertake a range of improvement works to the building including replacement bathroom, kitchen, flooring and the creation of a dedicated consultation room to enable visiting providers deliver services to the residents on a one to one basis. This will have the joint benefits of improving the quality of accommodation and wellbeing of the residents and also help to sustain longer independent living and contribute to reducing demand on the County's care homes.

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 will also allocate £10,000 to support young persons' work experience.

During 2020 we will hold preliminary discussions with the Council to identify options to broaden the housing offer in Shropshire. These discussions will explore opportunities for the Company to work in partnership with the Council and its recently formed housing development company, Cornovii Developments Ltd, to deliver a range of tenures including temporary housing, key worker homes and private rented sector homes. We have commissioned some initial advice from Anthony Collins solicitors to help inform this work.

We recognise that our ability to deliver some of these initiatives could be adversely impacted by the restrictions imposed by coronavirus and we will monitor the situation and adapt our proposals in light of circumstances.

Significant Risks and Uncertainties

At the time of writing this report there is uncertainty surrounding the full implications of the coronavirus pandemic. Between the end of March and May 2020 we suspended a number of our non-essential services in accordance with the Government's restrictions and our desire to safeguard the wellbeing of our staff and tenants. Over recent years we have made significant investment in technology to support remote and agile working and this has enabled us to continue service delivery in many areas of our business during this period of disruption. We have continued to engage with our tenants through social media and made direct contact by telephone or letter to all of our tenants who have been identified as vulnerable. As Government restrictions are lifted we will need to reinstate our services and where necessary, address any backlogs or problems that have arisen as a result of the lockdown. Throughout the period of disruption we have maintained "business as usual" within the limitations imposed on us and retained all of our staff on the terms and conditions of their contracts. We believe that our retained capacity together with the financial resilience we hold in our usable reserves will put us in a strong position to respond to the restoration of full service delivery. However, there remains concern on the impacts on the wider economy at a national level and how this will in turn effect 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.

The Management Fee paid to the Company is set annually in advance and determines the financial resources available 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 2020. However the ability to provide a significant increase in HRA stock level through future new build schemes is being adversely effected 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 and this shows no sign of receding. This not only directly reduces rent income to the HRA, but at 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

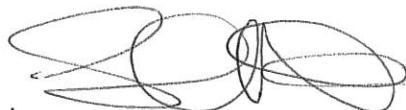
Universal Credit for new working age benefit claimants or those whose circumstances change was introduced in Shropshire from May 2018. Evidence from pilot schemes and other organisations has shown that there is potential for this to have a significant adverse impact on rent collection rates and the level of rent arrears. During 2018/19 we saw the collection rate fall from 99.3% in 2017/18 to 99.12%. During 2019/20 we have seen an improvement to 99.17% but the rate remains below that which was achieved prior to the roll out of Universal Credit. As stated above, we will allocate additional resources to sustain high collection levels in 2020/21 but we recognise that we need to continue to monitor performance 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 7th July 2020 and signed on its behalf on the 17th December 2020.



Simon Harris
Chair

DIRECTORS' REPORT

Board Structure

The Board 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. During the year to 31st March 2020, 3 Independent members resigned and were replaced. One Tenant member resigned and this position remains unfilled at the time of writing this report. All other members remained unchanged.

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.

Communication within the Company is delivered in a variety of ways including a staff newsletter and staff briefings ordinarily held every two months in each of our three main operational locations. In addition we hold an annual staff away day when all employees come together to learn about key aspects of our services, attend workshops and meet with colleagues that they may not normally have direct contact with. We conduct an annual on-line survey to seek the views and feedback from staff on a range of topics. Our 2019 survey identified a further increase in the number of our staff who are fairly or very satisfied with the Company as an employer, rising from 90% in 2018 to 91% in 2019 and an increase from 94% to 96% in staff who say that enjoy their job. This improvement was made despite the continuing uncertainty arising from the Council's options appraisal which was ongoing at that time. Results are considered by SMT and the Board and actions are taken to address key issues arising. During the coronavirus lockdown face to face staff briefings have been suspended and replaced with a weekly email update. Individual team meetings are undertaken on-line using video conferencing where appropriate.

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

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 2019/20 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.

The Company is open to consider and adopt flexible and new methods of working and will utilise technology to enable this where mutual benefits to both the employee and service delivery can be identified. In order to maximise use of our office accommodation we provide a number of "hot-desk" facilities for mobile workers. Our ability to adopt agile and remote working was a significant benefit as we adapted our working practices in response to the restrictions imposed during the coronavirus pandemic from March 2020. As these restrictions are lifted we will review our working methods and evaluate options for future working in light of further Government guidance and the experience we have gained during this period.

We are committed to providing 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.

Insurance

The Company has independent insurance for Directors' and Officers' Liability and this cover was in place throughout the 2019/20 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 £2,958 were recognised in the 2019/20 financial statements in regard of this. Full payment was not made during the year due to a change in the holder of the post of Chair of the Board.

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 2020/21 financial year will be put to the Board at the Annual General Meeting on 20th October 2020.

Approval

The Directors' Report was approved and authorised for issue under delegated authority by the Board on 7th July 2020 and signed on its behalf on the 17th December 2020.



Simon Harris
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 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 a period of 3 months in response to the coronavirus restrictions. The situation will be reviewed at the end of this period.

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.

NHF Code of Governance

The Company formally adopted the National Housing Federation Code of Governance on 24th November 2016.

We review governance of the Board annually including compliance with the Code each year and the most recent report was presented on 26th November 2019. We will commission an external review of the operation of the Board every 3 years. It is confirmed that we comply with all material aspects of the Code with the exception of:

- D2: Maximum terms of office ...must in total be nine years
- D3: Where a member comes to the end of the individual terms of office ...and is eligible for reappointment, this must be subject to ...the members...performance and skills

This relates to the Council appointees to the Board as outlined in the Company's Constitution. Recruitment is the responsibility of Shropshire Council and the Council set the terms on which appointments are made.

Asset Assurance Board

The Asset Assurance Board was established by Shropshire Council on 1st October 2015 to oversee the activities of the Company in a role that had previously been undertaken by the Housing Governance Board. 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 objectives and the key activities to achieve those objectives are set out in our 3-year Business Plan 2016 to 2019, which was considered and approved by the Board in February 2016. This builds on the experience and success of our first 3-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 2016 to 2019 was approved by the Board on 28th July 2016. 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.

On 27th November 2018 the Board approved that an interim Business Plan, based on a refresh of the 2016 to 2019 Plan, would be implemented during 2019/20. This decision was taken on the grounds that at that time the Council's Options Appraisal on the future of its housing stock was ongoing and we considered that it would not be appropriate for the Company to undertake a full 3 year review of its strategic aims and objectives under the level of uncertainty that this created. Following the conclusion of the Options Appraisal in July 2019 we have developed a new 3 year plan that will apply from April 2020 and this was approved by the Board on the 26th February 2020.

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 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.

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 2019/20 the internal audit plan included eight key service areas for review, including Financial Management, Risk Management and Corporate Governance. All of the internal audit reviews undertaken during the year gave a "Good" level of assurance. A total of 26 recommendations were made and accepted by management. None of the recommendations were rated as a fundamental or significant control weakness. 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 2019/20.

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 27 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 movements 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 2019/20 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.

In April 2019 the Council switched to Unit 4 Enterprise Resource Planning software for the provision of its Finance, HR and Payroll services and through our SLAs the Company migrated to these products at that time. Working with Council staff these systems are fully embedded and operated successfully throughout 2019/20.

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 2020, which comprise the 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 Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company'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 directors are responsible for the other information. The other information comprises the information included in the Company Information, Strategic Report, Directors' Report and Statement of Internal Control, 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 set out on pages 9 to 11, 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.

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.

Grant Thornton UK LLP

William Devitt
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
17 December 2020

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2020

	Notes	2019/20 £000	2018/19 £000
Revenue	2	8,268	8,004
Other income	2	7,349	6,219
Total Revenue		15,617	14,223
Employee benefits expenses	17	(4,653)	(4,950)
Depreciation & amortisation expenses	5 & 6	(101)	(5)
Other expenses	3	(10,349)	(9,776)
Total expenses		(15,103)	(14,731)
Operating Profit/(loss)		514	(508)
Finance costs	10	(135)	(102)
Finance income	21	50	32
Profit/(loss) before tax		429	(578)
Taxation	11	0	0
Profit/(loss) for the year		429	(578)
Other Comprehensive Income			
Remeasurement of pension assets and liabilities	19	(1,267)	(696)
Total Comprehensive Loss for the year		(838)	(1,274)

The notes on pages 24-43 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 March 2020

Company registration number 08289137

	Notes	2020 £000	2019 £000
Assets			
<u>Non-Current</u>			
Property, plant and equipment	5	5	10
Finance lease receivables	6	144	0
Non-current assets		149	10
<u>Current</u>			
Inventories		31	24
Trade and other receivables	7	1,536	1,314
Cash and cash equivalent	8	5,169	3,635
Current assets		6,736	4,973
Total assets		6,885	4,983
Equity and liabilities			
Equity	13	1,925	1,137
Total equity		1,925	1,137
Liabilities			
<u>Non-current</u>			
Pension liability	19	(6,803)	(5,041)
Lease liabilities	22	(94)	(0)
Non-current liabilities		(6,897)	(5,041)
<u>Current</u>			
Trade and other payables	9	(1,855)	(1,029)
Employee benefits accrual	18	(58)	(50)
Current liabilities		(1,913)	(1,079)
Total liabilities		(8,810)	(6,120)
Total equity and liabilities		(6,885)	(4,983)

The notes on pages 24-43 form part of these financial statements.

Approved and authorised for issue under delegated authority by the Board on 7th July 2020 and signed on its behalf on the 17th December 2020.

Simon Harris



STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2020

	Notes	2019/20			2018/19		
		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		(2,373)	1,236	(1,137)	(1,890)	2,027	137
Prior period adjustment					213	(213)	0
Adjustment from the adoption of IFRS16 ¹	22		50	50			
		(2,373)	1,286	(1,087)	(1,677)	1,814	137
Profit/(loss) for the year			429	429		(578)	(578)
<u>Other Comprehensive income</u>							
Remeasurement of pension assets and liabilities	19	(1,267)		(1,267)	(696)		(696)
Total Comprehensive (Expenditure)/Income for the year				(838)			(1,274)
Balance at 31 March		(3,640)	1,715	(1,925)	(2,373)	1,236	(1,137)

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 24-43 form part of these financial statements

STATEMENT OF CASH FLOWS
for the year ended 31 March 2020

	Notes	2019/20 £000	2018/19 £000
Cash flows from operating activities			
Profit/(loss) before tax		429	(578)
Adjustments (non-cash items)	12	600	1,000
Net changes in working capital	12	699	(748)
Cash generated from operations		1,728	(326)
Cash flows from financing activities			
Repayment of leasing liabilities	22	(46)	0
Interest paid	22	(4)	0
Cash used in financing activities		(50)	0
Cash flows from investing activities			
Purchase of property, plant & equipment	5	0	(15)
Right of use asset	6	(144)	0
Cash used in investing activities		(144)	(15)
Net change in cash or cash equivalents		1,534	(341)
Cash and cash equivalents at the beginning of the year	8	3,635	3,976
Cash and cash equivalents at the end of the year	8	5,169	3,635

The notes on pages 24-43 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 relieviable 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 has adopted the new accounting standard IFRS16 – Leases this year which replaces IAS17 – Leases. The adoption of this new standard has 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 2020/21 and a three year budget presented to the Board at the meeting on the 26th February 2020 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.

	2019/20 £000	2018/19 £000
Management Fee paid by Shropshire Council	8,268	8,004
Other income		
Community Alarms	107	101
Intensive Housing Management Charge	186	191
Misc. income & recharges to SC Capital & Revenue	6,672	5,543
Grant income	384	384
	7,349	6,219
Total Revenue	15,617	14,223

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:

	2019/20 £000	2018/19 £000
Management and Neighbourhoods	(1,377)	(1,479)
Repairs and Maintenance	(8,700)	(7,995)
Community Support Services	(272)	(302)
Total	(10,349)	(9,776)

4. Auditor's Remuneration

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

	2019/20 £000	2018/19 £000
Auditor's Remuneration – Statutory Audit	(17)	(16)

5. Property, Plant and Equipment

The Company's property, plant and equipment comprises of a telephone system purchased in respect of our office in Oswestry during 2018/19. Similar equipment was previously purchased for our offices in Shrewsbury but this has been fully depreciated. All other items of equipment, fittings and furniture were deemed to be immaterial.

	2019/20 £000	2018/19 £000
Cost (brought forward) at 1 April	26	11
Additions	0	15
Total cost	26	26
 <u>Depreciation</u>		
	2019/20 £000	2018/19 £000
Accumulated depreciation 1 April	(16)	(11)
Charge for the year	(5)	(5)
Total depreciation	(21)	(16)
 <u>Carrying amount at 31 March</u>	<u>5</u>	<u>10</u>
	31 March 2020 £000	31 March 2019 £000

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.

	2019/20 £000	2018/19 £000
Cost (brought forward) at 1 April	0	0
Additions	240	0
Total cost	240	0

	2019/20 £000	2018/19 £000
Depreciation		
Accumulated depreciation 1 st April	0	0
Charge in the year	(96)	0
Total depreciation	(96)	0

	31 March 2020 £000	31 March 2019 £000
Carrying amount at 31 March	144	0

7. Trade and Other Receivables

	31 March 2020 £000	31 March 2019 £000
Sundry Debtors	55	34
Amounts due from Shropshire Council	1,454	1,247
Payments in Advance	27	33
Total	1,536	1,314

8. Cash and Cash Equivalents

(Note figures quoted in pounds not thousands)

	31 March 2020 £	31 March 2019 £
Bank current account	5,168,939	3,634,949
Petty cash	250	250
Total cash and cash equivalents	5,169,189	3,635,199

9. Trade and Other Payables

	31 March 2020 £000	31 March 2019 £000
Trade payables	(1,162)	(356)
Amount owed to Shropshire Council	(419)	(448)
Other Creditors (HMRC VAT)	(129)	(156)
Tax and Social Security	(84)	(69)
Other Creditor – LGPS Pension	(61)	0
Total trade and other payables	(1,855)	(1,029)

10. Finance Cost

	2019/20 £000	2018/19 £000
Interest on pension liabilities	(402)	(366)
Interest on pension plan assets	289	281
Pension administration expenses	(18)	(17)
Interest on leases	(4)	0
Total	(135)	(101)

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>	2019/20 £000	2018/19 £000
Depreciation & amortisation	101	5
Current service costs	584	437
Past service cost	236	456
Past service cost adjustment for McCloud (2018/19)	(456)	0
Pension administration expenses	18	17
Net pension interest costs	113	85
Lease interest costs	4	0
Total Adjustment	600	1,000
 <u>Net changes in working capital</u>	 2019/20 £000	 2018/19 £000
Change in trade and other receivables	(222)	117
Change in trade and other payables	826	(868)
Change in employee benefits accrual	8	4
Movement in Stock (Increase)	(7)	(1)
Change in lease payables	94	0
Net changes in working capital	699	(748)

13. Reserves

<u>Retained Earnings</u>	31 March 20 £000	31 March 19 £000
1 April	1,137	(137)
Adjustment on the adoption of IFRS16	(50)	0
Adjusted retained earnings 1 April	1,087	(137)
 (Profit)/loss for the year	 (429)	 578
Remeasurement of pension assets & liabilities	1,267	696
 Total Comprehensive Loss/(Profit) for the year	 838	 1,274
 31 March	 1,925	 1,137

Analysis of Reserves	31 March 2020	31 March 2019
	£000	£000
(Profit)/Loss (usable)	(4,878)	(3,904)
Pension deficit (Note 19)	6,803	5,041
31 March	1,925	1,137

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 £15,604k (£13,833k in 2018/19). This included £8,268k (£8,004k in 2018/19) for the annual Management Fee and a further £6,401k (£5,358k in 2018/19) 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 2019 the Company had no contractual commitments.

During the year the Council charged the Company £1,094k (£1,255k in 2018/19) 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 £737k (£799k in 2018/19). 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:

	2019/20 £000	2018/19 £000
Wages and salaries	329	313
Social security cost	40	37
Pension cost	48	46
Total	417	396

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:

	2019/20 £000	2018/19 £000
Wages and salaries	3	4
Total	3	4

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:

	2019/20 £000	2018/19 £000
Wages and salaries	3,550	3,368
Social security cost	295	276
Pension cost	808	1,306
Total	4,653	4,950

The average number of employees for the year was 127 which equated to an average number of full time equivalents of 121.

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

	2019/20 Employees	2018/19 Employees
Management and Neighbourhoods	45	48
Repairs and Maintenance	67	56
Community Support Services	15	13
Total	127	117

18. Employee Related Benefits

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

	31 March 2020 £000	31 March 2019 £000
Employee related benefit accruals	(58)	(50)

The accrual relates to untaken holiday entitlement as at 31 March 2020.

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 2020 the Actuary's valuation of the fund's benefit obligation is £18.340m (31st March 2019 £16.351m) and plan assets is £11.537m (31st March 2019 £11.310m) giving a deficit of £6.803m (31st March 2019 £5.041m), which is a deterioration of £1.762m 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 2020 the scheme had 131 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 late 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 latest disclosure provided by the Actuary for the year ended 31st March 2020 recognises the impact of the McCloud judgement as at that date and as such the estimated figure included in 2018/19 has been adjusted for in 2019/20.

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

	2019/20 £000	2018/19 £000
Opening balance at 1 April	16,351	13,431
Past service cost adjustment for McCloud (2018/19)	(456)	0
Current service cost	1,018	850
Past service cost	236	456
Interest cost on pension liabilities	402	366
Contributions by scheme participants	197	186
Remeasurements (liabilities):		
Experience (gain)/loss	1,757	0
(Gain)/loss on financial assumptions	(165)	1,003
(Gain)/loss on demographic assumptions	(893)	0
Settlements	0	0
Benefits/transfers paid	(107)	59
Closing balance at 31 March	18,340	16,351

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

<u>Inflationary assumptions</u>	2019/20 End of Period %	2019/20 Start of Period %
Rate of inflation (CPI)	2.1	2.2
Rate of increase in salaries	3.35	3.7
Rate of increase in pensions	2.2	2.3
Discount Rate	2.4	2.5
 <u>Mortality assumptions:</u>		
	2019/20 End of Period years	2019/20 Start of Period years
Life expectancy for current pensioners aged 65:		
Men	22.9	23.2
Women	25.0	26.4
Life expectancy for future pensioners aged 65 in 20 years' time:		
Men	24.2	25.4
Women	26.6	28.7

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 2020 is as follows:

	Central	Sensitivity 1 + 0.1% p.a.	Sensitivity 2 + 0.1% p.a.	Sensitivity 3 + 0.1% p.a.	Sensitivity 4 1 year increase in life expectancy	Sensitivity 5 +/-1% change in 2019/20 investment returns	
	£000	£000	£000	£000	£000	£000	
Liabilities	18,340	17,982	18,705	18,408	18,804	18,340	18,340
Assets	(11,537)	(11,537)	(11,537)	(11,537)	(11,537)	(11,655)	(11,419)
Deficit/(Surplus)	6,803	6,445	7,168	6,871	7,267	6,685	6,921
Projected service cost for next year	955	932	980	955	984	955	955
Projected net interest cost for next year	157	154	166	158	168	154	160

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

	2019/20 £000	2018/19 £000
Opening balance at 1 April	11,310	10,081
Interest on plan assets	289	281
Remeasurements (assets)	(568)	307
Administration expenses	(18)	(17)
Employer contributions	434	413
Contributions by members	197	186
Settlements	0	0
Benefits/transfers paid	(107)	59
Closing balance at 31 March	11,537	11,310

Analysis of the plan assets is as follows:

<u>Asset allocation</u>	31 March 2020 £000	31 March 2019 £000
<u>Equities:</u>		
UK quoted	555	760
Global quoted	5,215	4,963
<u>Bonds:</u>		
Overseas – Global fixed income	1,661	843
Other class 2 – absolute return bonds	911	973
Property Funds	496	603
<u>Alternatives:</u>		
Private Equity	646	584
Infrastructure	415	429
Hedge Funds	738	758
BMO – LDI manager	392	414
Property Debt	173	72
Insurance Linked Securities	185	189
Cash accounts	150	722
Total	11,537	11,310

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

	31 March 2020 £000	31 March 2019 £000
Fair value of plan assets	11,537	11,310
Present value of funded obligation	(18,340)	(16,351)
(Deficit) in scheme	(6,803)	(5,041)

Amount reported in the Statement of Financial Position:

	31 March 2020 £000	31 March 2019 £000
<u>Non-Current Liabilities</u>		
Pension liability	(6,803)	(5,041)
Total	(6,803)	(5,041)

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

	2019/20 £000	2018/19 £000
<u>Remeasurement (liabilities):</u>		
Experience Gain/(loss)	(1,757)	0
Gain/(loss) on financial assumptions	165	(1,003)
Gain/(loss) on demographic assumptions	893	0
Remeasurement (assets) gain/(loss)	(568)	307
Actuarial gain/(loss) recognised in the Statement of Changes in Equity	(1,267)	(696)

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

	2019/20 £000	2018/19 £000
Current service cost	(1,018)	(850)
Past service cost	(236)	(456)
Past service cost adjustment for McCloud (2018/19)	456	0
Interest cost on pension liabilities	(402)	(366)
Interest on plan assets	289	281
Administration expenses	(18)	(17)
Total charged to the Statement of Comprehensive Income	(929)	(1,408)

Current service costs, past service costs and past service cost adjustment for the McCloud estimate in 2018/19 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:

	2019/20 £000	2018/19 £000
<u>Remeasurement (liabilities):</u>		
Experience Gain/(loss)	(1,757)	0
Gain/(loss) on financial assumptions	165	(1,003)
Gain/(loss) on demographic assumptions	893	0
 Remeasurement (assets) gain/(loss)	 (568)	 307
 <u>Net actuarial gain/(loss) recognised in the Statement of Comprehensive Income</u>		
	(1,267)	(696)

The Actuary's estimated employer's contribution for the year ended 31st March 2021 is £539k.

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 2020 £000	Long Term 31 March 2020 £000	Current 31 March 2019 £000	Long Term 31 March 2019 £000
Trade and other receivables	1,508	0	1,281	0
Cash and cash equivalents	5,169	0	3,635	0
 Total	 6,677	 0	 4,916	 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 2020 £000	Long Term 31 March 2020 £000	Current 31 March 2019 £000	Long Term 31 March 2019 £000
Trade and other payables	(1,581)	0	(804)	0
Employee benefits	(58)	0	(50)	0
Total	(1,639)	0	(854)	0

Cash Flow

The Company's primary source of revenue is Shropshire Council either through the Management Fee (£8,268k 2019/20), the Housing Service Support Service Grant (£384k 2019/20) or the Works Fee (£6,401k 2019/20). 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 (£50k 2019/20) is not critical to the Company's revenue. We therefore consider that the Company is not exposed to interest rate risk.

21. Finance Income

	2019/20 £000	2018/19 £000
Interest income from cash and cash equivalents	50	32
Total	50	32

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	47	97	144
Finance charges	3	3	6

Expenditure on right-of-use leases in the year totalled £50k. Interest of £4k was included in finance costs in the Statement of Comprehensive Income. Repayment of the principal balance of £46k was charged as a reduction in lease liabilities to the Statement of Financial Position.

An adjustment to the opening balance of Retained Earnings of £50k has been recognised in the Statement of Changes in Equity in the current year in respect of prior year lease costs for our head office building as a consequence of the adoption of IFRS16.

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 2019/20 was £4k. As at 31st March 2020 the Company was committed to short term leases and the total commitment at that date was £5k per annum.

23. New Accounting Standards

The Company has adopted the new accounting standard which has become effective this year and is as follows:

IFRS16 'Leases' – this replaces IAS17 'Leases' and the adoption of this new standard has resulted in the Company recognising a right-of-use asset and related liability in connection with all former operating leases (with the exception of those identified as low-value or having a remaining lease term of less than 12 months from the initial application).

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS17 and has not applied IFRS16 to arrangements that were previously not identified as a lease under IAS17.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of

IFRS16, being 1st April 2019. At this date, the Company has also elected to measure the right-of-use assets as an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of 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.

On transition to IFRS16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS16 was 2%.

24. Post Reporting Date Events

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



