Meeting of the Board of Governors

4.00 - 5.00 pm on Thursday, 24 June 2021
in MS Teams

Supplement

- Optivo financial statements, 2019/20
- Avison Young due diligence report
- VWV legal advice note, April 2021

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Financial Statements
2019 - 2020


OPTIVO

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About Optivo

At Optivo we know the importance of living in a safe and secure environment and how this enables people to flourish. We're one of the largest housing providers in the UK with over 45,000 homes in London, the South East and the Midlands, giving 90,000 people somewhere affordable to call their own. We're building new homes to help solve the housing crisis, working with residents, local authorities and partners to create safe and sustainable homes and communities. We are helping our residents to live better lives with training, careers advice, financial and digital inclusion.

We've set ourselves ambitious targets to:

- Provide sector leading service
- Ensure a sustainable business
- Maximise our social impact
- Value our people.

We pride ourselves in ensuring residents are at the heart of everything we do. This includes residents having a leading role in the governance of Optivo. Our governance structure, led by the Board, ensures our residents' voices are always heard. At each level of governance, from residents sitting on the Board, to local scrutiny panels, our residents work side by side with colleagues to drive performance and improve results. To be successful, it's crucial our people are working as one team to achieve our goals. We're passionate about offering the best service possible and believe a strong culture gives us the foundations to do this.

Our CORE values and behaviours are engrained in everything we do and are at the 'core' of Optivo's culture. From speaking with residents, to working with colleagues, we create a fun and rewarding place to work. By living our core values we give our best service to customers.

Giving something back

We believe in giving something back to the communities we support - social impact is a key part of our culture. We want to help our residents reach their full potential. We offer a range of support including financial guidance, computer and internet training and employment support. We also run events and courses to promote good health and wellbeing.

Our colleagues also get involved with fundraising, volunteering and charity work to support the communities we serve. Our own charity Fresh Visions supports children, young people and adults facing extreme poverty, domestic abuse, lack of education and social exclusion. Over the last 17 years the charity has helped transform the lives of hundreds of young people and our staff are proud to support such a worthwhile cause.

Our Social Impact

We aim to make a difference and work to support our residents and communities. Enhancing Lives is key to our mission.

At a glance

FOR THE YEAR TO 31 MARCH 2020

Financial

	£322m Turnover	**£90m** Operating surplus	**£18m** Net surplus
£4,425 Social Housing cost per unit	**23%** Operating margin	**A2** negative outlook Credit rating (Moody's)	**£3.4bn** Total assets

Operations

	56 Net Promoter Score (NPS)	**61%** Residents online	**97.7%** Repairs satisfaction
4.3% Current arrears	**1.6%** Void rent loss	**99.7%** Gas safety	**G1/V1** Regulator rating

Development & Investment

	1,500 New home starts	**838** New homes handed over/acquired	**3,064** Homes under construction
£183m New homes spend	**£0.6bn** New homes pipeline	**£20m** Investment in existing homes	**1,256** People into jobs & training

Chair's Statement

We enter a new decade inspired by the ambition, social purpose and entrepreneurial spirit of our founders. 75 years ago this year, Joan Bartlett started work tackling the mass homelessness created by the Second World War. And more than 50 years ago, John Howes and Jack Griffin decided they had to act to take on the housing crisis of the 1960s. We remain no less ambitious than our founders.

As I reflect on the last year we are three months in to the Covid-19 pandemic and on the threshold of the worst economic downturn in centuries. I am acutely aware of the challenges that lie ahead for our residents and am very proud of the commitment and hard work of all colleagues at Optivo who have had to adopt new ways of working at very short notice. Optivo has 'Customers' and 'One Team' at the heart of our CORE values and these have really shone through in a challenging time.

When lockdown began we had to make a number of very quick changes to our business: our call centre switched to home working but continued to provide a seamless service. With resident support we refocused our services. Inevitably, our repairs service has suffered and re-lets have faced significant delays. Our staff were able to build more flexibility around working patterns to help manage other challenges such as home schooling. We redeployed nearly 200 staff to where they are needed most. And of course we have all adapted to new communication channels. We put in place appropriate governance arrangements, and supported by weekly reporting of some KPIs to provide early warning triggers, we are effectively managing through the crisis.

We're determined to be one of the best social landlords and provider of new, high quality, affordable homes. We'll do all we can to play our part in rebuilding the economy and tackling the housing crisis in an effective, efficient and values driven way.

Our residents continue to be at the heart of everything we do - it's what distinguishes us and sets us apart as a leader in the sector.

At every level of the business our residents work alongside us as one team to co-design, scrutinise and improve our work so we can deliver brilliant service and value for money.

2019/20 has been a challenging year as reflected in our financial results. We achieved turnover of £322 million and a surplus of £18 million to invest in new and existing homes, but delivered disappointing void loss performance with void rent loss at 1.6%. Our focus is on developing places with people, not profit in mind, building homes and communities where people can thrive. And so for every £1 invested in supporting communities, we have created £14 of community wellbeing value. We supported 1,256 residents in to new jobs and training.

We must strike the right balance between investing in much needed new affordable homes and maintain our existing homes to ensure they are fit for the future. We understand the difference a safe, secure and affordable home makes to a person's life. In 2019/20 we started 1,500 homes – 81% were affordable tenures. We also invested £20 million in our existing homes.

In March we exited the loss-making Ealing Care Alliance PFI care and facilities management service contract. This PFI contract was Optivo's sole remaining activity in the care sector. This change enables us to focus on our core housing business.

The next 5 years

Turning to the future, we launched our new 5 year strategic plan, 'Co-creating our Future', in April. It was co-created with over 2,200 residents and 500 colleagues engaged. But since we developed our new plan, clearly the world has drastically changed. Whilst our strategic focus will remain the same, we are very aware that our ability to achieve it has been made much harder.

Going in to the crisis Optivo was in robust financial health thanks to prudent financial planning and strong governance supported by our residents. We will now need to reassess our financial plans, but as we've shown our ability to adapt quickly will be key to our ongoing resilience.

As residents supported us as we went in to lockdown so we will work as one team with residents and staff to design new ways of working as we emerge from the crisis. We'll re-shape our resident involvement approach to engage residents in re-designing our services. A major digital transformation will enable residents to access these improved services wherever and whenever suits them.

We are continuing our shift to more land-led development, so that we and our residents have control over the design and quality of our new homes. And we'll make a significant investment in the quality, safety and environmental sustainability of our homes. We're very pleased to have co-sponsored, and contributed to, a white paper from The Good Economy on Environmental, Social and Governance our sector: UK Social Housing: Building a Sector Standard Approach for ESG Reporting, which examines how private investment can complement public investment to address the UK's affordable housing challenges.

We're proud to be a not-for-profit housing association. And we're committed to working in ways that are fair and ethical, inclusive, co-creative and transparent and which reduce our climate impact. To deliver our ambitions, we'll rely on our great staff, involved residents, committed partners and funders who share our values.

Sir Peter Dixon
15 July 2020

Our priorities

Priority 1
Invest in the quality, safety and environmental sustainability of homes.

Priority 2
Provide great customer experience.

Priority 3
Be a leading provider of high quality affordable homes.

Priority 4
Creating jobs and training opportunities in our communities.

Priority 5
Be an inclusive employer.

Priority 6
Run an efficient business.

Strategic Report

Management presents its report incorporating the strategic report and audited consolidated financial statements for Optivo and its subsidiary undertakings for the year ended 31 March 2020.

These consolidated accounts are also available on our website **www.optivo.org.uk**.

Optivo takes great pride in giving people the keys to their new home. We're passionate about providing people with a place to call home and meeting a range of housing needs. We are part of the G15, a group formed by the largest housing associations in London. We work with residents, local authorities, and partners to meet housing need, and to create safe, sustainable communities for our residents. We also help residents make the most of their lives through jobs, training, financial and digital inclusion.

Our Business Model

Who we are?

We are one of the largest housing providers in the UK. We have 45,000 homes across London, the South East and the Midlands giving 90,000 people somewhere affordable to live and call their own. Our vision is Building Homes, Making Places, Enhancing Lives. Our core business of providing homes for people who need them is founded on maintaining a strong social purpose. 98% of the group's business (by income) is undertaken by Optivo, the charitable parent organisation. New build activities are carried out through Lamborn Estates to undertake open market sales schemes, Optivo Development Services and Ink Development, a limited company jointly owned in which Optivo holds one share. A full list of the group subsidiaries and their activities are set out in note 35 to these financial statements.

Optivo has invested equity in its subsidiary companies. £50k is invested in our finance company Optivo Finance Plc. The sum of equity investment in dormant companies, charities and Registered Providers is nominal at £14. We currently have one project specific company within the group, Middlesex First Ltd to which Optivo provides an equity loan of £1.7 million accounted for in intercompany debtors.

Our Business Model (continued)

What we do?

We work with residents, local authorities and partners to meet housing need and to create safe, sustainable communities for our residents. Our principal activity is to provide homes for people who need them. Our core tenure is social rented housing. Through our work on social impact we aim to make a difference and work to support our residents and communities. Enhancing lives is key to our mission. Operating in some of the UK's poorest neighbourhoods we adapt our activities and projects to meet local need and priorities. Last year we helped over 1,250 people back in to jobs and training. Our work helps people to gain confidence and overcome significant barriers to securing work. We also work with our supply chain businesses to find jobs and opportunities to improve skills for our residents.

We're also funding a development programme, last year we started 1,500 new homes. We use our existing housing portfolio to secure new funding to support our development ambitions. Our new homes are developed for rent (including affordable and social rent), shared ownership and open market sale. The majority of our new homes will be in London and the South East with some targeted homes in the Midlands.

How we make our money and what we do with it?

85% of our turnover comes from rent and service charges and 10% from the sale of first tranche and outright sales properties. Our core operations generated £81 million cash last year. Our cashflow generation together with new funding of £250 million and grant receipts of £25 million last year helped us to maintain a high level of investment back in to our existing homes plus new developments. At year end we had committed £512 million in capital investments already in contract and a further £140 million investment which has been approved but is not yet in contract.

Our Stakeholders and Engagement
We're committed to operating fairly, with integrity and respect for the opinions and perspectives of our stakeholders. A summary of our engagements is outlined below. Our primary stakeholders include our customers and service users, both current and future, our partners in central and local government, our staff, suppliers and investors and the wider communities in which we operate.

Stakeholder	Key engagements	Outcomes
Residents & service users We seek to involve our residents in what we do, we regularly communicate with them, through scrutiny reviews seek their views on how we can improve and listen and act upon what they tell us.	• 60+ residents involved in our Resident Governance Structure (more information on page 49) • Policy documents and corporate reports published on our website • Customer experience guide issued • Volunteering opportunities offered • Money & benefits guidance available • Employment & digital support provided • Energy efficiency advice offered • Safeguarding – we are committed to safeguarding the wellbeing of all residents living in our homes • Satisfaction surveys carried out • Social media presence • On line service 'MyAccount'.	• Residents on line 61% • Net Promoter Score 56 • Repair satisfaction 97.7% • Gas safety 99.7%.
Staff Key to the delivery of all that we do is our staff. We're only as good as those who deliver services on our behalf. Effective communication with our staff is essential. Appropriate reward, honesty, dialogue and appraisal between employer and employee is critical to our ongoing success.	• Executive Team roadshows • Bi –Annual staff conference • Staff forum • Staff surveys • Connect Intranet site • Staff magazine • Culture calendar • Whistle blowing process in place • Union recognition with regular engagement.	• Staff say Optivo is a great employer 80.3% • Staff proud to work for Optivo 79.3% • Average short term days sick per employee 3.1.
Investors / funders We are a registered provider with charitable status and a not-for-profit organisation. We access debt capital through lenders and investors to enable continued investment in new homes. Communicating effectively with these stakeholders and providing them with relevant and timely information is essential for maintaining access to debt markets and competitive pricing.	• Quarterly financial performance and covenant compliance reports • Half year trading statements • Bilateral meetings with lenders • Investor presentations.	• A2 (negative) credit rating We secured £250 million new debt finance during 2019/20 across a range of tenors and from both banking market and the debt capital market.

Stakeholder	Key engagements	Outcomes
Suppliers We work with numerous contractors and suppliers. They are an essential ingredient to enable us to deliver services and new homes. They provide opportunities for residents in terms of jobs and training. Maintaining this two-way relationship is important.	• Equal access to tendering opportunities • Multi-year contracts with our key suppliers • Standard Contract Management processes and controls • Monthly/Quarterly meetings & Annual Reviews • Attendance at Meet the Buyer events • Standard Approved Supplier processes and controls • Problem solving hierarchies and escalation processes set out in contracts • KPIs in place.	Performance within KPI parameters. Over 70% of our suppliers were paid on time. Contractual mechanisms to extend contracts based upon performance. Social Value deliverables; • 23 providers promoting vacancies through our Employment Support team • 87 job offers, apprentices or work placements • 61 Providers contributing to our charity, Fresh Visions • 28 training sessions delivered for residents • 20 Resident events supported by Providers.
National & Local Government We receive public money to help us provide more homes and services.	We regularly respond to housing enquiries from Members of Parliament and local authorities. We are an active member of the National Housing Federation and the G15 group of London's leading associations. Through these bodies and our own activities, we engage with national government, City Hall and local authorities to influence their policy priorities. We focus on making the case for funding for social housing delivery and associated services to be given high priority now and in the future. We champion the difference social housing delivery makes to the lives of our residents.	• All regulatory returns submitted on time • We have strategic partnership status with Homes England and The Greater London Authority.

Stakeholder	Key engagements	Outcomes
University and NHS Trust partners We work in partnership with our NHS Trusts to provide NHS key worker homes. Our student accommodation assets serve a number of universities, in many cases under explicit partnership arrangements.	We keep in constant dialogue with partners over accommodation bookings and demand forecasting. We're subject to their scrutiny on the quality of our service and welcome feedback.	• 94% Occupancy in NHS key worker accommodation • 95% Occupancy at start of academic year in our direct let student accommodation. We achieved an NPS of -5 in our student accommodation, consistent with our comparators in the private sector (-4). Our keyworker portfolio returned a -1 NPS. There were no service performance deductions on any of our contractual university partnership arrangements.
Communities & Environment We want to help our residents save money on their bills and manage energy costs, improve their health and reduce environmental impact. We're striving to reduce our environmental impact to help manage our costs and be a more responsible business. We're investing in the quality, safety and environmental sustainability of our homes.	Strategic plan 2020-25 sets our target of 92% resident satisfaction with the quality of their homes and 80% of homes receiving a high energy efficiency rating by 2025. Social Impact Statement in place, residents, staff and board members make a positive difference to our communities - one team working together. We have a Neighbourhood and Estates Statement in place, highlighting our commitment to Making Places. We tackle antisocial behaviour, crime and domestic abuse. We supported 119 residents with domestic abuse cases and dealt with 913 anti-social behaviour cases.	• Reduced our office carbon emissions by 36% (enough to build five homes) • Reduced the fuel consumption of our Direct Labour Organisation's (DLO) fleet by 2,217 litres • Global Business Excellence Awards Community Initiatives • 1,256 people into jobs and training • Build yourself project award • 2018 Gold Sustainable Homes Index for Tomorrow (SHIFT) standard achieved • Our estates are welcoming, clean, green and safe • We achieved 72% resident satisfaction with the handling of our ASB cases.

Strategic Plan 2017/20 – Year 3
2019/20 was the final year of our 2017/20 strategic plan. Throughout its three year term, Optivo Board, residents and staff have been fully engaged in delivering and monitoring progress against this plan.

Our strategy was designed to deliver our ambition to be a leading housing provider building more new homes to fulfil our social purpose. We also wanted to enhance lives and communities helping our residents flourish through training and employment support. Supporting our staff with the right tools and training to make a difference was key to delivering our strategic goals.

Specifically our strategic plan was designed to create an organisation that;

- was people focused
- listened to its customers
- delivered sector leading services
- was a strong developer of quality homes
- maximised social impact in the communities we serve.

Underpinning this was a commitment to being as efficient as we could be to provide true value for money.

Our objectives and targets are summarised below. We exceeded or achieved five out of eight our targets. In the final year we did not meet our targets on Net Promoter Score, staff proud to work for Optivo and operating margin.

Measures	2019-20 Actual	2019-20 Target	2018-19 Actual	2017-18 Actual
OBJECTIVE 1: Provide sector leading service				
Net Promoter Score (Residents recommend us)	**56**	60	62	66
Residents online	**61%**	60%	54%	43%
OBJECTIVE 2: Value our people				
Staff say we are a great employer	**80%**	78%	77%	76%
Staff proud to work for us	**79%**	80%	81%	84%
OBJECTIVE 3: Maximise our social impact				
New homes started	**1,500**	1,500	1,003	912
People into jobs and training	**1,256**	1,000	1,122	1,045
OBJECTIVE 4: Ensure a sustainable business				
Operating margin	**23%**	28%	29%	31%
Sustainable Homes for Tomorrow Award	**Gold**	Gold	Gold	-

Objective 1

Provide sector leading service

"Exceptional service to residents"

Our residents are at the heart of everything we do - it's what distinguishes us and makes us unique. At every level of the business our residents work alongside us as one team, to co design, scrutinise and improve our work so we can deliver brilliant service and value for money.

Customer focus is a key part of our core values. We strive to make our services easy to use. Our staff are respectful and happy to help residents.

We want to achieve sector-leading resident satisfaction. Investing in technology enables residents to access our services wherever and whenever is suits them. It also provides staff more time to help more vulnerable residents and resolve complex issues.

Resident satisfaction targets have focussed on supporting residents to access our services on-line and measuring our Net Promoter Score.

Our residents targets

	Actual 2020	Target 2020	Actual 2019
Residents online	61%	60%	54%
Net Promoter Score	56	60	62

Following a very successful campaign, 61% of our residents now transact with us online. This is 1% better than target and a 7% increase from last year. Our in house 'Click & Connect' group monitors our performance and effectiveness of our campaigns. This year we improved our online offer so residents can attach photographs when they request a repair. We recognise the different needs of our residents but also how online services can help them by saving time, offering more security and the ease of engaging with us from the comfort of their own home.

Demands for flexible, personalised, digital access to services continue to grow. While residents can access banking services, GP appointments and other support services online, the housing sector has often not kept up. Providing greater online access to services is an important challenge, but also an opportunity to increase both customer satisfaction and our efficiency. Further digitisation is an important strand of our new 5 year strategic plan.

Our Net Promoter Score (NPS) is 56. Although this is 4 points lower than target, independent organisations specialising in customer satisfaction monitoring consider NPS scores above 50 as excellent. We've analysed the reasons behind our lower than target score and we've taken action to improve our service. This includes:

- Driving a right first time approach
- Quicker responses to residents' requests
- Ensuring all our communications meet our corporate standards.

Our NPS score stabilised over the year and our overall customer satisfaction score this year remains very high at 95%.

We're continuing to reinforce our culture programme to ensure staff are engaged and empowered to deliver excellent customer service. Academy, our in-house Learning & Organisational Development team launched an organisation wide 12 month customer service refresher training programme. Academy also launched a new Management Development programme 'Extraordinary at our CORE' designed to give managers the confidence, skills and knowledge to manage and motivate their people effectively.


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Objective 2

Value our people

"An organisation where you can be yourself"

We are committed to building an organisation that's powered by our staff. We are passionate about talent, retaining and attracting the very best people who are motivated, fully involved and committed to Optivo. We recognise these are key to delivering our strategic goals - motivated staff who bring their best selves to work will perform brilliantly.

Our people targets

	Actual 2020	Target 2020	Actual 2019
Our people say we are a great employer	80%	78%	77%
Our people are proud to work for Optivo	79%	80%	81%

80% of our people say we are a great employer which is 2% better than target. Our people framework is designed around three key areas:

- Leading: inspiring people, living our values and empowering people
- Supporting: managing performance, rewarding high performance and structuring work
- Improving: building capability, continuous improvement & sustainable success.

Our Executive Director of People is a clear advocate for staff having a strong voice and emphasises a culture that says 'feedback is a gift'. Optivo staff have a voice through the Staff Forum which provides a platform for staff representatives and senior management to discuss decisions which affect working lives at Optivo. Every member of staff also has the opportunity to give their views through the staff survey on how we're doing against our strategic 'Valuing Our People' targets. We have a comprehensive Reward & Recognition Policy which details our job evaluation process and pay structure. Other non-pay staff benefits we offer our people include:

- Simply Health cash plan
- Flexible working to support staff with work life balance
- Health Assured employee assistance programme
- Professional qualification support
- Well-being support and activities
- Opportunities to be involved in community projects.

79% of our people are proud to work for Optivo which is marginally below our target (80%). Satisfaction levels improved during the year from 75.6% in quarter 1 to 79.3% in quarter 4. Our survey response rate for the year was 83% (956 responses from 1,155 surveys sent to staff). Colleagues who responded "neither agree nor disagree" had the biggest impact on results.

In response to the Coronavirus outbreak we've had to move quickly into a new way of working. We've successfully managed the transition to remote working, adapting all induction training to ensure all new starters are fully supported.

Objective 3

Maximise our social impact

"Building more homes"

We're focused on being Britain's best social landlord and one of the best providers of new, high quality, affordable homes. We'll do everything we can to tackle the housing crisis in an effective, efficient and values-driven way. Our aim is to develop places with people, not profit, in mind, building homes and communities where people can thrive.

Over the three year strategic plan (2017-20) we've started over 3,400 new homes and invested £673 million in new and existing homes. We've also helped over 3,400 people into jobs and training. Looking to the future, we're moving to being the lead developer and relying less on being a Section 106 partner. This will give us more control over the delivery of new homes and more importantly the quality of those homes. It will allow us to build thriving, sustainable neighbourhoods with an inclusive mix of tenures. We will focus more on building homes that are more energy efficient, reducing both our climate impact and fuel poverty.

We invest heavily in jobs and training, careers advice, financial and digital inclusion. This helps to build stronger, more resilient communities and equip residents with the tools to maximise their potential. Our work is co-designed with residents to secure the greatest impact.

Our Social Impact targets

	Actual 2020	Target 2020	Actual 2019
New homes started	1,500	1,500	1,003
People into jobs and training	1,256	1,000	1,122

This year we reached our target to start 1,500 new homes. We exceeded our target of getting 1,000 people into jobs and training by 256. Our Alton Road development in Wandsworth was named the Best Scheme in Planning (over 30 units) at the National Housing Awards 2019. We've also been shortlisted for a First Time Buyers Reader's Award 2020 for our Waterway development at Riverside Quarter in Wandsworth. This collection of 93 Shared Ownership apartments provides affordable riverside living in London and has been shortlisted for the Best Large Development.

An urgent need for affordable housing continues to affect many of the communities we work in. But financial resilience is also a challenge for many of our residents. Residents will continue to transition from legacy benefits to universal credit. The economic outlook, already under pressure from Brexit, looks increasingly challenging and households on lower incomes may find themselves in increasingly precarious positions.

1,256
people into jobs and training

We are there to support our residents through our dedicated Tenancy Sustainment and Financial Inclusion teams. Tenancy sustainment focuses on helping our most vulnerable residents maintain their tenancy and build self-sufficiency enabling them to remain in their homes. The work helps residents link up with external agencies to enhance their lives, explore options available with jobs, training and support networks. Financial Inclusion delivers a customer focused service to empower residents to become more financially confident by maximising income and reducing expenditure. Residents receive welfare benefits advice and money guidance support. Our team informs residents of their welfare rights to ensure they're receiving all the benefits they're entitled to and support residents with any applications.

This year these teams have:

- Helped 250 households make a home by purchasing essential items
- Provided 172 residents with emergency fuel credit for their meter
- Completed 7,090 benefit applications
- Maximised household income by an average of £589 each month
- Referred 166 people to our Social Impact team's programme of external courses.

2019/20 was another year of successful social impact activity. As well as exceeding our target of getting people into jobs and training, we also achieved the following:

- 5,189 people benefiting from our support programmes
- 245 people provided the opportunity to become community volunteers
- 1,235 people feeling less isolated and more confident after engaging with us
- 200 young people supported into employment and involved in positive activities through our Fresh Visions charity.

We employ two full time apprentices. Contributing to our social impact objectives is a key feature in designing our tenders and awarding our contracts.

In response to the Covid-19 crisis, we've been playing our part in the national call to support and protect people. We've run a co-ordinated Residents' Resilience support programme and have made almost 45,000 phone calls to residents offering income, welfare and job support. Our Covid-19 Money Advice website has received over 7,000 hits.

Objective 4

Ensure a sustainable business

“Driving efficiency and helping the environment”

At Optivo we’re committed to running a sustainable business by embedding a culture of cost awareness, efficiency and value for money. Improved efficiency enables us to free up resource to invest in making a bigger positive impact on society. In order to deliver solutions to the housing crises, both Government and the Regulator of Social Housing are increasingly challenging us on how we use our finite resources to deliver our objectives.

Our drive for value for money focuses on:

- Using technology to deliver quick and efficient services
- Ensuring staff are engaged in a culture of cost awareness
- Getting value from our fixed costs by growing our business and offering our services to others
- A new approach to planning our major works programme (e.g. reducing scaffolding costs by aligning roof, window replacement and painting works)
- Having effective action plans in place to address specific cost issues (e.g. investigating if our DLO can be skilled up to reduce our use of external contractors, procuring longer term contracts where this isn’t possible and reviewing our void process to reduce turnaround time and manage volumes). We’ve set a direct repairs target cost per unit (CPU) of £600 for London for 20/21 and we’re measuring costs against this.

We achieved SHIFT Gold ahead of target, but we continue to work to deliver an ambitious environmental programme. We want to “green our organisation” by building greener homes and are reviewing how we can reduce the carbon footprint of our office buildings, vehicle fleet, construction and other activities.

	Actual 2020	Target 2020	Actual 2019
Operating Margin	23%	28%	29%
Sustainable Homes for Tomorrow (SHIFT)	Gold	Gold	Gold

Operating Margin target shortfall

Area	Impact
Void loss	0.7%
Service charge costs	1.5%
Responsive repairs	1.1%
Bad debt provision	0.7%
Other	1.0%
Shortfall	5.0%

Our operating margin of 23% is 5% below target. We experienced a much higher volume of voids in 2019/20 compared to the previous year. We’ve had to invest more money and time into void works, given the condition in which properties are being handed back to us. We’d started to see voids reducing in the last quarter of 2019/20. Voids have increased in quarter 1 2020/21 due to the Covid-19 crisis.

High costs from managing agents and additional fire safety costs impacted on service charge costs.

Responsive repair costs are 3% higher than last year and are higher than budget contributing to our shortfall in operating margin target. Mobilisation of the London repairs service from an external contractor to our expanded direct labour service (DLO), has taken us longer than expected. Our DLO has been subject to a critical friend review and we’re working to implement recommendations from the review. In 2020/21 we will be monitoring our responsive repair costs against an agreed direct cost per home to help us deliver the service within budget.

We’ve also increased the provision for rent bad debts for those residents not currently in receipt of housing benefit. This follows the current Covid-19 crisis which we expect will cause difficulties for our residents in the short term until Universal Credit claims are approved to support them.

23%
operating margin

Our operating margin was also adversely affected by exiting one of our pension arrangements following consultation, dilapidation costs in Kent offices and technology legacy costs post-merger. Despite these cost challenges, we have made cost savings. We reduced legal costs by using our in-house Legal team rather than external providers. Increased use of technology has enabled us to continue to engage with residents but at a lower cost.

We continue to retrofit our homes including measures such as solar panels, air source heat pumps and smart meters. This year we worked with Groundwork to deliver 750 free energy advice visits to residents. We've helped residents to switch energy tariffs, given information on available grants and advice in lowering energy consumption. These activities help reduce carbon output and fuel poverty.

We've measured the environmental performance of our top suppliers (by spend), in accordance with our SHIFT audit. In 2019 our supply chain survey concluded that 98% of refurbishment waste was diverted from landfill, 66% of office consumables was responsibly sourced and 55% of maintenance materials used by contractors was responsibly sourced.

To prioritise investment in our natural environment on behalf of our residents, we've consulted on a strategy to make the most of our green spaces. Our environment also benefits from the advice we give residents on reducing household waste and using sustainable transport.

We have programmes to reduce the carbon emissions in our offices as well as our business mileage emissions. We've completed a water efficiency audit of our offices and implemented a programme of cost-effective water savings to reduce waste usage by 7% by 2021. Office supplies are increasingly purchased from sustainable sources.

Our CAN project developing ideas to accelerate energy retrofit, won the REGIOSTARS award in category 4 "Building Climate Resilient Cities". The REGIOSTARS honours EU-funded projects, which demonstrate excellence and innovative approaches in regional development.

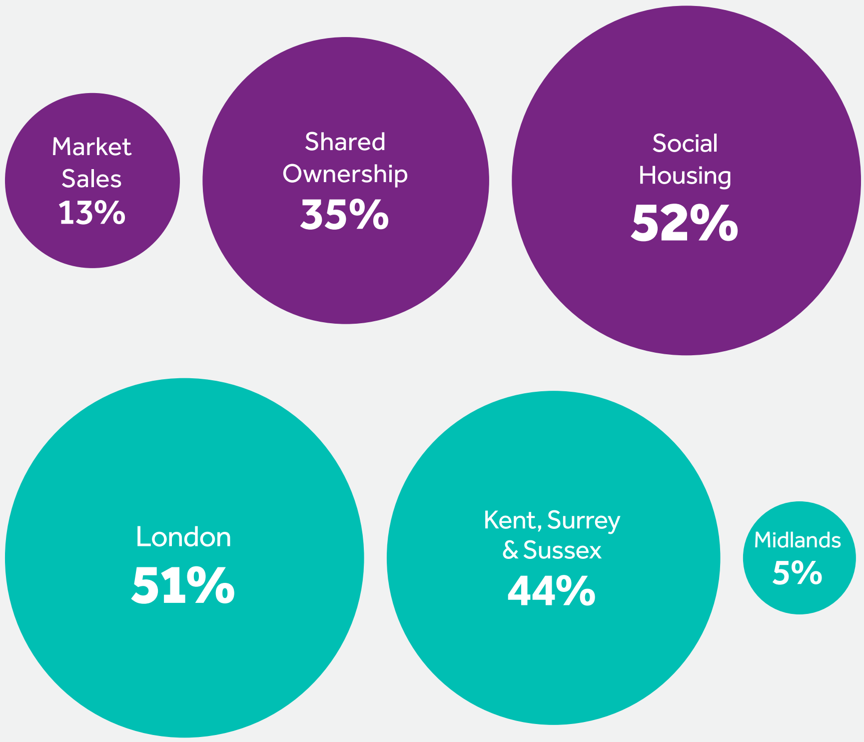
Our Markets

Our primary objective is to maximise the delivery of new affordable homes and these will form most of our development programme in the next three years. 85% of the new homes built will be for affordable housing (principally social rent, affordable rent and shared ownership) and the remainder will be for open market sale.

We are building new homes in London, the South East and the Midlands and have identified 50 local authority areas for development activity. We generally seek opportunities where we already have homes to help us provide efficient management services but we also consider working in other areas if the site is sufficiently close to existing stock or perhaps is of a size that makes entry into that geographic market justifiable. We're moving away from section 106 as a source of sites and towards land led opportunities, seeking a pipeline of medium term (3-5 years) and longer term (over 5 years) land on sites that'll deliver between 50-300 homes. As well as larger sites we deliver independently we are also considering unconditional land deals as well as those linked to planning, Joint Ventures, Option Agreements and regeneration opportunities.

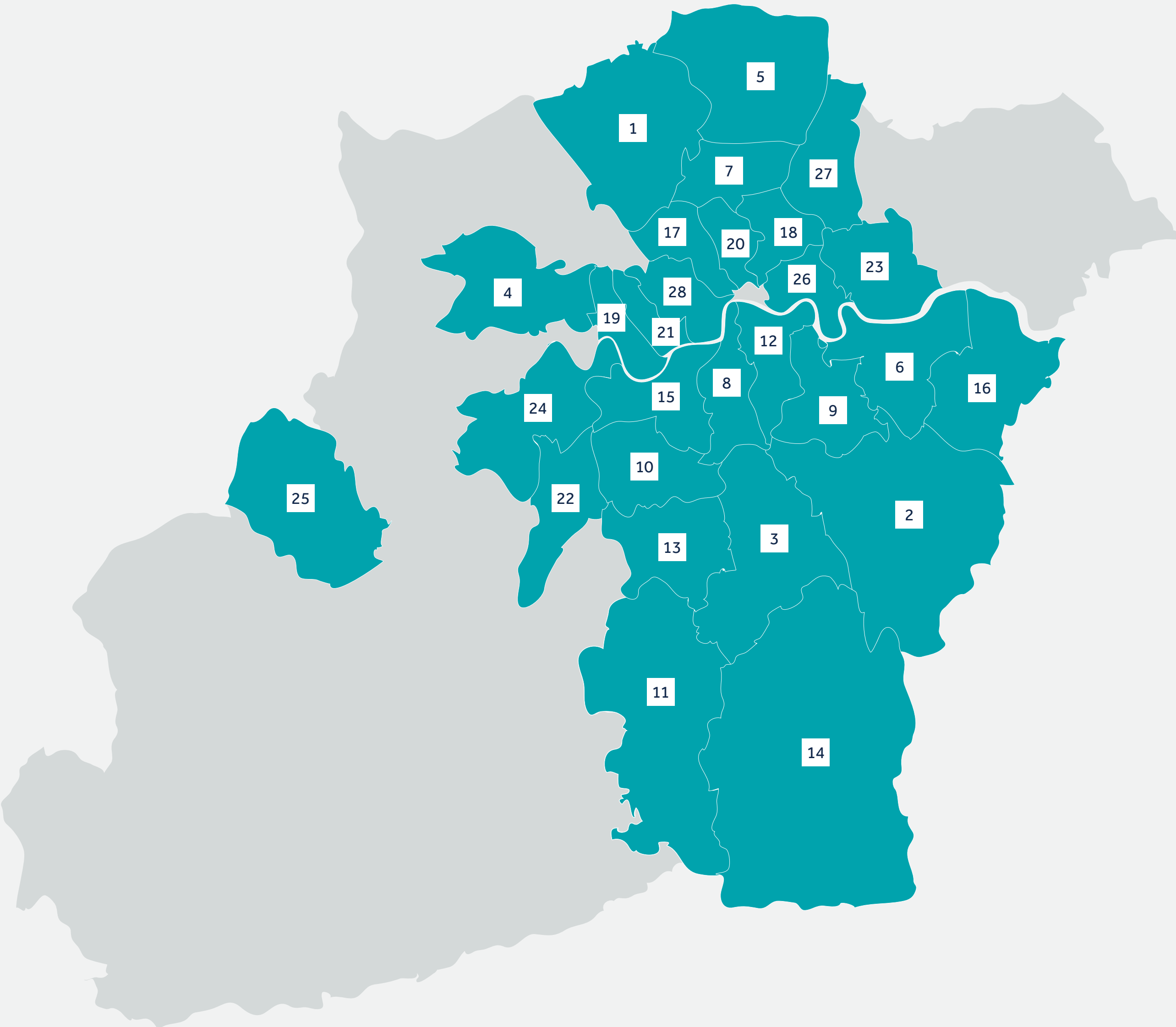
Current programme

Type and **geographical breakdown**



Development Growth Areas

The maps below show the areas we'd like to grow our development programme.



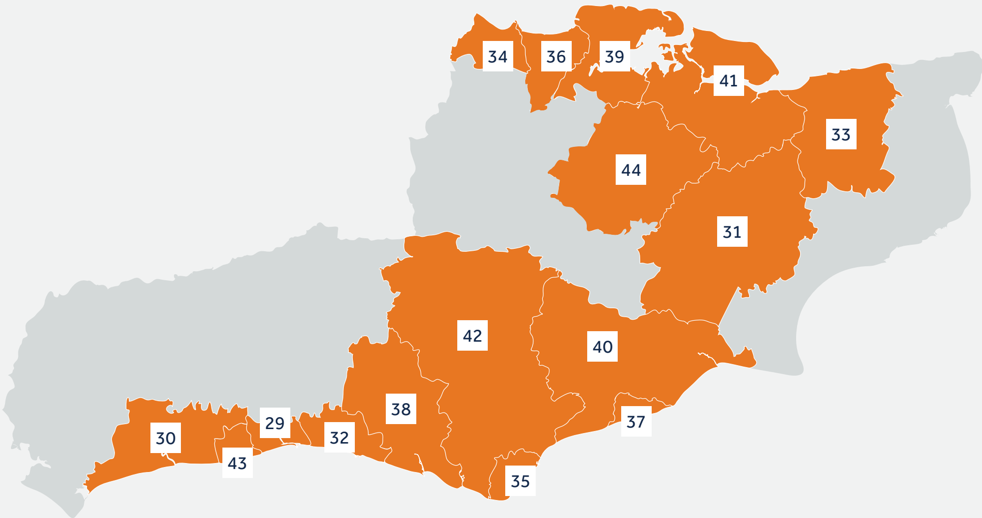
London

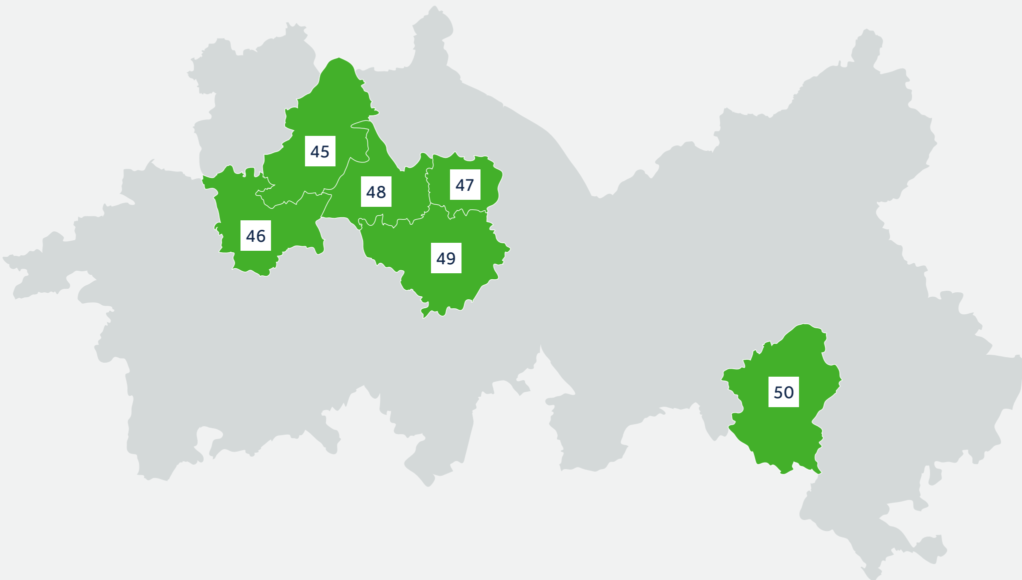
1. Barnet
2. Bromley
3. Croydon
4. Ealing
5. Enfield
6. Greenwich
7. Haringey
8. Lambeth
9. Lewisham
10. Merton
11. Reigate and Banstead
12. Southwark
13. Sutton
14. Tandridge
15. Wandsworth
16. Bexley
17. Camden
18. Hackney
19. Hammersmith and Fulham
20. Islington
21. Kensington and Chelsea
22. Kingston upon Thames
23. Newham
24. Richmond upon Thames
25. Runnymede
26. Tower Hamlets
27. Waltham Forest
28. Westminster

Development Growth Areas (continued)

Sussex/Kent

29. Adur
30. Arun
31. Ashford
32. Brighton & Hove
33. Canterbury
34. Dartford
35. Eastbourne
36. Gravesham
37. Hastings
38. Lewes
39. Medway
40. Rother
41. Swale
42. Wealden
43. Worthing
44. Maidstone





Midlands

45. Birmingham
46. Bromsgrove
47. Coventry
48. Solihull
49. Warwick
50. Milton Keynes

Future prospects

85% of our planned programme is for affordable housing with just 15% for sale. We pursue grant funding for schemes where possible. We've moved away from care services as part of our long term strategy so we can focus our expertise on our core area of housing.

We continue to work with residents, stakeholders and Government to respond positively to the new challenges and the housing crisis. Our new strategy will help us to maintain resident loyalty, ensure staff are productive and engaged, and drive greater efficiency.

We have made significant investment in recent years in how we deliver maintenance services, ICT and process mapping improvement to better provide customers with a 'Right First Time' response. This has the added benefit of improving value for money. We'll continue our investment in technology to further reduce our cost per unit.

Investment in our homes

Health & safety - compliance
We've implemented a Transformation Project to bring the structure, skills, policies, procedures and systems of our Compliance team to an optimum level. We reorganised the Compliance team, creating specialist job roles. There are clear objectives with a dedicated, focussed team working towards these. This team manages a wide range of compliance health & safety areas including fire, gas, legionella, asbestos, electrical, lifts and play areas.

Work continues on our action plan in response to the Hackitt Review. We spent £7.8 million on fire risk assessments and the follow-on actions this year. We've completed all high risk legacy actions and have resolved over a third of the medium risk legacy actions. The volume of actions from new assessments is large but the recruitment of staff and the procurement of supply chain capacity and capability has resulted in a steady increase in action completion rate. This will help us deliver our £15.5 million fire safety programme for 2020/21.

Improving our homes and our estates
Despite the challenge of fire safety requirements we've continued to invest in our homes. In the last 12 months improvements to residents' homes include:

- Replacing windows and doors in 1,000 homes
- Installing 900 new kitchens and 620 new bathrooms
- Replacing 2,000 boilers.

We've also spent £1.2 million on the environment surrounding our homes and estates. An example of the project work we've delivered includes improving sites experiencing regular issues with anti-social behaviour and fly-tipping around the communal bin-store areas. We consulted with local councils, residents and our contractors to completely re-design these areas. The improved facilities have reduced fly-tipping and anti-social behaviour and also increased recycling levels. This investment has saved staff time in dealing with complaints and improved the life of our residents.

We've also installed new patios and have replaced outdoor porches and balconies.

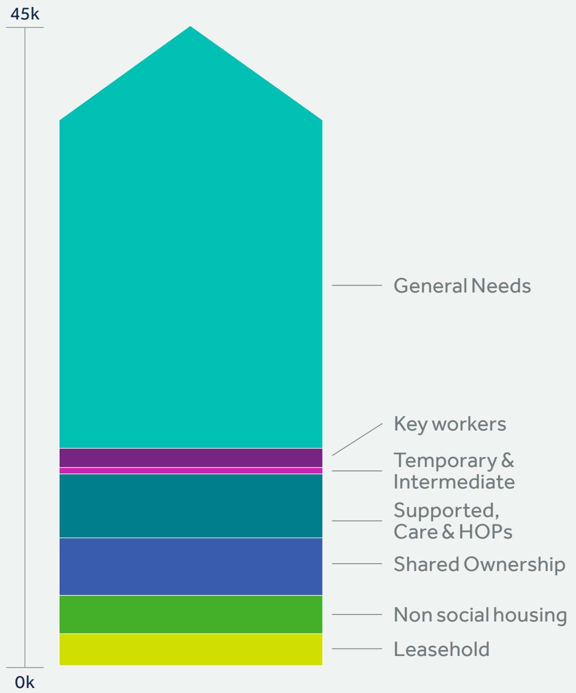
Our future investment programme
Our approach to building future investment programmes for our homes has been reviewed this year and shared with our residents. The new plan covers five years from 2020/21 and identifies the following four main investment priorities:

- Health and safety works
- Building envelope - roofs, windows, external doors, walls and the general fabric of the building
- Communal / shared components / services
- Internal individual components in line with the decent homes standard.

Having a five year approach will enable us to deliver work efficiently and reduce inconvenience to residents. Service charges will be better planned so helping home owners and leaseholders to budget.

Our 2020/21 investment programme start is slightly delayed by Covid-19. We're working closely with our contractors who are still able to deliver at least 90% of our programmes over the next six months.

Homes in management



Working in partnership

We believe one team working delivers the best results which is why our staff and residents work alongside each other at every level. Working in partnership with other stakeholders is also a key to success. This year we've worked with some new partners and continued to improve existing arrangements to helping us deliver our strategic objectives.

Working in partnership to provide sector leading service

We've teamed up with AO.com to provide residents with low cost white goods for as little as £2 per week. This unique relationship means we're permitted by the FCA under our licence to promote this offer and refer residents to AO.com. We're helping our residents make their house a home using regulated and affordable borrowing. Launched in November, 50 residents have taken advantage of this service.

In partnership with Npower Foundation we have our own fuel bank scheme where we provide emergency fuel top up for prepayment customers.

We were the first housing association in the UK to trial the innovative "rent-flex" project. Under this scheme, qualifying residents personalise their payment of rent, reducing their need to borrow during financial pinch points, such as over the school holidays or at Christmas. We are now working with the JP Morgan Chase Foundation to research how rent-flex may help Covid-19 affected households.

Working in partnership to value our people

Academy, our in-house Learning & Organisational Development team, continue to work closely with organisations such as Stonewall and MGI (Mary Gober International). This year we've worked with MGI to refresh our customer service training and we're working with Stonewall to roll out some training for allies next year.

Working in partnership to maximise our social impact

Supporting our social impact objectives is a key feature in designing our tenders and awarding our contracts. **This year we've worked in partnership across 70 of our providers** resulting in:

- 23 providers promoting vacancies through our Employment Support team
- 87 job offers, apprentices or work placements
- 61 providers contributing to our charity, Fresh Visions
- 28 training sessions delivered for residents
- 20 resident events supported by providers.

We've also piloted our response to the government's Apprenticeship Levy and recruited two apprenticeship roles in our Procurement and Governance teams.

We have loan agreements with First Abu Dhabi and BNP Paribas banks with a social KPI test. Our loan costs are reduced if we exceed our target of getting 1,200 people into employment or training. This year we've exceeded this, getting 1,256 people into employment or training, so these lenders are investing £14,000 in our social impact programmes.

We continue to enjoy successful partnership working with many other organisations including our CAN, SHINE and Increase VS projects funded by Interreg.

Interreg 2 Seas Mers Zeeën

Interreg France (Channel Manche) England

Co-financed by the European Regional Development Fund

Interreg North-West Europe Climate Active Neighbourhoods

Working in partnership to ensure a sustainable business

We successfully bid to become one of the housing management providers for Legal & General Affordable Homes (LGAH). LGAH aims to become the leading private affordable housing provider in the UK. Within the next 18 months we expect to provide housing management for over 500 LGAH homes with further growth in the medium-longer term. We're able to provide these services at very little marginal cost therefore reducing our cost per unit and getting better value from our fixed overheads.

Legal & General AFFORDABLE HOMES

Optivo is the first housing association to partner with Thames Water and several other water companies to deliver free home visits to residents struggling with water bills. The advisors find and fix internal leaks, install the latest water saving devices and offer bespoke advice on how to save water and money. In 2019/20 we delivered 2,558 water efficiency visits, installed 6,556 water saving devices, fixed 208 leaks and took 437 water meter requests. The average water savings from this project is 53 litres per household per day – the same amount needed to fill a kettle 35 times.

Financial review

At 31 March 2020 we had fixed assets of £3.1 billion, reserves of £675 million and an annual turnover of £322 million. We reported an operating surplus of £90 million and an operating margin of 23%. We use the operating margin as one of our key measures for delivering a sustainable business and driving efficiency. Our social housing activities generated an operating margin of 25%. Our operating surplus includes £17 million surplus on housing property disposals (2018/19: £13 million). Our surplus before tax is £18 million (2018/19: £88 million).

Results

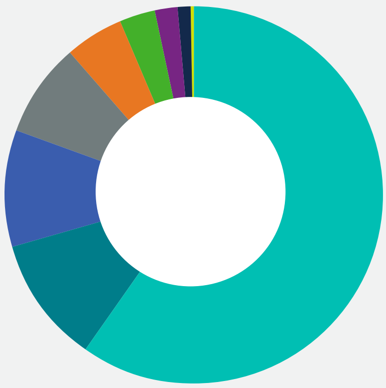
	2019/20	2018/19	2017/18	*2016/17
	£m	£m	£m	£m
Turnover	322	314	317	**346
Cost of sale	(25)	(19)	(21)	(23)
Operating costs	(224)	(204)	(199)	(202)
Surplus on disposal of fixed assets	17	12	20	29
Operating surplus	90	103	117	150
Surplus on other sales	1	-	4	1
Other finance income	2	-	-	-
Net interest payable	(47)	(42)	(42)	(43)
Surplus before fair value movements	46	61	79	108
Fair value property movements	(5)	29	11	1
Derivative movement and hedge reserve write off	(23)	(2)	(141)	-
Surplus / (Deficit) for the year	18	88	(51)	109

* 2016/17 are the combined results of AmicusHorizon and Viridian Housing Associations pre-merger.

** 2016/17 turnover included a one off fair value gain of £20 million.

Analysis of turnover

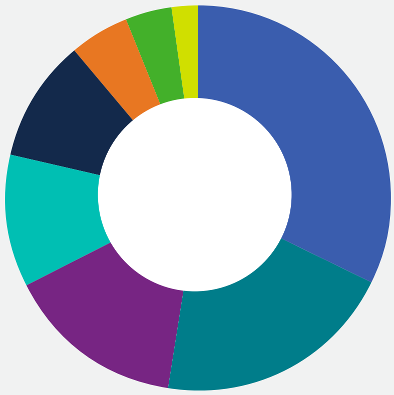
- Turnover (excluding sales) increased from £286 million to £291 million. This is after applying the 1% rent decrease and reflects increased rental income from new homes completed and £3.7 million additional revenue from student accommodation. 92% of turnover is generated from social housing activities
- First tranche sales turnover increased from £29 million to £31 million, we had no open market sales in 2019/20 (2018/19 £nil)
- Income from shared ownership properties increased by 12% to £25 million (2018/19 £22 million) reflecting an increase in homes completed and annual rent increase
- Service charge costs of £28 million exceeded our income of £26 million (2018/19 no surplus over costs) mainly due to additional fire safety spend and managing agents fees not yet recovered.



General Needs rent	£192m	60%
Support, HOPs & Care	£36m	11%
First tranche sales	£31m	10%
Shared Ownership	£25m	8%
Student	£16m	5%
Other Non Social	£11m	3%
Keyworker	£8m	2%
Other Social Housing	£2m	1%
Temporary Housing	£1m	0%

Analysis of expenditure

Maintenance	£79m	32%
Management	£51m	20%
Depreciation & impairment	£37m	15%
Services	£28m	11%
Cost of sales	£25m	10%
Student	£13m	5%
Other non social	£11m	4%
Other	£6m	2%



Operating costs (excluding sales) increased by £20 million (10%) to £224 million. We increased our maintenance spend by £9 million (13%) and services spend increased by £5 million (22%). Additional fire safety spend and higher routine maintenance costs resulted in higher maintenance costs. Reclassification of hostels to student properties contributed to a £4 million (44%) increase in student costs. Our management costs reduced by £4 million (4%). The reduction in management costs was a result of property reclassification, no merger costs in 2019/20 but also an underlying cost reduction in our management of social housing properties.

Surplus on disposal of housing properties: surplus on staircasing (where the leaseholder acquires a further property equity share), voluntary right to buy / right to acquire sales and asset management sales increased to £17 million (2018/19: £13 million). We sell void properties if it is not economically viable for us to repair them or if they are in an estate regeneration disposal programme. We reinvest sales proceeds to build new and improve existing homes.

Net interest payable increased by £5 million to £47 million (2018/19: £42 million).Cost of additional borrowing reflects our growth plans to build more homes.

Balance sheet

	2019/20 £m	2018/19 £m	2017/18 £m	*2016/17 £m
Tangible fixed assets	3,103	2,911	2,657	2,527
Net current assets	139	81	59	95
Total assets less current liabilities	3,243	2,992	2,716	2,622
Long term liabilities & provisions	(2,567)	(2,349)	(2,142)	(2,161)
Net assets	675	643	574	461
Reserves	675	643	574	461

*2016/17 are the combined positions of AmicusHorizon and Viridian Housing Associations pre-merger.

Housing properties are mainly held at historical cost, unamortised grant is held in creditors. The increased carrying cost of £198 million includes £183 million investment in new homes and £20 million spend on improvements and component replacements to existing homes. To date we have received just over £1 billion social housing and capital grant to support our development programmes.

Pensions - we operate five funded schemes and an Optivo defined contribution scheme. All funded schemes are in deficit and closed to new members. The defined contribution scheme offered to new staff carries no deficit risk to Optivo.

Reserves – our reserves are fully reinvested back in to services and new homes to deliver sustainable communities.

Homes	2019/20 £m
Property cost less depreciation and impairment	2,927

Funded by	2019/20 £m
Loans and bonds net of cash and short term investments	1,348
Unamortised grant	904
Revenue reserves	676
Other balances	(1)

Cash flow

	2019/20 £m	2018/19 £m	2017/18 £m	*2016/17 £m
Cash generated from operations	108	80	101	134
Cashflow from investing activities				
Proceeds from sale of assets	2	-	33	44
Purchase of assets / investments	(236)	(264)	(160)	(131)
Grant received	25	15	13	9
Other	3	5	1	122
Cashflow from financing activities				
Net borrowings	212	192	19	(55)
Interest paid	(57)	(51)	(47)	(46)
Net change in cash	57	(23)	(40)	77

*2016/17 are the combined results of AmicusHorizon and Viridian Housing Associations pre-merger.

We had £137 million cash and liquid resources at 31 March 2020.

Key Financial Indicators

	2019/20	2018/19	2017/18	*2016/17
Number of homes in management excluding leaseholders	43,180	42,857	42,133	41,896
Social Housing cost per unit	£4,425	£4,189	£4,246	£4,583
Interest cover (Association as per loan agreements) ^	197%	247%	262%	389% AH
	162%	287%	306%	410% VH
EBITDA - Earnings before interest, tax, depreciation & amortisation per unit	£2,114	£3,656	**£3,784	***£3,831
EBITDA - Earnings before interest, tax, depreciation & amortisation and excluding FAIR VALUE movements per unit	£2,763	£3,042	-	-
EBITDA MRI (including major repair improvements capitalised) per unit	£1,676	£3,232	£3,373	£3,798
EBITDA MRI (including major repair improvements capitalised) excluding FAIR VALUE movements per unit	£2,318	£2,619	-	-

Fair value movements have significantly impacted EBITDA and EBITDA – MRI. Removing the impact of negative fair value movements improves the EBITDA position in year. Year on year the position falls reflecting increased investment in existing homes on planned maintenance (fire safety) which is not offset by the increase in the number of homes in management

Net debt to turnover	4.19	3.79	3.08	2.75

Debt less cash increased by £153 million and turnover increased by £8 million

Operating margin	23%	29%	31%	35%

Impact principally of a £9 million increase in maintenance spend, £3 million increase in void loss and a £2 million increase in service charge costs over revenue income

Change in turnover	3%	(1)%	(8)%	12%

Increased revenue from rents, service charges and first tranche sales

Change in major repair improvements capitalised year on year	5%	5%	(21)%	(4)%

Impact of higher major repairs spend on our homes

Effective interest rate	3.93%	4.24%	4.31%	4.02%

We've increased net borrowing by £153 million and been able to reduce our average weighted cost of debt.

*2016/17 are the combined results of AmicusHorizon (AH) and Viridian Housing (VH) Associations.

**2017/18 EBITDA is stated before write off of hedge reserve.

***2016/17 EBITDA comparative excludes one off fair value gain.

^First figure adds back capitalised major repairs, second figure does not.

Value for Money

How we ensure we deliver better value for money
Our Board drives the delivery of the Value for Money (VFM) agenda supported by the whole business and residents. The additional capacity released by merger enabled us to increase our investment in new homes and to spread our costs over a larger asset base.

Value for Money performance
We use the Regulator of Social Housing's value for money metrics and our own metrics to review our performance and target actions. We measure these against our G15 peers. Although G15 comparisons are a year behind our financial reporting they still provide an effective comparison of performance. Our performance against targets is summarised below.

Regulator of Social Housing - Value for Money metrics

Metric 1 – Reinvestment

	2019/20	2018/19	G15 2018/19 Highest	G15 2018/19 Lowest
Investment in property	8.2%	9.7%	11.0%	3.1%

This measures our investment in new and existing homes as a percentage of the total value of properties held. We invested £239 million in new and existing homes in 2019/20 compared to £265 million in 2018/19.

Metric 2 – New supply

	2019/20	2018/19	G15 2018/19 Highest	G15 2018/19 Lowest
A. New supply delivered % (social housing)	2.0%	2.1%	3.9%	0.8%
B. New supply delivered % (non-social housing)	0%	0%	2.4%	0.0%

This metric sets out new housing supply delivered by us as a proportion of our total homes at period end. In line with our development plan all our new supply in 2019/20 was for social housing, with 788 homes handed over and ready to let by 31 March 2020.

Metric 3 – Gearing

	2019/20	2018/19	G15 2018/19 Lowest	G15 2018/19 Highest
Gearing	46.0%	43.8%	30%	55%

This metric assesses how much of the adjusted assets are made up of debt and the degree of reliance on debt finance. Gearing is increasing reflecting our expanding development programme. Based on the Regulator's definitions net debt increased by £153 million. This is lower than the increase in housing cost of £162 million. We remain within our lender covenant and risk appetite set by Board.

Metric 4 – EBITDA MRI interest cover %

	2019/20	2018/19	G15 2018/19 Highest	G15 2018/19 Lowest
EBITDA-MRI %	150.3%	191.6%	285%	83%

This is a key indicator for liquidity and investment capacity. Our EDITDA- MRI percentage reduced due to an increase in interest payments on our larger loan portfolio and increased spend on major repairs, planned maintenance and service charge cost in 2019/20.

Metric 5 – Headline cost per unit (CPU)

	2019/20	2018/19	G15 2018/19 Lowest	G15 2018/19 Highest
Social housing CPU	£4,425	£4,189	£4,189	£6,716

Our social housing cost per unit increased by £226. Additional fire safety spend added £103 to our cost per unit. Higher service charge costs added £110 plus a further £61 from increased responsive and void maintenance costs. Further information on our cost per unit is set out on page 36. In 2018/19 our CPU was the lowest in G15 and we had the highest satisfaction rating (96%), the next highest score was 88%.

Metric 6 – Operating margin

	2019/20	2018/19	G15 2018/19 Highest	G15 2018/19 Lowest
Operating margin –overall	22.6%	28.9%	35%	14%
Operating margin – social housing	24.7%	29.9%	39%	23%

The operating margin demonstrates the profitability of operating assets before exceptional expenses are taken into account. Our operating margin is below our target of 27% for 2019/20. It's lower than 2018/19 due to an increase in void loss and void repair costs, higher fire safety spend, increased bad debt provision and an increase in service charge costs not fully offset by additional income. We exited Ealing Care in March 2020. Our 2019/20 overall operating margin excluding care is 23.1%.

Metric 7 - Return on Capital Employed

	2019/20	2018/19	G15 2018/19 Highest	G15 2018/19 Lowest
Return on Capital Employed (ROCE)	2.8%	3.5%	5.4%	1.8%

ROCE is a measure of the efficient investment of our resources. Annual operating surplus is divided by capital employed (total assets minus current liabilities). The majority of our housing stock is held on balance sheet at historical cost. Our ROCE is reducing reflecting increasing investment in new homes which are not yet complete so not yet generating surpluses.

Other benchmarking

Financial performance	2019/20 Actual	2019/20 Target	2018/19	G15 2018/19 Highest	G15 2018/19 Lowest
Rent arrears	4.31%	4.5%	4.35%	-	-
Void rent loss	1.6%	0.57%	0.81%	-	-
Rent collected (General needs & HOPS)	99.8%	Not set	99.2%	100.8%	98.8%
Customer satisfaction	95%	96%	96%	96%	64%
Reinvestment % (in new and existing homes) as a percentage of our stock	8%	10%	10%	11%	4%
Investment in communities	£2.0m	£2.3m	£1.7m	£12.4m	£0.3m
Occupancy	98.7%	-	97.9%	100%	96.6%
Ratio of responsive to planned repairs	37%	33%	45%	186%	24%

Rent arrears of 4.31% was better than our annual target of 4.5%. We expect an increase in arrears in 2020/21 as a result of the economic impact of Covid-19. In the first 10 weeks of the lockdown, we had almost 1,600 new claims for universal credit. Accounts where there is a universal credit claimant make up a higher proportion of the overall debt on our properties. Our ratio of responsive to planned repairs improved due to higher fire safety spend in planned maintenance.

Factors contributing to the increase in void loss included an increase in tenancy terminations, higher average void turn-around time due to needing to complete more works before homes could be relet and high void loss in some of our sheltered schemes. We implemented an action plan mid-year to reduce our void loss and we've targeted further improvements in 2020/21. The impact of Covid-19 on lettings may affect how quickly we're able to deliver those improvements.

Customer satisfaction of 95% is 1% lower than last year but should remain in the upper quartile compared to our peers.

Value for Money - Understanding our Social Housing cost per unit

We want to maximise the benefit of our finite resources to achieve our objectives. Sharing the breakdown of our cost per unit with staff, residents and other stakeholders helps us focus on where we want to spend our money and where we need to find efficiencies.

Optivo Social Housing CPU	2019/20	2018/19	Change
Number of homes	40,425	39,955	512
Headline CPU	4,425	4,189	(226)
Management	1,261	1,377	116
Service charge costs	687	577	(110)
Maintenance	1,757	1,517	(240)
Major repairs	671	685	14
Other	49	33	(16)

We've analysed the change in our cost per unit as follows:

Management

Management cost per unit has improved by £116 - £44 lower direct costs and £72 lower corporate overhead. As a result of increased unit numbers and efficiency savings, our direct management cost of general needs and independent living properties has reduced by £17 per unit. Reclassification of hostels to student properties has reduced our direct management cost per unit by £38. Direct management cost of shared ownership properties has increased by £9 per unit as we've increased staff resources this year. The cost per unit of other property tenure types has increased by £1. 2018/19 corporate overhead included some final merger costs equating to £66 of the lower cost per unit. Our new strategic plan for 2020-25 will focus on reviewing how we work, driving more efficient processes and improving technology.

Service charge costs

Service charge cost per unit increased by £110. Higher communal electricity, fire safety spend and managing agent costs jointly contribute to almost 50% of the increase. As part of our sustainability objectives, we're working to minimise utility costs. Under our energy strategy we aim to purchase the most sustainable and cost-effective energy supplies. We're helping residents with energy advice and increasingly use technology to ensure bills are accurate. Higher fire safety spend reflects our commitment to health & safety in our homes and communal areas. Being able to better control managing agent costs is an improvement area we are focusing on.

Maintenance

Our maintenance cost per unit has increased by £240. Direct costs are £190 higher, maintenance support costs are £61 higher and corporate overhead is £11 lower. Additional fire safety spend has contributed to an increase in our direct costs. We've spent £103 per property more on fire safety work than last year. This reflects our commitment to health and safety in our homes and our response to recommendations in the Hackitt Review. Responsive & void direct costs increased by £61 per property. Void numbers increased significantly this year and we have had to invest more in those homes due to the condition in which they were handed back. Also, bringing our London repairs service fully in-house did not deliver savings as quickly as we planned. During 2020/21, we'll be focussing on replacing contractors with in-house staff where it's cheaper to do so and driving better value from contactors where we do need to use them. Maintenance support costs increased as we restructured our Asset Compliance team to deliver our health & safety programme.

Major repairs

Our major repairs cost per unit decreased by £14, our overall spend is slightly lower and is spread over an increased number of homes in management. We've analysed the replacement cost for each major component including ensuring we understand the regional variations; we'll use this information to focus on finding efficiencies.

Conclusions

We remain committed to delivering ever better value for money and performance. We're also committed to maintaining strong resident engagement to ensure we deliver the right services as efficiently as we can. Throughout 2020/21 we'll continue to monitor and report our cost per unit breakdown. We'll use this breakdown to see how and where we're driving down costs.

Financial Planning

Board uses the financial plan to ensure long term covenant compliance, to establish financial risk appetite and to set an envelope for investment in new homes. We undertake a remodelling at least annually. Our latest financial plan reflects our new strategic priorities and includes incremental annual savings of £5.1 million to be delivered by 2022/23. It also reflects our development ambitions to start 7,000 homes during the 5 year period to 2024/25 and additional fire safety costs of £62 million spread over the next six years. Our business model gives Board flexibility on how to respond to adverse shocks to sales income. Unlike commercial house builders we could convert homes for sale into rented products.

Treasury management

Our Treasury Management Policy Statement ("TMPS") sets out the principles, policies, procedures and objectives of our treasury management activities. It's reviewed annually to ensure we apply best practice.

Significant treasury risks include ensuring the Group has sufficient liquidity to fund its operations and development pipeline, interest rate risks and ensuring that all loan covenants are met. Our liquidity policy requires us to have sufficient funds in place so as not to rely on sales.

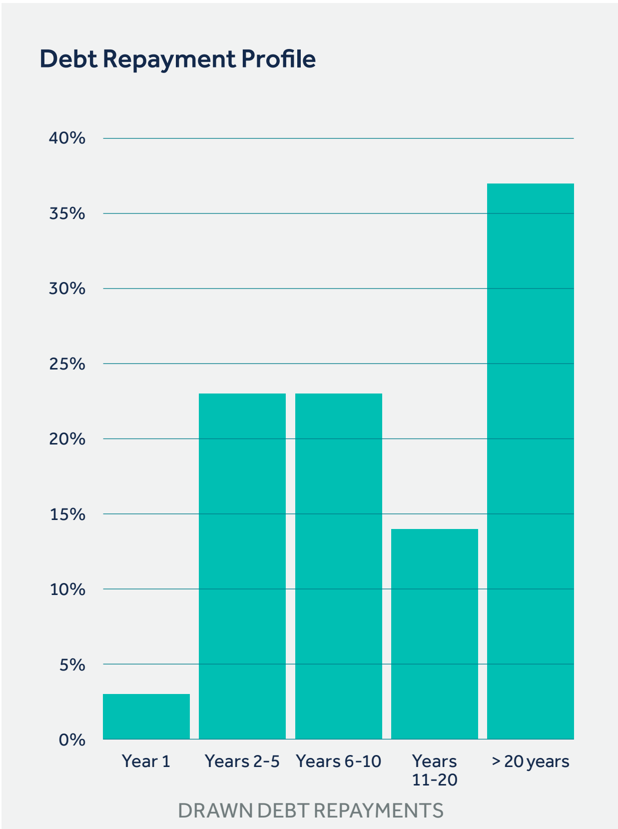
Facilities and Funding

Committed facilities are mainly secured against our social housing assets (£75 million of funding is unsecured). These assets are independently valued to ensure we meet lenders' asset cover requirements. As at 31 March 2020 30,509 homes were charged as security to lenders (including derivative counterparties). We also held 11,853 unencumbered chargeable properties.

During the year we sold £100 million remaining 2048 maturity retained bonds and arranged £250 million new funding of which £75 million was unsecured. At 31 March 2020, borrowings for the Group totalled £1,478 million from available facilities of £1,883 million (March 2019: total borrowings were £1,281 million from available facilities of £1,661 million). All undrawn facilities are short term revolving credit facilities and are fully secured and available to be drawn.

We maintain diversification in funding sources with 66% coming from nine banks and 34% from capital markets and other sources.

The Group has limited re-financing risk with 74% of current debt due for repayment in more than 5 years.



Interest rate management

The Group manages its exposure to fluctuations in interest rates with a view to achieving an acceptable level of certainty in its net interest costs. We target the range of 75% to 95% of net debt to be on a fixed rate basis, with a weighted average duration of between 8 to 14 years. Net debt is fixed either on an embedded basis, by drawing fixed-rate loans under the terms of our loan documentation or through standalone interest rate swaps transacted under ISDA (International Swaps and Derivatives Association) or through standalone interest rate swaps. As at 31 March 2020 85% of net debt was fixed and the weighted average duration was 12.8 years. The weighted average cost of debt was 3.79% (March 2019: 4.24%).

We manage our mark to market (MTM) exposure risk using thresholds built into our ISDA agreements below which margin calls do not arise, and providing property security as collateral. At 31 March 2020, MTM exposure equalled £171 million (March 2019: £148 million). Thresholds and property security covered the full market exposure. A 1% fall in rates would have increased our MTM exposure to £227 million. Our policy of over collateralisation with property security means this would not trigger a cash margin call.

Liquidity

We maintain sufficient liquidity to meet our liabilities and expenditure requirements. Our liquidity tests are as follows:

1. Cash of £50 million to be available at all times
2. Sufficient cash and loan facilities available for drawdown to cover the next twelve months' forecast cash requirement
3. The sum of cash, loan facilities, anticipated core business surplus for the next two years and reserved sales sufficient to cover all contractually committed future development spend and the next year's scheduled loan repayments.

At 31 March 2020 we had cash and short term investments of £137 million (March 2019: £81 million), and available loan facilities (secured and unsecured as above) of £405 million (March 2019: £380 million). These resources are more than sufficient to meet the Group's contractual commitments. After the financial year end, on 7 April 2020, we completed a new £250 million 15½ year public bond issue. We immediately repurchased and retained £100 million for future sale within 3 years. We also agreed £150 million unsecured short term funding from the Bank of England's Covid Corporate Financing Facility (CCFF), taking total liquidity to £800 million.

Cash and short-term balances are placed in money market funds, short-term bank deposits and in interest bearing accounts with our clearing banks.

Compliance with loan covenants

The Treasury team reports compliance with loan covenants quarterly to the Treasury Committee. The Group complied with all financial covenants for the year ended 31 March 2020 and expects to do so in the foreseeable future.

Our people and culture

Our customers are at the heart of everything we do. We're passionate about offering the best service possible and believe a strong culture gives us the foundations to do this. Our CORE values and behaviours are embedded in everything we do, they're what's made us one of the UK's leading housing associations for customer satisfaction. They also help our staff to thrive and progress in a supportive environment that values diversity and the richness diversity brings to all aspects of their work.

Customer Focused
We take ownership and responsibility, we are positive and engaging and we put residents at the heart of everything we do.

One Team
We work together and support each other, we are united behind our goals and we don't pass the buck.

Respect
We show consideration, we treat everybody with fairness, we value our fellow colleagues.

Enthusiastic
We go the extra mile, we're passionate about achievement, we're eager to learn.

We embrace cultural diversity in the workplace and value the strengths it brings us as an organisation. We know employees who can be themselves at work will be happier and more productive. We're continuously working with residents, customers, partners and suppliers to improve equality, diversity and inclusion. How we recruit, engage and progress our staff is connected to a strong, outcome-driven Equality, Diversity and Inclusion (EDI) strategy. Our EDI Group is leading the way and acts as a sounding board for our internal and external stakeholders. This group is dedicated to helping everyone at Optivo feel they can be themselves and see their differences as a strength rather than a barrier to success.

79%
proud to work for Optivo

80%
think Optivo is a great employer

We're backing Leadership 2025, a leadership development programme to promote better representation of BAME individuals at leadership levels. This initiative celebrated its first year in November 2019 where six participants were recognised for completing the intensive nine-month business school accredited programme which aims to prepare them to become the sector leaders of the future. The six included our Director of Construction and one of our Board members.

We also provide support to ensure individuals from protected groups have specific forums for discussion and channels to initiate change. These include:

- Wellbeing and disability forum (care, long-term mental and physical health, disability, reasonable workplace adjustments)
- Women's networking group
- LGBT (Lesbian, Gay, Bisexual, Trans people) networking group
- BAME (Black, Asian and Minority Ethnic) networking group
- Multi-faith support group.

91%
understood the positive contribution they had made towards our strategic goals

Through our Single Equality Scheme we are committed to providing equal opportunities to staff and proactively encourage an inclusive workplace. Staff diversity is a key indicator. At 31 March 2020 our people profile was: 35% black and minority ethnic, 59% female and 8% had declared a recognised disability. As an equal opportunities employer we encourage applications from people with disabilities. We make appropriate adjustments for employees with disabilities to help them remain in employment. We are accredited as part of the Disability Confident Employer scheme. This is in recognition of our commitment to employment, retention, training and career development for employees with a disability.

Gender pay

In accordance with Government legislation we report on the gender pay gap. The gender pay gap is the difference between the average pay of men and women across our business; it is not a comparison of pay rates between men and women doing the same job.

Our 2020 report is based on data at 5 April 2019, we had 1,556 employees on this snapshot date. With nearly two thirds of our employees being female, we're encouraged that Optivo's gender pay gap at 7.8% is below the national average. Our average gender pay gap as a mean average is 13.4% in favour of men. This represents the difference between the average salaries of men and women across our workforce. It is marginally worse than the previous year.

We've also seen a slight increase in men to women in 2019, even though there remains a higher ratio of women. This is a result of recruitment in our Property and Asset Management function (a sector with a higher proportion of males to females). We carried out this recruitment to meet the requirements of the Hackitt review. We had an urgent need to act on the outcomes of the Hackitt Review and safeguard our residents. The sector as a whole has been recruiting from an increasingly small pool of qualified candidates and this has pushed up salaries in this area.

We recognise there's more to do in improving the gender profile in this part of our organisation. We'll be working with our recruiting managers to look at ways of addressing this over the coming year. We're also interrogating our data to identify actions we need to take and have set a strategic target to reduce our gender pay gap by at least 5% by 2025.

Optivo	2018/19	2017/18
Average gender pay gap as a mean average	**13.4%**	12.6%
Average gender pay gap as a median average	**7.8%**	7.8%
Average bonus gender pay gap as a mean average	**4.7%**	5.0%
Average bonus gender pay gap as a median average	**0.0%**	0.0%
Proportion of males receiving a bonus payment	**71.7%**	33.4%
Proportion of females receiving a bonus payment	**78.8%**	40.6%

Employees

At 31 March 2020 we had 1,491 full time equivalent employees. Having great people on board is essential to us delivering our strategic objectives. Our staff are an essential resource. We consult and involve staff on all aspects of our operations through: Staff forum, team meetings, email communications, newsletters and our intranet. It is essential our people are engaged with our objectives and are motivated to provide excellent customer service. We had 159 employees earning over £60,000.

Risk management

Everything we do involves a certain amount of risk. We plan carefully, but there are always things that can go wrong or do not turn out as we would want them to. Risk management is the collection of actions we carry out to identify, understand and manage risks to the achievement of our objectives. It's not about avoiding or eliminating risk. It is about understanding what the risks are, what can cause those risks to occur, the likely impact if risks materialise, and how we can manage or mitigate this. When we understand the risks we face we can make properly informed decisions and find efficiencies through avoiding 'surprises'. The Risk Management Framework considers risk from identification, to risk analysis, evaluation, treatment and finally monitoring and review.

Principal risks and uncertainties
Our goal is for risk management to be:

- **Embedded in our culture.** Part of a positive organisational culture in which people embrace their role and responsibilities
- **An integral part of all organisational processes**, and not a stand-alone activity performed in isolation
- **Explicitly addressing uncertainty.** Identifying the nature of uncertainty and how we can address it
- **Based on the best available information**, drawing on data, expert judgment and stakeholder feedback to inform evidence-based decisions
- **Part of decision-making**, helping senior management to make informed choices, prioritise activities and identify the most effective and efficient course of action
- **Dynamic and responsive to change**, responding swiftly to events, changes in the environmental context and the results of monitoring and reviewing activities
- **Consistent.** Applied consistently across our business, to facilitate comparisons and prioritisation
- **Applied with clarity** – clear delineation of roles and responsibilities for regular review and challenge of risk management.

We define strategic risks as "threats which if they occur could materially impact the long term viability of the business, or which could cause significant derailment, such that strategic objectives are not delivered". Typically these are affected by competition, sector changes, capital availability, political environment, legal and regulatory changes and reputation issues. These tend to be inter-departmental in nature and reflect cross-cutting themes. Strategic Risks are owned by the Executive Team and reported to each regular Board meeting and to Audit & Risk Committee. To keep the Strategic Risk Register focussed we report to Board where significant derailment could occur within 24 months.

Departmental risks
Departmental Risks are significant in the context of our business. These are owned by Leadership Team and are reviewed at least quarterly. Structured in this way, we ensure risk ownership is clear and the whole operational business is risk assessed. Some Departmental Risk Registers are subject to review by Board sub-committees. The remainder will be scrutinised by the Risk Panel on a rotational basis. Risks are "escalated" from Departmental Risk Registers to the Strategic Risk Register through the Risk Panel reviewing high-scored departmental risks, and advising the Executive Team.

Risk appetite
We recognise it may not be possible to deliver our strategic objectives unless the business takes risks. We have a responsibility to strike the right balance between a very passive approach (taking little or no risk) and a very active approach (taking too much risk). Our Statement of Risk Appetite is an expression of how much risk we are prepared to take. The Statement is set by Board and reviewed annually by Audit & Risk Committee. Risk appetite varies between different business areas, can change over time and is dependent on the opportunities or benefits presented through the activity weighed against the risk exposure. There is therefore no single definition of risk appetite which applies across the business. We consider risk appetite for each strategic risk.

Strategic risks at March 2020

Risk		Comment and risk mitigations
Provide sector leading service		
Significant breach in fire safety standards	↔	The consequences of failure to work within the fire safety regime are significant. We have invested heavily in our processes and staff to ensure we protect our staff and residents. We have put in place new contractors to support our work and also commissioned a third party to review our high risk accommodation. There is a high level of oversight from Board right through to the Health & Safety Group. Our programme to complete the programme of works from the Hackitt recommendations is ongoing.
Information security breach	↔	A catastrophic loss of data or inadvertent non-compliance with regulations would cause the business significant damage. We operate a range of security arrangements including two factor authentication and appropriate access controls. Regular security testing and network monitoring are carried out and reported to our Information Governance Group. We also require our staff to complete annual training on data protection.
Unavailability of IT systems	new risk in 2019/20	Loss of IT or failure to test ahead of launching new IT offerings would be extremely detrimental to our ability to provide effective services for our residents. Over the last year we reassessed our network performance to strengthen our IT capability. Disaster recovery plans are tested monthly and we have ongoing monitoring of our network for exceptional activity to keep us safe. We will be developing a new IT strategy to sit alongside the new five year strategic plan to enable us to improve how we work.
Counterparty risk	new risk in 2019/20	In the current challenging economic conditions we are very aware of the risks posed to our third party contractors particularly in development and asset management. Our new contract management framework supported by a contractor risk profile assessment enable us to manage contractor risk effectively so limiting the potential for any fallout to impact our operations.
Absence of robust framework that regulates data	↔	The Information Governance Group oversees the management of data ensuring information asset owners are in place and appropriate data validation checks are in place. We are now substantially compliant with the General Data Protection Regulations having carried out a major exercise during 2019/20 to minimise sensitive data held and to close down legacy systems.

Risk		Comment and risk mitigations
Maximise our social impact		
Funding environment and covenant compliance	↔	We update our financial plan and stress testing annually. Our financial parameters place limits on the risk built in to the plan and so the scale and tenure mix of the development programme. They express the Board's risk appetite and ensure actual and projected financial risks are within our capacity for financial risk. Given the heightened short term uncertainty arising from Covid-19 we are reviewing our plans more frequently and focusing stress testing more over the short term. We have some exposure to risk of impairment, where house price falls mean we may write down asset values. Insights from our stress testing drive decisions about when and what new development commitments we should make. Strong financial controls and frequent reporting on treasury matters including, covenant compliance, mark to market exposure and liquidity.
Change in government policy	↑	Whilst a high risk to us, our focus is on influencing central and local government on housing policy. Where changes are anticipated we feed them in to our financial planning process and stress test plans.
Significant breach in regulatory standards	↔	Effective governance enables us to manage our business. Regular controls compliance testing is carried out by our Leadership Team and we report annually to Board on compliance with the Regulatory Standards. During 2019/20 we carried out a governance review which has resulted in some changes to our Committee structure and consolidation of certain group members.
Value our people		
Staff - low morale, lack of inclusivity and engagement, poor performance	↔	Our staff are one of our most important assets. Our culture programme provides guidance on CORE values, behaviours and expectations. Regular staff pulse surveys are carried out providing us with a wealth of data to identify actions to enable Optivo to continually improve as a good employer and to gauge satisfaction. Having a strong union relationship and a staff forum give people a place to formally discuss and feedback on issues affecting our colleagues.
Ensure a sustainable business		
Failure to deliver value for money	↑	It is essential we operate an effective, efficient business that delivers the right services to our residents. Whilst we delivered the lowest cost per unit of the G15 in 2018/19 our costs have increased this year reflecting the increasing investment needs following the Hackitt recommendations. We will continue to find more effective ways of working to deliver high quality services and resident satisfaction and to create capacity for new homes.
Pension liabilities	↔	We have complex pension arrangements. With the support of the Pensions Group and our pensions' strategy we have been streamlining arrangements. In 2019/20 we exited two final salary arrangements one following Optivo exiting a care business. We also moved out of the Social Housing Pension Scheme and established our own Optivo scheme managed by the Pensions Trust. The latest scheme valuations are factored in to our long term financial plans.

Risk		Comment and risk mitigations
Ensure a sustainable business (continued)		
Non-compliance with H&S legislation	↔	We operate within a heavily regulated sector which helps protect staff, residents and other third parties. The consequences of failure to comply would be significant for them and our business. We produce regular health & safety scorecard reporting. We use third parties to validate a range of asset compliance activities including sample checking high risk FRSAs and related actions. Our dedicated Asset Compliance team complete routine data validation and carry out spot checks to provide a further layer of assurance.
Unable to deliver 1,500 homes target by 2020	↑	Our ability to deliver the target number of homes ultimately will be driven by our capacity which we measure through the financial plan and stress testing. We ensure that any new scheme is fully backed by funding before commitment. Effective programme monitoring ensures we stay within capacity. Board approved a number of triggers to ensure we manage our exposure to the housing market.
Fall in land values, house prices and asset / investment values	↔	We have a sales programme which will average around 300 homes per annum. The vast majority is shared ownership which provides partial shelter from a housing market downturn. Over the next three years 85% of our development programme will be affordable housing with the majority of that providing rented homes. Ahead of making a new development commitments we ensure the appraisal is first stress tested and that funding is secured and in place.
Unable to manage through the Coronavirus pandemic	new risk in 2019/20	Our ways of working are being tested as we face the challenges of Covid-19. We've put in a place a number of controls to help us manage the impact on our business including establishing appropriate governance arrangements and weekly reporting of a suite of KPIs to alert us to key risks. We increased our liquidity threshold from £50 million to £75 million and can draw on the Bank of England's Covid Corporate Financing Facility (CCFF) up to £150 million. We redeployed staff to focus on key activities such as financial inclusion to support our residents. We established a resident resilience programme and have made over 70,000 calls to residents to provide support on a range of concerns such as wellbeing, income, welfare and employment support. Having moved to an emergency repairs service we are now remobilising activities to return to a full service offer in July. All our development sites have reopened. Whilst lockdown rules are now being eased, there is a real risk of further national or local lockdowns. We moved the business very successfully to remote working in the first lockdown and consider we are well placed to continue to operate as effectively should we face a second wave of the pandemic. We are now taking the opportunity to review lessons learnt from this experience and how we can establish new ways of working in the longer term.

↔ / ↑ - indicates change in likelihood of risk occurring compared to 12 months ago

Effects of material estimates and judgements upon performance

The following are the material judgements affecting performance.

Capitalisation of property development costs
Distinguishing the point at which a project is more likely than not to continue and allowing capitalisation of associated development costs requires judgement. After capitalisation management monitors the asset and considers whether changes indicate that impairment is required. The total associated development administration costs capitalised in the year was £5.9 million.

Useful lives of depreciable assets
We set out the expected useful lives of our assets in note 1. Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and ICT equipment, changes to decent homes standards which may require more frequent replacement of key components and changes to the ability to let the property which may reduce the economic life of the property. Our policies are well developed. Accumulated depreciation at 31 March 2020 was £452 million, with the total charge in year of £37 million.

Defined benefit pension scheme obligations
At 31 March 2020 we had five defined benefit pension schemes, all closed to new members. During 2019/20 we exited the Growth Plan scheme, moving the members into the Social Housing Pension Scheme (SHPS). In March 2020 we transferred our SHPS defined benefit and defined contribution members out of SHPS into our own Optivo scheme managed by The Pensions Trust. In February 2020 we transferred our Ealing Care business to another provider along with the staff in the London Borough of Ealing local government pension scheme.

Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. We draw advice from scheme actuaries and our retained advisors. Variations in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses (as analysed in note 36). The net liability at 31 March 2020 was £34 million.

Impairment
Management assesses the housing properties for indicators of impairment at each balance sheet date. Where indicators exist a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. Judgements in assessing the level of cash generating units and the recoverable amounts could lead to increases or decreases in the impairment provision. Covid-19 is considered to be a trigger of impairment and its impact has been considered during our impairment review.

Fair value
Investment properties and financial instruments are held at fair value, differing valuation approaches may have an impact on the surplus reported. We have explained our approach to valuation in the related accounting policy and note, taking into account the uncertainties Covid-19 has presented.

Classification of disposals of property, plant & equipment
Housing and related asset disposals are presented within operating surplus. Surplus on sale of our investment properties and non-housing assets are presented below operating surplus.

Bad debt provision
We make a provision for the likelihood of debtors failing to pay. Our assumptions bandings are based on the type of debt (including customer analysis) and length of time the debt remains unpaid. In light of the likely impact of Covid-19 on our residents and in anticipation of higher arrears we've reviewed and updated our assumptions.

Properties held for sale - value
There is uncertainty in the housing market due to Covid-19. In establishing whether the value of our properties held for sale is higher than net realisable value we have made assumptions that there will be a 10% fall in housing valuations in the short term and as a result have written down our stock value.

Leadership and Governance

Optivo is led by the Board which sets the strategy for the business. Our Executive Team is responsible for the day to day management. Residents work alongside us ensuring their voice is heard to help us drive performance and improve results.

During 2019 we undertook a comprehensive review of all our governance arrangements including a review of Board and committees and our Governance Framework and Delegations.

The Board

The main responsibilities of our Board include:

- Setting our overall strategy and business plan
- Making sure our Executive Team is working effectively and has access to the resources it needs
- Ensuring any risks to the organisation are identified and controlled
- Monitoring our performance, service delivery and financial viability.

The Optivo Board at 15 July 2020 has ten independent Non-Executive Directors (NEDs) of which two are Optivo residents. Our Chief Executive also sits on the Optivo Board. Either directly or through Committees with delegated authority, the Board brings an independent view on all strategic issues. It also covers performance, resources and the control framework. Board and Committees are appraised annually, both individually and collectively.

Sir Peter Dixon

Chair

- Member of Growth Committee
- Former Chair of the Housing Corporation
- Chair of Diabetes UK
- Former Vice Chair Broads Authority
- Former Chair UCL NHS Foundation Trust

Eugenie Turton

Vice Chair

- Member of Audit & Risk Committee
- Member of People, Governance & Remuneration Committee
- Former Director General for Housing and Planning
- Former Non-Executive Director for Genesis then Notting Hill Genesis
- Board Associate and Mentor of Critical Eye network for business leaders
- Member of the Advisory Council on the Disposal of Nuclear Waste

Nick Stephenson

- Trustee of Fresh Visions Charity
- Member of Customer Experience Committee
- Member of Treasury Committee
- Member of People, Governance & Remuneration Committee
- Experienced economic development consultant
- Optivo resident

Andrew Wiseman

Chair of Growth Committee

- Chair of Optivo Homes and Lamborn Boards
- Member of Amicus Group Limited Board
- Founder of Telford Homes Plc
- Experienced developer of mixed tenure housing

William Howard Cresswell

Chair of People, Governance & Remuneration Committee

- Chair of Middlesex First Limited Board
- Member of Amicus Group Limited Board
- Chair of Pensions Group
- Former senior executive at Circle
- Former Interim Chief Executive of Hornsey Housing Trust
- Former board member at Ascham Homes

Geanna Bray

Chair of Customer Experience Committee

- Chair of Crystal Palace Housing Association Board
- Member of Growth Committee
- Over 20 years' experience working in the social housing sector
- Director of Customer Operations at One Housing

Michelle Dovey

Chair of Treasury Committee

- Chair of Optivo Finance Plc Board
- Member of Crystal Palace Housing Association Board
- Member of Amicus Group Limited Board
- Experienced financial risk management executive
- Director of MJD Treasury Solutions Ltd
- Non-executive director at The Riverside Group
- Board Trustee at Kairos Women Working Together

Andy Burder

- Member of Customer Experience Committee
- Financial Controller for a Real Estate Investment Manager
- Chartered Accountant and Chartered Tax Advisor
- Optivo resident

Damien Régent

Chair of Audit & Risk Committee

- Chair of Finance, Audit & Risk Committee Crisis (homelessness)
- Chair of Audit Committee at Kingston Hospital NHS foundation Trust
- Vice Chair and Treasurer at Médecins Sans Frontières UK
- Trustee-treasurer at Pro Bono Economics
- Financial analyst by background with significant experience in credit markets and financial institutions.

Chris Tinker

Designate Chair Growth Committee

- Former Interim CEO of Crest Nicholson, long term Chairman of Regeneration and Strategic Partnerships on the Crest Group Board
- NED of BBS Capital Ltd and Bathurst Developments Ltd
- Trustee of Yeldall Christian Centres and Kiriath Trust
- Formerly Chair of the HBF Major Homebuilders sub-committee, Board Director of the Housing Forum, Director of the Enterprise M3 LEP and member of the Homes England Design and Sustainability Advisory Board.

Paul Hackett

Chief Executive

- Member of Amicus Group Limited Board

Committees

The following are the principal committees supporting the Optivo Board. All Committees are chaired by a Board member.

Customer Experience Committee
This Committee champions the implementation and extension of Optivo's digital agenda. It supports the development of cutting edge customer facing strategies and the implementation of the technology strategy. It acts as an advisory Committee and has no delegated authority. The Committee has up to seven members including the Chair of the Resident Strategy Group, two other resident members, two board members (including the Chair) and two independent committee members.

Audit & Risk Committee
The Audit & Risk Committee has five members; two are Board members and three are independent committee members. Audit & Risk Committee meets regularly with senior managers and external and internal auditors to scrutinise audit findings and the effectiveness of the internal control framework. The Committee reviews the financial statements, including the applicability of policies and areas of judgement. Audit & Risk Committee receives control reports and recommendations arising from internal and external audits. The Committee meets privately with the internal and external auditors at least once a year.

People, Governance & Remuneration Committee
The People, Governance & Remuneration Committee has four members; three are Board members and one is an independent committee member. Committee's role is to support the Board to achieve strategic objectives around people issues including employment, human resources and organisational development. The Committee also oversees governance, remuneration and equality and diversity.

Growth Committee
The Committee has five members, three are Board members and two independent committee members. This Committee supports delivery of our development programme and commercial strategy. The Committee recommends the development strategy to the Board, monitors the development programme and advises the Board on development issues and new initiatives.

Treasury Committee
The Treasury Committee has four members, three are Board members and there is one independent committee member. The Committee's role is to oversee treasury activity and recommend the treasury strategy and plans to the Board.

Pensions Group
Pensions Group's role is to oversee the pensions strategy. This group is chaired by a Board member and currently has two members; one Board member and one independent committee member.

Chairs Group
The Chairs Group is formed of the Chairs of the Board and Committees. The Group's role is to consider specific issues requiring consideration/attention ahead of a Board meeting. The Group does not have any delegated powers.

Residents

We firmly believe in putting residents at the heart of our organisation, in a position to influence and drive up service standards. We have over 60 residents in our governance structure and recruit on an ongoing basis. They help influence decisions and scrutinise our services. Residents and staff work together to identify what's working well and where we can make improvements. The structure has links with our Board ensuring residents voices are heard throughout the organisation.

There are four regional Local General Panels and Local Repairs Panels which scrutinise local performance and service delivery, build and maintain links with local communities and help shape resident involvement activities.

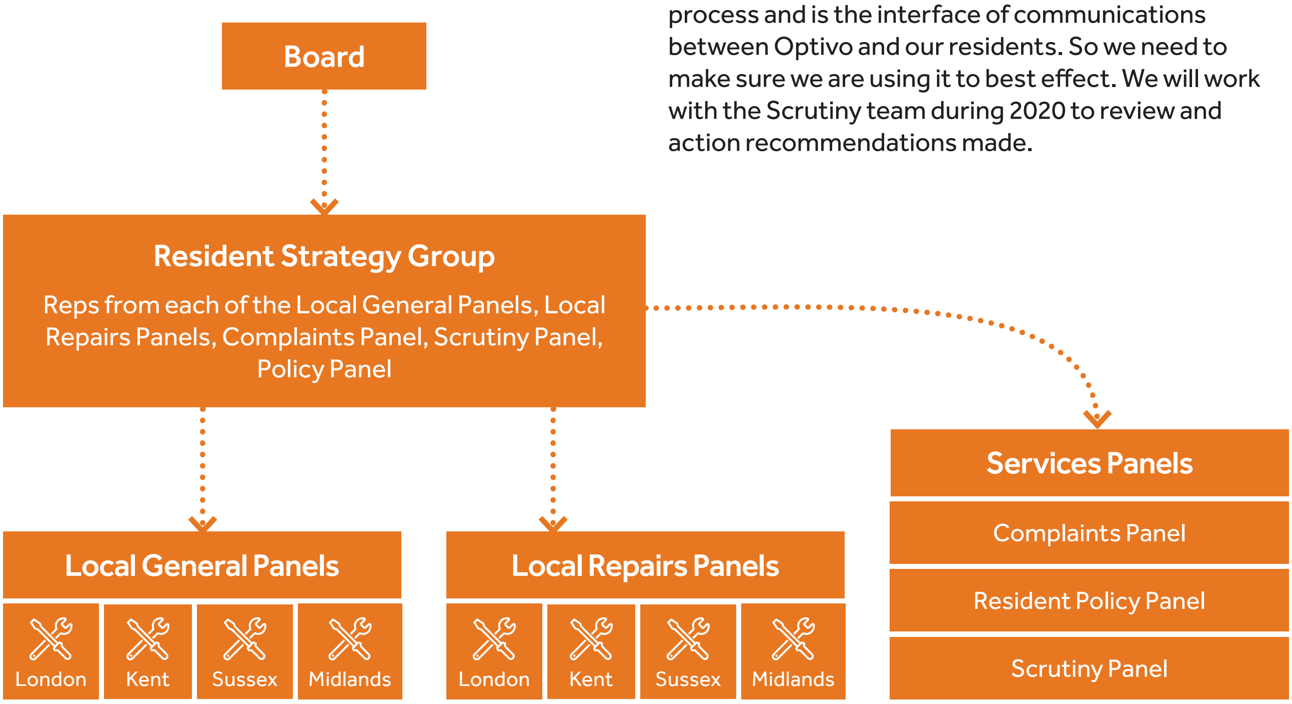
The Complaints Panel scrutinises complaints performance and trends and sit on complaint review hearings. The Resident Policy Panel endorse customer facing policies, before Board or Executive Team approval. The Scrutiny Panel carry out in-depth scrutiny reviews on projects commissioned by the Resident Strategy Group (RSG).

Representatives from each of the Local Panels sit on the Resident Strategy Group (RSG). The RSG scrutinises key performance indicators and overall service delivery, and work with Board and the Executive Team to develop strategies and influence budgets.

Resident Scrutiny – The impact of general communication on residents

During 2019 the Resident Scrutiny Group undertook a review of resident communications. The overall scope of the project was to review a sample of different types of communications and to consider the impact between Optivo and our residents. The work included a survey which reached over 1,100 residents across our four regions.

Many areas of good practice were identified including how effective communication is being embedded in the Optivo culture. Examples of communication within our Independent Living activities were noted as strong in particular the consultation carried out about service delivery proposals. But there were also a number of areas for improvement identified. We use too much jargon and need to be more consistent in our communications across all regions. Residents noted communications information held on our customer relationship management (CRM) system has more capacity to aid better communication than we are using. CRM is the power house of our communications process and is the interface of communications between Optivo and our residents. So we need to make sure we are using it to best effect. We will work with the Scrutiny team during 2020 to review and action recommendations made.



Executive Team

The Board delegates day to day management to the Executive Team (ET) named on page 110. ET are supported by the Leadership Team (LT) in developing and co-ordinating our culture and values.

Paul Hackett
Chief Executive

Prior to the launch of Optivo in 2017, Paul led AmicusHorizon as CEO since 2012. He's an Honorary Professor at the UCL Bartlett School of Construction and Project Management and a member of the Independent Advisory Board. He also sits on the Royal Institution of Chartered Surveyors (RICS) 'Housing Supply Group'. He is a Fellow of the RICS, the Chartered Institute of Building, the Chartered Institute of Housing and is an Academician of the Academy of Urbanism. Between 2017-19 Paul was Chair of the G15.

Sarah Smith
Chief Financial Officer

Sarah has worked with and in the housing association sector since 1988. She is a Chartered Accountant beginning her career with BDO. Before joining Optivo, Sarah spent eight years as Director of Financial Services at London & Quadrant Housing Trust. Sarah was Chair of the G15 FDs' group until June 2019. She is Vice Chair of the National Housing Federation's SORP working party. She sits on the Institute of Chartered Accountants in England and Wales (ICAEW) social housing sub-committee. She is a Trustee of Dolphin Square Charitable Trust and also a member of their Audit Committee.

Jane Porter
Chief Operating Officer

Jane has worked in housing for over 30 years and has held senior executive roles in housing management, development and home ownership.Jane is passionate about delivering excellent customer services. She has delivered sector leading performance through the use of real time data, segmentation and customer insight. She has driven continuous improvement and efficiencies through her vision and enthusiasm for technology solutions including predictive analytics, Robotic Process Automation, Artificial Intelligence, Internet of Things and bots.

Kerry Kyriacou
Executive Director of Development and Sales

Kerry has extensive experience in housing, starting his housing career at Hyde, having previously worked in commercial development for a large multinational business.

The majority of Kerry's housing career has been with Affinity Sutton/Clarion, where he worked for 17 years as Executive Director of Development and Sales, leading the organisation's development activities.

Joanne Stewart
Executive Director for People

Joanne has responsibility for developing our people strategy. She joined Optivo in September 2019. She brings a wealth of people and organisation capability, along with cultural transformation experience gained in a range of senior leadership roles. Prior to joining Optivo Joanne was Group Director for People at the UK digital technology agency, Jisc. She spent 10 years as a General Manager in the NHS and served as a Trustee for a national baby charity. She holds a masters in Strategic Human Resources Management and is a Fellow of the Chartered Institute of Personnel and Development (CIPD).

Health, safety and welfare of employees at work
Our current Health and Safety Strategy sets out how we'll look to continuously improve our health and safety performance to 2021. We have a well-developed Health and Safety Management System, underpinned by our Health & Safety Policy statement. The Policy contains a comprehensive organisational structure and framework, sets out responsibilities of managers and staff, and summarises the arrangements for putting the Policy into practice. The Chief Operating Officer acts as the Optivo 'Health & Safety Champion' and executive lead, chairing our Health & Safety Group (HSG), and reporting to the Board on performance at least quarterly.

Our Head of Health & Safety is responsible for the strategic management and implementation of the Health & Safety Management System, supported by a competent in-house Health & Safety team. We carry out regular inspections of health and safety standards across our portfolio, and closely monitor performance relating to key compliance areas which is scrutinised at Operational Performance team, HSG and Board meetings.

Environmental policy
We strive to adopt the highest available environmental standards in all areas of our operations and investment decisions. We also expect similar environmental standards from our partners. Our environmental performance group monitors delivery of our energy and environment strategy.

We're committed to improving the energy efficiency of our homes which, in turn helps residents to reduce their fuel bills and to live more comfortably. We also help residents to manage their energy bills by delivering energy advice. By reducing emissions from our offices and business travel, we're reducing our environmental impact and improving value for money. We've achieved a Sustainable Homes Index for Tomorrow (SHIFT) Gold for the second year running and ahead of our 2020 target.

And we're planting 2020 trees for 2020!

We launched our project to plant 2020 trees in 2020 by planting 500 trees in Milton Creek, Sittingbourne.

Compliance with Governance and Financial Viability Standard
The Regulator of Social Housing's (RSH) Governance and Financial Viability Standard (the Standard) provides guidance to enable us to assess our compliance with the Standard. The overall required outcomes of the Standard are:

- To ensure we have effective governance arrangements in place that deliver the aims, objectives and intended outcomes for our residents and potential residents in an effective, transparent and accountable manner
- To manage our resources effectively to ensure we maintain our viability, ensuring that social housing assets are not put at undue risk.

The Standard requires registered providers to assess their compliance with the Standard at least annually. Boards are required to report their compliance with the Standard within their annual accounts. Boards need to determine where they are obtaining their assurance to demonstrate to the RSH:

- A clear understanding of asset values, related security and potential losses. Boards need to know exactly what information will be required in the event of distress. They should ensure an up to date and accurate record of assets and liabilities is maintained, particularly those liabilities that may have recourse to social housing assets
- Evidence of application of the principles
- The assurance they receive on the quality of records.

The Audit & Risk Committee reviewed and updated our assurance framework on 1 July 2020. Compliance with the Regulator's Governance and Financial Viability Standard was reviewed by the Board on 15 July 2020.

We are fully compliant with all aspects of the General Data Protection Regulation (GDPR) with the exception of data minimisation where we are substantially compliant. We have robust Data Protection and Technology Policies to protect our data and mandatory GDPR training has been completed by staff. Optivo complies in full with the Rent Standard and is satisfied it has complied with all other laws and regulations that are relevant.

On 26 May 2017 the Board agreed to adopt the National Housing Federation (2015 edition) Code of Governance. The NHF are reviewing the current Code of Governance and implementation of the updated Code is expected in late 2020. The Association complies in full with the Code as reported to Board on the 25 March 2020. There are no areas where we are not compliant. The Board has adopted the NHF's code on mergers, group structures and partnerships.

Going concern
After reviewing Optivo's budget for 2020/21 and cash forecasts for the next year, the Directors have a reasonable expectation Optivo has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

In making this assessment the Directors have made an assessment of the potential impact of the Covid-19 pandemic on the cashflows of the company over the next 12 month period. The Directors have considered the impact of additional downside scenarios with potential increased voids, bad debts and falling house prices. In making their assessment the Directors have also considered the potential mitigations available to manage the potential impact on its cashflows and liquidity.

The Directors have concluded that whilst the potential impact of the Covid-19 pandemic presents current uncertainty, having assessed our plans, liquidity levels and mitigating actions available there is reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group was unable to continue as a going concern.

Assessment of the effectiveness of internal controls
The Board is the ultimate governing body and is responsible for the system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage risk and to provide reasonable assurance that key business objectives will be met. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Association's assets and interests. The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk.

The Board delegates the ongoing review of controls to the Audit & Risk Committee and receives annual reports from the Chief Executive and the Audit & Risk Committee. Day to day management of the business is the responsibility of the Executive Team.

Scope of Assurance
The Board understands our internal controls system is designed to manage rather than eliminate all risks. Our procedures can only provide the Board with reasonable rather than absolute assurance against material misstatement, errors, losses or fraud.

The Board's Review of Effectiveness
The Board considered the Chief Executive's report on Internal Controls and the Annual Report from Audit and Risk Committee for the year to 31 March 2020 and up to the date of signing these accounts. In order to fulfil their responsibility the Executive Team has established an assurance framework supported by clear delegated authorities and operating procedures.

We use our documented assurance framework to demonstrate to the Board and Audit & Risk Committee a robust process of reporting on internal control. This is supported by the annual self-assessment review and sign off by Executive Team and Leadership Team which evidences compliance with the assurance framework. The Internal Audit department provides an independent assessment on the robustness and effectiveness of the internal controls across the organisation. This team achieves this through a programme of reviews which are approved by and reported to the Audit & Risk Committee.

The Association also uses the services of independent third party auditors to review controls and processes where the nature of the review requires expertise not available in-house. These systems have operated throughout the financial year and up to the date of signing these accounts. The Board monitored and considered outcomes arising as a consequence of the risk management process. They also received reports from officers on the associated control environment. The Board confirms the risk management process was in place in the year and up to the date of the annual report, and is regularly reviewed.

The Board confirms we had no breakdown in internal control resulting in material losses, contingencies or uncertainties which would require disclosure in the financial statements during the year.

The Board and Executive Officers
The Board and Executive Officers of the subsidiaries are shown in those entities' financial statements.

Each Optivo Board member holds one fully paid £1 share in Optivo. The Executive Officers hold no interest in Optivo's share capital. They do not have the legal status of directors (apart from the Chief Executive), but act as executives within the authority delegated by the Board. We have directors' and officers' liability insurance for the Board, Executive Officers and staff.

Statement of the Board's financial responsibilities
The Board is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and the Group and of their surplus or deficit for that period. In preparing these financial statements, the Board is required to:

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

The Board is responsible for instituting adequate systems of internal control and for:

- Safeguarding assets
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for keeping proper accounting records. These disclose, with reasonable accuracy at any time, the financial position of the Association and the Group. This enables the Board to ensure the financial statements comply with:

- The Co-operative and Community Benefit Societies Act 2014
- The Housing and Regeneration Act 2008
- The Accounting Direction for Private Registered Providers of Social Housing 2019.

Anti-slavery statement
We confirm, so far as we are aware, we had no acts of modern day slavery within our organisation at 31 March 2020. We recognise we need to be vigilant and committed to driving out potential acts of modern day slavery from our supply chains. We've responsibility under the Modern Slavery Act 2015 to ensure transparency in the provision of all our goods and services. As part of our due diligence processes to prevent slavery and human trafficking, our:

- Supplier set-up process requires suppliers to outline the controls they have in place. Imported products from sources outside the UK and EU are potentially more at risk of slavery/human trafficking issues
- Dedicated People team who have created robust and inclusive selection, recruitment and induction processes
- Account Managers and Contracts Managers continually monitor the level of management control required
- People team report on this annually to our Executive Team.

We've briefed Optivo staff and contractors on how to recognise the signs and symptoms of Modern Slavery as part of our work around Safeguarding. Our full statement has been approved by the Board and is available on our website.

Each director has confirmed in fulfilling their duties as a director they have taken the steps they ought to have taken to make themselves aware of any information relevant to the audit and the auditors are aware of that information. So far as they are aware, there is no relevant audit information which they haven't made the auditors aware of.

Auditors
A resolution to appoint BDO LLP as auditors of Optivo will be proposed at the Annual General Meeting on 16 September 2020.

By order of the Board

Sir Peter Dixon
Chair of Optivo Board
15 July 2020

Approval
This Report of the Board and Strategic Report were approved by order of the Optivo Board on 15 July 2020.

Alison Wignall
Optivo Company Secretary
15 July 2020

Financial Statements

Independent Auditor's Report to the members of Optivo

Opinion

We have audited the financial statements of Optivo ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2020 which comprise the consolidated and Association statement of comprehensive income, the consolidated and Association statement of financial position, the consolidated and Association statement of changes in reserves, the consolidated cash flow statement 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2020 and of the Group's and the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

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

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 board members use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the board members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Going Concern

As disclosed in note 2, following the outbreak of COVID-19, and the resultant impact on the overall economy, management has considered the appropriateness of the going concern basis of preparation for the Group as well as the parent entity.

The Directors' assessment of going concern involves a number of subjective judgements including increased rent arrears, delayed rent collections, increased voids, reduction in property prices and property sale delays, which have been materially impacted by the current COVID-19 pandemic. We have therefore spent significant audit effort in assessing the appropriateness of the assumptions involved, and as such this has been identified as a Key Audit Matter.

Our audit response involved the following

- Assessment of the internal forecasting process to confirm the projections are prepared by appropriate personnel that are aware of the detailed figures in the forecast but also have a high level understanding of the entity's market, strategy and profile in the customer base, and the potential impact that COVID-19 might have on these projections.
- Obtaining and assessing the availability of financing facilities, including the nature of facilities, repayment terms and financial covenants. We considered management's financial covenant compliance calculations through to September 2021 and concluded on the consistency of such calculations with the ratios stated in the relevant lender agreements.
- Consideration of the forecasts prepared by management and challenge of the key assumptions based on our knowledge of the business. As referred to in basis of preparation note, management has modelled reasonably possible downside scenarios to incorporate the expected impact of the COVID-19 pandemic. We considered the appropriateness of the downside scenarios in respect of the impact of COVID-19 and challenged management to confirm that they have suitably addressed the inputs, which are most susceptible to change, including those in respect of revenue, margins and cost savings.
- Challenging management's assessment of reasonably possible scenarios on the impact of trading against actual trading results subsequent to the Government's lockdown instruction.
- Challenging the suitability of the mitigating actions identified by management in their assessment and the quantum and period ascribed to these mitigating actions. Scenarios modelled by management include a reverse stress test to analyse the current estimates of rent collection, property sales and maintenance and development spend that could be sustained without breaching banking covenants. We challenged the assumptions used and mitigating actions included within this scenario and reviewed the reverse stress test calculations.
- Considering the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and stress test scenario.

Key observations

Our key observations are set out in the conclusions related to going concern section of our audit report.

Key audit matter
Accounting treatment and disclosure of sale of bonds As disclosed in note 28 and in the accounting policies, Optivo Finance plc sold its remaining £100m 3.283% secured retained bonds during the financial year. Both sales include a premium. The net proceeds of the issue (i.e. including the premium) should be amortised over the life of the bond using the effective interest rate. As this is a non-recurring and significant transaction there is a risk that the bond sale and the premium received have not been accounted for and disclosed correctly and was therefore a key audit matter.

Our audit response involved the following

- Agreeing each bond issue back to the related term sheets and the London Stock Exchange, with the premium on each bond being recalculated.
- Recalculating the yearly amortisation for each bond and comparing to management's workings to confirm accuracy.
- Obtaining the intercompany agreement between Optivo and Optivo Finance plc and confirming the amount on-lent as being the nominal amount of the bonds. We confirmed that Optivo Finance plc may make a qualifying charitable donation payment to Optivo in an amount equal to the bond premium.
- Confirming that the sale of bonds is appropriately disclosed within the financial statements.

Key observations

We noted no material exceptions through performing these procedures.

Key audit matter

Net realisable value of property developed for sale

As explained in the accounting policies, properties developed for sale, including shared ownership, first tranches and properties developed for outright sale, are measured at the lower of cost and net realisable value resulting in an amount recognised in the balance sheet of £114,458,000. For properties in development at the balance sheet date, an assessment is needed of an anticipated selling price and a determination of the expected costs to complete.

Due to the volume of properties under construction and the level of judgement involved in estimating both selling price and costs to complete we considered there to be a significant risk that the carrying amount of properties developed for sale is misstated and was therefore a key audit matter.

Our response included the following

- Having obtained management's assessment of the net realisable value of properties developed for sale, selecting a sample on which to perform detailed testing. Samples were chosen from the populations of items that represented both developments under construction as well as completed developments at year-end.
- For the selected completed properties, agreeing the amounts involved to supporting documentation where the property was sold post year-end. Where the property was not yet sold we obtained third-party housing market information to confirm that properties were held at the lower of cost and net realisable value.
- For of the selected properties under development, obtaining details of the expected costs to complete from the scheme budget for that development and agreeing the budgeted contracted cost of the development to the latest contract documentation. We examined supporting documentation for anticipated sales proceeds and we compared the incurred expenditure to the balance sheet date to the estimated amount at that date.
- Assessing the accuracy of cost forecasting by looking at outturn costs compared to budget on schemes that completed in the year.
- Considering the impact of falling house prices due to COVID-19 on the net realisable value of properties developed for sale. For the sample of properties tested above, we performed a sensitivity analysis which considered both a decrease in projected sales values and an increase in costs to complete due to the disruption caused by COVID-19. Management performed their own calculation whereby they assumed prices would fall by 10% and recognised a resultant £730k impairment loss. We considered both management's calculation and our own sensitivity analysis.

Key observations

Based on the evidence obtained we did not identify any indications that the assessment of the recoverable amount made by management were inappropriate.

Our application of materiality
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £51,200,000 (2019 - £47,000,000) which represents 1.5% of total assets (2019 – 1.5% of total assets).

We also apply a specific materiality level for all items comprising operating profit (including related disclosures) as that term is defined for the purposes of the entities lending covenants. This therefore involves adjusting operating profit for depreciation, amortisation, capitalised major works and the net profit/loss on non-outright sale properties. The specific materiality level that we applied was £7,100,000 (2019 - £7,000,000), which is 7.5% of adjusted operating profit (2019 - 7.5%).

We used total assets and adjusted operating profit as our chosen benchmarks to determine materiality and for specific materiality as these are considered to be the areas of the financial statements of greatest interest to the principal users of the financial statements and the areas which will have greatest impact on investor and lender decisions.

Materiality for the parent company was set at £50,800,000 (2019 - £46,800,000) with a specific materiality set at £7,100,000 (2019 - £7,000,000).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% (2019 – 75%) of materiality or specific materiality depending on the financial statement area being audited. In setting the level of performance materiality. We considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Audit Committee that misstatements in excess of £1,025,000 for areas considered using financial statement materiality and £140,000 for areas considered using specific materiality (2019 - £940,000 / £140,000), which were identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

An overview of the scope of our audit
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting component in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

Extent to which the audit is capable of detecting irregularities, including fraud
The extent to which the audit is capable of detecting irregularities is affected by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud usually are inherently more difficult to detect than irregularities that result from error.

As part of the audit we gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We considered the Association's compliance with laws and regulations that have a direct impact on the financial statements such as the Co-operative and Community Benefit Societies Act 2014 (and related Directions and regulations), the Housing and Regeneration Act 2008 and other laws and regulations applicable to a registered social housing provider in England. We also considered the risks of non-compliance with the other requirements imposed by the Regulator of Social Housing, and we considered the extent to which non-compliance might have a material effect on the Group financial statements.

We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries of the board and of management and enquiries of third parties, where information from that third party has been used by the Association in the preparation of the financial statements.

There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Board that represented a risk of material misstatement due to fraud.

Classification of components
The only significant component for group purposes was the parent entity.

Audit work on all components was performed by BDO UK both for the purposes of reporting on the individual financial statements and for group/consolidation purposes.

Other information
The board is responsible for the other information. Other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information 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 including the Strategic and Financial Report, the report on Corporate Governance and Board Committees, the report on Risks and the Statement of Responsibilities of the Board and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where we are required by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- adequate accounting records have not been kept by the parent Association; or
- a satisfactory system of control has not been maintained over transactions; or
- the parent Association financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the board
As explained more fully in the statement of responsibilities of the Board, set out on page 53, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Other matters
Following the recommendation of the audit committee, we were appointed by the board on 17 July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ending 31 March 2014 to 31 March 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

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

Elizabeth Kulczycki
Senior Statutory Auditor

For and on behalf of
BDO LLP, Statutory Auditor
Gatwick
United Kingdom

Date: 17 July 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Comprehensive Income for the year ended 31 March 2020

		GROUP		ASSOCIATION	
		2020	2019	2020	2019
	Notes	£'000	£'000	£'000	£'000
Turnover	3a	321,979	314,032	320,176	314,974
Cost of sales	3a	(24,926)	(19,135)	(24,926)	(19,135)
Operating expenditure	3a	(224,157)	(204,150)	(223,067)	(203,359)
Surplus on disposal of housing properties	3c	16,878	12,642	16,307	12,067
Operating surplus		**89,774**	**103,389**	**88,490**	**104,547**
Surplus / (deficit) on disposal of commercial properties and other fixed assets	9	554	(21)	554	(21)
Other finance income		2,275	-	2,275	-
Interest receivable	10	1,114	668	3,802	2,009
Interest and financing costs	11	(47,984)	(42,714)	(47,742)	(42,701)
Movement in fair value of financial instruments	11	(22,824)	(2,267)	(22,824)	(2,267)
Movement in fair value of investment properties	15	(5,055)	28,571	(4,485)	32,302
Movement in fair value of investments	16	156	(63)	-	-
Surplus before taxation		**18,010**	**87,563**	**20,070**	**93,869**
Taxation	12	(27)	-	(27)	-
Surplus for the year		**17,983**	**87,563**	**20,043**	**93,869**
Recognition of SHPS movement to DB accounting	36	-	(7,642)	-	(7,642)
Actuarial gain / (loss) in respect of pension schemes	36	14,250	(11,303)	14,250	(11,303)
Change in fair value of hedged financial instruments	11	(77)	98	-	-
Total comprehensive income for the year		**32,156**	**68,716**	**34,293**	**74,924**

All activities relate to continuing operations except care services to Ealing Care Alliance Limited, the wholly owned subsidiary of Ealing Care Alliance (Holdings) Limited.The service provision transferred to a new provider in March 2020. As the amounts are not material this has not been presented separately above.

The notes on pages 69 to 109 form part of these financial statements.

Balance Sheet as at 31 March 2020

		GROUP		ASSOCIATION	
		2020	2019	2020	2019
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets - Housing properties	13	2,927,082	2,729,364	2,881,308	2,718,929
Other tangible fixed assets	14	20,301	20,787	20,301	20,787
Investment properties	15	147,306	156,542	130,206	138,873
Other investments	16, 17	8,848	4,580	14	14
Total Fixed Assets		**3,103,537**	**2,911,273**	**3,031,829**	**2,878,603**
Current assets					
Properties held for sale	18	114,458	93,430	57,972	55,234
Trade and other debtors	19	45,028	55,950	156,114	110,956
Cash and cash equivalents	21	137,449	80,833	130,137	70,391
		296,935	**230,213**	**344,223**	**236,581**
Creditors: amounts falling due					
within one year	22	(157,681)	(149,133)	(151,585)	(144,184)
Net current assets		139,254	81,080	192,638	92,397
Total assets less current liabilities		3,242,791	2,992,353	3,224,467	2,971,000
Creditors: amounts falling due					
after more than one year	23	(2,532,978)	(2,295,852)	(2,518,251)	(2,280,233)
Provisions and other liabilities	30	(760)	(683)	(760)	(683)
Pension liability	36	(33,717)	(52,638)	(33,717)	(52,638)
Net assets		**675,336**	**643,180**	**671,739**	**637,446**
Capital and reserves					
Share capital - non equity		-	-	-	-
Income & expenditure reserve		676,054	643,910	670,846	636,648
Designated reserves		750	658	264	169
Restricted reserve		660	659	629	629
Revaluation reserve		434	438	-	-
Hedge reserve		(2,562)	(2,485)	-	-
Total reserves		**675,336**	**643,180**	**671,739**	**637,446**

The financial statements on pages 63 to 109 were approved by the Optivo Board and authorised for issue on 15 July 2020 and were signed on its behalf by:

Sir Peter Dixon
Chair

Eugenie Turton
Vice Chair

Alison Wignall
Secretary

Statement of Changes in Reserves for the year ended 31 March 2020

GROUP	Income & expenditure reserve £'000	Designated reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Hedge reserve £'000	Total £'000
Balance as at 1 April 2019	643,910	658	659	438	(2,485)	643,180
Surplus for the year	17,983	-	-	-	(77)	17,906
Actuarial gain on defined benefit pension scheme	14,250	-	-	-	-	14,250
Total comprehensive income for the year	**32,233**	**-**	**-**	**-**	**(77)**	**32,156**
Reserves transfers	(89)	92	1	(4)		-
Balance as at 31 March 2020	**676,054**	**750**	**660**	**434**	**(2,562)**	**675,336**

ASSOCIATION	Income & expenditure reserve £'000	Designated reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Hedge reserve £'000	Total £'000
Balance as at 1 April 2019	636,648	169	629	-	-	637,446
Surplus for the year	20,043	-	-	-	-	20,043
Actuarial gain on defined benefit pension scheme	14,250	-	-	-	-	14,250
Total comprehensive income for the year	**34,293**	**-**	**-**	**-**	**-**	**34,293**
Reserves transfers	(95)	95	-	-	-	-
Balance as at 31 March 2020	**670,846**	**264**	**629**	**-**	**-**	**671,739**

Statement of Changes in Reserves for the year ended 31 March 2019

GROUP	Income & expenditure reserve £'000	Designated reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Hedge reserve £'000	Total £'000
Balance as at 1 April 2018	575,595	370	636	446	(2,583)	574,464
Surplus for the year	87,563	-	-	-	98	87,661
Recognition of SHPS movement to DB accounting	(7,642)	-	-	-	-	(7,642)
Actuarial loss on defined benefit pension scheme	(11,303)	-	-	-	-	(11,303)
Total comprehensive income for the year	**68,618**	**-**	**-**	**-**	**98**	**68,716**
Reserves transfers	(303)	288	23	(8)	-	-
Balance as at 31 March 2019	643,910	658	659	438	(2,485)	643,180

ASSOCIATION	Income & expenditure reserve £'000	Designated reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Hedge reserve £'000	Total £'000
Balance as at 1 April 2018	561,724	169	629	-	-	562,522
Surplus for the year	93,869	-	-	-	-	93,869
Recognition of SHPS movement to DB accounting	(7,642)	-	-	-	-	(7,642)
Actuarial loss on defined benefit pension scheme	(11,303)	-	-	-	-	(11,303)
Total comprehensive income for the year	**74,924**	**-**	**-**	**-**	**-**	**74,924**
Balance as at 31 March 2019	636,648	169	629	-	-	637,446

Consolidated Statement of Cash Flows for the year ended 31 March 2020

GROUP	2020 £'000	2019 £'000
Cashflows from operating activities		
Surplus for the year	**17,983**	87,563
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**27,491**	26,452
Gain from stock swap	**-**	(2,152)
Tax	**27**	-
Interest payable	**47,984**	42,714
Interest receivable	**(3,389)**	(668)
(Surplus) / deficit on disposal of fixed assets - other	**(554)**	21
Surplus on disposal of fixed assets - housing properties	(16,878)	(12,642)
Proceeds from sale of fixed assets included within operating surplus	27,004	21,374
Net fair value losses/(gains) recognised in profit or loss	**27,723**	(26,241)
Difference between net pension expense and cash contribution	**(4,671)**	(5,186)
Increase in stocks	**(21,028)**	(55,535)
Decrease / (increase) in trade and other debtors	**10,922**	(19,337)
(Decrease) / increase in trade and other creditors	**(5,042)**	23,780
Increase / (decrease) in provisions	**77**	(71)
Net cash from operating activities	**107,649**	**80,072**
Cashflow from investing activities		
Purchase of property, plant and equipment	**(231,714)**	(259,035)
Investment in joint ventures	**(4,113)**	(4,641)
Proceeds from sale of fixed assets - other	**1,765**	-
Proceeds from stock swap	**-**	3,383
Interest received	**3,389**	605
Net capital grant received	**25,382**	15,293
Net cash from investing activities	**(205,291)**	**(244,395)**
Cash flow from financing activities		
Proceeds from long term borrowings	**308,868**	275,811
Interest paid	**(57,430)**	(51,055)
Repayment of borrowings	**(97,180)**	(83,832)
Net cash from financing activities	**154,258**	140,924
Net change in cash and cash equivalents	**56,616**	(23,399)
Cash and cash equivalents at start of year	**80,833**	104,232
Cash and cash equivalents at end of year	**137,449**	80,833

Analysis of Change in Net Debt

	At 1 April 2019 £'000	Cashflows £'000	Other non cash changes £'000	At 31 March 2020 £'000
Cash and cash equivalents				
Cash	60,226	53,264	1,484	114,974
Cash equivalents	20,607	3,352	(1,484)	22,475
	80,833	**56,616**	**-**	**137,449**
Borrowings				
Debt due within one year	(28,859)	82,180	(99,387)	(46,066)
Debt due after one year	(1,246,183)	(293,868)	101,059	(1,438,992)
	(1,275,042)	**(211,688)**	**1,672**	**(1,485,058)**
Total	**(1,194,209)**	**(155,072)**	**1,672**	**(1,347,609)**

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

Introduction

Optivo was formed on 22 May 2017. This business combination was effected through an Amalgamation under s109 of the Community Benefits Societies Act 2014. The net assets of Optivo at 31 March 2020 were £675 million (2019: £643 million).

Legal status

Optivo is registered with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and is registered with Homes England as a social housing provider. The Association is a public benefit entity.

1. Accounting policies

The financial statements have been prepared in accordance with FRS 102 the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2018 and the Accounting Direction for Private Registered Providers of Social Housing 2019. In the preparation of these financial statements, the requirements set out in: "Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland" have been adopted.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting judgements and estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The impact potential variations may have on the financial information are explained in the accounting policies below. In preparing the separate financial statements of the parent Association, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent Association would be identical
- No cash flow statement has been presented for the parent Association
- Disclosures in respect of the parent Association's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent Association as their remuneration is included in the totals for the Group as a whole.

The following principal accounting policies have been applied consistently in relation to the financial statements.

Basis of consolidation
The consolidated financial statements present the results of Optivo – registered provider of social housing and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. Control of each subsidiary is established through holding 100% of the share capital or through ability to appoint the Board.

Investments in subsidiaries
Investments in subsidiaries are accounted for at cost less impairment in the individual entity's financial statements.

Associates and arrangements
An entity is treated as an associated undertaking where Optivo or the relevant subsidiary exercises significant influence in that it has the power to participate in the operating and financial policy decisions. An entity is treated as a joint arrangement where Optivo or the relevant subsidiary is party to a contractual agreement with one or more parties from outside the Group to undertake an economic activity that is subject to joint control.

In the consolidated accounts, interests in jointly controlled entities are accounted for using the equity method of accounting. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the associate. The consolidated statement of comprehensive income includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the Group. In the consolidated balance sheet, the interests in associated undertakings are shown as the Group's share of the identifiable net assets, including any unamortised premium paid on acquisition. Investments in joint operations result in the recognition of the assets, liabilities, income, and expenditure attributable to the Group.

Income

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

- Rental income receivable (after deducting lost rent from void properties available for letting)
- First tranche sales of shared ownership housing properties developed for sale
- Service charges receivable
- Amortisation of deferred capital grants and other grants receivable
- Proceeds from the sale of land and property
- Key worker accommodation
- Care homes
- Student accommodation
- Market rent lettings
- Commercial lettings.

Rental income

Rental income is earned from social housing properties, key worker accommodation, student accommodation, market rent lettings and commercial lettings. Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of voids.

Income from disposal of properties

Income from first tranche sales is recognised at the point of legal completion of the sale. The profit or loss on disposal of social housing properties intended for outright sales or first tranche sales is recognised within operating profit. Any profit or loss on disposal of investment properties is recognised below the operating surplus.

Service charges

The Group operates both fixed and variable service charges on a scheme by scheme basis. Service charges on all schemes are set on the basis of budgets. Where variable service charges are used the budget will include an allowance for the surplus or deficit from prior years, with a surplus being returned to residents in the form of a reduced charge for the year and a deficit being recovered via a higher service charge.

Charges made to leaseholders for the replacement of equipment and repairs within their estates are held in sinking funds which are ring-fenced for use on those estates. Such sinking funds are disclosed on the balance sheet as creditors.

Rent and service charge agreements

The Association has made arrangements with individuals and households for arrears payments of rent and service charges. These arrangements are effectively loans granted at nil interest rate.

Schemes managed by agents

Income represents rent receivable. Management fees payable to agents are included in operating costs.

Tangible fixed assets - housing properties

Housing properties constructed or acquired (including land) on the open market are stated at cost less depreciation and impairment (where applicable).

The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for incremental staff costs and other costs of managing the development.

Directly attributable costs of acquisition include capitalised interest calculated on a proportional basis using finance costs on borrowing drawn to finance the relevant construction or acquisition. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Expenditure on major refurbishment to properties is capitalised where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the net rental income, a reduction in future maintenance costs, or a subsequent extension in the life of the property. All other repair and replacement expenditure is charged to the statement of comprehensive income.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in the first tranche, are included in property, plant and equipment and held at cost less any impairment. They are transferred to completed properties when ready for letting. Expenditure on schemes, which are subsequently aborted, is written off in the period in which it is recognised the scheme will not be developed to completion.

Government grants

As required by the Housing SORP, grant is carried as deferred income in the balance sheet and released to the statement of comprehensive income on a systematic basis over the useful economic life of the asset for which it was received. In accordance with Housing SORP the useful economic life of the housing property structure has been selected (see table of useful economic lives below).

Social housing grant (SHG) becomes recyclable at the point the related property is sold and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the statement of comprehensive income.

Grants relating to revenue are recognised in the statement of comprehensive income over the same period as the expenditure to which they relate once performance related conditions have been met. Grants due from government organisations or received in advance are included as liabilities.

Other grants

Grants received from non-government sources are recognised using the performance model. Grants are recognised as income when the associated performance conditions are met.

Depreciation of housing properties

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

Component	
Structure	85-125 years
Kitchens	20-25 years
Fire alarms	20 years
Electrical wiring	10-30 years
Bathrooms	20-30 years
Lifts	25-30 years
Boilers & heating	15 years
Roofs	60-80 years
Front doors	30 years
Windows	25-30 years

Leasehold properties are depreciated over the length of the lease except where the expected useful economic life of properties is shorter than the lease, the lease and building elements are depreciated separately over their expected useful economic lives.

Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure, costs are allocated on a floor area or unit basis depending on what is appropriate for each scheme.

Donated land and other assets

Land and other assets donated by local authorities and other government sources are added to cost at the fair value of the land at the time of the donation. Where the land is not related to a specific development and is donated by a public body an amount equivalent to the increase in value between fair value and consideration paid is treated as a non-monetary grant and recognised in the balance sheet as a liability. Where the donation is from a non-public source the value of the donation is included as income.

Impairment
The housing property portfolio for the Group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. An options appraisal is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sale proceeds are obtained and used to inform the options. The recoverable amount is taken to be the higher of the fair value less costs to sell or the value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived appropriately adjusted to account for any restrictions on their use. Where value in use - service potential (VIU-SP) is to be determined, the calculation of depreciated replacement cost compares a rebuild cost (using floor space, an average build cost per square metre and an average grant per unit) with expectations of price for an asset with equivalent service potential on the open market. The lower of the replacement costs is then adjusted as if that cost had been depreciated for the life of the asset.

The Group defines cash generating units as follows:

- Individual historic completed homes / stock transfer properties assessed on the basis of geography and property size
- Already impaired properties assessed at individual scheme level.

Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded through a charge to the statement of comprehensive income.

Stock swaps
Housing properties acquired from other social landlords in exchange for non-monetary assets, or a combination of monetary and non-monetary assets, are measured at fair value. Grant associated with the transfers is recorded as a contingent liability.

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

Development overheads
Development overhead costs are capitalised to the extent they are directly attributable to bringing schemes into working condition for their intended use. Such expenditure consists of in-house development, architect and surveyor costs (including the cost of our own employees), and a proportion of the cost of staff in other departments who work on development activities.

Shared ownership properties and staircasing
Under low cost home ownership arrangements, the Group disposes of a long lease on low cost home ownership housing units for a share ranging between 25% and 75% of value. The Buyer has the right to purchase further proportions up to 100% based on the market valuation of the property at the time each purchase transaction is completed.

Low cost home ownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover. The remaining “staircasing element”, is classed as property, plant and equipment and included in completed housing property at cost together with any provision for impairment. Sales of subsequent tranches are treated as a part disposal of property, plant and equipment. Such staircasing sales may result in capital grant being deferred or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

The Group maintains shared ownership properties to a sound state of repair where it has the responsibility to do so. Maintenance of other shared ownership properties is the responsibility of the shared owner. Any impairment in the value of such properties is charged to the statement of comprehensive income.

Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business but held for investment potential or capital appreciation. Investment properties are measured at cost on acquisition or initial recognition and subsequently at fair value at the year end, with changes in fair value recognised in the statement of comprehensive income. Fair value is determined annually by appropriately qualified external valuers and derived from current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided on investment properties. The Group engaged Jones Lang LaSalle Ltd and Resolution Property Surveyors for the fair value at 31 March 2020. Changes in fair value are recognised in the statement of comprehensive income.

Due the outbreak of Covid-19 the valuation reports contain statements regarding valuation uncertainty as follows:

"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation is therefore reported on the basis of "material valuation uncertainty"' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of this portfolio under frequent review."

We have taken a prudent view of the potential impact of Covid-19 on the future occupancy rates in our student accommodation. We have factored in the likely reductions in student income during 2020/21 in to our student valuations. This has reduced the fair value by £6.1 million. Investment properties make up less than 5% of our asset portfolio. We will continue to update the investment property valuations annually.

Recycled Capital Grant Fund

On the occurrence of certain relevant events, primarily the sale of dwellings, the Regulator of Social Housing (RSH) can direct the Association to recycle or repay capital grants. The Group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, grant will be repayable to the RSH with interest. Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated cannot be used within one year is held in the balance sheet under "creditors due after more than one year". The remainder is held under "creditors due within one year".

Disposal Proceeds Fund

Receipts from Right to Acquire (RTA) sales made prior to April 2017 are required to be retained in a ring fenced fund that can only be used for providing replacement housing. These sales receipts less eligible expenses are held in the disposal proceeds fund. Any such amount held within disposal proceeds fund is held under "creditors due within one year". The balances needed to be used by March 2020. As we have been unable to utilise the entire fund in the final year of its operation we will repay the balance held in creditors to Homes England during 2020/21.

Tangible fixed assets – Other

Other tangible fixed assets, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised and reflected in the statement of comprehensive income. Repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

Depreciation of other tangible fixed assets

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Freehold offices	50 years
Motor vehicles	4 years
Furniture & office equipment	5 years
Office improvements	10 years
Computer hardware	4 years
Computer software	4 years
Leasehold properties	Over term of lease

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "surplus on disposal of fixed assets" in the statement of comprehensive income.

Impairment of rental and other trade receivables

The Association estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair the Association reviews the age profile of the debt, historical collection rates and the class of debt. Former tenant arrears are written off to the statement of comprehensive income at the point the resident exits the property to the extent that they are not considered recoverable.

Debtors and creditors

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

Financial instruments and borrowings

Optivo has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to its financial instruments. Financial assets and financial liabilities are recognised when the organisation becomes a party to the contractual provisions of the instrument, and are offset only when the organisation currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. All borrowings have been assessed as meeting the basic definition in Section 11 and are therefore initially recognised at the transaction price, including transaction costs, and are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges. Loans and investments payable or receivable within one year are not discounted.

Cash and cash equivalents

Cash and cash equivalents in the Group's consolidated balance sheet consist of cash at bank and in hand, deposits and short term investments with an original maturity of three months or less.

Derivative instruments and hedge accounting

The Group holds floating rate loans which expose the Group to interest rate risk. To mitigate against this risk the Group uses interest rate swaps. These instruments are measured at fair value at each reporting date. They are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Movements in fair value are recognised in the statement of comprehensive income.

Finance costs

Finance costs are charged to income and expenditure over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Deferred financing costs

Deferred financing costs represent the costs incurred in securing new borrowing facilities. They are deducted from the value of the housing loans and bond and amortised over the life of the housing loans or bond to which they relate using the effective interest rate method. The deferred financing cost includes the discount and premium on the bond issue. The carrying amount of the housing loans or bond will be increased by the finance cost for each reporting period and reduced by repayments made in respect of the loan or bond in that period.

Sales & leaseback schemes

The Group has a leasehold interest in properties which have been subsequently leased back to the respective freeholders for the purpose of providing housing accommodation. The remaining life is eight years. The Group's net investment in these properties is disclosed in the Balance Sheet under "debtors". The balance of the Group's investment in these properties is written down as lease payments are received.

Value Added Tax

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases. Rentals paid under operating leases are charged to the statement of comprehensive income on the accruals basis. Where assets are financed by leasing agreements that give rights approximating to ownership they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments (or if lower the fair value of leased asset) and is depreciated in accordance with the Group's normal policy for that class of assets. The corresponding liability to the lessor is included in the Balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Annual rentals on operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

Pension costs

The Group operates five funded schemes and a defined contribution scheme which is used for auto enrolment. It also participated in two further funded schemes which were settled during the year.

Defined contribution scheme

Employees have the option to join Optivo's defined contribution scheme, to which the Group makes a contribution of up to 10% of pensionable salary. Contributions are charged to the statement of comprehensive income in the year in which they become payable.

Funded schemes

The defined benefit schemes are set out below and are closed to new members.

- Horizon Housing Group Pension Scheme
- Local Government Pension Scheme – Kent County Council Scheme
- Local Government Pension Scheme – East Sussex County Council Scheme
- Local Government Pension Scheme – London Borough of Ealing *
- Local Government Pension Scheme – London Borough of Barnet
- Pensions Trust – Optivo defined benefit scheme
- TPT Retirement Solutions – The Growth Plan (TPT) *

* settled during the year

Contributions payable under the terms of a funding agreement for past deficits are recognised as a liability in the balance sheet at the present value of the expected future cash flows for which there is a contractual obligation. The assets of each of the schemes are held separately from those of the Group. For each scheme accounted for as a defined benefit scheme, the pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surpluses (to the extent they are recoverable) or deficits are recognised in full. The movement in the scheme surpluses/deficits is split between operating charges, finance items and in other comprehensive income actuarial gains and losses.

SHPS

With effect from the end of the year Optivo entered into an agreement to transfer all its assets and liabilities from SHPS to a new stand-alone Optivo Scheme, on a mirror image basis. Contributions to this scheme will continue to be at the level determined by the actuarial valuation of SHPS as at 30 September 2017. As a result of this transfer agreement, Optivo is no longer liable for other participating employers in SHPS as part of the 'last man standing arrangement' within SHPS.

Provision for liabilities

The Group has recognised provisions for hand back liabilities. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material the amount expected to be required to settle the obligation is recognised at the present value using a discount rate. The unwinding of the discount is recognised as a finance cost in income and expenditure in the period it arises.

Contingent liabilities

A contingent liability is disclosed for a possible obligation for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made. A contingent liability exists on grant repayment which is dependent on the disposal of the related property.

Restricted reserves

Income received, and expenditure incurred, for restricted purposes is separately accounted for within restricted funds.

Operating segments

As we have publicly traded securities within the Group we are required to disclose information about our operating segments under IFRS 8. Segmental information is disclosed in notes 3(a) and 3(b) and as part of the analysis of housing properties in note 13. Information about income, expenditure and assets attributable to material operating segments are presented on the basis of the nature and function of housing assets held by the Group rather than geographical location. As permitted by IFRS 8 this is appropriate on the basis of the similarity of the services provided, the nature of the risks associated, the type and class of customer and the nature of the regulatory environment across all of the geographical locations in which the Group operates. The Board does not routinely receive segmental information disaggregated by geographical location.

Going concern

After reviewing Optivo's budget and cash forecasts to July 2021, the Directors have a reasonable expectation Optivo has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

In making this assessment the Directors have made an assessment of the potential impact of the Covid-19 pandemic on the cashflows of the Group over the next 12 month period. The Directors have considered the impact of additional downside scenarios with potential increased voids, bad debts and falling house prices. In making their assessment the Directors have also considered the potential mitigations available to manage the potential impact on its cashflows and liquidity.

The Directors have concluded that whilst the potential impact of the Covid-19 pandemic presents current uncertainty, having assessed our plans, liquidity levels and mitigating actions available there is reasonable expectation that the Association has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group was unable to continue as a going concern.

2. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, we've made a number of judgements. These include:

- Determining that Covid-19 was an impairment trigger, prompting an impairment review to be carried out on properties held for sale at year end. A 10% reduction in sales values resulted in us making an impairment provision of £734k
- Determining the anticipated costs to complete a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. We then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on our best estimate of current sales and economic conditions prevailing at the time
- Determining the appropriate point to begin and cease capitalisation of development overheads and interest costs for a development scheme and that Covid-19 did not impact 2019/20 capitalisation
- Determining the expected useful life for each category of depreciable assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and ICT equipment, changes to decent homes standards which may require more frequent replacement of key components and changes to the ability to let the property which may reduce the economic life of the property
- Determining the most appropriate methodology and assumptions for valuing assets and liabilities that are carried at fair value, including investment properties, particularly with the uncertain market during Covid-19
- Determining rates to be applied for the critical underlying assumptions in relation to the estimate of the defined benefit scheme obligations such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense. Assumptions used are informed by actuarial advice.

3(a). Particulars of turnover, operating costs and operating surplus

GROUP	2020					2019				
	Turnover £000	Cost of sale £000	Operating costs £000	Fixed asset disposals £000	Operating surplus/ (deficit) £000	Turnover £000	Cost of sale £000	Operating costs £000	Fixed asset disposals £000	Operating surplus/ (deficit) £000
Social housing activities (note 3b)	264,509	-	(199,161)	-	**65,348**	262,352	-	(183,989)	-	78,363
Other social housing activities										
First tranche sales	30,960	(24,926)	-	-	**6,034**	28,738	(19,135)	-	-	**9,603**
Supported housing	24	-	(24)	-	**-**	24	-	(24)	-	**-**
Gift aid	10	-	-	-	**10**	9	-	-	-	**9**
Other	-	-	(1,456)	-	**(1,456)**	(350)	-	(1,124)	-	(1,474)
Gain on acquisition (note 3d)	-	-	-	-	**-**	1,697	-	-	-	**1,697**
Surplus on asset disposal (note 3c)	-	-	-	16,878	**16,878**	-	-	-	12,642	**12,642**
	30,994	**(24,926)**	**(1,480)**	**16,878**	**21,466**	**30,118**	**(19,135)**	**(1,148)**	**12,642**	**22,477**
Non-Social housing activities										
Community activities	1,505	-	(3,485)	-	**(1,980)**	1,244	-	(2,951)	-	**(1,707)**
Market & sub-market renting	644	-	(273)	-	**371**	911	-	(498)	-	**413**
Student accommodation	16,018	-	(12,660)	-	**3,358**	12,331	-	(9,349)	-	**2,982**
Nursing homes	5,755	-	(4,652)	-	**1,103**	4,630	-	(4,717)	-	**(87)**
Commercial renting	1,865	-	(1,757)	-	108	2,446	-	(1,498)	-	**948**
Other	689	-	(689)	-	**-**	-	-	-	-	**-**
	26,476	**-**	**(23,516)**	**-**	**2,960**	**21,562**	**-**	**(19,013)**	**-**	**2,549**
Total	**321,979**	**(24,926)**	**(224,157)**	**16,878**	**89,774**	**314,032**	**(19,135)**	**(204,150)**	**12,642**	**103,389**

Community activities for Fresh Visions and Optivo includes grant received from the Big Lottery Fund of £88,829 (2019: £189,591) and related expenditure of £99,647 (2019: £180,888). It also includes Children in Need grant of £29,312 (2019: £38,496) and related expenditure of £29,312 (2019: £38,496).

3(a). Particulars of turnover, operating costs and operating surplus (continued)

ASSOCIATION	2020					2019				
	Turnover £000	Cost of sale £000	Operating costs £000	Fixed asset disposals £000	Operating surplus/ (deficit) £000	Turnover £000	Cost of sale £000	Operating costs £000	Fixed asset disposals £000	Operating surplus/ (deficit) £000
Social housing activities (note 3b)	**263,478**	**-**	**(198,944)**	**-**	**64,534**	**261,319**	**-**	**(184,017)**	**-**	**77,302**
Other social housing activities										
First tranche sales	30,960	(24,926)	-	-	**6,034**	28,738	(19,135)	-	-	**9,603**
Supported housing	24	-	(24)	-	**-**	24	-	(24)	-	**-**
Services to Group companies	(556)	-	-	-	**(556)**	2,768	-	-	-	**2,768**
Gift aid	3,022	-	-	-	**3,022**	1,376	-	-	-	**1,376**
Other	-	-	(1,456)	-	**(1,456)**	-	-	(1,124)	-	**(1,124)**
Gain on acquisition (note 3d)	-	-	-	-	**-**	1,697	-	-	-	**1,697**
Surplus on asset disposal (note 3c)	-	-	-	16,307	**16,307**	-	-	-	12,067	**12,067**
	33,450	**(24,926)**	**(1,480)**	**16,307**	**23,351**	**34,603**	**(19,135)**	**(1,148)**	**12,067**	**26,387**
Non-Social housing activities										
Community activities	1,181	-	(3,029)	-	**(1,848)**	940	-	(2,582)	-	**(1,642)**
Market & sub-market renting	644	-	(284)	-	**360**	911	-	(498)	-	**413**
Student accommodation	13,112	-	(12,201)	-	**911**	10,153	-	(8,899)	-	**1,254**
Nursing homes	5,755	-	(4,652)	-	**1,103**	4,629	-	(4,717)	-	**(88)**
Commercial renting	1,867	-	(1,788)	-	**79**	2,419	-	(1,498)	-	**921**
Other	689	-	(689)	-	**-**	-	-	-	-	**-**
	23,248	**-**	**(22,643)**	**-**	**605**	**19,052**	**-**	**(18,194)**	**-**	**858**
Total	**320,176**	**(24,926)**	**(223,067)**	**16,307**	**88,490**	**314,974**	**(19,135)**	**(203,359)**	**12,067**	**104,547**

3(b). Particulars of turnover, operating costs and operating surplus

GROUP	General needs £000	Supported housing and HOPs £000	Key workers £000	Care homes £000	Other £000	Shared ownership £000	Temporary social housing £000	2020 Total £000	2019 Total £000
Rents receivable net of identifiable service charges	173,889	19,885	7,124	-	1,501	16,116	1,212	**219,727**	219,014
Service charges receivable	8,415	9,364	-	-	-	7,777	84	**25,640**	22,986
Care management fee	-	-	-	6,638	-	-	-	**6,638**	5,454
Net rental income	**182,304**	**29,249**	**7,124**	**6,638**	**1,501**	**23,893**	**1,296**	**252,005**	**247,454**
Amortised government grant	8,585	-	-	-	-	986	-	**9,571**	9,827
Other revenue income	1,401	177	542	12	419	322	60	**2,933**	5,071
Turnover from social housing lettings	**192,290**	**29,426**	**7,666**	**6,650**	**1,920**	**25,201**	**1,356**	**264,509**	**262,352**
Expenditure on letting activities									
Management	30,636	4,814	3,701	6,370	416	4,684	377	**50,998**	55,015
Bad debts	3,469	452	(1)	-	52	1	11	**3,984**	2,462
Service charge costs	11,399	8,963	-	1	93	7,203	130	**27,789**	23,061
Routine maintenance	28,524	1,309	826	104	91	22	108	**30,984**	27,579
Planned maintenance	38,574	614	783	3	79	4	27	**40,084**	33,032
Major repairs	7,817	78	61	-	1	-	2	**7,959**	9,195
Impairment of housing properties	(6)	-	-	-	-	734	-	**728**	(604)
Depreciation of housing properties	30,940	-	788	-	-	2,812	-	**34,540**	33,076
Accelerated depreciation	1,574	-	-	-	-	-	-	**1,574**	999
Other costs	81	-	-	-	8	10	422	**521**	174
	153,008	**16,230**	**6,158**	**6,478**	**740**	**15,470**	**1,077**	**199,161**	**183,989**
Operating surplus on social housing lettings	**39,282**	**13,196**	**1,508**	**172**	**1,180**	**9,731**	**279**	**65,348**	**78,363**
Void losses	**(3,306)**	**(1,268)**	**(189)**	**-**	**-**	**(21)**	**(159)**	**(4,943)**	**(3,083)**

3(b). Particulars of income and expenditure from social housing lettings (continued)

ASSOCIATION	General needs £000	Supported housing and HOPs £000	Key workers £000	Care homes £000	Other £000	Shared ownership £000	Temporary social housing £000	2020 Total £000	2019 Total £000
Rents receivable net of identifiable service charges	173,811	19,885	7,124	-	1,501	15,475	1,212	**219,008**	218,313
Service charges receivable	8,407	9,364	-	-	-	7,565	84	**25,420**	22,771
Care management fee	-	-	-	6,638	-	-	-	**6,638**	5,454
Net rental income	**182,218**	**29,249**	**7,124**	**6,638**	**1,501**	**23,040**	**1,296**	**251,066**	**246,538**
Amortised government grant	8,585	-	-	-	-	919	-	**9,504**	9,758
Other revenue income	1,377	177	542	12	419	321	60	**2,908**	5,023
Turnover from social housing lettings	**192,180**	**29,426**	**7,666**	**6,650**	**1,920**	**24,280**	**1,356**	**263,478**	**261,319**
Expenditure on letting activities									
Management	28,527	5,266	3,802	6,476	445	4,967	397	**49,880**	55,196
Bad debts	3,469	452	(1)	-	52	1	11	**3,984**	2,462
Service charge costs	11,390	8,963	-	1	93	7,000	130	**27,577**	22,880
Routine maintenance	28,885	1,326	837	105	93	22	110	**31,378**	27,610
Planned maintenance	39,058	622	793	3	80	4	27	**40,587**	33,074
Major repairs	8,106	79	65	-	1	-	2	**8,253**	9,230
Impairment of housing properties	(6)	-	-	-	-	734	-	**728**	(604)
Depreciation of housing properties	30,927	-	788	-	-	2,747	-	**34,462**	32,996
Accelerated depreciation	1,574	-	-	-	-	-	-	**1,574**	999
Other costs	81	-	-	-	8	10	422	**521**	174
	152,011	**16,708**	**6,284**	**6,585**	**772**	**15,485**	**1,099**	**198,944**	**184,017**
Operating surplus/(deficit) on social housing lettings	**40,169**	**12,718**	**1,382**	**65**	**1,148**	**8,795**	**257**	**64,534**	**77,302**
Void losses	**(3,306)**	**(1,268)**	**(189)**	**-**	**-**	**(21)**	**(159)**	**(4,943)**	**(3,083)**

3(c). Fixed Asset disposals

GROUP	Staircasing £000	Right to buy £000	Other properties £000	2020 Total £000	2019 Total £000
Disposal proceeds	12,539	4,295	9,958	26,792	21,374
Cost of disposals	(6,115)	(2,199)	(1,600)	(9,914)	(8,732)
Surplus on asset disposals	**6,424**	**2,096**	**8,358**	**16,878**	**12,642**

ASSOCIATION	Staircasing £000	Right to buy £000	Other properties £000	2020 Total £000	2019 Total £000
Disposal proceeds	11,749	4,295	9,958	26,002	20,698
Cost of disposals	(5,896)	(2,199)	(1,600)	(9,695)	(8,631)
Surplus on asset disposals	**5,853**	**2,096**	**8,358**	**16,307**	**12,067**

3. (d) Acquisition gains

GROUP & ASSOCIATION	2020 £000	2019 £000
Gain on stock swap	**-**	**1,697**

4. Units of housing stock

GROUP	Period start	Homes developed/ acquired	Homes sold/ demolished	Other movements	Period end
Social Housing homes					
General needs rent	26,450	20	(61)	(141)	26,268
General needs affordable rent	3,298	352	(3)	24	3,671
Supported housing rent	992	-	(1)	12	1,003
Supported housing affordable rent	9	8	-	-	17
Housing for older people rent	3,421	6	-	38	3,465
Housing for older people affordable rent	34	21	-	(1)	54
Key workers	1,264	-	(92)	-	1,172
Low cost home ownership	3,913	431	(68)	(34)	4,242
Temporary & intermediate housing	353	-	(4)	109	458
Care homes	221	-	(152)	6	75
Total social housing homes owned and or managed	**39,955**	**838**	**(381)**	**13**	**40,425**
Total social housing homes owned but not managed	617	-	(8)	(22)	587
Total social housing homes managed but not owned	153	-	(103)	-	50
Non social housing					
Market rent	117	-	(26)	(4)	87
Student accommodation	2,646	-	-	(3)	2,643
Nursing homes	139	-	(139)	-	-
Total non social housing homes owned and managed	**2,902**	**-**	**(165)**	**(7)**	**2,730**
Total owned & managed	**42,857**	**838**	**(546)**	**6**	**43,155**
Leaseholders	2,199	-	33	19	2,251
Units under construction	1,393	-	-	1,671	3,064

We own an average 59% equity in shared ownership properties. Included in Leaseholders of 2,251 (2,199) are 96 units, where a 75% equity share has been disposed of but no rent is charged on the remaining 25%. As rent is not charged on this portion the properties are shown as 100% staircased.

4. Units of housing stock (continued)

ASSOCIATION	Period start	Homes developed/ acquired	Homes sold/ demolished	Other movements	Period end
Social Housing homes					
General needs rent	26,428	20	(61)	(141)	26,246
General needs affordable rent	3,298	352	(3)	24	3,671
Supported housing rent	992	-	(1)	12	1,003
Supported housing affordable rent	9	8	-	-	17
Housing for older people rent	3,421	6	-	38	3,465
Housing for older people affordable rent	34	21	-	(1)	54
Key workers	1,264	-	(92)	-	1,172
Low cost home ownership	3,719	431	(64)	(34)	4,052
Temporary & intermediate housing	353	-	(4)	109	458
Care homes	221	-	(152)	6	75
Total social housing homes owned and or managed	**39,739**	**838**	**(377)**	**13**	**40,213**
Total social housing homes owned but not managed	617	-	(8)	(22)	587
Total social housing homes managed but not owned	153	-	(102)	-	51
Non social housing					
Market rent	117	-	(26)	(4)	87
Student accommodation	2,646	-	-	(3)	2,643
Nursing homes	139	-	(139)	-	-
Total non social housing homes owned and managed	**2,902**	**-**	**(165)**	**(7)**	**2,730**
Total owned & managed	**42,641**	**838**	**(542)**	**6**	**42,943**
Leaseholders	2,104	-	33	19	2,156
Units under construction	1,274	-	-	1,790	3,064

We own an average 60% equity in shared ownership properties. Included in Leaseholders of 2,122 (2,104) are 96 units, where a 75% equity share has been disposed of but no rent is charged on the remaining 25%. As rent is not charged on this portion the properties are shown as 100% staircased.

5. Surplus for the year

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Operating surplus is stated after charging/(crediting):				
Grant amortised	(9,667)	(9,950)	(9,600)	(9,881)
Depreciation – housing properties	34,791	33,076	34,713	32,997
Depreciation – Farncombe Road debtor	(77)	(66)	(77)	(66)
Depreciation – other fixed assets	2,452	2,996	2,452	2,996
Impairment housing properties	(889)	(604)	(889)	(604)
Accelerated depreciation	1,574	999	1,574	999
Operating lease charges:				
- Land & building	1,144	921	1,117	895
- Other	425	394	421	388
Auditors' remuneration:				
- in respect of audit services	207	169	186	151
Defined benefit scheme pension contributions (note 36)	1,112	1,061	1,112	1,061
Defined contribution scheme pension cost	5,024	3,036	5,005	3,036

6. Employees

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Staff costs (including directors) consist of:				
Wages & salaries	60,091	57,782	59,791	57,560
Social security costs	5,881	5,138	5,853	5,117
Pension costs	6,136	4,079	6,117	4,066
Redundancy costs	295	3,040	295	3,040
	72,403	70,039	72,056	69,783

More details on pension costs can be found in note 36.

The average number of employees (including directors) expressed as full time equivalents (calculated based on a standard working week of 36 hours) during the year was as follows:

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	FTE	FTE	FTE	FTE
Administration	239	201	239	201
Development	62	51	62	51
Housing, Support and Care	1,190	1,024	1,190	1,024
	1,491	1,276	1,491	1,276

7. Directors' and senior executives' remuneration

The key management personnel are defined as the Chief Executive and the Executive Team of Optivo as it existed at 31 March 2020 disclosed on page 110.

GROUP AND ASSOCIATION	2020 £000	2019 £000
The emoluments of the Executive Officers were:		
Executive directors' emoluments (excluding pension)	1,148	1,384
Pension contributions	93	100
The Group Chief Executive was the highest paid director in 2019/20;		
total remuneration (excluding pension contributions) for the year	263	246

The Group Chief Executive is a member of Optivo's defined contribution scheme which is managed by TPT Retirement Solutions. A contribution of £23,362 (2019: £20,465) was made to this scheme on his behalf. There are no enhanced or special terms that apply to the Chief Executive's pension scheme arrangements.

There were no payments made in respect of directors' loss of office (2019: £90,000).

The remuneration (including employer pension contributions) paid to staff (including Executive Team) earning over £60,000:

GROUP AND ASSOCIATION Band	2020 Employees	2019 Employees
£60,000 - £70,000	63	71
£70,001 - £80,000	33	25
£80,001 - £90,000	23	18
£90,001 - £100,000	9	11
£100,001 - £110,000	11	6
£110,001 - £120,000	6	6
£120,001 - £130,000	5	5
£130,001 - £140,000	2	2
£140,001 - £150,000	-	3
£150,001 - £160,000	2	1
£160,001 - £170,000	1	-
£180,001 - £190,000	-	1
£250,001 - £260,000	-	1
£230,001 - £240,000	1	2
£240,001 - £250,000	2	-
£260,001 - £270,000	-	1
£280,001 - £290,000	1	-
	159	153

8. Non-Executive Board and Committee members

The table below shows the salaries paid to non-Executive Board and Committee members and expenses incurred during the discharge of their duties during 2019/20:

	2020 Remuneration £	2020 Expenses £	2020 Total £	2019 Total £
Sir Peter Dixon	21,822	-	**21,822**	21,460
Andrew Burder	3,117	-	**3,117**	1,275
Andrew Wiseman	11,430	-	**11,430**	11,522
Candice McCausland	8,365	-	**8,365**	1,275
David Clifford	10,516	-	**10,516**	11,522
Eugenie Turton	8,981	168	**9,149**	5,916
Florence Barras	-	-	**-**	5,146
Geanna Bray	10,073	168	**10,241**	4,453
Helen Rieman	-	-	**-**	2,129
Helen Sachdev	3,117	21	**3,138**	754
Howard Cresswell	11,430	-	**11,430**	11,522
John Cox	-	-	**-**	5,090
Kathryn Smith	3,117	18	**3,135**	3,283
Liz Curran	3,117	173	**3,290**	765
Malcolm Zack	3,117	-	**3,117**	2,790
Matthew Abbott	3,117	-	**3,117**	3,040
Maureen Handy	1,729	-	**1,729**	-
Maureen Nicholas	3,117	33	**3,150**	3,055
Michael Davis	-	-	**-**	282
Michelle Dovey	11,430	664	**12,094**	5,372
Michelle Wright	143	-	**143**	-
Naveed Chaudry	3,117	-	**3,117**	3,040
Neil Ferguson	1,811	-	**1,811**	3,040
Nick Stephenson	8,833	38	**8,871**	8,803
Patricia Arnold	1,234	-	**1,234**	784
Patricia Caro	53	-	**53**	-
Paul Crouch	5,635	482	**6,117**	11,908
Peter Roscrow	-	-	**-**	6,707
Phillippa Brown	2,111	-	2,111	-
Ralph Scott-Gordon	-	108	**108**	-
Rosemary Ley	2,991	-	**2,991**	-
Samantha Herelle	4,178	80	**4,258**	8,888
Vishal Dixit	6,650	-	6,650	8,707
	154,351	**1,953**	**156,304**	**152,528**

The Fresh Visions People Limited Trustees are unpaid. The total payments to Board and Committee members in 2019/20 is less than 0.1% of our turnover. The amount paid to Board and Committee members is reviewed annually. Remuneration is based on sector benchmarking data for comparable sized associations.

9. Surplus / (loss) on disposal of commercial properties and other fixed assets

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Disposal proceeds	1,766	-	1,766	-
Cost of disposals	(1,212)	(21)	(1,212)	(21)
	554	(21)	554	(21)

10. Interest receivable and income from investments

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Bank and deposit interest	712	525	251	364
Investment income	402	143	402	139
From subsidiary undertaking	-	-	3,149	1,506
	1,114	668	3,802	2,009

11. Interest and financing costs

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Bank loans	38,588	32,095	38,382	31,482
Swap payments	14,342	15,776	13,962	15,776
Recycled capital grant fund	196	184	196	184
Other interest payable	3,401	3,180	3,745	3,233
Net interest on pension funds	1,150	1,114	1,150	1,114
	57,677	**52,349**	**57,435**	**51,789**
Interest capitalised on construction of housing properties	(9,693)	(9,635)	(9,693)	(9,088)
	47,984	**42,714**	**47,742**	**42,701**
Other financing costs through income and expenditure				
Loss on basic swap derivative instruments	**(22,824)**	**(2,267)**	**(22,824)**	**(2,267)**
Other financing costs through other comprehensive income				
Change in fair value of hedged financial instruments	**(77)**	**98**	**-**	**-**

12. Taxation

GROUP AND ASSOCIATION	2020 £000	2019 £000
Current Tax		
Current tax on income for the period	-	-
Adjustment in respect of previous periods	27	-
Total current tax	27	-

GROUP AND ASSOCIATION	2020 £000	2019 £000
Reconciliation of tax recognised in income and expenditure		
Surplus on ordinary activities before taxation	18,010	87,563
Corporation tax charged at 19% (2019: 19%)	3,422	16,637
Effects of		
Charitable surpluses not taxed	(3,422)	(16,637)
Adjustment in respect of prior periods	27	-
Total current tax	27	-

Optivo is a charitable housing association and is not liable to Corporation Tax on its charitable activities. Four subsidiaries, Crystal Palace Housing Association Ltd (CPHA), Optivo Finance plc (OF), Optivo Development Services Ltd (ODS) and Lamborn Estates Ltd (LE) are subject to Corporation Tax.

A reconciliation between Corporation Tax at the standard rate on the surplus on ordinary activities and the actual tax charge has not been provided due to the charitable status of Optivo, Charity of Julia Spicer for Almshouse, Eason Gruaz Homes, Middlesex First Limited and The Fresh Visions People Ltd.

Optivo paid Corporation tax of £27,000 in 2019/20, this was tax due for financial year 2017/18 (2019: £0).

13(a). Tangible fixed assets – housing properties – Group

GROUP

	Housing properties held for letting £000	Housing properties for letting under construction £000	Completed shared ownership properties £000	Shared ownership properties under construction £000	Total housing properties £000
Cost					
At 1 April 2019	2,534,693	115,367	374,750	98,547	3,123,357
Additions during year	217	113,362	37,719	66,917	218,215
Improvements	20,472	-	-	-	20,472
Transfer from investment property (note 15)	2,971	-	-	-	2,971
Transfer from current assets	-	-	20	713	733
Tenure change	8,584	1,528	(8,584)	(1,528)	-
Tenure change from current assets to housing properties	2,861	509	(2,861)	(509)	-
Transfer on completion	99,764	(99,764)	69,963	(69,963)	-
Disposals - property	(4,557)	(883)	(5,526)	-	(10,966)
Disposals - components	(7,117)	-	-	-	(7,117)
At 31 March 2020	**2,657,888**	**130,119**	**465,481**	**94,177**	**3,347,665**
Depreciation and impairment					
At 1 April 2019	372,390	883	20,720	-	393,993
Depreciation charge for the year	31,902	-	2,812	-	34,714
Disposals during year	(1,294)	-	(397)	-	(1,691)
Component disposals during the year	(5,544)	-	-	-	(5,544)
Impairment release	-	(883)	(6)	-	(889)
At 31 March 2020	**397,454**	**-**	**23,129**	**-**	**420,583**
Net book value					
At 31 March 2020	**2,260,434**	**130,119**	**442,352**	**94,177**	**2,927,082**
At 31 March 2019	2,162,303	114,484	354,030	98,547	2,729,364

The cost of land included in the above not subject to depreciation is £889 million (2019: £882 million). The net book value of leasehold land and buildings included above is £389 million (2019: £336 million). Additions to housing properties in the course of construction during the year included capitalised interest of £9.7 million (2019: £9.6 million) at an average interest rate during the year of 3.95% (2019: 4.34%).

The total expenditure on works to existing properties during the year was £80 million (2019: £72 million), of which £20.5 million (2019: £19.7 million) was capitalised as component replacements, the remainder was expensed.

Tenure change relates to £11.4 million of shared ownership units transferred to general needs at Beaumaris Court, Canterbury Road, Leon House and Whetstone. £2 million relates to conversion of under construction shared ownership units at Beaumaris Court to general needs. Tenure changes were approved in line with our operating regulations.

13(b) Tangible fixed assets – housing properties – Association

ASSOCIATION	Housing properties held for letting £000	Housing properties for letting under construction £000	Completed shared ownership properties £000	Shared ownership properties under construction £000	Total housing properties £000
Cost					
At 1 April 2019	2,537,851	108,993	370,726	94,035	3,111,605
Additions during year	37	115,528	136	66,917	182,618
Improvements	20,473	-	-	-	20,473
Transfer from investment property (note 15)	2,971	-	-	-	2,971
Transfer from current assets	-	-	20	713	733
Tenure change	8,584	1,528	(8,584)	(1,528)	-
Tenure change from current assets to housing properties	2,861	509	(2,861)	(509)	-
Transfer on completion	99,764	(99,764)	69,963	(69,963)	-
Disposals - property	(4,557)	(883)	(5,310)	-	(10,750)
Disposals - components	(7,117)	-	-	-	(7,117)
At 31 March 2020	**2,660,867**	**125,911**	**424,090**	**89,665**	**3,300,533**
Depreciation and impairment					
At 1 April 2019	372,344	883	19,449	-	392,676
Depreciation charge for the year	31,889	-	2,747	-	34,636
Disposals during year	(1,294)	-	(360)	-	(1,654)
Component disposals during the year	(5,544)	-	-	-	(5,544)
Impairment release	-	(883)	(6)	-	(889)
At 31 March 2020	**397,395**	**-**	**21,830**	**-**	**419,225**
Net book value					
At 31 March 2020	**2,263,472**	**125,911**	**402,260**	**89,665**	**2,881,308**
At 31 March 2019	2,165,507	108,110	351,277	94,035	2,718,929

The cost of land included in the above which is not subject to depreciation is £850 million (2019: £809 million). The net book value of leasehold land and buildings included above is £388 million (2019: £335 million). Additions to housing properties in the course of construction during the year included capitalised interest of £9.7 million (2019: £9.1 million) at an average interest rate during the year of 3.95% (2019: 4.34%).

The total expenditure on works to existing properties during the year was £80 million (2019: £72million), of which £20.5 million (2019: £19.7 million) was capitalised as component replacements.

Tenure change relates to £11.4m of shared ownership units transferred to general needs at Beaumaris Court, Canterbury Road, Leon House and Whetstone. £2 million relates to conversion of under construction shared ownership units at Beaumaris Court to general needs. Tenure changes were approved in line with our operating regulations.

14(a) Tangible fixed assets – other fixed assets

GROUP	Land and building £000	Furniture and office equipment £000	Computer equipment & software £000	Motor vehicle £000	Total £000
Cost					
At 1 April 2019	24,787	11,122	13,970	172	50,051
Additions during year	900	119	883	83	1,985
Change of category	(65)	65	-	-	-
Disposal during year	(11)	(8)	(2)	-	(21)
At 31 March 2020	**25,611**	**11,298**	**14,851**	**255**	**52,015**
Depreciation					
At 1 April 2019	7,635	9,998	11,541	91	29,265
Charge for the year	873	482	1,063	33	2,451
Disposals during year	-	-	(2)	-	(2)
At 31 March 2020	**8,508**	**10,480**	**12,602**	**124**	**31,714**
Net book value					
At 31 March 2020	**17,103**	**818**	**2,249**	**131**	**20,301**
At 31 March 2019	**17,152**	**1,124**	**2,429**	**81**	**20,786**

The net book value of freehold land and buildings included in the above is £15.7 million (2019: £16.5 million). The net book value of leasehold buildings included in the above is £1.4 million (2019: £0.7 million).

14(b) Tangible fixed assets – other fixed assets

ASSOCIATION	Land and building £000	Furniture and office equipment £000	Computer equipment & software £000	Motor vehicle £000	Total £000
Cost					
At 1 April 2019	24,787	11,116	13,970	172	50,045
Additions during year	900	119	883	83	1,985
Change of category	(65)	65	-	-	-
Disposal during year	(11)	(8)	(2)	-	(21)
At 31 March 2020	**25,611**	**11,292**	**14,851**	**255**	**52,009**
Depreciation					
At 1 April 2019	7,635	9,992	11,541	91	29,259
Charge for the year	873	482	1,063	33	2,451
Disposals during year	-	-	(2)	-	(2)
At 31 March 2020	**8,508**	**10,474**	**12,602**	**124**	**31,708**
Net book value					
At 31 March 2020	**17,103**	**818**	**2,249**	**131**	**20,301**
At 31 March 2019	**17,152**	**1,124**	**2,429**	**81**	**20,786**

The net book value of freehold land and buildings included in the above is £15.7 million (2019: £16.5 million). The net book value of leasehold buildings included in the above is £1.4 million (2019: £0.7 million).

15. Investment properties

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
At 1 April	156,542	118,330	138,872	94,983
Additions	-	-	-	1,832
Transferred to fixed assets (Note 13)	(2,971)	(3,135)	(2,971)	(3,020)
Transferred from fixed assets (Note 13)	-	14,521	-	14,521
Disposals	(1,210)	(1,745)	(1,210)	(1,745)
Revaluation in year	(5,055)	28,571	(4,485)	32,302
At 31 March	147,306	156,542	130,206	138,873

The Association's investment properties are valued annually on 31 March at fair value. They are determined by independent, professionally qualified valuers and undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual.

A rent capitalisation methodology was adopted coupled with an assessment of what an owner-occupier might pay with reference to respective rental and capital value markets. Where appropriate, for offices with obvious permitted development credentials, a high level residual appraisal was undertaken to underpin the valuation.

The deficit on revaluation of investment property arising of £5 million (2019 – surplus of £29 million) has been debited to the statement of comprehensive income for the year.

Due the outbreak of Covid-19 the valuation reports contain statements regarding material valuation uncertainty as set out on page 73.

16. Investments in joint ventures

GROUP	2020	2019
	£000	£000
At 1 April	4,578	-
Cumulative contribution	4,112	4,641
Cumulative share of joint venture profit/(loss)	156	(63)
At 31 March	8,846	4,578

In December 2018 Optivo Homes Limited, a subsidiary of Optivo, entered into an agreement with Galliford Try Homes Limited (now Vistry Linden Ltd) to become a member of Linden (Rainham) LLP. Each party holds a 50% interest in the LLP and 50% of the voting rights. Linden (Rainham) LLP´s principal activity is the development of new homes.

17. Other investments

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
At 1 April	2	2	14	14
Disposed in year	-	-	-	-
At 31 March	2	2	14	14

18. Properties held for sale

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Completed	25,141	23,020	23,885	21,764
Under construction	89,317	70,410	34,087	33,470
	114,458	93,430	57,972	55,234

Capitalised interest is charged at an average interest rate during the year of 3.95% (2019: 4.34%).

During the year, £2.9 million of completed shared ownership properties and £0.5 million of under construction properties were transferred to housing properties as shown in Note 13.

19. Trade and other debtors

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Due within one year:				
Rental and service charge arrears	16,861	14,551	16,759	14,531
Provision for doubtful debts	(5,356)	(2,146)	(5,356)	(2,194)
	11,505	**12,405**	**11,403**	**12,337**
Social housing grant receivable	3,409	8,210	3,409	8,210
Trade debtors	2,764	2,917	2,982	5,133
Other debtors	1,603	2,022	511	1,947
Amounts owed by subsidiary undertakings	-	-	1,324	832
Prepayments and accrued income	10,569	12,816	7,395	8,496
VAT	1,549	5,322	814	-
Amounts due from related parties	605	605	605	605
	32,004	**44,297**	**28,443**	**37,560**
Due after more than one year:				
Leaseback schemes	2,401	2,626	2,401	2,626
Service charge debtor	7,266	5,678	7,266	5,666
Liquidity fund	3,244	3,236	3,244	3,236
Other debtors	113	113	113	113
Amounts owed by subsidiary undertakings	-	-	114,647	61,755
	13,024	**11,653**	**127,671**	**73,396**
Total debtors	**45,028**	**55,950**	**156,114**	**110,956**

20. Short term investments

There were no deposits not accessible within 3 months. (2019: £Nil).

At 31 March 2020, there was £9.2 million (2019: £11.1 million) 'ring-fenced' cash in interest bearing bank accounts relating to cash sums held by the Association for specific purposes.

21. Cash and cash equivalents

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Cash and cash equivalents	137,449	80,833	130,137	70,391
	137,449	80,833	130,137	70,391

Total Group cash and short term investment balances of £137.4 million (2019: £80.8 million) include £13.2 million (2019: £9.2 million) held in separate accounts for sinking funds on behalf of leaseholders.

22. Creditors: amounts falling due within one year

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Social housing grant (note 24)	9,810	10,121	9,745	10,051
Interest payable	6,669	4,948	6,039	4,948
Loan repayments (note 28)	46,066	28,859	45,540	28,367
Taxation and social security	806	817	806	817
Rent & service charge in advance	22,521	20,496	22,025	20,099
Creditors and accruals	62,439	68,314	56,060	62,747
Handback creditor	-	66	-	66
Amounts due to subsidiary undertakings	-	-	2,050	1,692
Pension creditor (note 36)	-	115	-	115
Disposal proceed fund (note 27)	257	757	257	757
Recycled capital grant fund (note 26)	9,113	14,640	9,063	14,525
	157,681	149,133	151,585	144,184

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

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Loans & borrowings (note 28)	1,438,993	1,246,183	1,430,789	1,237,078
Derivative financial instruments	171,302	148,401	168,740	145,917
Lease Premium Grant Subsidy	260	315	260	315
Service charge creditor	2,927	3,680	2,920	3,680
Social Housing Grant (note 24)	903,764	880,122	900,057	876,234
Recycled Capital Grant Fund (note 26)	14,856	16,084	14,608	15,943
Pension creditor (note 36)	-	580	-	580
Other creditors	876	487	877	486
	2,532,978	2,295,852	2,518,251	2,280,233

24. Social Housing Grant received

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Total Social Housing Grant received or receivable to date is as follows:				
Capital grant - housing properties	913,574	890,243	909,802	886,285
Recycled Capital Grant Fund (note 26)	23,969	30,724	23,671	30,468
Disposals Proceeds Fund (note 27)	257	757	257	757
Grant cumulative amortised	182,360	173,702	180,943	172,311
	1,120,160	1,095,426	1,114,673	1,089,821

25. Social Housing Grant

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
As at 1 April 2019	890,243	888,820	886,285	884,726
Grants received during the year	25,382	15,293	25,387	15,293
Grant Recycled	10,832	7,142	10,832	7,142
Disposals	(3,212)	(11,062)	(3,094)	(10,995)
Grants amortised during the year	(9,671)	(9,950)	(9,608)	(9,881)
At 31 March 2020	913,574	890,243	909,802	886,285
Cumulative amount amortised	182,360	173,702	180,943	172,311

26. Recycled Capital Grant Fund (RCGF)

GROUP	2020 Homes England £000	2020 GLA £000	2019 Homes England £000	2019 GLA £000
At 1 April 2019	6,641	24,083	6,499	19,874
Grants recycled	1,474	1,906	687	10,411
Transferred from other Group members	-	-	(798)	798
Interest accrued	48	148	42	142
New development and repairs to existing properties	(430)	(9,901)	-	(7,142)
Transfer from DPF (note 27)	-	-	211	-
At 31 March 2020	7,733	16,236	6,641	24,083
Amount due for repayment to Homes England/GLA				
Within one year	5,483	3,630	5,124	9,516
Within 2 to 3 years	2,250	12,606	1,517	14,567
	7,733	16,236	6,641	24,083

ASSOCIATION	2020 Homes England £000	2020 GLA £000	2019 Homes England £000	2019 GLA £000
At 1 April 2019	6,641	23,827	6,499	19,593
Grants recycled	1,474	1,750	687	10,319
Transfers	-	114	(798)	798
Transferred from other Group members	-	-	-	117
Interest accrued	48	148	42	142
New development and repairs to existing properties	(430)	(9,901)	-	(7,142)
Transfer from DPF (note 27)	-	-	211	-
At 31 March 2020	7,733	15,938	6,641	23,827
Amount due for repayment to Homes England/GLA				
Within one year	5,483	3,580	5,124	9,401
Within 2 to 3 years	2,250	12,358	1,517	14,426
	7,733	15,938	6,641	23,827

27. Disposal Proceeds Fund (DPF)

GROUP AND ASSOCIATION	2020 Homes England £000	2020 GLA £000	2019 Homes Emgland £000	2019 GLA £000
At 1 April 2019	576	181	787	181
New development and repairs to existing properties	(319)	(181)	-	-
Transfer to RCGF (note 26)	-	-	(211)	-
At 31 March 2020	257	-	576	181

2016/17 was the final year the Disposals Proceeds Fund operated. Remaining unspent funds after 6 April 2020 will be repaid to Homes England.

28. Loans and borrowings

	GROUP		ASSOCIATION	
	2020 £000	2019 £000	2020 £000	2019 £000
Housing loans repayable:				
Within one year	46,066	28,859	45,540	28,367
One to two years	43,473	57,245	42,869	56,739
Two to five years	291,755	187,919	289,500	185,977
More than five years	698,690	708,449	692,780	701,603
Deferred financing costs	(8,192)	(8,152)	(8,059)	(8,055)
	1,071,792	**974,320**	**1,062,630**	**964,631**
Loans repayable by instalments, some of which fall due to be repaid in more than five years:	1,079,984	979,148	1,070,689	969,362
Index linked loans	-	3,324	-	3,324
Deferred financing costs	(8,192)	(8,152)	(8,059)	(8,055)
	1,071,792	**974,320**	**1,062,630**	**964,631**

28. Loans and borrowings (continued)

	GROUP		ASSOCIATION	
	2020 £000	2019 £000	2020 £000	2019 £000
Housing loans repayable:				
Loans and debentures	1,078,387	977,435	1,069,092	967,649
Index linked loans	-	3,324	-	3,324
Deferred interest loans	-	57	-	57
Loan premiums	1,597	1,656	1,597	1,656
Deferred financing costs	(8,192)	(8,152)	(8,059)	(8,055)
Net housing loans due within one year and after more than one year	**1,071,792**	**974,320**	**1,062,630**	**964,631**
Inter-company loan	-	-	413,699	300,814
Bond	400,000	300,000	-	-
Bond premium	17,552	4,066	-	-
Bond discount	-	(1,475)	-	-
Bond set up costs	(4,285)	(1,869)	-	-
Net bond balance	**413,267**	**300,722**	**-**	**-**
Net borrowings	**1,485,059**	**1,275,042**	**1,476,329**	**1,265,445**

Optivo Group has £1.5 billion loan facilities (excluding the bonds) (2019: £1.4 billion). This includes undrawn committed loan facilities of £405 million (2019: £380 million), of these committed loan facilities £405 million was fully secured at the balance sheet date and available to draw at short notice. Loans bear fixed rates of interest ranging from 1.25% to 11.3% or variable rates based on a margin above LIBOR year (2019: 1.76% to 11.5%).

In addition to the above, at 31 March 2020 the Group has £400 million of corporate bonds in issue. £150 million was issued between 2012 and 2014, followed in March 2018 by a £250 million 2048 corporate bond. Of the March 2018 bond, £150 million was sold on issue, £25 million sold in April 2019 and £75 million sold in September 2019.

Included in net housing loans and net bond balance are set up costs of £12.5 million (2019: £10 million) capitalised and net of amortisation.

The Group has interest rate swap agreements in place to mitigate the risk of interest rate increases in its floating rate debt. The mark to market liability in respect of the Group's derivative portfolio is £171.3 million (2019: £148.4 million). Adjustment is made to fair value for credit risk where this is considered material. The majority of interest rate swap arrangements are on simple terms requiring payment of a fixed rate ranging from 3.37% to 5.31% and receiving a variable rate from the counterparty. In the majority of cases the variable rate is linked to LIBOR. Our swap portfolio has maturity dates ranging from 2022 to 2042. On maturity it is expected that no swap arrangements will attract a significant settlement cost.

28. Loans and borrowings (continued)

Drawn funding bears interest, after taking in to account the impact of derivatives as follows:

	2020 £000	2019 £000
Fixed rate	1,165,401	945,166
Index linked	-	3,324
Floating rate	282,986	302,325
Capped	30,000	30,000
	1,478,387	1,280,815

A negative movement on the fair value of the derivative financial instrument portfolio of £22.8 million (2019: £2.3 million) has been recognised in the statement of comprehensive income in the year. Fair value is determined by reference to the mark to market position of the derivative instruments at each reporting date.

At 31 March 2020, 30,509 (2019: 28,409) homes are charged as security to lenders valued at £2.99 billion (2019: £2.7 billion) (based on a mix of existing use value – social housing (EUV-SH) and market values subject to tenancies (MV-T)). Homes and offices are charged to derivative counterparties to meet our mark to market exposure to the extent that this exceeds a threshold agreed between the counterparties.

Board recognises the key risk faced by the Group relates to the ability of the Association to repay loans as they fall due. The Association is exposed to fluctuations in interest rates. The key risks and mitigation strategies are:

- The Group uses derivatives to manage interest rate risk
- The Group undertakes regular revaluation of the property portfolio, ensuring the asset cover required to secure borrowings is maintained. The majority of borrowing is secured against the market value of properties subject to tenancies
- The Group regularly monitors actual and projected compliance with financial covenants, and uses sensitivity analysis to ensure price, liquidity, credit and interest rate risk will not affect the ability of the Group to repay debt to the lender as it falls due or that mitigating actions are taken where appropriate.

29. Financial instruments

The Group's financial instruments are analysed as follows:

GROUP	2020 £000	2019 £000
Financial assets measured at fair value through profit or loss		
Derivative financial instruments	(171,302)	(148,401)
Derivative financial instruments designated as cash flow hedges of variable interest rate risk	(2,562)	(2,484)

30. Provisions

GROUP AND ASSOCIATION	2020 £000
At 1 April 2019	683
Increase in year	77
At 31 March 2020	760

31. Contingent liabilities

The timing of any future property disposals is uncertain. No provision has been recognised in these financial statements in relation to any potential repayment of grant that may arise in the event of a disposal. The Group holds £37.3 million grant (2019: £37.3 million) relating to stock swaps which would be repayable to the grant provider in the event that this stock is disposed.

32. Non-equity share capital

ASSOCIATION	2020	2019
	£	£
At 1 April 2019	64	73
Issued in year	2	1
Cancelled in year	(16)	(10)
At 31 March 2020	50	64

Every member of the Association holds one share of £1. These shares carry no dividend rights and, on cessation of membership of the Association, are cancelled and the amount paid becomes the property of the Association. Each member has the right to vote at members' meetings.

33. Capital commitments

Commitments for expenditure on developments

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Capital expenditure contracted for but not provided for in the financial statement	512,046	403,730	425,623	378,204
Capital expenditure which has been authorised by the Board but not yet contracted for	140,042	213,913	140,042	104,121

The amount contracted for at 31 March 2020 will be funded from grants approved by Homes England / GLA 3% (2019: 4%) or will be financed from property sales 55% (2019: 41%) and private loans / cash generated from the business 42% (2019: 55%). Under regulations approved by Board, expenditure to certain levels may be authorised by appropriate officers, and such authorised expenditure is included above.

Commitments for expenditure on components

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Capital expenditure - contracted for but not provided for in the financial statement	20,328	23,772	20,149	23,584
Capital expenditure - replacement component authorised by the Board but not yet contracted for	654	1,229	654	1,229

The amount contracted for at 31 March 2020 will be funded by cash generated from the business.

34. Commitments under operating leases

At 31 March 2020 the Group and Association had total commitments under non-cancellable operating leases as follows:

	GROUP		ASSOCIATION	
	2020	2019	2020	2019
	£000	£000	£000	£000
Land and buildings				
Leases expiring within one year	1,053	773	1,036	744
Two to five years	4,617	1,849	4,617	1,846
Over five years	6,831	2,775	6,831	2,775
	12,501	5,397	12,484	5,365
Other				
Leases expiring within one year	193	164	193	163
Two to five years	434	330	434	330
	627	494	627	493
Total	13,128	5,891	13,111	5,858

35. Related party disclosures

The ultimate controlling party of the Group is Optivo, a registered social housing provider. There is no ultimate controlling party of Optivo.

Optivo considers the key management personnel to be the Board and Executive Team. The only transaction between Optivo and the key management personnel is remuneration which is set out in notes 7 and 8.

Optivo participates in seven defined benefit pension schemes. The transactions with these pension schemes are set out in note 36.

The following managed undertakings are subsidiaries by virtue of the ability of the Association to control the composition of their Board or by holding the majority of shares. The Association owns 100% of the shares of each of the undertakings listed. In accordance with financial reporting standards, the results of the undertakings are incorporated in the consolidated accounts. Where indicated, subsidiaries are Registered Providers of Social Housing (RPSH).

Name of undertaking	Country of registration	Principal activity
Amicus Group Ltd	UK RPSH	Dormant
Optivo Finance Plc	UK PLC	Bond issuing vehicle
Avenue Lettings & Management Ltd	UK	Dormant
Crystal Palace Housing Association Ltd	UK RPSH	Registered social housing provider
Eason Gruaz Homes	UK Charity	Social housing provider
The Fresh Visions People Ltd	UK Charity	Registered Charity
Charity of Julia Spicer for Almshouse	UK RPSH	Registered social housing provider
Lamborn Estates Ltd	UK	Property development
Middlesex First Ltd	UK	Manages student accommodation
Optivo Development Services Ltd	UK	Property development
Optivo Homes Ltd	UK	Holding company
Optivo Enterprise Ltd	UK	Dormant

Investments

	2020	2019
	£000	£000
Amounts owed by related parties at year end	9,451	5,246

Ealing Care Alliance

The Group holds a 16% interest in Ealing Care Alliance (Holdings) Limited. Amounts due from related parties disclosed in note 35 relate to a loan of £604,800 given to Ealing Care Alliance (Holdings) Limited. Interest accrues at 13.5% per annum, £81,872 per annum and the loan is considered to be due on demand.

The Group provided care services to Ealing Care Alliance Limited, the wholly owned subsidiary of Ealing Care Alliance (Holdings) Limited, until February 2020 when service provision transferred to a new provider. Optivo is no longer involved in the Care sector as this is not part of our core business. Optivo received an additional £3 million income in 2019/20 following benchmarking of the cost of provision.

Linden (Rainham) LLP

Optivo Homes Limited, a subsidiary of the Group, is a member of Linden (Rainham) LLP, a 50:50 joint venture established with Galliford Try Homes Limited (now Vistry Linden Ltd) to develop a scheme. The Group contributed £4.1 million (2019: £4.6 million) to the joint venture in the year.

Ink Development Company

The Association is a member of Ink Development Company Limited, a vehicle set up with West Kent Housing Association and Russet Homes to jointly acquire sites and develop schemes. Russet Homes ceased membership in 2014.

35. Related party disclosures (continued)

The following transactions took place during the year:

	2020 £000	2019 £000
Net sales and purchase of goods and services	12,521	6,122
Debtors due to Ink	1,263	1,326
Creditor due from Ink	702	1,959
Administration fees	366	174

Management services

The Association provides central management services to its subsidiaries.

The quantum of the 2019/20 charges applied for these services to each subsidiary is as follows:

	2020 £000	2019 £000
Middlesex First Ltd	-	-
Optivo Development Services Ltd	996	869
Lamborn Estates Ltd	109	133*
Crystal Palace Housing Association Ltd	141	142
Eason Gruaz Homes	5	4
The Fresh Visions People Ltd	3	3
Charity of Julia Spicer for Almshouse	13	9
Total	1,267	1,160

*Lamborn Estates Ltd was excluded from 2019 financial statements disclosure.

The Association transacted with the following entities which are not themselves registered providers:

Name of undertaking	Nature of the transaction	2020 £m	2019 £m
Optivo Finance Plc	Inter-company loan to Optivo		
	- bond issue	(100.0)	-
	- concessionary loan	(13.9)	-
Optivo Development Services Ltd	Development cash flow	(14.6)	(20.3)
Lamborn Estates Ltd	Inter-company loan to Lamborn	(19.0)	(43.7)
Linden (Rainham) LLP	Contribution to JV	(8.8)	(4.6)
Ealing Care Alliance Limited	Care services	10.3	10.1

Interest on the Optivo Finance plc loan is charged at the same equivalent rate of the external loans with no mark up by Optivo Finance plc £9.4 million (2019: £12.8 million).

Interest on the Lamborn Estates Ltd loan is charged at LIBOR plus 5%. Interest charged in the year was £3 million (2019: £1.3 million).

36. Pension commitments

Optivo participated in seven defined benefit schemes for its employees during the year. These were the Social Housing Pension Scheme (SHPS), TPT Retirement Solutions – The Growth Plan (the Growth Plan), Horizon Housing Group Pension Scheme (HHGPS) and four Local Government Pension Schemes: East Sussex County Council Pension Fund (ESCC), Kent County Council Scheme (KCCS) the London Borough of Barnet (LBB) and London Borough of Ealing (LBE). The assets of the schemes are held separately from those of the Group and are managed by trustees. The contributions are determined on the basis of triennial valuations using the projected unit method. These schemes are all closed to new members. Optivo also operates a defined contribution scheme for the majority of its employees. Three commercial properties have a charge to secure the liabilities on HHGPS. The respective properties are valued at £2 million.

During the year, Optivo settled its liabilities in the Growth Plan and LBE, following the departure of its last active members with the divestment of ECA Care Homes. It is possible that there may be a termination credit due to Optivo in respect of LBE, but as the methodology is unclear, no allowance has been made for this in these accounts.

With effect from the end of the year Optivo entered into an agreement to transfer all its assets and liabilities from SHPS to a new stand-alone Optivo Scheme, on a mirror image basis. Contributions to this scheme will continue to be at the level determined by the actuarial valuation of SHPS as at 30 September 2017. As a result of this transfer agreement, Optivo is no longer liable for other participating employers in SHPS as part of the 'last man standing arrangement' within SHPS.

In April 2018 sufficient information became available within SHPS to enable Optivo to account for its obligations on a defined benefit basis. Prior to that date it had accounted for the obligation by stating the present value of agreed deficit repayment contributions. This change resulted in an adjustment to the deficit at the start of the prior year as follows:

SHPS Pension liability

	2019 £000
At 31 March 2018 (present value of future deficit contributions)	12,395
In year adjustment to defined benefit accounting basis	7,642
Deficit in plan at 1 April 2019	20,037

From that date, it has been possible to account for all schemes apart from the Growth Plan on a defined benefit basis. The following disclosures are the aggregate for SHPS, HHGPS, KCC, ESCC, LBE and LBB. The latest triennial valuations were carried out as at 30 September 2017, 31 March 2017 and 31 March 2019 for SHPS, HHGPS and the four Local Government Pension Schemes respectively.

Funding position at 31 March

	2020 £000	2019 £000
Share of assets	165,855	179,455
Estimated liabilities	(199,572)	(232,093)
Net deficit	(33,717)	(52,638)

36. Pension commitments (continued)

Amounts charged to operating surplus for year to 31 March

	2020	2019
	£000	£000
Current service cost	1,112	1,061
Administration expenses	193	156
Settlement	(251)	-
Past service costs	120	377
Total operating surplus charge	1,174	1,594

Amounts charged to interest and financing cost for year to 31 March

	2020	2019
	£000	£000
Net interest cost	1,148	1,098

Amount recognised in statement of comprehensive income for year to 31 March

	2020	2019
	£000	£000
Actual return less expected return on assets	(12,265)	5,191
Experience gains / (losses)	2,399	(886)
Change in financial and demographic assumptions	24,116	(15,608)
Total actuarial gain / (loss)	14,250	(11,303)

Analysis in movement in surplus in year to 31 March

	2020	2019
	£000	£000
Deficit at beginning of the year	(52,638)	(45,295)
Total contributions	6,993	6,652
Current service cost	(1,112)	(1,061)
Past service costs	(120)	(377)
Settlement	251	-
Other finance costs	(1,148)	(1,098)
Administration expense	(193)	(156)
Actuarial gain / (loss)	14,250	(11,303)
Deficit in the scheme at the end of the year	(33,717)	(52,638)

36. Pension commitments (continued)

	2020 £000	2019 £000
Reconciliation of opening and closing balances of fair value of assets as at 31 March		
Opening fair value of assets	179,455	168,971
Expected return on assets	4,160	4,372
Actuarial (losses) / gains on assets	(12,254)	5,191
Other losses	(11)	-
Contributions by the employer	6,993	6,652
Contributions by the participants	367	343
Administration expense	(193)	(156)
Settlement	(5,941)	-
Net benefits paid out	(6,721)	(5,918)
Closing fair value of assets	165,855	179,455

	2020 £000	2019 £000
Reconciliation of opening and closing balances of the present value of scheme liabilities as at 31 March		
Opening present value of liabilities	232,093	214,266
Service costs	1,112	1,061
Change in assumptions	(24,116)	15,608
Interest costs	5,308	5,470
Contributions by participants	367	343
Actuarial gains on liabilities	(2,399)	886
Net benefits paid out	(6,721)	(5,918)
Settlement	(6,192)	-
Past service costs	120	377
Closing present value of liabilities	199,572	232,093

Split of plan assets

The major categories of plan assets as a percentage of total plan assets are as follows:

	2020	2019
Equities	15% - 71%	17% - 69%
Bonds	14% - 53%	10% - 52%
Property	0% - 14%	0% - 12%
Absolute return funds	0% - 33%	0% - 36%
Cash	0% - 5%	0% - 8%
Other	0% - 23%	0% - 18%

36. Pension commitments (continued)

Mortality

Life expectancy is based on the S1PA S2PA tables and the CMI2018 and CMI2020 models. Based on these assumptions, the average future life expectancies from retirement age are summarised below:

	2020	2019
Current male pensioners	20.8 - 21.8 years	21.0 - 23.3 years
Current female pensioners	22.7 - 24.0 years	22.9 - 26.2 years
Future male pensioners	21.9 - 23.2 years	22.1 - 25.5 years
Future female pensioners	23.9 - 25.7 years	24.1 - 28.5 years

Financial assumptions

The main financial assumptions were as follows:

	2020	2019
Rate of general long term increase in salaries	1.9% - 3.5%	2.8% - 4.3%
Rate of increase in pension payment	1.9% - 2.6%	2.4% - 3.3%
Discount rate	2.2% - 2.4%	2.3% - 2.7%
Inflation assumption (CPI)	1.6% - 2.5%	2.3% - 2.8%

TPT Retirement Solutions – The Growth Plan

During the year Optivo participated in the Growth Plan, a multi-employer scheme which provides benefits to some 950 non-associated participating employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme. Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

With effect from 30 June 2019, Optivo ceased to have any active members in the Growth Plan and has now settled its debt on withdrawal. Optivo no longer has any liability in respect of the Growth Plan either in respect of its own members or under the last man standing provisions.

Reconciliation of opening and closing provisions

	2020 £000	2019 £000
Provision at the start of period	695	763
Unwinding of discount factor (interest expense)	2	16
Deficit contribution paid	(2,045)	(100)
Remeasurement - impact of any changes in assumptions	-	16
Settlement	1,348	-
Provision at the end of the period	**-**	**695**

Amounts charged to Income & Expenditure

	2020 £000	2019 £000
Interest expense	2	16
Remeasurement - impact of any changes in assumptions	-	16
Settlement	1,348	-

37. Post balance sheet event

After the financial year end, on 7 April 2020, we issued a 15½ year public £250m bond at face value with a coupon of 2.857% maturing in 2035. We immediately repurchased and retained £100 million for future sale within 3 years.

BOARD MEMBERS, EXECUTIVE OFFICERS AND ADVISERS

Optivo Board

Sir Peter Dixon
Chair

Eugenie Turton
Vice Chair

Geanna Bray
Chair of Customer Experience Committee

Andy Burder
Appointed 13 May 2020

David Clifford
Died 27 February 2020

Howard Cresswell
Chair of People, Governance & Remuneration Committee

Paul Crouch
Retired 29 September 2019

Michelle Dovey
Chair of Treasury Committee

Damien Régent
Chair of Audit & Risk Committee
Appointed 1 July 2020

Nick Stephenson

Andrew Wiseman
Chair of Growth Committee

Chris Tinker
Designate Chair of Growth Committee
Appointed 1 July 2020

Candice McCausland
Resigned 30 June 2020

Paul Hackett
Chief Executive
Appointed 2 January 2020

Optivo Executive Team

Paul Hackett
Group Chief Executive

Kerry Kyriacou
Executive Director Development & Sales

Sarah Smith
Chief Financial Officer

Jane Porter
Chief Operating Officer

Joanne Stewart
Executive Director for People

Jo Robinson
Resigned 31 July 2019

Suzie Woodhams
Resigned 20 September 2019

Secretary & registered office

Alison Wignall
Grosvenor House
125 High Street
Surrey CR0 9XP

Advisors to the Optivo Board

Statutory Auditors
BDO LLP
2 City Place
Beehive Ring Road
Gatwick RH6 0PA

Principal Bankers
Barclays Bank Plc
1 Churchill Place
Canary Wharf
London E14 5HP

Principal Solicitors
Trowers & Hamlins
3 Bunhill Row
London EC1Y 8YZ

Devonshires
30 Finsbury Circus
London EC2M 7DT

AVISON YOUNG

Review of Counterparties on Land Acquisition

South Bank Colleges

May 2021

Contents

Prepared By: Ed Goodall, Associate Director
Contributors: Latisha Clark-Dhir, Associate

Status: Final
Date: 24 May 2021

For and on behalf of Avison Young Real Estate Finance (UK) Limited

1. Introduction

1.1 Overview

South Bank Colleges (SBC) is considering the sale of land at 45 Clapham Common Southside to a consortium (the Developer). According to the Presentation Pack, the purchase price would be £94 million, of which £16.075 million is netted off to cover the development of a new college which the Developer will provide. Thus the net cash payment is £77.925 million. As per Schedule C of the Heads of Terms in the Presentation Pack, the sale is to be in two tranches in Sept 2022 and 2023 respectively.

Avison Young Real Estate Finance (AYREF) has been commissioned by London South Bank University (LSBU) (of which SBC is a fully owned subsidiary) to review the consortium members. The review is:

- at the company level, to establish the credit worthiness of each of the consortium members, relative to their financial obligations within the financial structure of the consortium. This review will cover not only their financial obligations to fund the land transaction and develop the new college but, more broadly, their ability to fund the wider development onsite.
- at director level, in respect of Know Your Customer (KYC). This covers whether any company directors are on the UK sanctions list or have been disqualified from acting as a company director.
- We have also been asked to review each member's Anti Slavery policy.

Where we do not have the requisite information then our review will be qualified accordingly. Our review is also limited in scope to companies registered within the United Kingdom and, for the disqualified director's test, to individuals based in the United Kingdom.

1.2 Information provided to us

AYREF have made use of the following documents:

- Presentation Pack "SBC Lambeth College Presentation - 8 March 2021" and Appendices. We understand from LSBU that this was a draft of the final presentation but that the numbers in the final presentation did not vary and that the only changes were presentational. Since undertaking our analysis we have been provided with the final version of the main presentation, for our records, but not the updated Appendices to the draft presentation (other than as specified in the Additional Information requested below)
- Anti slavery policy provided by Parkside Clapham Holdings on 1st April
- Additional information requested and provided by Stephen Lamont of LSBU on 7th April:
  - Appendices 1, 2 and 5 of the presentation pack updated
- Additional information requested and provided by Stephen Lamont of LSBU on 12th April:
  - Sources and Uses Table

- Letter of Support from Optivo
- Letter of Support from M&G

- An email sent from London Realty to Stephen Lamont on 30th April and forwarded to us on 4th May. In particular the cover note and the attachment “Example Finance Structure Diagram 45CCS April 2021”).
- An updated letter from M&G dated 10th May, provided to us on 11th May.

1.3 Other Information used

In order to assess the credit worthiness of the companies we have made use of credit checks from Dun and Bradstreet (D&B). These credit checks in turn draw on publicly available information as per at a snapshot in time (eg the date of the last filed accounts). Accordingly, they are a useful source of information but should not be relied upon as conclusive evidence.

1.4 Summary of findings

Our findings are as set out below.

1.4.1 Company Credit Worthiness

M&G and Optivo are both identified as low risk with no red flags highlighted at this stage. M&G’s original letter of commitment to the transaction was fairly weak and non specific but has now been updated to evidence funding capacity for the project. M&G’s letter does not expressly commit to the transaction but this is likely to simply be a reflection of the relatively early stage in the process and M&G’s inability to provide stronger commitment at this stage. This approach is not unusual. Indeed Optivo’s letter of commitment is caveated to the extent that while they would be pleased to work on the project this is “subject to its fitting into our current objectives”. Again this caveat is not unsurprising for the current stage of the project.

There is greater concern over the ability of Parkside Clapham Holdings to demonstrate that they can support the required level of funding and this is considered in further detail in paragraph 4.3.

1.4.2 Director Know Your Customer (KYC)

No concerns raised in respect of the KYC tests.

1.4.3 Anti Slavery Policy

No concerns raised.

1.5 Next Steps / Further Information required

SBC may wish to consider the following steps are taken:

1.5.1 M&G

M&G is a large and established company. Investment would be through either the M&G UK Residential Property Fund or the Prudential Assurance Company Limited. It would be surprising if these Funds were not able to support this transaction once they had committed to do so. At this stage though there is no express commitment to the project. The project is not yet advanced enough to proceed through credit committee and until it does it will be difficult to secure a greater degree of commitment.

LSBU have requested, and received, a letter that is stronger than the original version. This letter specifies the current Net Asset Value of the two Funds under consideration, the amount of investable capital in these Funds and confirms that there is capacity for investment of £250 million on this Transaction. We believe that this is the most expansive letter of support LSBU is likely to secure at this stage.

1.5.2 Parkside Clapham Holdings

From the available information we cannot conclude that Parkside Clapham Holdings would be capable of supporting the £30 million investment which it has been asked to provide. LSBU may take the view that the company has previously worked with M&G and Optivo on a similar transaction, requiring a similar level of investment, and that such partners would not have considered repeating a similar transaction were they not confident in Parkside's investment capability. However, should LSBU require further comfort then they may wish to instead require a parent company guarantee for the £30 million from another entity with sounder credit. Alternatively, the money could be placed in a separate escrow account for a set duration, while the transaction is completed.

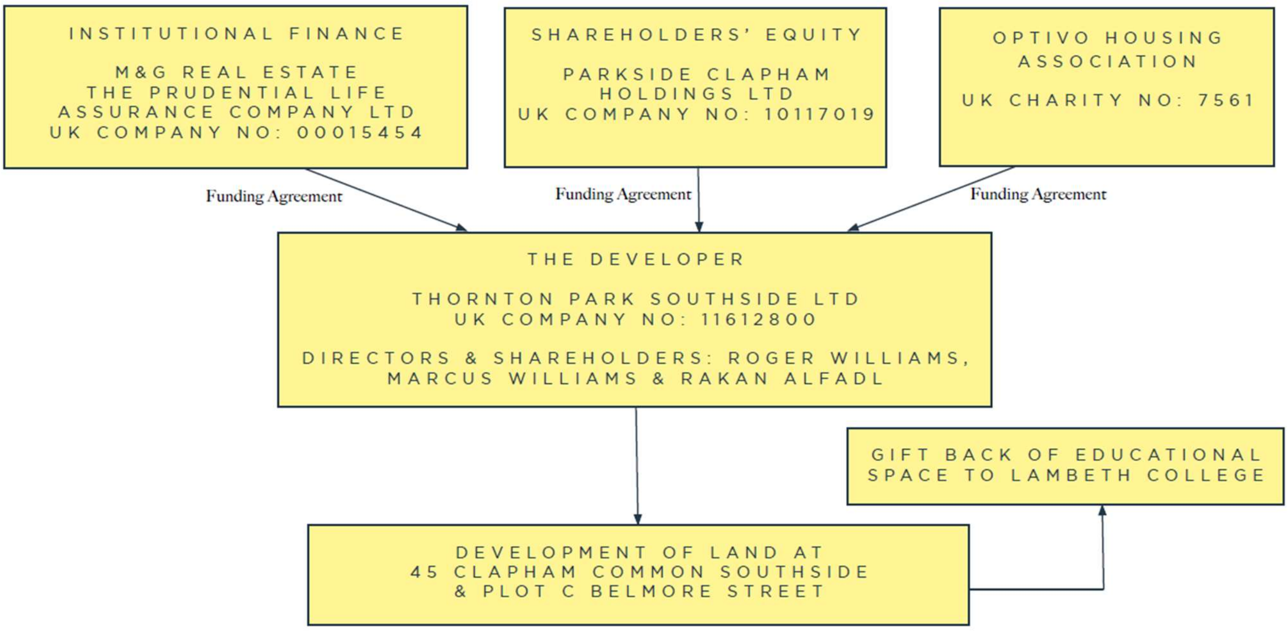
1.5.3 Optivo

Following a review of the information provided, the overall assessment of the organisation over the next 12 months highlights the company is in very stable condition, with a strong likelihood of continued operations and moderate potential for severely delinquent payments. The credit check on the company demonstrates the organisation has the capital to invest into the fund and their letter of support is consistent with their capability to commit to this project.

2. Consortium Members

2.1 Consortium Structure

The Developer which will invest in the project comprises: M&G (institutional funder), Optivo (a housing association) and Parkside Clapham Holdings Ltd (a UK registered company). This structure is set out below and is as per the structure previously employed on the neighbouring site at 44 Clapham Common Southside. The consortium therefore has a track record of working together, which should mean that there is an existing relationship and that similar intra company arrangements can be utilised on this project. In theory this could facilitate the speed of the transaction.



Source: Attachment to email sent from London Realty to Stephen Lamont on 30th April, "Example Finance Structure Diagram 45 CCS April 2021.pdf

According to the Sources and Uses Table provided to us on 19th April (set out below for information), consortium members will invest as follows:

- M&G: £249m
- Optivo: £61m
- Parkside Clapham Holdings Ltd: £30m
- **Total: £340m**

Notes:

i. We understand that the £16.075m in the New Build (Gateway Centre) Escrow Account is funded from within the £340m of funding.

Sources	
BTR Institution / Shareholder's Funds - Land Sale Buildings 1,2,3	68,719,430
Housing Association (Building 4)	32,939,200
BTR Institution - Development Funding	141,726,499
Building 5 Escrow Account	16,075,000
Total Sources	**259,460,129**

Plot C

Sources	
BTR Institution / Shareholder's Funds - Land	25,278,483
BTR Institution - Development Funding	43,565,041
Housing Association	28,177,572
Total Sources	**97,021,097**

Total Funding Commitments	
Housing Association - Optivo	61,116,772
Shareholder's Equity - Parkside Clapham Holdings Ltd	30,000,000
BTR Institution - M & G	249,289,453
Building 5 Escrow Account - Plot C Land Sale	16,075,000
Total	**356,481,226**

Notes:
1. Clapham Building 4 includes Predevelopment Costs
2. Clapham Finance Cost are on Loans Drawndown
3. Building 5 Escrow funded from Plot C Land

According to the email from London Realty on 30th April, an initial £5 million of the funding will be utilised at the predevelopment phase to facilitate the exchange of contracts, planning, professional and pre-construction costs up to the granting of planning permission. At this point the institutional funding from M&G and Optivo will be drawn down to fund the land completion and construction works. Funding Agreements with M&G and Optivo will be signed prior to submission of the planning application.

Once the Funding Agreements have been signed we would anticipate that the consortium will be in a position to provide stronger letters of commitment from M&G and Optivo than are currently available, referencing the full amount of funds which have been committed to and confirming commitment to the project. LSBU may therefore wish to stipulate that these letters of commitment are refreshed at an appropriate point prior to land completion.

3. M&G

3.1 M&G Company Structure

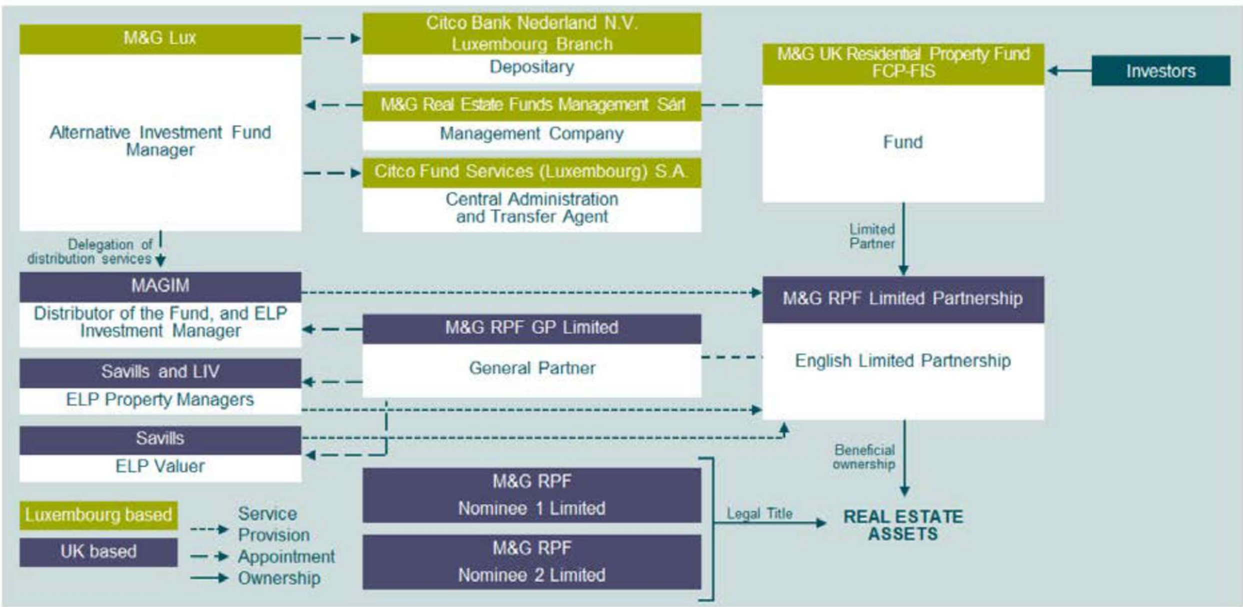
M&G plc (M&G) is an investment company which has been established for over eighty years and which has £320 billion of assets under management. M&G run a range of different funds, across which its overall investment is spread. Funds are targeted at different markets and risk profiles. We understand from M&G's letter of support dated 12th April 2021 that it will invest in this project via the M&G UK Residential Property Fund (albeit their updated letter of 10th May 2021 indicates that they are also considering investment through the Prudential Assurance Company Limited). The M&G UK Residential Property Fund (the Fund) is the same fund as has invested within the same consortium at 44 Clapham Common Southside previously.

The M&G structure used on 44 Clapham Southside (Appendix 4 to the presentation dated 8th March) is set out below and shows investment from the Fund then flows through M&G RPF Limited Partnership into the project. There is no confirmation from M&G that the same structure will apply here. There is a general comment from the lawyers of the company behind the neighbouring development at 44 Clapham Common Southside (while this company is different from the one proposed at 45 Clapham Common Southside the consortium members are the same):

"We understand that discussions are underway with M&G and the Directors of the Company to put in place similar funding arrangements for the Company's anticipated next project and that we will be instructed to finalise heads of terms in respect of those arrangements in due course."

(Appendix 5 - Letter from Brecher Solicitors to Professor Ivey of LSBU, dated 6th April 2021)

Given this, we have presumed that the same structure would apply here as per the previous transaction undertaken by the consortium. However, we would recommend that LSBU request confirmation that the same structure diagram applies on this transaction. The key concern is whether the Fund assigned by M&G to invest in the transaction can support its investment.



3.2 Obligations within Financial Structure

The sources and uses table provided on 19th April indicates that M&G will invest £249.3 million into the project.

3.3 Credit Worthiness of Company

M&G is a very large and reputable organisation. According to a D&B Credit Check run on 24th March on the ultimate parent group (company number 00015454) and referencing the balance sheet as at Dec 2020, the ultimate parent company of the group has net tangible assets of over £6 billion. Although net current liabilities exceed assets by £4 billion, which could potentially be a cause for concern, D&B's view is that the company is low – moderate risk, with a 0.17% probability of failure over the next year.

While M&G as a whole could likely comfortably accommodate the proposed investment of £249 million, the question under consideration is whether the specific Fund could do so. It is not possible to run a credit check on a Fund as per a company and we would look to a letter of support from the fund to take comfort that it is committed to the transaction and has the deployable resource to deliver. The current letter of support (dated 12th) is vague and non committal. This may reflect the initial exploratory stage of the project and SBC may decide that M&G's continued involvement is a low risk which they are willing to take without further clarification. However, if SBC do require further reassurance then we would recommend requesting a more detailed letter of support which specifies the available capital within the Fund, the size of the funding requirement (i.e. £249 million) and the Fund's willingness to commit this level of funding.

3.4 KYC Check on Company Directors

M&G is regulated by the Financial Conduct Authority (FCA). The FCA requires that regulated firms adhere to its standards on fit and proper conduct of employees in senior roles, such as company directors. In our judgement that the M&G directors are fit and proper we have placed reliance on M&G abiding by these standards.

3.5 Anti Slavery

M&G have a clearly articulated anti slavery policy on their website[1] and within their annual accounts.

4. Parkside Clapham Holdings Limited

4.1 Company Structure

We have been advised that investment will be made through Parkside Clapham Holdings Limited (the Company) (company number 10117019). It is a private limited liability company which was established five years ago.

4.2 Obligations within Financial Structure

[1] https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/MG-plc-2019-Modern-Slavery-Statement-31-01-20-RT.pdf

The sources and uses table provided on 19th April indicates that the Company will invest £30 million into the project.

4.3 Credit Worthiness of Company

The D&B Report run on 19th April states that there is insufficient information to form a view on the Company's credit status. This may be because the Company is not particularly active.

Looking at the company's account filing history, there have been two withdrawn proposals to strike the company off due to failure to file accounts on time. Both proposals were withdrawn after accounts were subsequently filed. We understand from London Realty's email to Stephen Lamont on 30th April that the accounts were filed late owing to a change in the tax regulations for treatment of corporate interest which required a review by independent tax advisors prior to submission of the accounts to Companies House. The last accounts which we can find on Companies House (not D&B which only states accounts to 2018) relate to the period until 31st December 2019. They are therefore now a year and four months out of date so there is a proviso that our analysis may be outdated. For the period which we have records, it does not appear that there has been substantive movement on the balance sheet since 2016, when current assets of £18.30 million were recorded, alongside a corresponding liability, in the form of a charge. In the period to 31st December, the assets and the charge had grown to £18,744,404 and £18,694,359 respectively.

In 2018, the Company filed a dormant set of accounts and has not filed a cashflow or profit and loss statement in any of its accounts at Companies House since incorporation. This may reflect that the Company is not actively trading but has been set up as a Special Purpose Vehicle (SPV) for specific purposes. The net asset value of the Company is £184, from which we can conclude that the Company is exceedingly thinly capitalised. We understand from London Realty's email to Stephen Lamont on 30th April that this reflects the nature of the company's funding through shareholder loans, which reflects legal advice the shareholders received over how best to structure their investment. Notwithstanding this, the cash has been committed to a different project and is not available for the current project.

There is insufficient evidence from the credit check and analysis of the latest accounts on Companies House to Dec 2019 that the Company is capable of supporting the £30m of investment required. It is important to stress that while we cannot confidently conclude that the Company is capable of supporting the required investment, nor can we conclude that it is incapable of supporting it. In theory, the shareholders could inject the requisite capital into the Company and then use it as an investment vehicle to fund the transaction. Were they to inject sufficient cash to fund the project through shareholder loans note the limitation of a credit check. This would not see through the shareholder loans but consider it as a liability to offset against the cash asset and thus continue to regard the company as thinly capitalised. SBC may derive sufficient comfort from the Company's track record of delivery, in concert with consortium members M&G and Optivo. The previous transaction also apparently required a £30m investment from the Company (Appendix 1 of the presentation pack dated 8th March). The willingness of M&G and Optivo to repeat the same consortium structure on a subsequent transaction, requiring the same amount of funding from Parkside Clapham, may suggest that the Company will be able to source the £30m.

Should SBC require further comfort then they may wish to instead require a parent company guarantee for the £30 million from another entity with sounder credit. Alternatively, the money could be placed in a-separate escrow account for a set duration, while the transaction is completed.

4.4 KYC Check on Company Directors and Shareholders

In summary, we have not identified any area of concern.

There is only one director of the Company. This would be unusual for a large company but may here be a reflection of the company's small size. There are eleven shareholders in the company with five different surnames, suggesting that the company is potentially owned by five families. Ordinarily we would be content to run checks on the directors of a company only, as they have control over how the company is run. However, given that there is only one director and a concentrated shareholder group, it would be relatively straightforward in this instance for the shareholders to replace the director and thus indirectly exert control over the company. We have therefore run checks not only on the director but also the eleven shareholders.

The Company's director is Rakan Abdulaziz Alfadl, an individual of that same name is also registered as a shareholder with an 18% interest in the company.

The Company's shareholders are:

- Khalid Ahmned Baeshen
- Laila Salahuldin Abduljawad
- Mohamed Abulkader Alfadl
- Mohamed Yousuf Zahid
- Mohammed Salahuddin Abduljawad
- Osama Alsayed
- Rakan Abdulaziz Alfadl
- Zahid Talal Zahid
- Zayd Mohammed Zahid
- Abdullah Ibrahim Alfadl
- Hamza Waleed Zahid

The director, Rakan Abdulaziz Alfadl, is resident in the UK and is not on Companies House's list of disqualified directors. We cannot identify any of the shareholders as being a disqualified director on Companies House register. Note that this check is only relevant to people practising business within the United Kingdom and we have not verified the home country of the shareholders, other than the director, Rakan Abdulaziz Alfadl.

We have searched the UK Sanctions' list (dated 7th April 2021) for the names of the shareholders / director and have not found any named individuals on that list.

Likewise we have searched the Consolidated List for the names of the shareholders / director and have not found any named individuals on that list.

4.5 Anti Slavery

On request the Company provided its anti slavery policy on 1st April.

5. Optivo

5.1 Optivo Company Structure

Optivo was founded in May 2017 following the merger of two housing associations; AmicusHorizon and Viridian. The company is a Global Ultimate, Domestic Ultimate and Parent company. The company's registration number, which we have used for credit checking, is RS007561. It should be noted that the registered name of Optivo, and registration number, differs from the consortium organisational structure provided above, referencing Optivo Housing Association UK Charity No 7561.

A search of RS007561 on Companies House recognises Optivo as a Registered Society and refers to the Financial Conduct Authority Mutuals Public Register for further information. Optivo's registration number on the Financial Conduct Authority Mutuals Public Register is 7561, consistent with the charity number stated above.

This is also consistent with Optivo's statement on their website on their Legal Entity Group Structure[2]:

"Optivo is a Registered Provider of Social Housing whose activities are regulated by the Regulator of Social Housing (reference 4851).

"It is registered in England with limited liability under the Co-operative and Community Benefit Societies Act 2014 (reference 7561)"

We have also undertaken a review of the directors of Optivo Housing Association (UK Charity No 7561) against Optivo (D&B credit report RS007561) (paragraph 5.4) and can confirm that Peter Dixon, Chris Tinker, Howard Cresswell, Michelle Dovey, Andrew Wiseman, Geanna Bray, Andrew Burder, Nick Stephenson, Eugenie Turton, Damien Regent and Paul Hackett were all directors of both organisations. (Jane Porter, Sarah Smith, Kerry Kyriacou and Joanne Stewart are not listed as directors of Optivo Housing Association but are senior members of the Leadership Team as set out in the Financial Statements for 2019 – 2020).

5.2 Obligations within Financial Structure

[2] https://www.optivoinvestors.co.uk/about-us.aspx

The sources and uses table provided on 19th April indicates that the Company will invest £61,116,772 into the project.

5.3 Credit Worthiness of Company

In assessing the credit worthiness of the consortium member, AYREF have used Dun and Bradstreet Credit report for Optivo, dated 13th April 2021. Optivo (RS007561) has been given a credit score of 5A. A score of 5A indicates that the company has £35,000,000 and over in tangible net worth and equity and therefore represents a low-moderate risk. The overall assessment of the organisation over the next 12 months highlights the company is in very stable condition, with a strong likelihood of continued operations and moderate potential for severely delinquent payments.

Overall, the D&B report provides the following high level opinion of Optivo:

- The net worth of Optivo is strong;
- The return on sales ration (calculated from the accounts made up to 31/03/2020) is strong;
- There are no mortgages or debentures associated with this business;
- There have been no insolvency events associated to this business;
- There are multiple directors; and
- The cash ratio (calculated from the accounts made up to 31/03/2020) is satisfactory.

The COVID-19 pandemic has impacted performance in every country and resulted in government-imposed restrictions and changes in consumer behaviour in an attempt to control the spread and protect human life. D&B has added the COVID Index analytics to take in the data sources related to those disruptions including health and employment data worldwide to provide you with actionable insight. Even though this is a nonpredictive summary, it provides the best understanding of the disruption faced by Optivo across multiple dimensions - location, including corporate relationships, Industry, underlying finance strength and across the network. The index has highlighted a moderate COVID risk, whereby whilst cases rose within the registered location of London, Optivo financial strength has remained stable throughout.

Optivo Key Financials (From D&B Report)

	31/03/2020 (Year to Date)
Sales/ Turnover	£322.0 million
Pre Tax (Profit/Loss)	£18.0 million
Net Current Assets	£139.0 million
Equity Shareholder Funds	£1,595 million

Employees	1,491
Profit margin %	5.6
Shareholder Return %	1.1
Current ratio	1.9
Sales/Net Working Capital	2.3

5.4 KYC Check on Company Directors

The table below summarises the individuals that require verification within the corporate structure. These are currently 15 principals of which are listed on the certified register of directors and as such exert control over Optivo RS007561 and the entities within the wider corporate structure:

- Sir Peter Dixon – 1st August 2019 to Current
- Joanne Stewart – 1st August 2019 to Current
- Nick Stephenson - 1st August 2019 to Current
- Andrew Wiseman - 1st August 2019 to Current
- Howard Cresswell - 1st August 2019 to Current
- Eugine Turton - 1st August 2019 to Current
- Geanna Bray - 1st August 2019 to Current
- Chris Tinker - 1st August 2019 to Current
- Michelle Dovey - 1st August 2019 to Current
- Andy Burder - 1st August 2019 to Current
- Damien Regent - 1st August 2019 to Current
- Jane Porter - 1st August 2019 to Current
- Sarah Smith - 1st August 2019 to Current
- Kerry Kyriacou - 1st August 2019 to Current
- Paul Hackett - 1st August 2019 to Current

We can confirm no principal named has been disqualified in the UK.

We can confirm that none of the individuals listed above are on the sanctions list.

5.5 Anti Slavery

The company has provided us with a copy of their statement and policy, which is publicly available through their website.

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Advice in relation to consent to proposed disposal of land by South Bank Colleges

London South Bank University

Legally privileged and confidential

29 April 2021

Con Alexander
Email: calexander@vwv.co.uk
DDI: 0117 314 5214
Reference: CXA LC 2LL07 0036

1 Background

1.1 South Bank Colleges is a company limited by guarantee and exempt charity ("**SBC**"). SBC was established in 2018 to acquire the undertaking, assets and liabilities of the former further education corporation, Lambeth College, which operated Lambeth College (the "**College**"). SBC is a wholly-owned subsidiary of London South Bank University ("**LSBU**"). SBC and LSBU are parties to a governance agreement (the "**Governance Agreement**") dated 31 January 2019.

1.2 As part of the transfer of assets used by the College, which completed on 31 January 2019, SBC acquired a site at Clapham (the "**Clapham Site**") and a site at Vauxhall comprising blocks A, B, C and D (the "**Vauxhall Site**") (together referred to as the "**Properties**").

1.3 The use, replacement and disposal of the Properties is regulated by an asset deed dated 6 August 2018 (the "**Asset Deed**") made between (1) the Secretary of State for Education/Education and Skills Funding Agency (the "**SoS**") (2) LSBU and (3) SBC. The overarching purpose of the Asset Deed is to protect the continued use of the Properties for further education in the London Borough of Lambeth.

1.4 Also as part of the transfer of assets used by the College, SBC entered into a grant funding agreement with the Department for Education (the "**DfE**") to support the transfer of the College to, and its future conduct by, SBC (the "**Grant Agreement**"). The Grant Agreement (which was amended by an Amendment and Consent Deed dated 14 January 2021 (the "**Consent Deed**")) contains specific requirements for SBC to repay an amount of the funding to the DfE following the sale and redevelopment of the Properties.

1.5 It has always been part of LSBU's (and SBC's) estates strategy (the "**Estates Strategy**") in respect of the College for all or part of the Properties to be disposed of and to use the sale proceeds (together with other funding, including from the GLA) to develop more modern, fit for purpose facilities to advance further education in the local area.

1.6 The Estates Strategy, in essence, sees the creation of a centre of Technical Further Education at Nine Elms (i.e. the Vauxhall Site) with the STEAM Centre, Centre for Health and Life Sciences and The Business and Apprenticeship Hub, with a repurposed Community Gateway College at the Clapham Site (and the retention of the ESOL centre of excellence at Brixton).

1.7 We understand that, in February 2020, Avison Young ("**AY**") were instructed by SBC to prepare a delivery options appraisal for the Clapham Site and 'block C' located at the Vauxhall Site ("**Block C**"). The report compares SBC entering into a development agreement against adopting a joint venture approach. The appraisal report was discussed by the SBC trustees (the "**Trustees**") in May 2020.

1.8 SBC then instructed Jones Lang LaSalle ("**JLL**") to develop the proposal set out in the AY report and *"design a robust process"* for the disposal of Block C and the Clapham Site. This was carried out on 10 September 2020 and a report prepared for SBC. We understand that JLL were instructed to advise on *"how to realise the maximum development value for both sites" and that "JLL would finalise an appropriate scheme, develop strategic options and made a recommendation to the SBC Board on the proposed preferential route to market"*.

1.9 The Trustees discussed the JLL report at their meeting in November 2020. The key points include:

1.9.1 The development cost of the Technical College at Vauxhall was forecast to be £88m (blocks A, B and D) and would be funded by a grant from the GLA of £20m and the disposal of both Block C and the majority of the Clapham Site.

1.9.2 JLL had indicated that a value of £71.5m may be achieved from the disposal of Block C and the majority of the Clapham Site which including the GLA funding would fund the entire development scheme at the Vauxhall Site.

1.9.3 The JLL recommendation for disposal of the Clapham Site was that a *"residential-led scheme" would provide SBC with the "greatest land receipt" of approximately £40m (based on the assumptions set out in the report, including obtaining planning permission). JLL had also commented that "to maximise disposal value and raise sufficient capital to fund the building of blocks B and D at Vauxhall the frontage at Clapham overlooking Clapham Common would have to be sold for redevelopment and the college building provided elsewhere on the site"*.

1.9.4 The JLL recommendation for Block C was that a student housing scheme would provide SBC with the greatest financial land receipt of approximately £29.9m (based on the assumptions set out in the report, including obtaining planning permission.

1.10 We understand that SBC has received an unsolicited offer from a "significant" developer, London Realty (the "**Developer**"), to provide for a new gateway provision building at the Clapham Site, together with a cash amount in exchange for the Clapham Site (excluding 'block S') and Block C. The cash amount offered is £77.9m is in addition to the provision of a new 6,000m2 facility at the Clapham Site (the "**Offer**"). We understand that this is higher than the two comparable valuations from JLL of £69.9m (i.e. the total of the "greatest land receipts" estimated by JLL for the Clapham Site and the Vauxhall Site) and from AY of £68.4m (assuming a joint venture approach to the development were to be adopted by SBC).

1.11 Under clause 7 of the Governance Agreement, SBC is required to obtain the prior consent of LSBU to the disposal of any of SBC's assets outside the ordinary course of business. LSBU's governors (the "**Governors**") will therefore be required to consent to the disposal, subject to the Trustees approving the Offer.

1.12 The purpose of this note is to advise the Governors on their duties in deciding whether to authorise LSBU to give its consent to the disposal (the "**Consent**"). SBC's Trustees are being advised separately in relation to the considerations for them in approving the Offer.

2 Duties and responsibilities under company law and charity law

2.1 The Governors owe various duties to LSBU as company directors under company law and as charity trustees under charity law. In the context of the Consent, these duties are in our view essentially aligned.

Duties to LSBU

2.2 The key duty for the Governors under charity law in this context is to act in the best interests of LSBU's charitable educational purposes in deciding whether to provide the Consent. This means taking decisions which will best enable LSBU to carry out it charitable purposes both now and in future. This duty under charity law is aligned with the Governors' duty under company law to promote the success of the company.

2.3 In complying with this duty the Governors are obliged to exercise reasonable care and skill having regard to any specialist knowledge or expertise individual Governors hold themselves out as having.

2.4 The Governors are also required to declare and avoid putting themselves in a position where their duty to act solely and exclusively in LSBU's best interests conflicts with any personal interests or loyalty to any other person or body (for example some Governors may also be Trustees of SBC or otherwise be connected to SBC). Any conflict for an LSBU Governor in considering the grant of the Consent should be managed appropriately.

Duty to SBC

2.5 In addition to their duty to LSBU, the Governors should also take into account that, in line with a very recent decision of the Supreme Court (in relation to the Children's Investment Fund Foundation or "**CIFF**"), it is now established that there is a general legal obligation on LSBU to exercise its powers as sole member of SBC on a fiduciary basis i.e. to act in the best interests of SBC's charitable purposes. This fiduciary duty will in our view apply to LSBU in relation to the Consent notwithstanding that the requirement for the Consent to be obtained exists as a result of a contractual arrangement between SBC and LSBU under the Governance Agreement.

2.6 It is not yet clear what all of the implications of the CIFF case are in the context of the relationship between a charitable parent and its subsidiary companies (including e.g. the extent to which the parent company must manage any conflicts of interest that arise in line with its fiduciary duty), but the fact that LSBU and SBC have compatible charitable purposes is in our view relevant to the relationship and to the decision in relation to the Consent.

2.7 This is on the basis that any decision must in any event be in the best interests of LSBU's charitable purposes. Given that these are also SBC's charitable purposes, our view is that the Governors are able (and as a result of the CIFF case essentially obliged) to look at the proposal in the round, with the likelihood that the best interests of LSBU and SBC and their respective purposes will be aligned; in other words, that there is a common interest in seeing the development of the SBC estate in order to advance education in accordance with its Estates Strategy.

2.8 The only caveat to this is if there are any aspects of the Offer and the proposed disposal to the Developer which will or may create a conflict between the interests of SBC's and LSBU's charitable purposes, the duty owed by the Governors would need to be assessed in light of that conflict. Based on our understanding of the position, there are no such conflicts, but this should be considered.

Decision-making process

2.9 The Governors' decision-making process in relation to the Consent will be key to demonstrating that they understand the duties imposed on them by company law and charity law and have taken reasonable steps to ensure they are appropriately discharged.

2.1 Although LSBU is an exempt charity and is therefore not regulated by the Charity Commission, our view is that in discharging their duties and responsibilities to LSBU, the Governors should adopt the decision-making process set out in the Commission's guidance *It's your decision: charity trustees and decision making* (publication CC27). This guidance makes it clear that any decision taken by the Governors in relation to the Consent should fall within the range of decisions a reasonable trustee body would make.

2.2 The guidance also sets out the principles of trustee decision making expected by the Charity Commission. In summary, the Governors should:

2.2.1 make sure they are fully informed;

2.2.2 identify and consider all relevant factors relating to the decision to give or withhold the Consent;

2.2.3 disregard any factors identified as being irrelevant to the decision;

2.2.4 identify, obtain and consider any advice required in relation to the decision; and

2.2.5 manage any conflicts of interest (as referred to earlier in this note).

2.3 It will be important for all decisions taken by the Governors to be clearly and comprehensively recorded. In the event that a decision of the Governors is challenged in future, the Governors can look to the minutes to provide an audit trail to demonstrate that they acted reasonably.

2.4 In terms of the Governors' compliance with their duties in relation to the Consent, we recommend that they obtain and consider the information in relation to the Offer and proposed disposal which they consider is necessary in order to enable them to make an assessment of whether providing the Consent is in the best interests of the objects of LSBU (and therefore also SBC's objects).

2.5 It is not in our view necessary for the Governors to have access to all of the detailed information available to the Trustees of SBC, but we would expect the Governors to require sufficient information in relation to:

2.5.1 the terms of the Offer and the Trustees' assessment of its benefits for SBC in light of the previous approach to the Estates Strategy (including in particular the financial benefits);

2.5.2 the nature and source of the professional advice sought from SBC's advisers and the key elements of that advice;

2.5.3 the Trustees' assessment of the risks and benefits to SBC of the Offer in light of the Estates Strategy;

2.5.4 the impact on SBC's beneficiaries, and in particular the timescales within which the development project can be delivered for the benefit of current and future students and the local community (including also the educational benefits for LSBU students and other beneficiaries of the LSBU group).

2.6 Information of this kind should enable the Governors to identify the relevant (and any irrelevant) factors as part of their decision-making process. The Governors should also take into account this advice and identify and consider any other advice they conclude is necessary in relation to their decision-making.

2.7 The Governors should note that LSBU is a party to the Asset Deed and Consent Deed and has guaranteed certain of SBC's obligations to the SoS under those Deeds. This note does not comment on LSBU's obligations as guarantor, but we recommend that the Governors take into account the nature of those obligations as part of their decision-making. We note in particular that the calculation of the value of the "Sale Proceeds" from the disposal of the Properties will drive (at least in part) SBC's obligation to repay grant monies to the DfE, which is an obligation guaranteed by LSBU under the Consent Deed. While the likelihood is that by providing the Consent, SBC is better able to meet its obligations to the SoS and LSBU is less likely to be called upon to meet the guaranteed obligations, but this should be considered and confirmed.

If you have any questions in relation to this advice, please contact Con Alexander (calexander@vwv.co.uk / 07730731089) or Laura Chesham (lchesham@vwv.co.uk / 07741 310636).

VWV LLP
29 April 2021