

South Essex Homes Limited

Report of the South Essex Homes' Financial Services Manager To The Shareholder Board On 20 October 2020

Draft Audited Accounts at 31st March 2020

1 Purpose of Report

- 1.1 To present to the Shareholder Board the South Essex Homes Ltd Consolidated Financial Statements for 2019/2020.

2 Background

2.1 Statutory Accounts

- 2.1.1 The Financial Statements (**Appendix 2**) have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and Recommended Statements of Standard Accounting Practice. They show a surplus of £1,329k after FRS102 adjustments and consolidation with the accounts of South Essex Property Services Limited.

2.2 Reconciliation between Management Accounts and Statutory Group Accounts

- 2.2.1 A reconciliation between the South Essex Homes Management Accounts and the South Essex Home Group Income and Expenditure Statement is shown below;

	£'000s
Management Accounts	
Surplus as per Management Accounts	336
Reversal of impairment of SEPS' investment	156
Rounding differences	2
Surplus as per SEH Company Accounts	494
Profit as per SEPS' Company Accounts	156
Consolidation Adjustments	(156)
Surplus as per SEH Group Accounts before Pension Adj	494
FRS102 Staff costs adjustment	1,054
FRS102 Interest costs	(219)
Surplus as per SEH Group Accounts	1,329

- 2.2.2 **Note:** FRS 102 is the Financial Reporting Standard No.102: “The Financial Reporting Standard applicable in the UK”. This standard requires appropriate adjustments in a company’s accounts to reflect potential liabilities arising from the impact of pension fund deficits.
- 2.3 Income Statement
- 2.3.1 The Group Income Statement for South Essex Homes Ltd shows a surplus after FRS102 adjustments of £1,329k. When we disregard the adjustments for FRS102 we come to a net group surplus of £494k. The South Essex Property Services show a surplus of £156k with the South Essex Homes company accounts showing a surplus of £494k.
- 2.3.2 It is encouraging to see that the financial position of South Essex Property Services continues to strengthen, and the Company is now into a position of showing profits and continued growth.
- Balance Sheet Position
- 2.4 Overall, the Balance Sheet shows a net members deficit of £3,090k after pension liabilities. This position can be further split as below.
- 2.4.1
- | | |
|---|-----------|
| Income and Expenditure Reserve | £2,776k |
| FRS 102 Defined Benefit Pension reserve | (£5,866k) |
- 2.4.2 The important note here is that the company continues to have a positive Income and Expenditure Reserve which enables the Company to continue to be in a strong financial position. The FRS102 Pension Reserve is a liability that is not likely to crystallise with continued membership and contributions to the pension fund. The liability is calculated by the Actuary and works on a worst-case scenario of increasing liabilities and low performing assets. The letter of support from Southend Borough Council also allows the Company to have assurance that any potential liability will be guaranteed.
- 3 Diversity and Equal Opportunities**
- 3.1 There are no direct Equal Opportunities or diversity issues which arise from this report.
- 4 Financial Implications**
- 4.1 The purpose of this report is to set out the financial implications for South Essex Homes as an ongoing and viable business.
- 5 South Essex Homes – Board Approval**
- 5.1 These financial statements are scheduled to be considered and approved at the South Essex Homes’ Board meeting on 21 October 2020.
- 6 Background Papers**
- 6.1 None
- 7 Appendices**
- 7.1 Appendix 1 – Financial statements for the year ended 31st March 2020
- 7.2 Appendix 2 – Auditors’ Report to the South Essex Homes Board

Company Registration Number 05453601

**SOUTH ESSEX HOMES LIMITED
COMPANY LIMITED BY GUARANTEE**

Consolidated Financial Statements

31st March 2020

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SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Consolidated Financial Statements

Year ended 31st March 2020

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SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Officers and Professional Advisers

Year ended 31st March 2020

The Board of Directors

Council Nominees	Cllr Meg Davidson	
	Cllr David Mcglone	(Resigned 16.05.19)
	Cllr Ronald Woodley	(Resigned 02.06.19)
	Cllr Peter Wrexham	(Appointed 10.07.19)
	Cllr Margaret Borton	(Appointed 10.07.19)

Resident Members	Rosalind Lane	(Resigned 02.10.19)
	Barbara Lambert	
	Phyllis Ward	
	Christopher Silvey	(Appointed 02.10.19)

Independent Members	Roger Eastwood (Chair)
	David Joyce
	Sacha Jevans
	Christopher March
	Michael Oxley

Executive Team	Michael Gatrell	Chief Executive
	Mario Ambrose	Executive Director
	Chris Vaughan	Director of Business Development (until June 2020)
	Beverley Gallacher	Assistant Director – Commercial
	Sarah Lander	Assistant Director – Operations

Company Secretary	Simon Putt
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Registered Office	Civic Centre Victoria Avenue Southend on Sea Essex, SS2 6FY
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Auditor	Scrutton Bland LLP Chartered Accountants & Statutory Auditor 820 The Crescent Colchester Business Park Essex, CO4 9YQ
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Bankers	Barclays Bank 174 High Street Southend on Sea Essex, SS1 1JS
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Solicitors	Southend on Sea Borough Council Civic Centre Victoria Avenue Southend on Sea Essex, SS2 6ER
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SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Strategic Report

Year ended 31st March 2020

The directors are pleased to present their strategic report of South Essex Homes Limited (SEH) for the year ended 31st March 2020.

Principal Activity

South Essex Homes Limited (the Company) is a local authority controlled company of Southend-on-Sea Borough Council (the Council) established with no share capital and limited by guarantee.

The Company manages Council properties on behalf of the Council with the primary goal of providing an excellent housing management service to all our service users.

The company has one wholly owned subsidiary, South Essex Property Services Limited, whose principal activity is housing related activities. Further details are included in note 10.

Results

The initial surplus after tax, but before FRS102 defined benefit pension scheme adjustments for the year was £494k (2019 : £423k). This resulted in a surplus of £1,329k (2019 : £478k deficit) for the year, after adjustments for FRS 102 defined benefit pension scheme adjustments. A £156k surplus was attributable to South Essex Property Services Limited (2019 : £235k).

Financial risk management objectives and policies

The Company maintains a risk register that is updated and reviewed regularly by both the Board and the senior management team. The main risks facing the company at the date of signing these accounts were:

- i. Risk that the Company will fail to meet agreed standards defined by the Management Agreement
- ii. Risk that the Company will fail to meet requirements of individual high profile contracts or initiatives
- iii. Risk that the Company will fail to adequately monitor South Essex Property Services

The company retains sufficient cash for its working capital needs and does not use other financial instruments for treasury management. The company therefore has very little exposure to cash flow risk.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Strategic Report

Year ended 31st March 2020

The company is assessed by various yardsticks applicable to similar housing organisations and is looking to be in the upper quartile in the various cost and quality benchmarks. The main key performance indicators include tenant satisfaction, the levels of overdue rents, the length of time taken to re-let empty properties, customer satisfaction with repairs.

Registered office:
Civic Centre
Victoria Avenue
Southend on Sea
Essex SS2 6FY

Signed on behalf of the directors

Roger Eastwood
Chair of the Board

Approved by the directors on

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SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Director's Report

Year ended 31st March 2020

The directors present their report and the financial statements for the year ended 31st March 2020.

Directors

The directors who served the company during the year were as follows:

Cllr Meg Davidson	
Cllr David Mcglone	(Resigned 16.05.19)
Cllr Ronald Woodley	(Resigned 02.06.19)
Rosalind Lane	(Resigned 02.10.19)
Barbara Lambert	
Phyllis Ward	
Roger Eastwood (Chair)	
David Joyce	
Sacha Jevans	
Christopher March	
Michael Oxley	
Cllr Margaret Borton	(Appointed 10.07.19)
Peter Wexham	(Appointed 10.07.19)
Christopher Silvey	(Appointed 02.10.19)

Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period. In preparing those financial statements, the directors are required to:

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

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Director's Report

Year ended 31st March 2020

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

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

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Throughout the year the directors were covered by an indemnity insurance policy.

Engagement with employees

The Board considers that effective employee engagement is key to the Company's ability to create value in our services as they recognise that our people are our greatest asset. The views and contributions of employees can help to inform Management and the Board on a variety of key operational issues, identify risk and develop strategy.

Employees are engaged in a number of ways which allow for views to be expressed and opinions obtained.

All staff are invited to attend a staff briefing three times per year, and these staff are updated on the pertinent factors influencing the company's direction. Staff are given an opportunity to discuss and question the effectiveness of the organisation and make suggestions for improvement.

A weekly staff bulletin is made available to all staff ensuring that staff are kept up to date with developments as well as providing a platform where staff can contribute stories or messages of their own. Staff are also occasionally surveyed for their views on a range of issues, during the recent COVID-19 pandemic staff were canvassed for their views on remote working and the support they received from their manager and wider organisation.

The EMT always have an open-door policy and can often be seen on 'back to floor' exercise to ensure they are kept up to date with front line services and the needs of those services.

A joint meeting with EMT and CMG was introduced in 2020 to better enhance the working relationships across both executive and middle management. This allows for better communication across functional boundaries to exist and enhances a culture of information sharing and collaboration.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Director's Report

Year ended 31st March 2020

The board considers the approach to employee engagement to be effective.

The Company is committed to promoting equality of opportunity for people with disabilities and aims to eliminate discrimination, pursuing equality of treatment as an employer. We seek to ensure that disabled people are not discriminated against during the recruitment and selection process as well as all aspects of employment including training and development. All reasonable adjustments are made to ensure that an individual's needs are met during the course of their employment. Employees are fully supported and where a disability occurs during the course of employment all reasonable steps will be taken to retain the services of that individual, including retraining and redeployment where needed.

Registered office:
Civic Centre
Victoria Avenue
Southend on Sea
Essex SS2 6FY

Signed on behalf of the directors

Roger Eastwood
Chair of the Board

Approved by the directors on

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Statement of the Board

Year ended 31st March 2020

During 2019/20 your Board reviewed and agreed the Code of Governance and the Code of conduct, to ensure that effective Governance arrangements are maintained.

The Board continues to monitor the Corporate Risk Register to ensure that strategic risks are properly managed with the added oversight of the Audit and Risk Committee.

The Board continued to ensure that Board Members are fully updated on health and safety issues and receive compliance reports with additional focus given by a direct Board Role for Health and Safety Scrutiny.

The Company continued to focus on fire safety, by overseeing the process related to the program of fire safety works and its effective delivery, as well as ensuring proper fire safety arrangements are in place. The importance of Fire Safety was further strengthened with the creation of a new role of Fire Safety Manager, who will be undertaking a key liaison role with both the Council and Residents to ensure that Residents safety remains of paramount importance.

During 2019/20, the Board maintained oversight of its subsidiary South Essex Property Services as it continues to successfully grow and deliver additional commercial activities, including the running of the very popular Courtyard Café in the Civic centre.

The Board also continued to ensure the delivery of an effective income management service to sustain tenancies and to meet its annual objectives in this key area.

The contract arrangements with Castle Point Borough Council were extended for a further five years last year for delivery of property services, asset management and client management of the repairs contract. We continue to develop our relationship with Castle Point Borough Council as one of our nearest public sector neighbours.

The new Partnership agreement between South Essex Homes and the Council was been agreed by Cabinet in February and the Executive Management Team continue to work closely with the Council and the Board to develop the Organisational Development plan to ensure that we deliver the services the Council require, and to further develop the positive relationship, to become their “partner of choice” for future relevant opportunities.

There have been some significant successes in 2019/20 and we will continue to focus on enhancing services to our residents and adding value in the future.

Finally, we have also responded to the Covid 19 pandemic, where social distancing has involved us in having to change our approach to repairs and increasing support for the more vulnerable people living in our homes.

Roger Eastwood
Chair of the Board

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Statement of the Chief Executive

Year ended 31st March 2020

I am, once again, pleased to reflect on a successful year for South Essex Homes during 2019/2020.

Financially, we maintained our track record of prudent, and effective, budgetary control and management and we produced a surplus in our operating budget. It was equally pleasing to see our overall financial position being supported by the continuing success of our wholly owned commercial subsidiary.

Given that South Essex Homes is a publicly funded organisation, it is especially good to note our effective control of public resources and this is something we are always keenly aware of.

Similarly, we are entrusted with significant delegated budget responsibilities in respect of the revenue and improvement budgets for the Council's homes and residential estate. Again, I am pleased to reflect on a well managed programme of expenditure across responsive and planned maintenance activities.

From a performance perspective, we were able to produce strong performance across key measured areas including rental income, rent arrear management, empty property control and customer satisfaction.

2019/2020 saw the first year of a new repairs and maintenance contract and, as anticipated, some of the new ways of working with a new contractor have taken time to bed in. However, the operation of an intelligent relationship with the contractor continued to produce improvements during the year and by the end of the first year this key contract had moved forward significantly.

As anticipated in previous years' financial statements, the past year saw the finalisation of our new Partnership Agreement with Southend on Sea Borough Council. The new agreement sees a five year, renewable, term underpinning our ongoing role for the local authority and this was mirrored by a similar five year renewal contract for the work we carry out on behalf of Castle Point Borough Council. These new agreements signal clear satisfaction with South Essex Homes' performance by our key partners and therefore both the Board and the Executive Management Team look forward to planning for the medium to long term.

As we approached the very end of the financial year, the fundamental impact of the worldwide Coronavirus pandemic was rapidly becoming evident, with a national lockdown being introduced in the final days of the period.

At the time of writing, it is still far too early to be able to speculate on what the short, medium and longer term effects of this unprecedented situation will be. However, it is clear that changes to the ways in which organisations work and interact with their customers will be significant. For South Essex Homes, our demonstrable track record of being a responsive, flexible and 'can do' organisation means we can face that future with confidence in our ability to embrace whatever the 'new normal' looks like.

Michael Gatrell
Chief Executive

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Annual Governance Statement

Year ended 31st March 2020

1. Scope of responsibility

South Essex Homes

South Essex Homes (SEH), formed in October 2005, is the Arm's Length Management Organisation of Southend-on-Sea Borough Council, responsible for the management and maintenance of the Council's homes. It was financed by a Management Fee in 2019/20, from the Council, of £5,782k, a Service Charge Fee of £3,814k together with other income of £1,222k.

There is a formally binding Management Agreement between the Council and SEH and this clearly sets out the governance arrangements that should apply between the two parties. This complies with national best practice.

SEH is managed by a Board comprising three Council nominees, three tenants and five independent members. The Board is ultimately responsible for ensuring that SEH establishes and maintains a sound system of internal control appropriate to the various business environments in which it operates. Committees reporting to the Board include Audit & Risk Committee, New Business Committee and Personnel and Remuneration Committee. In addition, the commercial subsidiary – South Essex Property Services Ltd reports directly to the SEH Board, being its parent company.

2. The purpose of the Governance Framework

Good governance leads to good management, good performance, good stewardship, good public engagement, and ultimately good outcomes for citizens and service user. Good governance enables the company to pursue its vision effectively, as well as underpinning that vision with mechanisms for control and management of risk.

The governance framework comprises the systems, processes, culture and values, by which the company is directed and controlled and its activities through which it accounts to, engages with and serves the community. It enables the company to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the company's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

3. The Governance Framework

The key elements of the Governance Framework are:

- Consultation and Engagement
 - Business Planning and Strategy
 - Financial Reporting including Budgetary Management
 - Asset Management
 - Risk Management including Fraud, Corruption and Bribery, Confidential Reporting as well as Health and Safety
-

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Annual Governance Statement

Year ended 31st March 2020

- Business Continuity
- Performance Managing, service delivery and people
- Information Management Security
- Procurement
- Project Management
- Complaints
- Ethical Governance including Codes of Conduct
- Data Quality
- Workforce Management

The company sets out its expectations with regard to:

- corporate governance, within the Articles of Association, Code of Governance and Financial Regulations and Scheme of Delegation

The company then:

- maintains a business planning process that cascades throughout the organisation, supporting service plans and key actions to enable SEH to achieve its ambitions and aspirations as set out in the Vision 2022 Business Plan
- prepares forecasts and budgets that allow the Committees and the executive officers to monitor the key business risks and financial objectives and identify variances arising during the monthly reporting cycle
- operates professionally compliant recruitment and appraisal processes to ensure that:
 - it employs suitably qualified and experienced staff to take responsibility for key areas of the business
 - its staff remain suitably skilled to deliver the services required
- produces regular performance reports for review by senior management and the Board that measure performance against objectives and targets as detailed in service plans
- operates three Committees which report to the Board, who have been delegated specific functions to discharge on its behalf as set out in their respective Terms of Reference
- operates a development and training programme for the Board Directors developed from appraisals, one to ones and Committee self-assessments which are carried out annually.

South Essex Homes ensures that the Board Directors are fulfilling their responsibility under Companies Act 2006 for adequate risk management, control and governance.

The company has a duty to ensure that it is fulfilling its responsibility for maintaining adequate and effective risk management, control and governance arrangements. This role has been delegated to the Audit and Risk Committee, who reports to the Board on the discharge of its duties on an exception basis.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Annual Governance Statement

Year ended 31st March 2020

4. Review of Effectiveness

South Essex Homes is responsible for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the:

- Chief Executive, Executive Director, the Director of Business Development and Group Managers within the Company who have responsibility for the development and maintenance of the governance environment;
- Head of Internal Audit's annual report;
- comments made by the External Auditors and other review agencies and inspectorates.

The Council's processes to review on-going effectiveness of SEH have been updated through the implementation of a new Partnership Agreement during the year and include Council officers meeting with SEH officers on a quarterly basis to review performance against a suite of performance indicators and its strategic aims which are as follows;

- **Provide** excellent services
- **Ensure** our sustainability

SEH's internal arrangements for ensuring the effectiveness of its governance arrangements consist of the:

- SEH Board receiving monthly performance reports across operational, human resources and value for money indicators;
- Audit & Risk Committee undertaking a review of the Risk Management Strategy and the Strategic Risk Register to ensure that risks are relevant and applicable and that the Board Members are responsible for ensuring that risks are monitored effectively by the Senior Management Team;
- Audit & Risk Committee undertakes a review of both its effectiveness as well as the operational arrangements annually;
- production and approval of annual Manager Assurance Statements by service managers and Group Managers to assess compliance with key governance processes throughout the year – this has been delayed for 2019/20 to enable managers to focus on the response to the covid-19 emergency;
- Group Manager for Corporate Resources and Income Management then independently checking that the evidence supports the service manager's assessment of how well each of the business management processes have operated in their area – this has been delayed for 2019/20 due the delay in production of the Manager Assurance Statements to enable managers to focus on the response to the Covid-19 emergency;
- Company continuing to review and adjust staffing structures aligning them with the services provision and the Business Plan Vision 2022.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Annual Governance Statement

Year ended 31st March 2020

The last few weeks of 2019/20 were dominated by the company's preparations for managing the Covid19 crisis, which has had such a fundamental impact on day to day life, national public policy and the governance, services and finances of all organisations. The company's business continuity arrangements were put into effect in the run up to national lockdown from 23 March 2020, and has continued and adapted since, aligning to Government requirements. This has enabled emergency and essential services to be maintained as have essential business operations despite experiencing challenges along the way. However, some services requiring close contact between people have been set aside until the UK lockdown conditions are eased.

The company's experience of lockdown has resulted in practicing agile working where we have proven that SEH can operate remotely and that given improved support post lockdown we will be able to take advantage of this agility. We are also aware that staff operating on the frontline of delivery are exposed to new risks, so we have been focussed on the safety of staff and tenants, and the business overall will need to seek to improve resilience post this crisis.

Preparations have begun on considerations for the 'recovery phase' and moving to an 'improved normal' of operations, and a plan has been produced that remains both live and emergent whereby it is subject and responsive to national and local situations. This plan provides the guiding principles and will be supplemented by detailed management / functional plans, while it is recognised that a change in conditions will in all likelihood necessitate a change in our plans.

Internal Audit

Internal Audit is delivered through a Service Level Agreement with the Council's Internal Audit Services. The Charter, Strategy and risk based Audit Plan is prepared in consultation with the Senior Management Team and approved (but not directed) by the Audit & Risk Committee.

Terms of reference and audit reports are discussed with relevant Directors and Group Managers before being finalised. The recommended actions required to mitigate risks and improve control arrangements as identified by audit work are summarised in an action plan.

Internal Audit revisits action plans where the original report's opinion was either Partial or Minimal. These actions are followed up and the results of this work are reported to the Senior Management Team and Audit & Risk Committee as part of the Quarterly Performance Report.

Head of Internal Audit Opinion for the year ended 31 March 2020

The Head of Internal Audit Annual Report and opinion for 2019/20 was considered by the Executive Management Team in May 2020 and the Audit & Risk Committee in June 2020. It stated that:

'Overall, the risk management, control and governance framework designed by the company to deliver its objectives and operated throughout the year, has remained satisfactory.

During the year the company agreed a new Partnership Agreement with Southend Council that reinforces the status of the company, will refocus the relationship and lead to a more collaborative approach between the organisations.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Annual Governance Statement

Year ended 31st March 2020

The company also began implementing a new management structure during the year that should assist with the work being undertaken to strengthen the arrangements for letting and managing contracts, although that structure and work still needs to be fully embedded into day to day operational practices.

There is also a need to embed the arrangements that have been put in place to ensure that the quality of data supporting performance information presented to senior management and the Board is consistently good and therefore reliable.

The company's response to the Covid-19 emergency situation has enabled essential and emergency services to continue to be delivered using different methods of working, and the company has developed a recovery plan that provides guiding principles to finding solutions to enable the company to begin to move forward from the initial crisis management situation towards a new normal status in the very different environment that it will be operating within in the future.'

Compliance with Professional Standards, Head of Internal Audit Opinion

The independent assessment of the internal audit service required to be undertaken every five years concluded that:

'The Institute of Internal Auditors assessed the in-house team as fully meeting most of the Standards, as well as the Definition, Core Principles and the Code of Ethics in October 2017 (classified as "Generally Conforms", the highest rating).

Good assessments were achieved in relation to:

- *reflection of the Standards*
- *focus on performance, risk and adding value*
- *quality assurance and improvement programme.*

Needs improvement assessments were given in relation to:

- *coordinating and maximising assurance*
- *the efficiency of its operations'.*

During 2019/2020 the team has continued to deliver work using the improved approach resulting from development and implementation of the Compliance with the UK Public Sector Internal Audit Standards Action Plan arising from the assessment by the Institute of Internal Auditors. As a result the service has substantially conformed to the relevant professional standards throughout the year.

Internal Audit continues to make available its work as required to support the external audit of the company's Statement of Accounts.

The company attends the Council's July Audit Committee each year to present the following evidence with regard to its governance arrangements:

- Head of Internal Audit Annual Report
- Audit Committee Annual Report
- Annual Governance Statement.

The Head of Internal Audit also confirmed that *'No issues have come to my attention this year, other than those already disclosed, that I believe need including in the company's Annual Governance Statement '.*

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Annual Governance Statement

Year ended 31st March 2020

External Audit

The External Audit of the annual financial statements was undertaken by Scrutton Bland LLP with the view to expressing an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK).

In carrying out the audit work Scrutton Bland LLP considered whether the financial statements were free from 'material misstatement'. Materiality is an expression of the relative significance of a particular matter in the context of the financial statements as a whole. An item will normally be considered material if its omission would reasonably influence the decisions of those using the financial statements.

Scrutton Bland LLP issued a report to management at the conclusion of the audit work. This included a management letter containing comments and recommendations for improvements in operations and internal control in respect of the Company. This was discussed with management prior to the issue of the final report. The report also includes details of any significant adjusted or unadjusted items that arose as a result of the audit work.

The Audit & Risk Committee consider the external auditor's report and recommends adoption of the financial statements to the Board.

Key Governance Issues

The main areas for further work identified through the Governance Assurance Process in 2019/20, and which should be disclosed in the Governance Statement Action Plan are the need to:

- embed and strengthen the procedures and processes, working with Southend Council to implement the audit recommendations, and ensure compliance with and changes to the General Data Protection Regulations
- develop a Performance Management Strategy to further embed the formal quality assurance processes
- embed the strengthened procedures and processes for letting contracts, and cascade contract management training throughout the Property Services Team
- ensure that governance remains effective as the company delivers the recovery plan from the Covid-19 crisis, and that the 'improved normal' is effective in delivering the objectives of the company, that it is recognised may need to be re-set.

Roger Eastwood
Chair of the Board

Michael Gatrell
Chief Executive

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Independent Auditor's Report to the Member of South Essex Homes Limited

Year ended 31st March 2020

Opinion

We have audited the financial statements of South Essex Homes Limited (the 'parent company') and its subsidiary (the 'group') for the year ended 31st March 2020 which comprise the Group Income and Expenditure Account, Group Statement of Other Comprehensive Income, Group Balance Sheet, Company Balance Sheet, Group Statement of Changes in Equity, Company Statement of Changes in Equity, Group Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and 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 parent company's affairs as at 31st March 2020 and of the group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Independent Auditor's Report to the Member of South Essex Homes Limited

Year ended 31st March 2020

Other information

The directors are responsible for the other information. The other information comprises the information included in the consolidated 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 and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Independent Auditor's Report to the Member of South Essex Homes Limited

Year ended 31st March 2020

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 4 to 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

TIMOTHY O'CONNOR (Senior Statutory Auditor)
For and on behalf of
SCRUTTON BLAND LLP
Chartered Accountants & Statutory Auditor

820 The Crescent
Colchester Business Park
Colchester
CO4 9YQ

SOUTH ESSEX HOMES LIMITED

COMPANY LIMITED BY GUARANTEE

Group Income Statement (including Income and Expenditure Account)

Year ended 31st March 2020

	Note	2020 £000's	2019 £000's
Turnover	3	12,115	11,330
Staff costs	4	7,109	6,617
FRS 102 pension scheme staff costs adjustment	18f	(1,054)	685
Other operating charges	5	4,522	4,355
Operating surplus/(deficit)		1,538	(327)
Interest receivable and similar income	7	42	30
FRS 102 pension scheme interest adjustment	18f	(219)	(216)
Surplus/(deficit) on ordinary activities before taxation		1,361	(513)
Tax on ordinary activities	8	(32)	35
Surplus/(deficit) for the financial year		1,329	(478)

The surplus/(deficit) for the financial year before and after adjustments required under FRS 102 in respect of defined benefit pension schemes is as follows:

Operating surplus after tax:

South Essex Homes Limited	338	188
South Essex Property Services Limited	156	235
	494	423
FRS 102 defined benefit pension scheme charges:		
Staff costs adjustment	1,054	(685)
Interest costs	(219)	(216)
Surplus/(deficit) for the financial year	1,329	(478)

All of the activities of the company are classed as continuing.

The notes on pages 25 to 41 form part of these financial statements.

**SOUTH ESSEX HOMES LIMITED
COMPANY LIMITED BY GUARANTEE**

Group Statement of Other Comprehensive Income

Year ended 31st March 2020

	Note	2020 £000's	2019 £000's
Surplus/(deficit) for the financial year		1,329	(478)
Actuarial gains arising from pension liabilities	18b	4,427	489
Experience loss on defined benefit obligation	18b	(1,210)	-
Difference between expected and actual return on pension fund assets	18b	(2,881)	1,856
Other actuarial gains on pension fund assets	18b	293	-
Total recognised gains for year		1,958	1,867

The notes on pages 25 to 41 form part of these financial statements.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Group Statement of Financial Position (Balance Sheet)

31st March 2020

	Note	2020 £000's	2019 £000's
Fixed assets			
Tangible fixed assets	9	-	-
Total fixed assets		-	-
Current assets			
Debtors	11	951	529
Investments	12	4,041	3,517
Cash at bank and in hand	13	2,154	3,490
		<u>7,146</u>	<u>7,536</u>
Creditors: Amounts falling due within one year	14	<u>(4,370)</u>	<u>(5,254)</u>
Net current assets		<u>2,776</u>	<u>2,282</u>
Net assets excluding pension liabilities		<u>2,776</u>	<u>2,282</u>
Pension liabilities	18a	<u>(5,866)</u>	<u>(7,330)</u>
Net liabilities including pension liabilities		<u><u>(3,090)</u></u>	<u><u>(5,048)</u></u>
Reserves			
Income and expenditure reserve – Excluding FRS 102 defined benefit pension scheme reserve	15	2,776	2,282
FRS 102 defined benefit pension scheme reserve	15	<u>(5,866)</u>	<u>(7,330)</u>
Member's funds (deficit)		<u><u>(3,090)</u></u>	<u><u>(5,048)</u></u>

These financial statements were approved by the directors and authorised for issue on _____ and are signed on their behalf by:

Roger Eastwood
Chair of the Board

Company Registration Number: 05453601

The notes on pages 25 to 41 form part of these financial statements.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Company Statement of Financial Position (Balance Sheet)

Year ended 31st March 2020

	Note	2020 £000's	2019 £000's
Fixed assets			
Tangible fixed assets	9	-	-
Investments	10	410	254
Total fixed assets		410	254
Current assets			
Debtors	11	884	426
Investments	12	4,041	3,517
Cash at bank and in hand	13	1,397	3,207
		6,322	7,150
Creditors: Amounts falling due within one year	14	(3,956)	(5,122)
Net current assets		2,366	2,028
Net assets excluding pension liabilities		2,776	2,282
Pension liabilities	18a	(5,866)	(7,330)
Net liabilities including pension liabilities		(3,090)	(5,048)
Reserves			
Income and expenditure reserve – Excluding FRS 102 defined benefit pension scheme reserve	15	2,776	2,282
FRS 102 defined benefit pension scheme reserve	15	(5,866)	(7,330)
Member's funds (deficit)		(3,090)	(5,048)

Under the Companies Act 2006, s408, the directors have elected not to present the company's Profit and Loss Account. The surplus for the year was £1,329,000

These financial statements were approved by the directors and authorised for issue on and are signed on their behalf by:

Roger Eastwood
Chair of the Board

Company Registration Number: 05453601

The notes on pages 25 to 41 form part of these financial statements.

**SOUTH ESSEX HOMES LIMITED
COMPANY LIMITED BY GUARANTEE**

Group Statement of Changes in Equity

Year ended 31st March 2020

	Defined benefit pension scheme reserve £000's (8,774)	Income and expenditure account excluding pension reserve £000's 1,859	Total £000's (6,915)
At 1st April 2018			
(Deficit)/surplus for the year	(901)	423	(478)
Other comprehensive income for the year	2,345	-	2,345
At 31st March 2019	(7,330)	2,282	(5,048)
Surplus for the year	835	494	1,329
Other comprehensive income for the year	629	-	629
At 31st March 2020	(5,866)	2,776	(3,090)

**SOUTH ESSEX HOMES LIMITED
COMPANY LIMITED BY GUARANTEE**

Company Statement of Changes in Equity

Year ended 31st March 2020

	Defined benefit pension scheme reserve £000's	Income and expenditure account excluding pension reserve £000's	Total £000's
At 1st April 2018	(8,774)	1,840	(6,934)
(Deficit)/surplus for the year	(901)	442	(459)
Other comprehensive income for the year	2,345	-	2,345
At 31st March 2019	(7,330)	2,282	(5,048)
Surplus for the year	835	494	1,329
Other comprehensive income for the year	629	-	629
At 31st March 2020	(5,866)	2,776	(3,090)

**SOUTH ESSEX HOMES LIMITED
COMPANY LIMITED BY GUARANTEE**

Group Statement of Cash Flows

Year ended 31st March 2020

	2020 £000's	2019 £000's
Cash Flows from operating activities		
Surplus/(deficit) for the financial year	1,329	(513)
Interest received	(42)	(30)
Taxation	32	(35)
(Increase)/decrease in debtors	(422)	167
(Decrease) in creditors	(884)	(1,077)
FRS102 defined benefit pension scheme adjustment	(835)	901
Cash from operations	(822)	(587)
Taxation	(32)	35
Net cash inflow from operating activities	(854)	(552)
Interest received	42	30
(Increase)/decrease in investments	(14)	502
(Decrease) in cash and cash equivalents	(826)	(20)
Cash and cash equivalents at the beginning of the year	5,000	5,020
Cash and cash equivalents at end of year	4,174	5,000
Cash at bank at end of year	2,154	3,490
Cash equivalents at end of year (included within investments)	2,020	1,510
Cash and cash equivalents at end of year	4,174	5,000

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

1. Accounting policies

Company information

South Essex Homes Limited is a company limited by guarantee, incorporated in England and Wales. Its registered number is 05453601. The registered office is Civic Centre, Victoria Avenue, Southend on Sea, Essex, SS2 6ER.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland', with the Companies Act, and FRC Abstracts.

The financial statements are presented in Sterling (£) and are rounded to the nearest £1,000.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of South Essex Homes Limited and its subsidiary undertaking for the year ended 31st March 2020.

Going concern

The financial statements show net assets before pension liabilities of £2,776,000 but net liabilities of £3,090,000 once the provision for pension liabilities is included. The financial statements have been prepared on the basis of a going concern, on the assumption that the core funding from the Southend-on-Sea Borough Council in future years will enable the increased pension contributions to be met.

In accordance with government directives issued on 23 March 2020 the business activated its Business Continuity Plan as a result of restrictions imposed on business activities and social distancing relating to the spread of coronavirus and has moved to delivering critical services only. These critical services are sheltered management, emergency repairs, customer services and homelessness. The impact of the coronavirus will have a very significant effect on the economy and the business during 2020. The directors have prepared revised cashflow forecasts which anticipate that the company will be able to continue to meet its liabilities as they fall due and the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future, and for a period of at least 12 months from the date of approving these financial statements. For this reason the directors adopt the going concern basis in preparing the accounts. After reviewing the company's forecasts and projections, the directors have a reasonable expectation that the company has adequate resources and support to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

1. Accounting policies *(continued)*

Turnover

Turnover, excludes Value Added Tax (VAT) and represents in the main, the invoice value of services provided during the financial year covered by these financial statements. Turnover is recognised when the revenue is earned by South Essex Homes Limited. All turnover arises in the United Kingdom.

Debtors

Short term debtors are measured at the transaction price, less any impairment/provision for irrecoverable amounts.

Creditors

Short term creditors are measured at the transaction price.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Tangible fixed assets are capitalised if the item is not office equipment and costs £5,000 or more. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight line basis.

Straight line annual rates of depreciation used are:

Motor vehicles - 4 years

Impairment of fixed assets

Tangible fixed assets are reviewed for impairment annually and if found to be impaired, the lower of book value and fair value is used. Any impairment is recognised in the group income statement in the year in which it arises.

Investments

Investments in subsidiary undertakings are included at the lower of cost and net realisable value in the individual company's financial statements.

Provisions for liabilities and charges

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that the company will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

1. Accounting policies *(continued)*

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against income on a straight line basis over the period of the lease.

The benefits of lease incentives are recognised in the Income Statement over the lease term on a straight line basis.

Pensions costs - local government pension scheme

South Essex Homes Limited is an admitted body of the Local Government Pension Scheme administered by Essex County Council. The assets belonging to the pension scheme are held and administered independently by Essex County Council.

Pension scheme assets are measured at fair value at the balance sheet date. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the company's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of other comprehensive income.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the statement of financial position. There are no deferred tax implications.

Further disclosures relating to retirement benefits can be found in note 18.

Pension costs – defined contribution pension plan

The subsidiary company operates a defined contribution plan for its employees. The contributions are recognised as an expense when they fall due. Once the contributions have been paid the company has no further payment obligations. The assets of the plan are held separately in independently administered funds.

Taxation

Any operating surplus of the company, before FRS 102 defined benefit pension scheme adjustments, arising from savings of overhead costs compared to the core funding provided by Southend-on-Sea Borough Council, is non-taxable. Taxation is chargeable only on the surplus from its activities with other organisations.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

1. Accounting policies *(continued)*

Taxation *(continued)*

The results of the trading subsidiary are subject to corporation tax. Deferred tax balances are recognised in respect of timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised when their recovery is considered to be sufficiently certain.

Trading with third parties

In the year ended 31st March 2010, South Essex Homes Limited began trading with other selected third parties to reduce its reliance on the management fee in the light of an uncertain future for the Housing Revenue Account (HRA). This trading is not expected to provide significant profits but to provide a contribution to the overall operating costs of the company.

Repairs and maintenance

South Essex Homes Limited is responsible for managing Southend-on-Sea Borough Council's housing repairs and maintenance contracts. The related expenditure is reflected within the Council's financial statements.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

The preparation of the financial statements requires the company's directors to make judgements, estimates and assumptions that affect the amounts reported in the financial statements. The key judgements and estimation uncertainty that have a significant risk of causing material misstatement to the carrying amounts of assets and liabilities within the next financial year are those made in respect of the defined benefit pension scheme.

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement rates and expected returns on pension fund assets. An independent firm of consulting actuaries has been engaged to provide expert advice regarding the assumptions to be applied in the calculation of the defined pension scheme liability, which at 31st March 2020 amounts to £5,866,000. Further details of the assumptions made are disclosed in note 18.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

3. Turnover

Turnover is derived completely from the principal activities of the group. Principal activities comprise of providing housing management services to Southend-on-Sea Borough Council and providing housing related services to other third parties, also providing facilities management and employee hosting. Turnover arises solely within the United Kingdom.

	2020	2019
	£000's	£000's
Management fee paid by the Council in respect of housing management and support services	5,782	5,617
License fee income	63	-
Other services	1,108	1,052
Service charge income	3,814	3,539
Cleaning, security services, staff and other	1,348	1,122
	<u>12,115</u>	<u>11,330</u>

	2020	2019
	£000's	£000's
Other services revenue represents:		
Other charges to the Council	665	549
Income from trading with third parties	367	501
Recharges to third parties	76	2
	<u>1,108</u>	<u>1,052</u>

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

4. Particulars of employees

The average monthly number of staff employed during the financial year amounted to:

	2020 No.	2019 No.
Senior management group	4	7
Finance and resources	6	7
Income management	11	10
Housing management services	105	118
Property services	14	16
South Essex Property Services Limited – Facilities management	78	60
South Essex Property Services Limited – Hosting	45	21
Number of staff	263	239

The aggregate payroll costs of the above were:

	2020 £000's	2019 £000's
Wages and salaries	5,945	5,450
Social security costs	528	492
Pension costs	622	660
Pension administration costs	14	15
	7,109	6,617
FRS 102 defined benefit pension costs adjustment	(1,054)	685
	6,055	7,302

The directors' aggregate remuneration in respect of qualifying services was:

	2020 £000's	2019 £000's
Aggregate remuneration	47	45

The members of the company's board are the directors of the company. The board members are entitled to an allowance and reimbursement of incidental expenses incurred when attending board meetings or other formal events in their capacity as board members.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

5. Operating surplus/deficit

The operating surplus/deficit is stated after charging:

	2020 £000's	2019 £000's
Auditor's remuneration - Scrutton Bland LLP	30	25
Training and recruitment costs	34	58
Agency and consultancy costs	218	366
Other expenses - note 6	4,240	3,906
	4,522	4,355

6. Other expenses

	2020 £000's	2019 £000's
Electricity and gas (landlord's supplies on estates and sheltered accommodation)	842	756
Rent and rates	382	314
Repairs, maintenance and modifications (on administrative buildings)	5	9
Cleaning and rubbish removal	431	397
Computers and other equipment	459	433
Transport	111	93
Communication	317	329
Insurance	89	69
Legal fees	61	49
Grants and subscriptions	64	75
Other Service Level Agreements and charges by the Council	949	950
Printing and stationery	84	56
Conference expenses	14	13
Bank charges	46	51
Grounds maintenance charge	193	202
Other general expenses	193	110
	4,240	3,906

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

7. Interest receivable and similar income

	2020 £000's	2019 £000's
Interest was received on:		
Bank deposits	<u>42</u>	<u>30</u>

8. Taxation on ordinary activities

Analysis of charge in the year

	2020 £000's	2019 £000's
Current tax:		
UK Corporation tax for the year at 19% (2019 : 19%)	<u>-</u>	<u>-</u>
Total current tax	<u>-</u>	<u>-</u>
Deferred tax:		
Arising on taxable losses	<u>32</u>	<u>(35)</u>
Total deferred tax	<u>32</u>	<u>(35)</u>
Taxation on profit on ordinary activities	<u>32</u>	<u>(35)</u>

9. Tangible fixed assets

	2020 £000's	2019 £000's
Group and company		
Motor vehicles		
Cost		
At 1st April and 31st March	<u>9</u>	<u>9</u>
Depreciation		
At 1st April and 31st March	<u>9</u>	<u>9</u>
Net book value		
At 31st March	<u>-</u>	<u>-</u>

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

10. Fixed asset investments

Company	2020 £000's	2019 £000's
Cost		
At 1 April	425	425
At 31 March	425	425
Impairment		
At 1 April	(171)	(425)
Impairment reversal	156	254
At 31 March	(15)	(171)
Fixed asset investments at 31st March	410	254

South Essex Homes Ltd owns 100% of the share capital of South Essex Property Services Limited, being 425,001 ordinary shares of £1.

South Essex Property Services Limited is incorporated in England and Wales and it's principal activity is facilities management and employee hosting.

South Essex Homes Ltd has the power to exercise, or actually exercises, influence or control over South Essex Property Services Limited.

11. Debtors

	Company		Group	
	2020 £000's	2019 £000's	2020 £000's	2019 £000's
Falling due within one year:				
Amounts owed by SBC	487	192	726	344
Amounts owed by South Essex Property Services Limited	176	85	-	-
Other debtors	198	141	202	142
Prepayments and accrued income	32	16	32	16
Bad debt provision	(9)	(8)	(9)	(8)
Deferred taxation	-	-	-	35
	884	426	951	529

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

12. Investments

	Company		Group	
	2020	2019	2020	2019
	£000's	£000's	£000's	£000's
Lloyds TSB Plc	1,500	500	1,500	500
Santander UK Plc	2,017	1,004	2,017	1,004
NatWest	4	506	4	506
HSBC	520	1,507	520	1,507
	4,041	3,517	4,041	3,517

All investments are held on fixed term deposit.

13. Cash at bank and in hand

	Company		Group	
	2020	2019	2020	2019
	£000's	£000's	£000's	£000's
Cash at bank	1,397	3,207	2,154	3,490

14. Creditors: Amounts falling due within one year

	Company		Group	
	2020	2019	2020	2019
	£000's	£000's	£000's	£000's
Trade creditors	326	132	334	145
Amounts owed to SBC	2,146	2,047	2,606	2,225
Amounts owed to SEPS	184	163	-	-
Taxation and social security	96	60	218	155
Accruals	187	209	195	218
Receipts in advance	1,017	2,511	1,017	2,511
	3,956	5,122	4,370	5,254

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

15. Reserves

Group	Total reserves 2020 £000's	Total reserves 2019 £000's
Balance brought forward	(5,048)	(6,915)
Retained surplus/(deficit) for the financial year	1,329	(478)
Actuarial gain on the pension scheme	629	2,345
Balance carried forward	<u>(3,090)</u>	<u>(5,048)</u>
Income and expenditure reserve excluding pensions	2,776	2,282
Pensions reserve	(5,866)	(7,330)
Total reserves	<u>(3,090)</u>	<u>(5,048)</u>
Company	Total reserves 2020 £000's	Total reserves 2019 £000's
Balance brought forward	(5,048)	(6,934)
Retained surplus/(deficit) for the financial year	1,329	(459)
Actuarial gain on the pension scheme	629	2,345
Balance carried forward	<u>(3,090)</u>	<u>(5,048)</u>
Income and expenditure reserve excluding pensions	2,776	2,282
Pensions reserve	(5,866)	(7,330)
Total reserves	<u>(3,090)</u>	<u>(5,048)</u>

The company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own Income and Expenditure Account.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

16. Related party transactions

The company is wholly owned by Southend-on-Sea Borough Council. Turnover for the company for the year was £10,818k (2019 : £10,273k) including £5,782k (2019 : £5,617k) paid as management fees by the Council and £3,814k (2019 : £3,539k) paid as service charges by the Council. The management fee covers salaries and staff-related supplies and the service charges covers services costs. Balances due to and from related parties at the year end are included in debtors and creditors, as disclosed in notes 11 and 14. Also included in receipts in advance is a balance of £nil (2019 : £2,015,867) received in advance regarding the subsequent year's budget.

The company reimbursed the Council in respect of payroll administration costs.

The senior management personnel comprised:

Michael Gatrell
Mario Ambrose
Traci Dixon
Sarah Lander
Christopher Vaughan
Beverley Gallacher

During the year the remuneration paid to the above senior management personnel totalled £601,540 (2019 : £768,461).

17. Company limited by guarantee

The company is limited by guarantee and has no share capital. The liability of the member, Southend-on-Sea Borough Council, in the event of winding-up is limited to £1.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

18. Pension commitments

(a) The assets and liabilities of the pension scheme at 31st March were:

	% of scheme assets	2020 Value £000's	% of scheme assets	2019 Value £000's
Equities	58.5%	21,899	62.3%	22,022
Bonds	10.4%	3,880	11.2%	3,944
Properties	9.0%	3,364	8.9%	3,145
Cash	4.2%	1,555	2.6%	931
Alternative assets	11.5%	4,309	9.7%	3,449
Other managed funds	6.4%	2,406	5.3%	1,879
Total market value of assets		37,413		35,370
Present value of scheme liabilities		(43,279)		(42,700)
Net estimated pension liability		(5,866)		(7,330)

(b) Asset and liability reconciliation:

	2020 £000's	2019 £000's
Reconciliation of liabilities		
Liabilities at start of period	42,700	41,781
Service cost	1,176	1,278
Interest cost	1,065	1,054
Employee contributions	227	245
Actuarial gain	(4,157)	1,863
Change in demographic assumptions	(270)	(2,352)
Loss on defined benefit obligation	1,210	-
Liabilities assumed on settlement	2,098	-
Benefits paid	(1,086)	(1,208)
Past service costs	316	39
Liabilities at end of period	43,279	42,700

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

18. Pension commitments *(continued)*

(b) Asset and liability reconciliation: *(continued)*

	2020 £000's	2019 £000's
Reconciliation of assets		
Assets at start of period	35,370	33,007
Interest on assets	846	838
Return on assets less interest	(2,881)	1,856
Other actuarial gains	293	-
Employer contributions	580	645
Employee contributions	227	245
Benefits received	(1,086)	(1,208)
Administrative expenses	(11)	(13)
Settlement received	4,075	-
Assets at end of period	<u>37,413</u>	<u>35,370</u>

(c) Return on scheme assets:

The overall return on scheme assets is estimated to be -5% in 2019/20. This figure will vary year on year depending on the assumptions made and the underlying distribution of the fund's assets which will vary during the year and as a result it is not appropriate to break down the return on assets across the different asset categories. Actual returns on scheme assets have been (£2,035,000) for the year to 31st March 2020.

(d) A full actuarial valuation was carried out for the defined benefit scheme at 31st March 2019 and updated to 31st March 2020 by Barnett Waddingham using the Projected unit method. The major assumptions used by the actuary were:

	2020 %	2019 %
Main assumptions:		
Rate of increase in salaries	2.90	3.90
Rate of increase in pensions in payment	1.90	2.40
Discount rate	2.35	2.40
Inflation assumption	1.90	2.40

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

18. Pension commitments *(continued)*

(e) Movement in deficit during the year:

	2020 £000's	2019 £000's
At 1st April	(7,330)	(8,774)
Current service cost	(1,176)	(1,278)
Net interest cost	(219)	(216)
Actuarial gains	629	2,345
Employer contributions	580	645
Past service costs	(316)	(39)
Administrative costs	(11)	(13)
Liabilities assumed on settlement	(2,098)	-
Settlement prices paid	4,075	-
At 31st March	<u>(5,866)</u>	<u>(7,330)</u>

The Council supports the annual pension contributions due from South Essex Homes including the back funding, through the management fee.

FRS 102 disclosures are not on the same basis as the triennial actuarial review of the pension fund valuation and the two are for different purposes. FRS 102 is a one off assessment at the year end for accounting disclosure purposes. The FRS 102 calculations are more prescriptive. At the current time they emphasise the liabilities and produce a balance sheet position worse than the triennial valuation position.

While the figure is substantial it should be remembered that:

- It is not an immediate deficit that has to be met now. The sum is the current assessment taking a long term view of the future liabilities both for existing pensioners and current employees who are accruing pension entitlement.
- It is not a problem unique to South Essex Homes or indeed ALMOs generally. There is a national problem for pension funds both private and public sector.
- The Essex pension fund is regularly reviewed and additional contributions have already been initiated to address the problem over a period of years.

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

18. Pension commitments *(continued)*

(f) Analysis of the amount charged to the income and expenditure account:

	2020	2019
	£000's	£000's
Current service cost	1,176	1,278
Employer contributions	(580)	(645)
Past service costs	316	39
Administration costs	11	13
Settlement service costs	(1,977)	-
FRS 102 adjustment	(1,054)	685

Analysis of amounts charged to finance costs:

	2020	2019
	£000's	£000's
Other finance costs: expected return on assets in the scheme	846	838
Other finance costs: interest costs	(1,065)	(1,054)
FRS 102 adjustment	(219)	(216)

During the year to 31st March 2020 the employer contribution rate was 22.2%. Essex Pension Fund have advised that the rate for the year to March 2021 will be 22.2%.

(g) Life assumptions:

	2020	2019
Life expectancy:		
Current pensioner aged 65		
male	21.8	21.3
female	23.7	23.6
Future pensioner aged 65 in 20 years' time		
male	23.2	22.9
female	25.2	25.4

SOUTH ESSEX HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Notes to the Financial Statements

Year ended 31st March 2020

19. Operating lease commitments

At 31st March 2020 the company had the following total commitments under non-cancellable operating leases:

	2020 £000's	2019 £000's
Operating leases which expire:		
Less than one year	17	18
Two to five years	14	31
Total	<u>31</u>	<u>49</u>

The total charge taken to the income and expenditure account for the year amounted to £17,638 (2019 : £17,638).

20. Financial Instruments

	Company		Group	
	2020 £000's	2019 £000's	2020 £000's	2019 £000's
Financial assets which are debt instruments measured at amortised cost	<u>884</u>	<u>426</u>	<u>951</u>	<u>529</u>
Financial liabilities measured at amortised cost	<u>3,839</u>	<u>5,044</u>	<u>4,248</u>	<u>5,171</u>

Financial assets measured at amortised cost comprise balances due from the Council and other debtors.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors and accruals.

21. Ultimate parent and controlling company

The ultimate parent undertaking and controlling party is Southend-on-Sea Borough Council, which is a local government authority of the United Kingdom.

The consolidated financial statements as at 31st March 2020 of the Council are available to the public and may be obtained from Southend-on-Sea Borough Council, Civic Centre, Southend-on-Sea, SS6 2ER.

22. Post balance sheet events

Since the year end, the UK, and the whole world, has been struck by the Covid 19 pandemic. This does not have an effect on the financial position shown by these accounts, and they continue to be drawn up on a going concern basis as explained in the accounting policies. If required, the Company will be supported by the Council.



SOUTH ESSEX HOMES

REPORT TO THE BOARD

AUDIT OF THE FINANCIAL STATEMENTS FOR

THE YEAR ENDED 31 MARCH 2020



SOUTH ESSEX HOMES

REPORT TO THE BOARD

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SOUTH ESSEX HOMES

REPORT TO THE BOARD

1 Introduction

- 1.1 In accordance with International Standard on Auditing 260 (“Communication with those charged with governance”) we are setting out various matters relating to our audit of the financial statements of South Essex Homes (“the Company”) for the year ended 31 March 2020.
- 1.2 We can confirm that we have completed our audit work, subject only to the finalisation of our work in respect of the defined benefit pensions scheme, events since the balance sheet date and the receipt of a signed letter of representation. The Covid-19 situation has meant that the audit has been undertaken remotely and at a later date than had initially been anticipated when our audit plan was presented in February 2020. As a result of working remotely full access to all information that would normally be available on site has not been possible. Alternative procedures have been undertaken where necessary such that we are able to provide an audit opinion on the financial statements. We currently anticipate being able to give an unqualified opinion on these financial statements in accordance with the requirements of the Companies Act 2006.
- 1.3 Consolidated financial statements have been prepared again this year to include the results of South Essex Property Services Limited.

SOUTH ESSEX HOMES

REPORT TO THE BOARD

2 The Financial Statements

The consolidated financial statements can be summarised as follows:

2.1 Income statement

	31 March 2020 £'000	31 March 2019 £'000
Turnover	12,115	11,330
Operating charges	(11,631)	(10,972)
	<u>484</u>	<u>358</u>
Interest income	42	30
Operating surplus	<u>526</u>	<u>388</u>
FRS 102 defined benefit pension scheme charges:		
Staff costs adjustment	1,054	(685)
Interest costs	(219)	(216)
	<u> </u>	<u> </u>
Surplus/(deficit) before taxation per financial statements	1,361	(513)
Taxation	(32)	35
	<u> </u>	<u> </u>
Surplus/(deficit) for the financial year	£ <u>1,329</u>	£ <u>(478)</u>

2.2 The group income statement has been presented in the above format in this report in order to show the results before and after adjustments required under FRS 102 in respect of the defined benefit pension scheme. The results before these adjustments are the results that management are able to influence and control. The FRS 102 defined benefit pension scheme adjustments are only known after the end of the financial year and are determined by the actuary of the Essex County Council Pension Scheme ("LGPS")

2.3 The group income statement can be considered to have four discrete components:

- There are the various overheads costs of the Company which are funded, in accordance with a budget, by a management fee from Southend-on-Sea Borough Council. To the extent that the actual costs are greater than or less than the management fee, the Company records either a deficit or a surplus.
- There are other company activities which fall outside of the management fee, but are performed for the council. These are invoiced separately.

SOUTH ESSEX HOMES

REPORT TO THE BOARD

- There are commercial activities undertaken by the company such as the management of properties for other organisations.
- Finally, there are the commercial activities undertaken by the company's trading subsidiary, South Essex Property Services Limited.

2.4 We do not consider the surplus made by the Company in respect of the ALMO activity with Southend-on-Sea Borough Council to be taxable. Any other surpluses made will be subject to corporation tax. Our work in respect of taxation is set out in section 5.

2.5 Group statement of financial position (balance sheet)

	31 March 2020 £'000	31 March 2019 £'000
Net assets before FRS 102 defined benefit pension scheme adjustments	2,776	2,282
FRS 102 net pension liability	(5,866)	(7,330)
Net liabilities including FRS 102 defined benefit pension scheme	£ (3,090)	£ (5,048)

2.6 The balance sheet of the Group shows net liabilities of £3,090,000 compared to £5,048,000 in the previous year.

2.7 We consider that the most meaningful figure in considering the ability of the Group to continue as a going concern is the net assets before the pension liability which amount to £2,776,000 (2019: £2,282,000). This is the surplus of the assets over the current liabilities and is therefore closer than other figures on the balance sheet to a cash flow measure. This, together with the knowledge that the Company generally forecasts a result close to breakeven, and that the management fee is received on a profiled basis from Southend-on-Sea Borough Council, is indicative of the robustness of the balance sheet.

2.8 The large liability of £5,866,000 (2019: £7,330,000) in respect of pension obligations is not an immediate liability to be met from cash flows: it represents the current best estimate of the pension deficit for those Company employees in the LGPS. The expectation is that future budgets presented to Southend-on-Sea Borough Council will include the appropriate amounts in respect of future employer contributions and that these contributions will be then be funded by the management fee.

SOUTH ESSEX HOMES

REPORT TO THE BOARD

- 2.9 Under FRS 102 there is a requirement for the pension surplus or deficit to be shown on the face of the balance sheet. As noted above, there is also a requirement for the income statement to be amended in order to show pension costs based on the current costs accruing, rather than on the basis of the employer contributions payable to the scheme.
- 2.10 The net movements in the pension scheme liability are set out in the financial statements. The liability has fallen from £7,330,000 to £5,866,000, being a reduction of £1,464,000. Changes in a number of factors have resulted in this net reduction as set out in note 18 of the financial statements. One of the key factors that has impacted upon the deficit reduction is the capitalised gain on settlements which amounted to £1,977,000. The impact of the fall in the assumed rate of increase in salaries and pensions in payment which fell from 3.9% and 2.4% in 2019 to 2.9% and 1.9% respectively, which would have further reduced the estimated pension scheme liability, have been offset by the poor return achieved on the scheme assets.
- 2.11 Through the use of employee hosting via the company's subsidiary, South Essex Property Services Limited, the company should be able to limit its pension costs in respect of those particular employees as they will not be members of the LGPS. With the possibility that fewer members in general will be joining the LGPS in the future, there is the potential that there will be a need to increase the deficit funding plan for the scheme to cover those members currently in the scheme.

3 Main Areas of Audit Risk

- 3.1 There is an audit risk that late costs may be incurred in relation to overheads of the Company. We therefore carry out a review of purchase invoices and payments after the end of the year in order to identify any such costs. We also seek to agree larger supplier balances on the bought ledger to statements from those suppliers.
- 3.2 There is a significant audit risk that the information in respect of the defined benefit pension scheme reporting requirements under FRS 102 may be presented incorrectly or may be based on inappropriate assumptions. We therefore review the detailed figures provided by the Actuary, including the assumptions, and carry out detailed reviews of the information provided in the financial statements with regard to the net pension liability and the pension costs. The impact of the Covid-19 pandemic could continue to impact upon asset values (including stock market valuations) and discount rates, both of which will have an ongoing impact upon the pension scheme.

SOUTH ESSEX HOMES

REPORT TO THE BOARD

- 3.3 Covid-19 presents a significant risk for the economy, and the financial impact upon many businesses is likely to be severe and in some cases terminal. The Company has a management agreement in place to provide the ALMO services to Southend-on-Sea Borough Council which we understand is being replaced with a new Partnership Agreement. Given the nature of the company and its activities, we consider that the management team are taking the appropriate steps in order that the company can continue as a going concern for at least 12 months from the date of approving the financial statements.

4 Controls

- 4.1 During our audit we examined certain of the control procedures operated by the management team. We also reviewed the various reports issued by the internal audit service to the Company and do not consider that any of the matters raised have a material impact upon the financial statements or our report thereon.

5 Taxation

- 5.1 We are responsible for the corporation tax compliance work for the Company for the year ended 31 March 2020. This involves the preparation and filing of the statutory returns using the tax figures calculated by the Company's finance department.
- 5.2 It is our opinion that the nature of the surpluses made by the Company (comprising the making of savings on a management fee awarded by the sole member of the company) is such that they are not subject to corporation tax as they do not represent surpluses from a taxable undertaking.
- 5.3 During the year the Company has engaged in some trading activities, and as such any surplus in this area is subject to corporation tax.
- 5.4 A deferred tax asset was recognised within the group results last year which related to the tax effect of losses that had previously been accumulated within the trading subsidiary. This asset has largely been consumed this year as a result of the taxable profits made by South Essex Property Services Limited. Future profits could now result in corporation tax becoming payable by the subsidiary company, and we understand that the directors are reviewing the profit retention policy of the company as part of a tax planning exercise.

SOUTH ESSEX HOMES REPORT TO THE BOARD

6 Independence

- 6.1 We can confirm that we consider the partners and employees of Scrutton Bland LLP and Scrutton Bland Limited to be independent of the Company, its subsidiary company South Essex Property Services Limited, and also Southend-on-Sea Borough Council.
- 6.2 In addition to the audit services, we provide tax compliance services to the company in respect of filing the statutory returns. The fee in respect of these services is very much less than our audit fee; we therefore do not consider that our undertaking this service impacts on our independence from the Company.

Scrutton Bland LLP

16 September 2020

DRAFT

Letter of Representation

SOUTH ESSEX HOMES LIMITED

Civic Centre

Victoria Avenue

Southend-on-Sea

SS2 6FY

Company Number: 05453601

A company registered in England & Wales

Scrutton Bland LLP
Chartered Accountants
and Statutory Auditor
820 The Crescent
Colchester Business Park
Colchester
CO4 9YQ

Dear Sirs

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and where appropriate, of inspection of supporting documentation, sufficient to satisfy ourselves that we can properly make each of the following representations to you in connection with your audit of the group's and parent company's financial statements for the year ended 31 March 2020.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Financial Statements:

- 1 We acknowledge and have fulfilled, as directors, our collective responsibility under the Companies Act 2006 for presenting consolidated and parent financial statements (in accordance with the Companies Act 2006 and United Kingdom Accounting Standards), which give a true and fair view of the financial position of the group and company at the reporting date, and of the group's and company's results for the period then ended, and for making accurate representations to you. We confirm that we have approved the group's and parent company's financial statements for the year ended 31 March 2020.

SOUTH ESSEX HOMES

REPORT TO THE BOARD

- 2 We confirm that the accounting policies and estimation techniques, including those measured at fair value and adjustments for consolidation purposes, adopted for the preparation of the consolidated and parent financial statements are the most appropriate to the circumstances in which the group and parent company operate.
- 3 We confirm that directors remuneration for the year totalled £45,495.
- 4 Other than as disclosed in the consolidated and parent financial statements, the company has not entered into any transactions involving directors, officers or other related parties, which require disclosure under the Companies Act or Financial Reporting Standards. Appropriate disclosure has been made of the control of the parent company.
- 5 We have disclosed all known or possible litigation and claims whose effects should be considered when preparing the consolidated and parent financial statements and these have been disclosed in accordance with the requirements of accounting standards.
- 6 The financial statements of the company have been prepared on the going concern basis as we believe that adequate cash resources will be available to cover the company's requirements for working capital and capital expenditure for at least the next twelve months. We are not aware of any other factors which could put into jeopardy the company's going concern status during or beyond this period, other than disclosed in the financial statements.
- 7 There have been no events since the balance sheet date affecting any part of the group which necessitate revision of the figures included in the consolidated or parent financial statements or inclusion of a note thereto. Should further material events occur, which may necessitate revision of the figures included in these financial statements or inclusion of a note thereto, we will advise you accordingly.
- 8 We confirm that we have agreed the adjustment appended to this letter which has been made to the balance sheet which we presented to you for audit.
- 9 We confirm that we have considered the unadjusted errors advised to us by you. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by the users of the financial statements. The combined effect of the unadjusted errors is not material and we do not consider that its absence from the financial statements affects the true and fair view given.

SOUTH ESSEX HOMES

REPORT TO THE BOARD

- 10 With regard to the defined benefit pension plan, we are satisfied that:
- the actuarial assumptions underlying the valuation are consistent with our knowledge of the business;
 - all significant retirement benefits have been identified and properly accounted for; and
 - all settlements and curtailments have been identified and properly accounted for.
- 11 We confirm that all debtors are considered to be recoverable and that no provision is required.

Information provided:

- 12 All the accounting records of the parent company have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. We have provided to you all other information requested and given unrestricted access to persons within the entity from whom you have deemed it necessary to speak to. All other records and relevant information, including minutes of all management and shareholders' meetings, have been made available to you.
- 13 Other than those disclosed in the consolidated and parent financial statements we are not aware of any material liabilities, provisions, contingent liabilities, contingent assets or contracted for capital commitments, that need to be provided for or disclosed in the consolidated or parent financial statements.
- 14 We confirm that we have notified you of all related party relationships, and transactions that the group has entered into with those related parties during the year of which we are aware.
- 15 We acknowledge our responsibility for the design and implementation of internal controls to prevent and detect errors or fraud, and have disclosed to you the results of our assessment of the risk that the parent financial statements may be materially misstated as a result of fraud. We are unaware of any irregularities within the group, including fraud and suspected fraud, involving management, employees or others who have significant roles in internal control, or those employed by the company where the fraud could have a material effect on the consolidated or parent financial statements. No allegations of such irregularities or breaches have come to our notice.

SOUTH ESSEX HOMES

REPORT TO THE BOARD

- 16 We are unaware of any breaches or possible breaches of statute, regulations, contracts, agreements or the constitutions of any group companies which might result in the group company suffering significant penalties or other loss. No allegations of such irregularities or breaches have come to our notice.
- 17 We confirm receipt of your report to the Board.
- 18 We confirm that we have been notified by you that there are no matters which you are required to raise with us to comply with your profession's ethical guidance which are in addition to the matters included in your external audit plan.
- 19 We confirm that although the Partnership Agreement is currently unsigned, it has been agreed in principle subject to approval by the Secretary of State.

Yours faithfully

Signed on behalf of the board of the Executive

Date:

Signed on behalf of the board of directors

Date

SOUTH ESSEX HOMES
REPORT TO THE BOARD

Adjusted items within Company Financial Statements

	Balance Sheet		I & E	
	Dr	Cr	Dr	Cr
Investments	156,000			
Impairment reversal				156,000

Being release of previous impairment provision against subsidiary investment

Pension liability	1,464,000			
Pension reserve		1,464,000		

Being adjustment to scheme liability as provided by the scheme actuary

	<u>1,620,000</u>	<u>1,464,000</u>	<u>0</u>	<u>156,000</u>
Effect on company general reserve				<u><u>156,000</u></u>

The adjustment to the pension scheme reserve consists of elements that impact upon the reported surplus for the year, although ultimately these go into the pension reserve, and these can be broken down further as follows:

Pension liability	1,464,000			
Actuarial movements		629,000		
Staff costs pension scheme adjustment				1,054,000
Interest cost pension scheme adjustment			219,000	

Being further analysis of adjustment to pension scheme liability

SOUTH ESSEX HOMES
REPORT TO THE BOARD

Unadjusted errors within Company Financial Statements

		Balance Sheet		I & E	
		Dr	Cr	Dr	Cr
Current asset investments			24,588		
Cash at bank	24,588				
Being adjustment of bank balances classified as investments					
Employees hosted in SEPS					13,717
Agency costs				13,717	
Being adjustment of agency costs included in SEPS recharge nominal					
	24,588	24,588		13,717	13,717
Effect on company general reserve profit				-	

Management Letter

The Directors
South Essex Homes Limited
Civic Centre
Victoria Avenue
Southend-on-Sea
SS2 6FY

Dear Sirs

South Essex Homes Limited

Following our recent final audit in connection with the financial statements for the year ended 31 March 2020, we are writing to bring to your attention certain matters that we have identified during the course of our work. We hope that you will find our comments helpful.

Our work during the audit included an examination of some of the company's transactions and procedures with a view to expressing an opinion on the financial statements for the year. This work was not directed primarily towards discovering weaknesses or towards the detection of fraud. We have only considered matters that have come to our attention as a result of our normal audit procedures and consequently our comments should not be regarded as a comprehensive record of all weaknesses that may exist or of all improvements that might be made.

Our work also included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the company. This review identified no significant matters which we believe are necessary to draw to your attention.

SOUTH ESSEX HOMES REPORT TO THE BOARD

We would like to draw your attention to the following points:

Going Concern

Pension liability

The balance sheet includes a large provision of £5,866,000 in respect of the FRS 102 defined benefit pension fund deficit. The inclusion of this provision means that there is a deficit of member's funds of £3,090,000 for the company. If the future performance of the pension scheme remains identical to the assumptions made by the Actuary, then there would need to be an increase in total contributions into the pension scheme in order to cover the funding shortfall. We consider that the financial statements should continue to be prepared on the going concern basis, provided that the directors are of the view that increased pension contributions in future years will be met by the funding received each year from Southend-on-Sea Borough Council.

Impairment reversal

The investment of £425,001 held in South Essex Property Services Limited had previously been fully provided against due to the historic losses made within that company. Following its change in activities and the profit levels achieved, an impairment reversal of £254,000 was processed last year, with a further £156,000 reversed in the year to 31 March 2020. The investment is being carried in the company financial statements at an amount equivalent to the net asset position of South Essex Property Services Limited as at 31 March 2020. It is anticipated that the remaining impairment provision will fully reverse in the next financial year based upon the results that are being forecast in the subsidiary company.

Conclusion

If you require any further information or assistance, we shall be very pleased to help you.

We would appreciate an acknowledgement of the receipt of this letter and look forward to receiving your comments when you have had the opportunity of considering the matters that we have raised.

This letter is for private use only. It has been prepared on the understanding that it will not be disclosed to any third party, or quoted to or referred to, without our prior written consent and we assume no responsibility to any other party.

We should like to take this opportunity of thanking you and your staff for the assistance and co-operation we have received during the course of our work.

Yours faithfully

Scrutton Bland LLP