TOWN AND COUNTRY HOUSING GROUP

Report and Financial Statements
for the year ended
31 March 2016

Registered Society number 30167R
Homes and Communities Agency Registration number L4251

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2016

REPORT AND FINANCIAL STATEMENTS

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BOARD, DIRECTORS, ADVISERS AND BANKERS

BOARD MEMBERS

Francis Salway, Ordinary Member (Chair)
Graham Hill, Ordinary Member (Vice-Chair and Chair of Audit Committee)
Mark Easton, Ordinary Member
Robert Heapy, Executive Member and Chair of Monson Homes and TCHG Living
Jenine Langrish BSc. (Hons) ACIB, Ordinary Member
Charles Leigh-Dugmore MCIOB, Ordinary Member
Christine Pointer MSc., Ordinary Member
Kim Hill, Tenant Member
Marianne Hay, Ordinary Member and Chair of TCHG Foundation
Sanaya Robinson BSc. (Hons) ACA MCT, Ordinary Member, *resigned* July 2015
Christopher Starke, Ordinary Member, *appointed* August 2015
Kayleigh Ward, Tenant Member, *appointed* November 2015

EXECUTIVE DIRECTORS

Robert Heapy, Chief Executive
Robin Tebbutt, Finance Director
Jo Ellis, Operations Director
Colin Lissenden, Development Director

AUDITORS

External
Nexia Smith & Williamson
25 Moorgate
London
EC2R 6AY

Internal
Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

BANKERS

National Westminster Bank PLC
HSBC PLC
Svenska Handelsbanken Ab (publ.)

LEGAL STATUS

Registered under the Co-operative and Community Benefit Societies Act 2014 No: 30167R
Registered under Section 3 of the Housing and Regeneration Act 2008 number: L4251

REGISTERED OFFICE

Monson House, Monson Way, Tunbridge Wells, Kent, TN1 1LQ

CHAIR'S INTRODUCTION

In 2015/16 we completed the development of 300 new homes including homes for sale, and delivered a financial surplus of £17 million (before tax) on the new accounting basis, equivalent to 24% of our turnover. However, these statistics fail to tell the story of a year of massive change for the housing association sector and for Town and Country. The principal source of change was the Government's Budget statement of July 2015 which reduced social housing rents by 1% per annum for four years from 1 April 2016 in place of the '10-year rent settlement' previously announced in 2013, of annual increases of CPI inflation + 1% per annum.

This change means that, by the end of the four-year period in March 2020, our rents on the affected properties will be lower by 12.3%, based on our previous assumptions on the level of CPI inflation. This change to rents has also had an immediate impact on the value of our homes, as our valuers have taken into account the future rent changes and reduced valuations of affected properties as at 31 March 2016 by approximately 15%. A small part of our portfolio, such as intermediate rent and market rent homes, is not affected by these rent cuts, so the overall impact on our business is a rent reduction estimated at 10.9% by March 2020 and an immediate reduction in valuation as at 31 March 2016 of 12%.

The reduction in the valuation of our assets increases our gearing for lenders' covenant purposes and so reduces our financial capacity to support the development of new homes. In terms of our ability to generate a positive financial surplus from our activities, the significance of the rent reduction of 12.3% in four years' time can be seen by comparing this figure to our surplus last year at 20% of turnover on the old accounting basis.

These rent changes therefore posed real challenges to the organisation. I am delighted that the senior management team and our Board have responded decisively. We sold 283 homes in Bromley and Bexley for £36 million in May 2016. The dwellings lay outside our core area of Kent and East Sussex, and also allowed us to manage the impact of the changes on gearing. We have also reduced the size of our development programme. To address the impact of the rent cuts on our statement of comprehensive income, we have taken advantage of a number of technology initiatives to reduce headcount and hence costs. Yet our Board has resolved to maintain the level of our support activities for residents at an unchanged level of 6% of our operating costs. We consider this to be important at a time when a number of our residents will be experiencing a material reduction in their income as a result of welfare benefit changes, particularly the lowering of the cap on benefits.

The delivery of services to all our residents has remained a priority for the organisation throughout, and I am delighted that during the year we both reduced costs and improved levels of resident satisfaction. Our management cost per property reduced by 7.4% from £1,139 in 2014/15 to £1,055 in 2015/16, using the "Housemark" benchmarking service methodology, and our resident satisfaction improved from 74.6% to 82.3% over the same time period. These figures indicate that we have continued to achieve improvements in terms of delivering 'Value for Money', and this is reported upon in detail in our Value for Money assessment summarised on page 14, where a link to the full statement will be found.

Our Board is committed both to the delivery of good-quality services to our existing residents and also to providing for future residents through the development of new homes. It is the latter objective which has come under most pressure from the rent cuts. These changes have prompted us to radically rethink the size and tenure mix of our development programme. Our ambition is still to develop new homes equal to approximately 2% of our current stock, which is slightly ahead of the forecast growth in the total number of homes in Kent and East Sussex. With the reduced availability of grant funding, we will look to subsidise our development of affordable homes through profits on the sale of private homes. But the extent of our activity in the private market arena will be managed within the risk control measures we adopted some three years ago to manage the scale of our private market sale development. The affordable homes we develop will include a mix of shared ownership homes, intermediate rent and social rented homes.

CHAIR'S INTRODUCTION (continued)

The future development programme will also be supplemented by building new homes to replace those sold under the proposed new Right to Buy for housing associations' properties, as and when this is introduced. Town and Country supported the housing association sector's approach of voluntarily agreeing the basis for this with government, and we are committed to replacing homes sold through Right to Buy on a one-for-one and tenure-consistent basis.

Over the last year, the housing association sector has seen much debate, and indeed higher levels of activity, around mergers. Our own Board welcomes the initiative of the Merger Code, which we recognise as being helpful in a number of respects, and we regard many of the principles of the Code as good practice. However, we have made a decision not to adopt the Code in full as we consider it could be distracting for the organisation to have to give detailed consideration to, and disclosure of, all preliminary approaches about merging. Our Board had previously agreed a set of criteria including strategic fit, financial sense and potential to improve our residents' experience, to guide our executive when considering initial approaches to merge. The decision on whether an approach meets these criteria is delegated to our executive, but the executive will report to the Board all initial approaches received, responses made and reasons given, if rejected. Where our Board deems it appropriate to progress discussions around a possible merger, then we are committed to following the relevant processes as recommended in the Merger Code. Where we decline to progress merger discussions, we will provide a clear response setting out our reasons, and we will keep a record of this.

In terms of governance, following an 'In-Depth Assessment' by our regulator in March and April 2016, our top ratings of V1 for Viability and G1 for Governance were reaffirmed.

As we plan ahead for the current year, we will continue our response to the changes for the housing association sector, as outlined above, and we will also monitor carefully the implications of the EU Referendum vote for Town and Country. Since the date of the vote, the UK's credit rating has been cut, and this has flowed through to a cut in our own credit rating from AA- to A+. Although counterbalanced by a reduction in the reference gilt yield, this may result in an increase in our long-term borrowing costs, but we have no requirement to take out new loans for a number of years based on our current business plan.

I would like to conclude by thanking my Board colleagues and all the staff at Town and Country for the incisive way in which they have addressed the changes to our operating environment and at the same time delivered a compelling combination of lower unit costs and improved resident satisfaction levels.

Francis Salway
Group Chair
27 July 2016

REPORT OF THE BOARD

The Board presents its report and the audited financial statements of Town and Country Housing Group (TCHG) for the year ended 31 March 2016.

Principal activities
TCHG's principal activities are the management and development of social and affordable housing.

Background
The Group consists of six companies:

- Town and Country Housing Group, the parent, is a registered provider of social housing (RP).
- TCHG Foundation, a registered charity.
- Monson Homes Limited, a development company.
- TCHG Capital PLC, a funding vehicle.
- Countrywise Repairs Limited, a maintenance company.
- TCHG Living Limited (dormant).

Town and Country Housing Group (TCHG)
TCHG is a registered provider of social housing (RP) and a registered society. TCHG is the parent company and provides all of the central administrative functions for members of the Group, as well as providing the strategic direction and treasury management. The Group owned 9,176 properties at 31 March 2016; this includes portfolios of shared ownership, sub-market rented and market-rented units.

TCHG Foundation (Foundation)
Foundation is a registered charity, number 1122306. It is responsible for the Group's community development activity and plays a key role in the local community in which it operates.

Monson Homes Limited (MHL)
MHL is the Group's developer and the vehicle for the Group's regeneration schemes.

TCHG Capital PLC (Capital)
Capital raises funds on the capital markets for on-lending to Group members. The shares are held by a Trustee, and the Group has an option to purchase them. The degree of control exercised is such that the company's financial statements are consolidated into the Group financial statements.

Countrywise Repairs Limited (CWR)
CWR is a joint venture company with 51% owned by TCHG and 49% by Wates Living Space (Maintenance) Limited (part of the Wates Group). This joint venture is designed to give the Group certainty over service delivery of its day-to-day repairs. This was the company's fourth year of trading.

TCHG Living Limited (TCHG Living)
TCHG Living is a non-charitable registered society. The company did not trade during the year, and its tangible assets were limited to an opening cash balance of £5,000. The company was a registered provider until 30 July 2015, when it was deregistered by the Social Housing Regulator.

Business review
A review of TCHG's results for the year is included in the strategic report from page 8 onwards.

Governance
TCHG fully complies with the recommendations of the NHF Code of Governance (revised 2015).

REPORT OF THE BOARD

Board Members and Executive Directors

The present Board Members and the Executive Directors are set out on page 1. The Board Members are drawn from a wide range of backgrounds, bringing together professional, commercial and local experience.

The Board has a maximum size of 12 Members. At 31 March there were 11 Members, 10 of whom were Non-Executives, including two Tenant Members. The Board meets formally at least eight times a year to discuss the affairs of the Group.

The Board Members of TCHG are remunerated for their role as Non-Executive Members. Details of their remuneration levels can be found under note 9 of these financial statements.

Individual Board Members have their performances reviewed annually by the Group Chair, with input from fellow Board Members.

The performance of TCHG's committees is self-assessed by the various Members annually, which is supported by assessments from Executives and staff and, in the case of the Audit Committee, by our internal and external auditors.

The Group Board undertakes a self-assessment of its performance, and that of its Chair annually, which is supported by assessments from the Executives. An external assessment of the Group Board's and the Group Chair's performance is undertaken by an independent reviewer every two years, most recently in 2015.

The purpose of the Board is to determine strategy and direct, control, scrutinise and evaluate the Group's affairs. The day-to-day management and implementation of the agreed strategy is delegated to the Chief Executive and the Executive Directors, who meet regularly and attend Board meetings. The Executive Directors hold no interest in the share capital of TCHG.

Statement of the Board's responsibilities

As a registered provider of social housing, the Board is responsible for preparing the report and financial statements for each financial year in accordance with applicable law and regulations, Co-operative and Community Benefit Societies Act 2014 and registered provider legislation. Under that law the members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) (United Kingdom Accounting Standards including The Financial Reporting Standard 102 (FRS 102) applicable in the UK and Republic of Ireland). Under the Co-operative and Community Benefit Societies legislation, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of TCHG for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is not appropriate to presume that TCHG will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of TCHG and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2015 and the Statement of Recommended Practice (SORP): Accounting by Registered Social Landlords 2014.

REPORT OF THE BOARD

Statement of the Board’s responsibilities (continued)

The Board has general responsibility for safeguarding the assets of TCHG and hence for the prevention and detection of fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information on the TCHG website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Employees and Board Members

The strength of TCHG lies in the quality of its Board Members and all its employees. In particular, its ability to meet its objectives and commitments in an efficient and effective manner depends upon their contribution.

TCHG is an equal opportunities employer.

TCHG shares information on its strategic objectives, progress and activities through regular formal briefing sessions, office and team meetings, and through the use of our intranet. Each member of staff has personal objectives set annually, which show how they will contribute to our overall objectives. These are kept under review in formal appraisals.

The health and safety of all staff is of utmost importance to TCHG. It has prepared detailed health and safety policies and provides staff training and education on health and safety matters.

We are proud to have been recognised as one of the top 100 not-for-profit companies in the country to work for, in The Sunday Times Best Companies Awards 2016. This was the second successive year we achieved this. We were placed at number 65. Our commitment to the training of our staff is demonstrated by our having maintained Investors in People accreditation since 2000.

Modern Slavery

The Group complies with its responsibilities under the Modern Slavery Act 2015, and has agreed a range of measures in order to fulfil them. These are set out in our Slavery and Human Trafficking Statement on our website.

Disclosure of information to auditors

At the date of making this report, each of TCHG’s Board Members, as set out on page 1, confirms the following:

- so far as each Board Member is aware, there is no relevant audit information needed by TCHG’s auditors in connection with preparing their report of which TCHG’s auditors are unaware; and
- each Board Member has taken all the steps that they ought to have taken as a Board Member to make themselves aware of any relevant audit information needed by TCHG’s auditors in connection with preparing their report and to establish that TCHG’s auditors are aware of that information.

REPORT OF THE BOARD

STATEMENT ON INTERNAL CONTROLS

The Board acknowledges its responsibility for establishing and maintaining the whole system of internal controls and for reviewing its effectiveness.

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

The risks faced by TCHG are considered both in relation to TCHG and their impact on the Group as a whole.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and has been in place throughout the period commencing 1 April 2015 up to the date of approval of the annual report and financial statements. Some of the key elements of the control framework that the Group has established are as follows:

- The key risks are identified and recorded in a strategic risk register with the Group's Audit Committee being delegated to consider risk as a separate agenda item four times a year.
- The Group Board considers strategic risk twice a year and approves the Group's approach to risk and its risk appetite annually.
- The Group Board has approved a series of 'tramlines' (financial risk controls). These govern our decision-making and are intended to ensure that we do not place the viability of the Group at risk.
- A long-term business plan and comprehensive budgets are produced and approved at least annually by the Group Board.
- The Group Board regularly reviews key performance indicators, management accounts and performance against tramlines. TCHG ensures that appropriate action is taken to address any areas of underperformance.
- Standing orders and financial regulations, including delegated authorities, are approved by the Group Board and are reviewed on a regular basis.
- A comprehensive treasury management policy and strategy is maintained and reviewed regularly by the Group Board.
- An outsourced internal audit service reports quarterly to the Group Audit Committee and has direct access to the Chair of the committee.
- The Board appraises all significant new business opportunities as recommended by the Chief Executive.
- There has been significant investment in training and staff development to minimise control weaknesses through error.
- The Group Audit Committee and the Group Board receive and review annually a report from the Chief Executive on the effectiveness of the system of internal controls.

The Board confirms there are no significant problems in relation to failures of internal controls that required disclosure in the financial statements.

STATEMENT OF COMPLIANCE WITH GOVERNANCE AND FINANCIAL VIABILITY STANDARD

The Board undertakes an annual assessment of TCHG's compliance with the Social Housing Regulator's Governance and Financial Viability Standard. It confirms that TCHG is compliant with the standard. Following an 'In-Depth Assessment' carried out in March and April 2016, the Social Housing Regulator reaffirmed our ratings of V1 for viability and G1 for governance (the highest ratings).

The Audit Committee reviews compliance with regulation and law on a quarterly basis.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

External influences and operating highlights

The most significant event of the year was the announcement by the Chancellor of the Exchequer in his July 2015 Budget of a revised rent policy for registered providers. The new policy is for rent cuts of 1% in cash terms in each of the four Aprils 2016-2019. This replaced the 10-year policy implemented with effect from April 2015 of CPI + 1% increases. In addition, further welfare benefit cuts were announced, which will increase the difficulty those of our tenants who claim benefits will experience in paying their rent. The cumulative effect of these policies will be felt throughout the 30 years of our business plan and beyond, and reduces our capacity to provide additional social housing. We responded immediately to the announcement by acting to freeze uncommitted development schemes pending re-appraisal. We also moved to immediately create savings through efficiency measures and reduction of discretionary expenditure. Our recast business plan is less ambitious than the previous one, especially during the period of the rent cut. In some cases, notably a scheme in Ashford, the new benefit levels meant that dwellings being built for affordable rent would not be affordable for households reliant on benefits. The decision was therefore taken that these dwellings should instead be sold.

Despite the challenges of the welfare benefit reductions already introduced, we have once again achieved a strong rent collection performance against our targets for the year. This results from our investment in the provision of support and advice to customers, as well as in enhancing our collection capability. We are not complacent, however, and recognise that we will need to continue to work hard to protect our income streams. This will apply particularly as the introduction of Universal Credit is stepped up, and the additional measures announced in July 2015 are applied.

Despite the challenges, the year has been a successful one for TCHG. The business has performed well both financially and operationally, with strong cash generation and key performance indicators being met.

We continue to prioritise investment in our assets with £10.8m spent on planned, responsive and programmed maintenance.

The regeneration of our estate at Lakewood (formerly Sherwood) continued to make good progress, with phases two and three completed during the year. The final phase is expected to commence during 2016/17.

We completed 300 dwellings, including those for sale in the year. Progress was slowed due to the more difficult environment following the announcements of the summer Budget.

Our joint venture vehicle, Countrywise Repairs (51% owned by TCHG), continues to deliver responsive maintenance and void works to our properties in the Tunbridge Wells area. The decision has been taken to expand their activity to include our remaining stock from April 2017, and the necessary steps to plan and prepare for this are in progress.

We continue to invest in technology and redesign our internal processes to improve employees' efficiency and effectiveness, whether working in an office or visiting our customers in their homes.

The Group highlights for the last five years are shown below. Figures for 2015 have been restated for Financial Reporting Standard 102, which applies to us with effect from the 2016 financial year. The prior years (2012-2014) are based on the previous UK Generally Accepted Accounting Practice which applied at that time.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

External influences and operating highlights (continued)

	<< FRS 102	>>	<<	Previous UK GAAP	>>
Annual accounts summaries	**2016**	**2015**	**2014**	**2013**	**2012**
Statement of comprehensive income (£m)					
Turnover	70.7	69.3	55.1	50.9	46.8
Income from social housing lettings	55.4	51.8	48.5	46.7	42.4
Operating surplus	30.2	29.2	24.0	17.7	19.0
Surplus/(deficit) on sales of fixed assets	3.5	0.2	0.4	(0.5)	0.5
Interest payable	(18.3)	(18.7)	(14.0)	(14.5)	(14.3)
Loan fair value movement	-	(26.4)	-	-	-
Surplus/(deficit) for the year before tax	16.9	(14.5)	10.2	2.8	5.4
Statement of financial position (£m)					
Fixed assets	808.2	809.1	688.8	642.2	632.4
Net current assets/(liabilities)	38.6	27.2	(2.7)	5.6	3.5
Loans due after more than one year	478.1	486.5	393.9	382.5	375.6
Revenue reserves	143.2	125.6	27.7	17.2	19.5
Revaluation reserve	206.2	206.2	258.1	244.7	242.4
Key ratios					
Interest cover	217%	226%	203%	164%	147%
Gearing (main lender's calculation)	57%	51%	57%	59%	59%
Asset cover	158%	142%	164%	156%	157%
Average interest cost	3.82%	3.89%	3.86%	4.11%	4.14%
Gross operating margin	42.7%	42.2%	43.60%	34.75%	40.38%
Annual surplus/(deficit) margin	23.2%	(21.3)%	18.49%	5.57%	11.54%
Housing stock owned	9,176	9,131	8,746	8,536	8,724

Our surplus for the year was enhanced by strong income collection, lower-than-budgeted operating costs and the continuing low-interest rate environment. The year 2015 is restated on the new accounting basis referred to in notes 2, 3 and 37. A change in the fair value of financial instruments is responsible for the deficit shown in 2015. On the basis of UK GAAP as it applied in the year, a surplus was recorded. The 2012 to 2014 performance is not fully comparable to 2015 and 2016 due to the change to the new accounting basis.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

Development

TCHG continues to provide social housing in a number of areas in the South East (Kent, Sussex and Surrey) and offers a range of housing products: affordable housing, shared ownership, supported housing market and sub-market rents.

At 31 March 2016, we owned 283 dwellings in the London Boroughs of Bromley and Bexley, where we had exchanged contracts for their sale to another registered provider. This was part of a strategic decision to exit the London market. The sale completed on 9 May 2016. We continue to look at our stockholding and the areas that we operate in, as part of our stock rationalisation ambitions. In prior years we have purchased dwellings in Tunbridge Wells and Wealden from other registered providers, as well as transferred dwellings in outlying areas to other registered providers.

During the year, TCHG completed 187 new affordable rented and shared ownership homes and received £3m of grant funding from the Home and Communities Agency (HCA).

Objectives and strategy

This was the final year of our five-year strategic plan. We achieved the majority of the measurable outcomes set out in the plan, with a small number of follow-on actions carried forward into our new plan for 2016-2020. Headline achievements during the five years included:

- Overall resident satisfaction – our target was to be an upper-quartile performer in terms of resident satisfaction by 2016. Based on the upper quartile for our peer group at the time, a target of 83% was set. We achieved 82.3% in 2016.

- Development – the target was to deliver the programme agreed with the Homes and Communities Agency for the period to March 2015, which was achieved. A further 307 dwellings of all tenures were completed in 2016/17.

- Average void turnaround – the target was to reduce the average void re-let time to 18 days from 26 days. We have achieved 17 days.

- Rent arrears – the target was to be in the upper quartile for rent arrears. At March 2016 they were 1.6%, which is in the top quartile (2014/15 HouseMark data).

- Best Companies – the target was to achieve a The Sunday Times Best Companies one-star award in the 2015 rankings. This was achieved. We were awarded a Best Companies two-star rating and were in the Top 100 not-for-profit companies to work for in 2015 and 2016.

- Social Return on Investment (SROI) – the target was to develop a framework for measuring SROI. This has been developed through our charitable Foundation, and social value is reported each year in the value for money self-assessment.

- Investors in People – the target was to achieve re-accreditation. This was achieved.

- The Institute of Customer Service (ICS) – the target was to maintain our ICS accreditation. This was achieved. We successfully retained the ICS ServiceMark accreditation for customer excellence in August 2015, being the first housing association to achieve re-accreditation.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

Objectives and strategy (continued)

- Standard Assessment Procedure (SAP) rating of homes – the target was for all homes to have a minimum SAP rating of 50 by 2016. Good progress has been made against this target. By March 2016 the majority of the dwellings identified as having a SAP rating below 50 in 2013 had a SAP rating above 50. There was a clear plan for the small number of dwellings which remained to be dealt with.

- Employment of local people – the target was to employ 20% of the regeneration workforce from the local area (within a 15-mile radius of the site). This was achieved. Employment of local staff by contractors has consistently exceeded target. A similar target was set for Countrywise Repairs (within 20 miles of the local delivery area). At March 2016 they were at 85%.

- Apprenticeships – the target was to create 20 apprenticeships on regeneration schemes by 2016. The target was achieved. To date we have created 28 apprenticeship placements with 12 apprenticeships currently in place across all schemes. Countrywise Repairs were to employ two NVQ2 trade apprentices per annum from 1 April 2013. This has been achieved, and all employees have achieved NVQ2.

- Homes for older people – the target was to provide an additional 100 homes for older people by 2015. This was achieved, with 147 new homes for older people included in the 2011-2015 Affordable Housing Programme. All 147 new homes across four schemes were completed with handover taking place between January and October 2015.

- Governance – the target was to introduce a new governance structure, including resident scrutiny by April 2014. This was achieved by introducing the new structure in August 2013, including a new Resident Scrutiny Panel. The Scrutiny Panel is now well established. The panel undertakes in-depth service reviews and reports the findings and recommendations directly to the Group Board. The panel is supported by an independent chair ensuring a structured, independent scrutiny process.

Our new strategic plan for the period 2016-2020 has the following key objectives:

- Viability – continued viability, innovation, efficiency and financial capacity. We aim to:
  - maintain our financial strength and resilience
  - deliver efficiency and value for money through innovation in all we do
  - maximise financial capacity for reinvestment in services and new homes

- Growth and asset investment. We aim to:
  - achieve sustainable growth from the delivery of new homes and new forms of home ownership
  - at least maintain the total number of social rented homes we own (notwithstanding the voluntary right to buy)

- Customers – keeping residents at the heart of our business. We aim to:
  - be an excellent landlord
  - deliver efficient, excellent core services
  - listen to the views of our residents

- Leadership – effective governance, leadership and people. We aim to:
  - provide excellent governance and leadership
  - be the local employer of choice
  - attract and retain the best talent to deliver our outcomes

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

Objectives and strategy (continued)

- Support – for the most vulnerable in our homes. We aim to:
  - provide appropriate support for those most vulnerable in our homes

We have set measurable targets against each of these objectives. We ensure that the ‘golden thread’ of strategy flows from the strategic plan, through the annual delivery plans into team plans and individual targets.

Risk and uncertainty

The Group Board reviews its risk appetite at least annually. The main risks that may prevent the Group achieving its objectives are considered and reviewed regularly by the senior management team and Board. The risks are recorded and assessed in terms of their impact and likelihood. Major risks, presenting the greatest threats to the Group, are reported to the Board half-yearly and the Audit Committee four times a year. These reports include an assessment of key controls used to manage and mitigate the risks, and any further work required, with timescales and persons responsible. The major risks are organised within eight overarching themes as follows:

- Financial risk
- Governance failure
- People management
- Initiative overload
- Resident expectations
- Partnership risk and strategic contractors
- Legislative and regulatory risk
- External events

In common with the sector generally, we have identified the Government’s welfare reform programme as the most significant risk which we face. We have placed a great deal of emphasis on the introduction of a range of measures to mitigate this risk.

We have agreed to participate in the new ‘Voluntary Right to Buy’. This will apply in principle to those of our social and affordable tenants who do not already qualify for the Preserved Right to Buy. We will keep potential risks under review as full details of the scheme emerge. On the basis of current assumptions, we expect to be able to replace each home sold with an equivalent tenure (in line with our strategic objective to at least maintain the number of rented homes we own).

Financial position

Accounting policies

The Group’s principal accounting policies are set out on pages 25-32 of the financial statements.

Housing properties

Independent professional valuers were appointed to assess the value of the Group’s property portfolio as at 31 March 2016, for the purposes of loan covenants. The total value of the Group’s completed housing stock is £683m with an additional sum of £12m, attributable to properties under construction, giving a total housing stock figure of £695m.

Group investment in housing properties was funded through a mix of Social Housing Grant, loan finance and working capital.

Pension liability

The pension deficit at 31 March 2016 is £5.2m, a reduction of £1.4m on the previous year’s deficit principally due to a higher discount rate used in valuing the fund liabilities.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

Group borrowings and treasury policy

The Group's loan facilities of £410m are provided by Nationwide Building Society and Co-operative Bank in syndicate, Dexia Credit Local and Barclays Bank PLC. A further £80m is available from a bond issued by TCHG Capital PLC. The Group had loans and bond drawn of £445m at 31 March 2016, of which £51m was held by TCHG Capital PLC pending drawdown by TCHG. This left £96m available to be drawn by TCHG for future developments and regeneration activities.

The Group reduced its borrowings by £5m during the year. Sales proceeds and free cash flow were adequate to meet development costs. The Company reduced its borrowings by £21m, with an increase of £16m in the sum held by TCHG Capital PLC under the revolving facility, pending drawdown by TCHG.

The average interest rate for the year was 3.82% (2015: 3.89%). In March 2016, we paid £4.2m to break some long-term (embedded) fixed rates. We then re-fixed at prevailing market rates. This will reduce our interest costs in 2017 and succeeding years by £758k per annum.

The Group finances its operations through a mixture of retained surplus and debt. The Group borrows at both fixed and floating rates of interest. It does not borrow in foreign currencies. The Group's policy is to keep between 70% and 90% of its net borrowings at fixed rates of interest. At 31 March, 76.5% of the Group's net borrowings were at fixed rates.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. The Group's policy is that no more than 10% of fixed rates should mature in any one year.

The Group ensures that it always has sufficient undrawn funds to meet its commitments, plus a margin of safety, 24 months hence.

The current availability of funds is referred to above and greatly exceeds this target. The undrawn bank facilities are revolving credit facilities, allowing the Group to manage short-term cash requirements effectively. The Company's loan facility with TCHG Capital under which it draws down the bond monies is also a revolving facility. In addition, TCHG has a small overdraft facility.

Credit rating

In common with most Registered Providers, the Group's rating from Standard & Poor's Ratings Services was revised to A+ with stable outlook in July 2016. This downgrading from the previous AA- with stable outlook (which had been reaffirmed in January 2016) was solely and directly linked to the downgrading of the UK Government. Our rating had hitherto enjoyed an upgrade from our 'Stand-Alone Credit Profile' because of the assumption that the Government would offer extraordinary support in a default situation. The downgrading of the Government saw our grade reduced to the Stand-Alone Credit Profile grade.

Material estimates

In preparing the financial statements, the Group has made a number of estimates and judgements. The significant estimates and judgements are set out in Note 3.

Cash flow

Cash inflow and outflow during the year is shown in the consolidated statement of cash flows on page 24. The cash flow highlights the strong net operational inflows from which the interest cost is paid, with the balance being invested in development and capital maintenance programmes, and debt reduction.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

Value for money self-assessment 2015/16

Introduction

Achieving value for money has remained a priority for Town and Country, and recent changes in the operating environment have confirmed the need for us to make further significant efficiencies. The year 2015/16 saw various government announcements that will impact on our income, including a 1% annual reduction in rents over the next four years and continued welfare reforms, which will result in reduced income for many of our customers.

In response to the changes, we identified further efficiency savings to reduce our costs and at the same time maintain core services and continue to meet our objectives.

Our main drivers of value for money have been:

- **Use of technology** – both to improve service and reduce cost
- **Further rationalisation of our stock** – to reduce our housing management costs by having a less dispersed stock
- **Staffing efficiencies** – resulting from staff restructuring and use of IT systems

During 2016/17 we will be continuing with these themes and will also be preparing to roll out a new model for the responsive repairs service in order to deliver economies of scale and improve service quality.

This is a summary of the value for money self-assessment. The full version is available on our website (www.tchg.org.uk/vfm).

How do our costs compare with other providers?

Our overall management costs and the majority of costs for specific services continue to be lower than the average for housing associations in our peer group, which covers London and the South-East. For example, in 2014/15 our management cost per social housing unit was £1,139 compared to the peer group average of £1,175[1], and our housing management cost per property was £480.98 compared to the peer group average of £557.70[2]. (The 2014/15 costs are the latest figures available for benchmarking purposes.)

[1] Source: 2014/15 Global Accounts, Homes and Communities Agency
[2] Source: HouseMark benchmarking club 2014/15

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

Value for money self-assessment 2015/16 (continued)

How do our costs compare with other providers? (continued)

We have continued to perform well in our core landlord functions such as rent collection, re-letting empty homes and maintenance. In 2015/16 we achieved significant increases in customer satisfaction for both the repairs service and our overall services as can be seen from the following table, which is based on sector standard definitions:

Key Performance Indicators	TCHG 2014/15	TCHG 2015/16	Target 2015/16	Peer Group Median 2014/15
Rent arrears of current tenants as % of rent due	1.8%	1.6%	2.2%	2.4%
Rent collected	100.1%	99.5%	99.2%	99.8%
Average time taken to re-let empty homes	17 days	17 days	18 days	25 days
Average time to close ASB cases	51 days	44 days	55 days	89 days
ASB cases resolved	97.7%	99.1%	98.1%	89.6%
Homes that meet the Decent Homes standard	100%	100%	100%	100%
Homes with a valid Gas Safety Certificate	100%	100%	100%	100%
Repairs completed on the first visit	94%	91%	90.0%	91%
Tenants satisfied with the repairs service	88%	94%	94%	90%
Tenants satisfied with planned maintenance	89%	91%	94%	-
Tenants satisfied with overall service	75%	82%	83%	82%
Tenants satisfied with how we dealt with their last enquiry	90%	90%	84%	No data

Return on assets

Financial returns – during 2015/16 our operating surplus increased to £30.2m, and this enabled us to achieve a healthy overall return on assets of 7.2% (including property sales), which compares well with the average for our peer group (5.3%)[3].

During 2015/16 we updated our Net Present Value (NPV) analysis of our stock to reflect the 1% rent reductions over the next four years. The position remains that all of our properties apart from nine have a positive NPV over a 30-year period. The nine properties are all in one block, and we are working with the managing agent to consider options for the block. In the meantime, we have negotiated an increase in our share of the income from the block which has improved the NPV by 35%.

[3] Source: Global Accounts 2014/15, Homes and Communities Agency

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

Value for money self-assessment 2015/16 (continued)

Social returns – we have continued to generate social value through our various activities, and some of the highlights from 2015/16 were:

- We built 155 affordable homes for rent and 32 shared ownership properties, which we estimate generated £6.11 of social value for every £1 of grant received (this is based on factors such as the additional tax revenue and benefit savings resulting from the creation of construction jobs).
- The Foundation helped community groups leverage in £1.4m of external funding for community projects.
- We continued to invest in learning, skills and employment activities, and for every £1 invested we estimate that this generated £11 in social value[4].

Efficiency gains achieved in 2015/16

In 2015/16 we were able to exceed our efficiency target of £741k by achieving efficiencies of £1.02m. Although some of the efficiencies we were expecting did not materialise or were lower than expected, we were able to find other efficiencies in order to exceed the overall target. Some of the efficiencies were:

- We moved our estate inspections from a paper-based system to a web-based one and saved £63,000.
- We merged Town and Country Living into our main Group structure and saved £61,000.
- We saved £386,000 on the costs of external decorating by using a more cost-effective contractor.
- We saved £58,000 due to a more efficient lift maintenance contract and our joint venture contractor, Countrywise, carrying out electrical testing in the East Kent area.
- We continued to sell some of our new homes by using our own staff instead of external agents, and this saved £147,000.
- We restructured our senior management team, and this saved £150,000.

Our efficiency targets and priorities for 2016/17

Our efficiency savings target for 2016/17 is £826k, and some of the ways we will deliver these savings are:

- Staffing reductions resulting from redesigning services, including support services, and adding functions to the Customer Relationship Management system, e.g. complaints management and defects management.
- Efficiencies from greater use of IT, including extending the use of mobile working, increasing customer take-up of online facilities such as My Home Online and the automated rent payment line and the further promotion of direct debits and online payments.
- Budget reductions as a result of redesigning our approach to customer engagement, e.g. using informal methods such as online consultation instead of formal customer involvement events.

[4] Calculations based on the methodology developed by the Housing Associations' Charitable Trust

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2016

Going concern

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

Equal opportunities

The Group ensures that in all of its activities it does not allow unlawful discrimination. It also promotes equality of opportunity and treatment for all sections of the community. In particular, the Group recognises its responsibility to persons with special needs and has set standards within its development and housing management programmes and employment policies to ensure that such needs can be readily met.

Health and safety

The Chief Executive provides an annual health and safety report to the Group’s Board and an update at each meeting. The health and safety of the Group’s employees and tenants is paramount to the Board. The Group’s policy is to provide and maintain safe and healthy working conditions, housing, equipment and systems of work for all those connected with the organisation and to provide such information, training and supervision as is needed for this purpose. There have been no material health and safety breaches in the year.

Statement of compliance

In preparing this strategic report, the Board has followed the principles as set out in the SORP: Accounting by Registered Social Housing Providers (update 2014).

Approved by the Board and signed on its behalf by:

Francis Salway
Chair
27 July 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOWN AND COUNTRY HOUSING GROUP

We have audited the financial statements of TCHG for the year ended 31 March 2016 which comprise the Consolidated and Company Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated and Company Statement of Changes in Equity and Reserves and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including the Financial Reporting Standard 102 applicable in the UK and the Republic of Ireland.

This report is made solely to TCHG's members, as a body, in accordance with the requirements of statute. Our audit work has been undertaken so that we might state to TCHG'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 TCHG and TCHG's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and the auditor
As explained more fully in the statement of Board's responsibilities set out on pages 5 and 6, the Board is responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion, the financial statements:

- give a true and fair view of the state of TCHG's affairs as at 31 March 2016 and of its result for the year then ended; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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

- a satisfactory system of control over transactions has not been maintained; or
- TCHG has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

Date:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (INCOME AND EXPENDITURE ACCOUNT)

GROUP

	Note	2016 £'000	2015 £'000
Turnover	4	70,694	69,266
Operating expenditure	4	(40,517)	(40,066)
Operating surplus		30,177	29,200
Gain on disposal of property, plant and equipment	5	3,500	214
Interest receivable	6	144	102
Interest and financing costs	7	(18,341)	(18,714)
Change in fair value of financial instruments		-	(26,391)
Gain on revaluation of investment properties	12	1,375	1,058
Surplus/(deficit) before tax		16,855	(14,531)
Tax	10	(381)	(69)
Non-controlling interest		(52)	(135)
Surplus/(deficit) for the year		16,422	(14,735)
Actuarial gain/(loss) in respect of pension schemes	27	1,602	(2,145)
Total comprehensive income/(expenditure) for the year		18,024	(16,880)

COMPANY STATEMENT OF COMPREHENSIVE INCOME (INCOME AND EXPENDITURE ACCOUNT)

COMPANY

	Note	2016 £'000	2015 £'000
Turnover	4	65,781	60,845
Operating expenditure	4	(37,131)	(34,513)
Other income		-	17,541
Operating surplus		28,650	43,873
Gain on disposal of property, plant and equipment	5	3,500	118
Interest receivable	6	555	304
Interest and financing costs	7	(18,237)	(17,547)
Change in fair value of financial instruments		-	(26,391)
Gain on revaluation of investment properties	12	1,375	-
Surplus before tax		15,843	357
Tax	10	(355)	-
Surplus for the year		15,488	357
Actuarial gain/(loss) in respect of pension schemes	27	1,602	(2,145)
Total comprehensive income/(expenditure) for the year		17,090	(1,788)

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STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	Note	Group		Company	
		2016 **£'000**	**2015** **£'000**	**2016** **£'000**	**2015** **£'000**
Fixed assets					
Housing properties	11	785,738	789,162	786,545	790,267
Investment properties	12	19,645	18,270	19,645	18,270
Other property, plant and equipment	13	2,278	2,522	2,278	2,522
Intangible assets	14	566	708	566	708
Fixed asset investment	15	-	-	102	102
		808,227	810,662	809,136	811,869
Current assets					
Properties for sale	19	4,820	8,270	2,088	3,555
Debtors	20	5,412	5,903	10,702	10,313
Current asset investments	16	34,329	20,764	-	-
Cash at bank and in hand	18	19,204	20,910	1,660	6,101
		63,765	55,847	14,450	19,969
Creditors: amounts falling due within one year	21	(25,204)	(28,628)	(26,901)	(27,237)
Net current assets/(liabilities)		38,561	27,219	(12,451)	(7,268)
Total assets less current liabilities		846,788	837,881	796,685	804,601
Creditors: amounts falling due after more than one year	22	489,885	497,494	438,881	462,490
Defined benefit pension liability	27	5,191	6,588	5,191	6,588
Long-term liabilities		495,076	504,082	444,072	469,078
Capital and reserves					
Revaluation reserve		206,168	206,168	189,485	189,485
Revenue reserve		143,181	125,562	160,983	144,298
Designated reserve		2,145	1,740	2,145	1,740
Non-controlling interest		218	329	-	-
Capital and reserves		351,712	333,799	352,613	335,523
Capital and reserves and long-term liabilities		846,788	837,881	796,685	804,601

These financial statements were approved by the Board and signed on its behalf on 27 July 2016 by:

Francis Salway	Robert Heapy	Robin Tebbutt
Chair	Chief Executive	Company Secretary

STATEMENT OF CHANGES IN EQUITY AND RESERVES

GROUP

	Revenue Reserve £'000	Revaluation Reserve £'000	Designated Reserve £'000	Non-controlling interest £'000	Total £'000
At 1 April 2015	125,562	206,168	1,740	329	333,799
Surplus for the year	16,422	-	-	-	16,422
Surplus and dividends attributable to non-controlling interest	-	-	-	(111)	(111)
Actuarial gain in respect of pension schemes	1,602	-	-	-	1,602
Transfer from revenue reserve to designated reserve	(405)	-	405	-	-
At 31 March 2016	143,181	206,168	2,145	218	351,712

COMPANY

	Revenue Reserve £'000	Revaluation Reserve £'000	Designated Reserve £'000	Non-controlling interest £'000	Total £'000
At 1 April 2015	144,298	189,485	1,740	-	335,523
Surplus for the year	15,488	-	-	-	15,488
Actuarial gain in respect of pension schemes	1,602	-	-	-	1,602
Transfer from revenue reserve to designated reserve	(405)	-	405	-	-
At 31 March 2016	160,983	189,485	2,145	-	352,613

STATEMENT OF CHANGES IN EQUITY AND RESERVES

GROUP

	Revenue Reserve £'000	Revaluation Reserve £'000	Designated Reserve £'000	Non-controlling interest £'000	Total £'000
At 1 April 2014	142,847	206,168	1,335	217	350,567
Deficit for the year	(14,735)	-	-	-	(14,735)
Surplus and dividends attributable to non-controlling interest	-	-	-	112	112
Actuarial loss in respect of pension schemes	(2,145)	-	-	-	(2,145)
Transfer from revenue reserve to designated reserve	(405)	-	405	-	-
At 31 March 2015	125,562	206,168	1,740	329	333,799

COMPANY

	Revenue Reserve £'000	Revaluation Reserve £'000	Designated Reserve £'000	Non-controlling interest £'000	Total £'000
At 1 April 2014	146,491	189,485	1,335	-	337,311
Surplus for the year	357	-	-	-	357
Actuarial loss in respect of pension schemes	(2,145)	-	-	-	(2,145)
Transfer from revenue reserve to designated reserve	(405)	-	405	-	-
At 31 March 2015	144,298	189,485	1,740	-	335,523

CONSOLIDATED STATEMENT OF CASH FLOWS

GROUP

	Note	2016 £'000	2015 £'000
Net cash generated from operating activities	31	**38,783**	**33,686**
Cash flows from investing activities			
Purchase of fixed assets – housing properties		(19,857)	(44,995)
Purchase of fixed assets – other		(324)	(1,133)
Proceeds from sale of fixed assets – housing properties		16,975	3,369
Grants received		3,024	6,579
Investment in gilts		(13,565)	(20,764)
Net cash flows from investing activities		**(13,747)**	**(56,944)**
Cash flows from financing activities			
Interest paid		(22,256)	(16,708)
Interest received		144	98
New loans		5,000	90,000
Repayments of borrowings		(9,561)	(34,386)
Taxation		(69)	(114)
Net cash flows from financing activities		**(26,742)**	**38,890**
Net (decrease)/increase in cash and cash equivalents		**(1,706)**	**15,632**
Cash and cash equivalents at beginning of year		20,910	5,278
Cash and cash equivalents at end of year		**19,204**	**20,910**

NOTES TO THE FINANCIAL STATEMENTS

1. Legal status

Town and Country Housing Group consists of:

- Town and Country Housing Group, the Company which is a registered provider of social housing (RP). The Company is registered with the Homes and Communities Agency and with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014.
- TCHG Foundation, a registered charity.
- Monson Homes Limited, a wholly owned commercial subsidiary.
- TCHG Capital PLC, a special-purpose funding vehicle.
- Countrywise Repairs Limited, a 51%-owned commercial maintenance company.
- TCHG Living Limited (dormant).

2. Accounting policies

General information and basis of accounting
The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with Financial Reporting Standard 102 (FRS 102) “The Financial Reporting Standard applicable to the United Kingdom and Republic of Ireland”. They comply with the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. TCHG is a public benefit entity, as defined in FRS 102, and applies the relevant paragraphs prefixed ‘PBE’ in FRS 102.

Statement of compliance
This is the first year the Group has prepared its financial statements in accordance with FRS 102; accordingly the financial information as at 1 April 2014 (being the date of transition) and for the year ended 31 March 2015 have been restated for material adjustments on adoption of FRS 102 in the current year. For more information, see note 37.

In preparing the financial statements for the Group, advantage has been taken of the FRS 102 disclosure exemption of not preparing a statement of cash flows for the Company.

Basis of consolidation
The Group financial statements consolidate the financial statements of TCHG and all its subsidiaries at 31 March 2016 using the purchase method (acquisition accounting). Any non-controlling interest is shown in the statement of comprehensive income and the statement of financial position based on the Group’s share of net assets and surpluses for the year. Intra-group transactions are eliminated on consolidation.

Turnover
Income is measured at the fair value of the consideration received or receivable.

The Group generates the following material income streams:

- Rental and service charge income
- First tranche sales of shared ownership properties
- Income from properties built for sale
- Supporting People income
- Amortisation of government grants

Rental income is recognised from the point when the properties under development reach practical completion or otherwise become available for letting. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Revenue grants are recognised when the conditions for receipt of grant funding have been met. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with administering authorities.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Other income
Other income is measured at the fair value of the consideration received or receivable.

Transfers of engagements are treated as if they were gifts with the fair value of the net assets transferred recorded as income and other income.

Investment properties
The classification of properties as investment property or property, plant and equipment is based upon the intended use of the property. Properties held to earn commercial rentals or for capital appreciation or both are classified as investment properties. Properties that are used for administrative purposes or that are held for the provision of social housing are treated as property, plant and equipment. Mixed-use property is split between investment property and property, plant and equipment.

Investment properties are measured at fair value annually with any change recognised in surplus or deficit in the statement of comprehensive income.

Housing properties
Housing properties are split between the land, structure and those major components which require periodic replacement. Replacement of components is capitalised and depreciated over the estimated useful life, which has been set taking into account professional advice, the Group's asset management strategy and the requirements of the 'Decent Homes standard'.

The Group changed its accounting policy from recording housing properties at valuation to being at historic cost. The Group has taken the transition option to measure its housing properties at fair value and use that fair value as the deemed cost of those assets at the transition date of 1 April 2014. The fair value of housing properties is the existing use value – social housing (EUV-SH) valuation prepared by an independent surveyor. The EUV-SH valuation incorporates amounts potentially realisable from a sale of stock to one or more registered providers in multiple lots designed to maximise the sale price.

Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of capital improvements, as well as directly incremental overhead costs and staff time associated with new developments, improvements and component works.

Major components of housing properties, which have significantly different patterns of consumption of economic benefits, are treated as separate assets and depreciated over their expected useful lives at the following annual rates:

Component	**Useful life**
Structure	135 years
Roof	60 years
Bathroom	30 years
Windows and doors	35 years
Kitchen	20 years
Heating system: boiler	15 years
Lift	30 years

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

Where there are improvements to housing properties that are expected to provide incremental future benefits, these are capitalised and added to the carrying amount of the property. Any residual amounts from replaced components are written off and charged as expenditure to the statement of comprehensive income. Any works to housing properties which do not replace a component or result in an incremental future benefit are charged as expenditure in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Leaseholders
Where the rights and obligations for improving a housing property reside with the leaseholder or tenant, any works to improve such properties incurred by the Group is recharged to the leaseholder and recognised in surplus or deficit in the statement of comprehensive income along with the corresponding income from the leaseholder or tenants.

Depreciation of housing properties
Freehold land is not depreciated. Depreciation of housing properties is charged so as to write down their net book value to the estimated residual value, on a straight-line basis, over their estimated useful lives in the business.

Impairment of fixed assets – housing properties
The Group's housing properties are assessed for impairment at each reporting date. Where indicators are identified, then an assessment is undertaken to compare the carrying amount of assets or cash-generating units for which impairment is indicated to their recoverable amounts. An exercise is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sales proceeds are obtained to inform the options. The Group looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of the impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell or the value in use of an asset or cash-generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash-generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use.

The Group defines cash-generating units as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger cash-generating units. Where the recoverable amount of an asset or cash-generating unit is lower than its carrying value, impairment is recorded through a charge to the statement of comprehensive income.

Properties for outright sale
Completed properties for outright sale and properties under construction are carried at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises material, direct labour and direct development overheads.

Shared ownership property sales
Shared ownership properties, including those under construction, are split between non-current assets and current assets. The split is determined by the percentage of the property to be sold under the first tranche disposal, which is shown on initial recognition as a current asset, with the remainder classified as a non-current asset within property, plant and equipment. Where this would result in a surplus on the disposal of the current asset that would exceed the anticipated overall surplus, the surplus on disposal of the first tranche is limited to the overall surplus by adjusting the costs allocated to the first tranche.

Proceeds from first tranche disposals are accounted for as turnover in the statement of comprehensive income of the period in which the disposal occurs, and the cost of sale is transferred from current assets to operating costs. Proceeds from subsequent tranche sales are treated as disposals of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Social Housing Grant and other government grants
Where grants are received from government agencies such as the HCA, local authorities, devolved government agencies, health authorities and the European Commission which meet the definition of government grants, they are recognised when there is reasonable assurance that the conditions attached to them will be complied with and that the grant will be received.

Where grants are received for housing properties, once the property reaches practical completion, the grant is recognised in income evenly over the expected useful life of the property structure.

Grants received from non-government sources are recognised as revenue using the performance model.

Recycling of grants
Where there is a requirement to either repay or recycle a grant received for an asset that has been disposed of, a provision is included in the statement of financial position to recognise this obligation as a liability. When approval is received from the funding body to use the grant for a specific development, the amount previously recognised as a provision for the recycling of the grant is reclassified as a creditor in the statement of financial position.

For shared ownership staircasing sales, when full staircasing has not taken place, the recycling of the grant may be deferred if the net sales proceeds are insufficient to meet the grant obligation relating to the disposal. On subsequent staircasing sales, the requirement to recycle the grant becomes an obligation if sufficient sales proceeds are generated to meet the obligation and a provision is recognised at this point. On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, any unamortised grant remaining within liabilities in the statement of financial position related to this asset is de-recognised as a liability and recognised as revenue in surplus or deficit in the statement of comprehensive income.

Disposal proceeds fund (DPF)
The net proceeds on the sale of the properties made under Right to Acquire and Social HomeBuy are required to be credited to a disposal proceeds fund under the terms of the Social Housing Grant originally paid on such properties. Within the terms defined by the HCA, the fund is to be used to provide replacement properties for rent.

Financial instruments
Financial liabilities that are classified as “basic financing transactions” in accordance with FRS 102 are initially recorded at the present value of future payments discounted at a market rate of interest. These are then subsequently measured at amortised cost.

Section 11 of FRS 102 sets out requirements for financial instruments to be classified as either basic or other, with potentially very different accounting treatments depending on that classification. One of FRS 102’s requirements for a financial instrument to be classified as basic is that any contractual provision which permits early repayment should not, by its terms, result in the lender losing any of the principal or any interest attributable to the period up to the date of early repayment.

The Group’s loans include provisions which permit early repayment but require compensation to be paid. This compensation is calculated by reference to the ‘breakage cost’ for fixed rates entered into under the terms of the loan agreements. Where prevailing rates are higher than the fixed rate, the lender will gain from the repayment, and compensation equivalent to that gain is payable by the lender to the Group. Where prevailing rates are lower, the lender will lose from the repayment, and the compensation will be payable by the Group to the lender.

FRS 102 specifies that a loan can still be basic if compensation is payable in these circumstances by the borrower to the lender but is silent about whether a loan could be basic in circumstances where the compensation could alternatively be receivable by the borrower. It has been suggested that the possibility of negative compensation might breach the requirement for the lender not to lose any of the principal.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Financial instruments (continued)

In the Group's view, FRS 102's requirements are most appropriately interpreted as allowing compensation to be payable in either direction, and therefore the requirement for the lender not to lose principal is not breached. As a result, the Group has classified all of the affected loans as basic. However, the Group is aware that classification in these circumstances is presently under discussion within the Financial Reporting Council, and therefore that classification may need to be revisited in future years if further clarification is published.

Financial instruments that are substantially modified are de-recognised and re-recognised at fair value. A substantial modification occurs when the discounted cash flows of the modified instrument differ by 10% or more from the existing discounted cash flows. A financial liability is otherwise de-recognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Financial assets
Investments in UK gilts are initially and subsequently measured at fair value.

Other financial assets are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

If there is objective evidence that there is an impairment loss, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced accordingly.

A financial asset is de-recognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities
Financial liabilities that are categorised as 'other' financial instruments under FRS 102 are initially and subsequently recognised at fair value.

Financial liabilities that are categorised as 'basic' financial instruments under FRS 102 are initially recorded at the present value of future payments discounted at a market rate of interest. These are then subsequently measured at amortised cost.

Interest payable
Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are calculated using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument and is determined on the basis of the carrying amount of the financial liability at initial recognition. Under the effective interest method, the amortised cost of a financial liability is the present value of future cash payments discounted at the effective interest rate, and the interest expense in a period equals the carrying amount of the financial liability at the beginning of a period multiplied by the effective interest rate for the period.

Interest is capitalised on borrowings to finance developments to the extent that it accrues in respect of the period of development.

The arrangement fees and legal costs incurred in connection with loan facilities and bond finance have been capitalised as part of loan issue costs and will be amortised over the term of the facilities or until there is a significant event that would require immediate expensing.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Intangible assets
Intangible assets are stated at historic cost or valuation, less accumulated amortisation and any provision for impairment. Amortisation is provided on all intangible assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life, as follows:

Computer software	3 years

Non-housing property, plant and equipment
Non-housing property, plant and equipment is stated at historic cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all non-housing property, plant and equipment, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold offices	50 years
Community centre	50 years
Computer equipment	3 years
Office equipment and fixtures	5 years

Leased assets
At inception, the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Operating leased assets
Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to surplus or deficit in the statement of comprehensive income on a straight-line basis over the period of the lease.

Investments
Investments that are publicly traded or whose fair value can be measured reliably are measured at fair value with changes in fair value recognised in surplus or deficit in the statement of comprehensive income. Other investments are measured at amortised cost less impairment.

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

Recoverable amount of rental and other trade receivables
The Group estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair, it reviews the age profile of the debt, historical collection rates and the class of debt.

Pensions
Local Government Pension Scheme
The Group contributes to the Kent County Council Superannuation Scheme, a defined benefit final salary scheme. The assets of the scheme are invested and managed independently of the finances of the Group in respect of existing staff in the scheme.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Pensions (continued)
Although this is a multi-employer scheme, it is possible for individual employers as admitted bodies to identify their share of the assets and liabilities of the pension scheme. For this scheme the amounts charged to operating surplus are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to revenue and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate Trustee-administered funds. Pension scheme assets are measured at fair value, and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each statement of financial position date.

The Group closed membership of this scheme to new joiners during 2002/03.

Defined contribution scheme
The closure of the defined benefit final salary scheme to new joiners resulted in the Group entering into an arrangement with Aviva to provide those employees with a stakeholder pension scheme. This is a defined contribution scheme where the amount charged to surplus or deficit in the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date. Timing differences are differences between the Group's taxable surpluses and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable surpluses from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date that are expected to apply to the reversal of the timing difference.

Service charge sinking funds and service costs
Unutilised contributions to service charge sinking funds and over-recovery of service costs which are repayable to tenants or leaseholders or are intended to be reflected in reductions to future service charge contributions are recognised as a liability in the statement of financial position. The amount included in liabilities in respect of service charge sinking funds includes interest credited to the fund. Where there has been an under-recovery of leaseholders' or tenants' variable service charges and recovery of the outstanding balance is virtually certain, the balance is recognised in the statement of financial position as a trade receivable. Debit and credit balances on individual schemes are not aggregated as there is no right of set-off.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Designated reserves
The Group has established a designated reserve for the future buy-out debt costs from a local government defined benefit pension scheme. Annual transfers are made to the reserve from revenue reserves to establish a reserve sufficient to meet the future buy-out debt cost.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible (within three months) into known amounts of cash and are subject to an insignificant risk of changes in value.

Value-added tax (VAT)
The Group charges VAT on some of its income and is able to recover part of the VAT (partial recovery) it incurs on expenditure. VAT is recognised as a cost to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. Income is recorded net of VAT and expenditure is recorded with VAT included; any partial recovery of VAT is recorded in income.

The balance of VAT payable or recoverable at the year-end is included as a current liability or current asset.

3. Significant management judgements and key sources of estimation uncertainty

Significant management judgements
The following are management judgements in applying the accounting policies of the Group that have the most significant effect on the amounts recognised in the financial statements.

Whether there are any indicators of impairment of social housing properties
Factors taken into account when reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit. The Group has considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH valuation or depreciated replacement cost. The Group has also considered impairment based on assumptions defining cash generating units.

Estimation uncertainty
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Fair value measurement
Management uses valuation techniques to determine the fair value of assets and liabilities. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management base the assumptions on observable data as far as possible, but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual process that would be achievable in an arm’s length transaction at the reporting date.

Provisions
Provision is made for dilapidations and redundancy costs. These provisions require management’s best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management’s judgement.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant management judgements and key sources of estimation uncertainty (continued)

Bad debt provision on rent arrears
The Group makes a bad debt provision on rent arrears according to the age of the debt. A significant proportion of rent arrears are attributable to tenants on social rents where the Group estimates that their income will not support the repayment of a major debt. The Group therefore uses a provision basis which increases as the age profile of the debt grows up to a 100% provision for debts of 41 weeks or more.

Defined benefit pension scheme
The Group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors (with advice from independent actuaries) in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

Fixed assets housing properties – useful lives
Housing property assets are broken down into components based on management's assessment of the properties. Individual useful lives are assigned to these components based upon a management assessment and after considering advice from independent surveyors.

Amortisation of government grants
Government grant is amortised over the useful life of the property's structure, which is based upon a management assessment and after considering advice from independent surveyors.

Allocation of costs of shared ownership schemes
Shared ownership construction costs are allocated on a floor area or unit basis depending upon the appropriateness of the scheme.

Properties for sale – selling prices
Estimated selling prices are set using management's experience of the local market supplemented by advice from independent surveyors.

NOTES TO THE FINANCIAL STATEMENTS

4a. Turnover, operating expenditure and operating surplus

GROUP

	Turnover 2016 £'000	Operating expenditure 2016 £'000	Operating surplus/ (deficit) 2016 £'000
Social housing lettings	55,357	(29,393)	25,964
Other social housing activities			
Current asset property sales	7,201	(5,366)	1,835
Charges for support services	195	(195)	-
	62,753	(34,954)	27,799
Activities other than social housing			
Lettings	1,230	(501)	729
Property sales	6,421	(4,869)	1,552
Other	290	(193)	97
	70,694	(40,517)	30,177

COMPANY

	Turnover 2016 £'000	Operating expenditure 2016 £'000	Operating surplus/ (deficit) 2016 £'000
Social housing lettings	55,359	(29,879)	25,480
Other social housing activities			
Current asset property sales	7,201	(5,366)	1,835
Charges for support services	195	(195)	-
Income from subsidiaries	229	-	229
	62,984	(35,440)	27,544
Activities other than social housing			
Lettings	1,230	(539)	691
Development	608	(1,152)	(544)
Gift Aid	722	-	722
Other	237	-	237
	65,781	(37,131)	28,650

NOTES TO THE FINANCIAL STATEMENTS

4a. Turnover, operating expenditure and operating surplus (continued)

GROUP	Turnover 2015 £'000	Operating expenditure 2015 £'000	Operating surplus/ (deficit) 2015 £'000
Social housing lettings	51,796	(28,861)	22,935
Other social housing activities			
Current asset property sales	5,732	(4,401)	1,331
Charges for support services	197	(197)	-
	57,725	(33,459)	24,266
Activities other than social housing activities			
Lettings	1,226	(697)	529
Property sales	10,012	(5,663)	4,349
Other	303	(247)	56
	69,266	(40,066)	29,200

COMPANY	Turnover & other income 2015 £'000	Operating expenditure 2015 £'000	Operating surplus/ (deficit) 2015 £'000
Turnover – social housing lettings	49,709	(29,151)	20,558
Turnover – other social housing activities			
Current asset property sales	5,732	(4,401)	1,331
Charges for support services	197	(197)	-
Income from subsidiaries	537	-	537
Other income			
Exceptional item: transfer of TCHG Living	17,541	-	17,541
	73,716	(33,749)	39,967
Non-social housing activities			
Lettings	254	(37)	217
Development	610	(727)	(117)
Gift Aid	3,540	-	3,540
Other	266	-	266
	78,386	(34,513)	43,873

NOTES TO THE FINANCIAL STATEMENTS

4b. Income and expenditure for social housing lettings	**General needs**	**Supported housing & housing for older people**	**Intermediate**	**Low-cost home ownership**	**Total**	**Total**
Group	**2016**	**2016**	**2016**	**2016**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Rents receivable	46,113	2,305	2,739	1,603	52,760	49,466
Service charge income	1,599	584	37	301	2,521	2,330
Amortised government grant	76	-	-	-	76	-
	47,788	2,889	2,776	1,904	55,357	51,796
Expenditure						
Management	7,623	582	299	585	9,089	9,690
Services	1,883	518	281	248	2,930	2,650
Routine maintenance	5,268	47	7	6	5,328	4,598
Planned maintenance	4,163	10	-	2	4,175	3,351
Major repairs	940	377	-	-	1,317	1,659
Bad debts	252	14	3	3	272	266
Depreciation of housing properties	5,298	216	294	284	6,092	5,598
Accelerated depreciation of regeneration properties	-	-	-	-	-	797
Write-off housing components replaced in year	183	4	3	-	190	252
Operating costs	25,610	1,768	887	1,128	29,393	28,861
Operating surplus	22,178	1,121	1,889	776	25,964	22,935
Void losses	321	127	120	44	612	704

NOTES TO THE FINANCIAL STATEMENTS

4b. Income and expenditure from social housing lettings (continued)

Company	General needs	Supported housing & housing for older people	Intermediate	Low-cost home ownership	Total	Total
	2016	2016	2016	2016	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Rents receivable	46,115	2,305	2,739	1,603	52,762	47,512
Service charge income	1,599	584	37	301	2,521	2,197
Amortised government grant	76	-	-	-	76	-
	47,790	2,889	2,776	1,904	55,359	49,709
Expenditure						
Management	7,893	582	299	584	9,358	10,192
Services	1,883	518	281	248	2,930	2,535
Routine maintenance	5,484	47	7	6	5,544	4,849
Planned maintenance	4,163	10	-	2	4,175	3,344
Major repairs	940	377	-	-	1,317	1,591
Bad debts	253	14	3	3	273	258
Depreciation of housing properties	5,297	216	294	285	6,092	5,340
Accelerated depreciation of regeneration properties	-	-	-	-	-	797
Write-off of housing components replaced in year	183	4	3	-	190	245
Operating costs	26,096	1,768	887	1,128	29,879	29,151
Operating surplus	21,694	1,121	1,889	776	25,480	20,558
Void losses	321	127	120	44	612	675

NOTES TO THE FINANCIAL STATEMENTS

5. Gain on disposal of property, plant and equipment

	Group		Company	
	2016 £'000	**2015 £'000**	**2016 £'000**	**2015 £'000**
Disposal proceeds of fixed assets	18,415	3,369	18,415	3,099
Carrying value	(14,473)	(2,765)	(14,473)	(2,604)
	3,942	604	3,942	495
Transferred to recycled capital grant fund	(442)	-	(442)	-
Transferred to disposal proceeds fund	-	(390)	-	(377)
	3,500	214	3,500	118

6. Interest receivable

	Group		Company	
On loans, bank deposits, gilts and government liquidity funds	**2016 £'000**	**2015 £'000**	**2016 £'000**	**2015 £'000**
Bank interest receivable	28	18	26	12
UK gilt interest receivable	82	21	-	-
Government liquidity fund interest receivable	34	63	-	-
Interest on extended credit to subsidiary	-	-	79	132
Interest on loan to subsidiary	-	-	315	5
Dividends from fixed asset investments	-	-	135	155
	144	102	555	304

7. Interest and financing costs

	Group		Company	
On loans, bank overdrafts and other loans	**2016 £'000**	**2015 £'000**	**2016 £'000**	**2015 £'000**
On bank loans, overdrafts and other loans	19,133	20,332	19,017	19,156
Interest payable to subsidiary	-	-	12	9
	19,133	20,332	19,029	19,165
Interest on pension scheme net liability	212	192	212	192
Borrowing costs capitalised	(1,004)	(1,810)	(1,004)	(1,810)
	18,341	18,714	18,237	17,547

Interest on bank loans, overdrafts and other loans includes an amortised cost loan measurement credit of £2,911k (2015: £2,594k credit).

NOTES TO THE FINANCIAL STATEMENTS

8. Surplus is stated after charging:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**
Depreciation of housing properties	6,092	6,395	6,092	6,137
Amortisation of intangible assets	379	350	379	350
Depreciation of other property, plant and equipment	331	306	331	306
Write-off of housing components replaced in year	190	252	190	245
Operating lease rentals – plant and equipment	47	45	47	45
Auditor's remuneration (excluding VAT):				
For audit services: current year audit	60	52	71	28
For other services*	35	26	6	18

* 2015 excludes capitalised remuneration costs in 2015 for advice for TCHG Capital PLC's bond of £26k.

9. Employee information

	Group		Company	
	2016	**2015**	**2016**	**2015**
Average number of full-time equivalent persons:	201	205	148	152

Directors' and senior executive remuneration

The key management personnel are defined as the Board, the Chief Executive and the Executive Management Team.

The full-time equivalent number of staff, including the key management personnel falling into the following remuneration bandings (including salary, bonus and pension contributions) , are as follows:

	2016	**2015**
	No.	**No.**
£ 60k to £ 70k	7	4
£ 70k to £ 80k	3	4
£ 80k to £ 90k	1	2
£100k to £110k	-	1
£130k to £140k	2	2
£160k to £170k	1	1
£340k to £350k	-	1

Executive Management Team emoluments

	Group	
	2016	**2015**
	£'000	**£'000**
Executives		
Emoluments (including benefits in kind)	505	720
Pension contributions	45	171

The aggregate amount of compensation to former Executives for loss of office was £Nil (2015: £108k).

NOTES TO THE FINANCIAL STATEMENTS

9. Employee information (continued)

The highest-paid Director during the year was the Chief Executive (2015: Chief Executive), whose remuneration details (salary, bonus and other benefits), excluding pension contributions, are shown below. No bonus was paid in 2016:

	Salary £'000	Other benefits £'000	Total 2016 £'000	Total 2015 £'000
Highest-paid Director	148	8	156	158

The Chief Executive is a member of the defined contribution pension scheme, to which the Company makes a contribution. He is an ordinary member of the scheme and no special conditions apply.

	2016 £	2015 £
Total expenses reimbursed to Executive Directors not chargeable to United Kingdom income tax	2,122	2,163

Non-Executive Board Members' emoluments Includes members of Group and subsidiary boards and committees	**£**
Francis Salway (Chair)	15,996
Mark Easton	7,465
Graham Hill	7,465
Jenine Langrish	7,465
Charles Leigh-Dugmore	5,332
Christine Pointer	6,399
Sanaya Robinson	3,319
Marianne Hay	6,399
Kim Hill	5,332
Kayleigh Ward	4,207
Christopher Starke	4,266
Patrick Barr	2,133
Andy Mackay	2,133
	77,911

No benefits in kind are payable to Non-Executive Board Members. Expenses reimbursed are not chargeable to United Kingdom income tax and total £4,620 (2015: salaries £78,737, expenses £6,077).

NOTES TO THE FINANCIAL STATEMENTS

10. Taxation

	Group		Company	
	2016 £'000	**2015 £'000**	**2016 £'000**	**2015 £'000**
Current tax				
UK corporation tax on surplus for the year	381	69	355	-
Tax charge on surplus on ordinary activities	381	69	355	-

Factors affecting the tax charge
The tax assessed for the period is lower than the standard rate of corporation tax in the UK, as explained below:

	Group		Company	
	2016 £'000	**2015 £'000**	**2016 £'000**	**2015 £'000**
Surplus/(deficit) for the year, before tax	16,855	(14,531)	15,843	357
Surplus on ordinary activities multiplied by the standard rate of corporation tax of 20% (2015: 21%)	3,371	(3,052)	3,169	75
Effects of:				
Fixed asset timing differences	-	5	-	(29)
Chargeable gains	-	37	-	-
Increase/(decrease) in tax losses	-	3,494	-	-
Surpluses exempt from corporation tax	(2,990)	(415)	(2,814)	(46)
Total tax charge	381	69	355	-

Factors that may affect future tax charges

TCHG is a charitable housing association and is not liable to corporation tax on its charitable activities.

As at 31 March 2016, TCHG Living had tax losses of £29.9m (2015: £29.9m). These losses may be set against certain profits arising in that company in future accounting periods. A deferred tax asset of £5.4m (2015: £6.0m) has not been recognised due to uncertainties as to the extent and timing of its recovery.

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets – housing properties

GROUP	General needs £'000	Intermediate £'000	Rent to HomeBuy £'000	Shared ownership & leasehold £'000	Properties under construction £'000	Total £'000
Deemed cost						
At 1 April 2015	685,260	23,769	14,945	36,367	36,964	797,305
Additions	300	-	-	57	16,754	17,111
New components (replacements)	2,682	26	-	-	-	2,708
Works to completed properties	816	-	-	65	-	881
Schemes completed	34,177	172	-	4,413	(38,762)	-
Property disposals	(12,892)	-	(154)	(1,492)	-	(14,538)
Component replacements	(234)	(5)	-	-	-	(239)
Movement in current assets	-	-	-	(1,828)	(555)	(2,383)
Transfer of tenure	-	(339)	(2,806)	2,194	-	(951)
At 31 March 2016	710,109	23,623	11,985	39,776	14,401	799,894
Depreciation and impairment						
At 1 April 2015	(5,147)	(184)	(142)	(273)	(2,397)	(8,143)
Depreciation on property disposals	7	-	-	21	-	28
Depreciation on component disposals	48	1	2	-	-	51
Depreciation charge for the year	(5,516)	(185)	(110)	(281)	-	(6,092)
At 31 March 2016	(10,608)	(368)	(250)	(533)	(2,397)	(14,156)

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets – housing properties (continued)

GROUP	General needs £'000	Intermediate £'000	Rent to HomeBuy £'000	Shared ownership & leasehold £'000	Properties under construction £'000	Total £'000
Net book value						
At 31 March 2016	699,501	23,255	11,735	39,243	12,004	785,738
At 31 March 2015	680,113	23,585	14,803	36,094	34,567	789,162

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets – housing properties (continued)

COMPANY	General needs	Intermediate	Rent to HomeBuy	Shared ownership & leasehold	Properties under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Deemed cost						
At 1 April 2015	686,007	23,605	14,945	36,595	37,001	798,153
Additions	300	-	-	57	16,434	16,791
New components (replacements)	2,682	25	-	-	-	2,707
Works to completed properties	836	-	-	68	-	904
Schemes completed	34,766	172	-	4,519	(39,457)	-
Property disposals	(12,892)	-	(154)	(1,492)	-	(14,538)
Component replacements	(234)	(4)	-	-	-	(238)
Movement in current assets	-	-	-	(1,828)	(556)	(2,384)
Transfer of tenure	-	(339)	(2,806)	2,194	-	(951)
At 31 March 2016	711,465	23,459	11,985	40,113	13,422	800,444
Depreciation and impairment						
At 1 April 2015	(5,084)	(20)	(142)	(242)	(2,398)	(7,886)
Depreciation on property disposals	7	-	-	21	-	28
Depreciation on component disposals	48	1	2	-	-	51
Depreciation charge for the year	(5,516)	(185)	(110)	(281)	-	(6,092)
At 31 March 2016	(10,545)	(204)	(250)	(502)	(2,398)	(13,899)

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets – housing properties (continued)

COMPANY

	General needs	Intermediate	Rent to HomeBuy	Shared ownership & leasehold	Properties under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Net book value						
At 31 March 2016	700,920	23,255	11,735	39,611	11,024	786,545
At 31 March 2015	680,923	23,585	14,803	36,353	34,603	790,267

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets – housing properties (continued)

Improvements to properties
Group

	2016 £'000	2015 £'000
Replacement of components	2,707	2,490
Other capitalised works to existing properties	443	355
	3,150	2,845
Improvements taken to income and expenditure account	1,317	1,659
	4,467	4,504

Company

	2016 £'000	2015 £'000
Replacement of components	2,707	2,400
Other capitalised works to existing properties	443	355
	3,150	2,755
Improvements taken to income and expenditure account	1,317	1,591
	4,467	4,346

Impairment

During the year, the Government announced a new rent policy applicable to our general needs social and affordable rented dwellings, of cash terms rent reductions in the four Aprils 2016-2019. This constitutes an indicator of potential impairment.

TCHG has some experience of selling its housing properties to other registered providers at a value akin to their existing use value as social housing (EUV-SH). However, this has always been a relatively small number of dwellings in a concentrated geographic location. The Board believes it is unlikely that a buyer could be found for large volumes of housing properties at EUV-SH valuations as there is no active market. Therefore, the appropriate value is value in use – service potential (assessed as depreciated replacement cost.)

An assessment was undertaken of the depreciated replacement cost of each cash-generating unit. In each case the depreciated replacement cost exceeded the carrying value.

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets – housing properties (continued)

Valuation: Group and Company

For the purposes of our loan covenants, the properties have been valued by professional external valuers, Savills (UK) Limited, Chartered Surveyors of 37-39 Perrymount Road, Haywards Heath, West Sussex, RH16 3BN as at 31 March 2016 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors using the following bases:

Group valuation bases and values at 31 March 2016

	Valuation £'000
• Social housing – existing use value (EUV-SH)	583,756
• Intermediate rent – market value subject to tenancies (MVST)	27,470
• Rent to HomeBuy – market value subject to tenancies (MVST)	16,050
• Shared ownership – market value subject to tenancies (MVST)	38,227

12. Fixed assets – investment properties – Group and Company

	2016 £'000	2015 £'000
Valuation at 1 April	18,270	17,212
Surplus on revaluation	1,375	1,058
Valuation at 31 March	19,645	18,270

For the purposes of loan covenants, the Group's market rent properties (included in investment properties above) have been valued as at 31 March 2016 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors using the Market Value Vacant Possession basis (MVVP) by professional external valuers, Savills (UK) Limited, Chartered Surveyors of 37-39 Perrymount Road, Haywards Heath, West Sussex, RH16 3BN. The valuation was £17,965k (2015: £16,490k)

NOTES TO THE FINANCIAL STATEMENTS

13. Other plant, property and equipment

Group and Company	Freehold offices & premises £'000	Community centre £'000	Computer equipment £'000	Office equipment & fixtures £'000	Total £'000
Cost					
At 1 April 2015	2,399	149	1,263	909	4,720
Additions	-	-	69	18	87
Disposals	-	-	(510)	-	(510)
At 31 March 2016	2,399	149	822	927	4,297
Accumulated depreciation					
At 1 April 2015	(653)	(60)	(919)	(566)	(2,198)
Charge for the year	(29)	(5)	(202)	(95)	(331)
Disposals	-	-	510	-	510
At 31 March 2016	(682)	(65)	(611)	(661)	(2,019)
Net book value 2016	1,717	84	211	266	2,278
Net book value 2015	1,746	89	344	343	2,522

NOTES TO THE FINANCIAL STATEMENTS

14. Intangible assets – Group and Company

	Computer software £'000
Cost	
At 1 April 2015	1,553
Additions	237
Disposals	(486)
At 31 March 2016	1,304
Accumulated amortisation	
At 1 April 2015	845
Charge for the year	379
Disposals	(486)
At 31 March 2016	738
Net book value at 31 March 2016	566
Net book value at 31 March 2015	708

15. Fixed asset investment

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Investment in subsidiary	-	-	102	102

TCHG holds a 51% share in Countrywise Repairs, a company incorporated in England. Countrywise Repairs was set up with a joint venture partner to carry out repairs and maintenance services to the Group's properties in the Tunbridge Wells area.

NOTES TO THE FINANCIAL STATEMENTS

16. Current asset investments

	Group	
	2016	**2015**
	£'000	**£'000**
Listed investments – UK gilts	34,329	20,764

The UK gilts are held at fair value, which is the publicly traded value at the balance sheet date.

17. Interest rate risk of financial assets

Assets held as part of the financial arrangements of the Group:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**
Cash at bank and in hand	2,509	4,630	1,660	4,101
Government liquidity funds	16,695	16,280	-	2,000
Listed investments – UK gilts	34,329	20,764	-	-
	53,533	41,764	1,660	6,101

The cash deposits are in no-notice interest bearing accounts with UK banks. The weighted average interest rate on these deposits during the year was 0.28% (2015: 0.47%).

The government liquidity funds are invested in the BlackRock ICS Institutional Sterling Government Liquidity Fund. The interest rate on this security was 0.28% at 31 March 2016.

The gilts are UK Treasury 4.75%, maturing September 2016. This investment was entered into in two tranches, in December 2015 and February 2016, with the intention of holding to redemption. The gross redemption yield will be 0.38%. The Group maintains sufficient short-term cash deposits in order to hold the gilt to redemption.

18. Cash and cash equivalents

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**
Cash at bank and in hand	2,509	4,630	1,660	4,101
Government liquidity funds	16,695	16,280	-	2,000
	19,204	20,910	1,660	6,101

NOTES TO THE FINANCIAL STATEMENTS

19. Current assets – properties for sale

	Group		Company	
	2016 £'000	**2015 £'000**	**2016 £'000**	**2015 £'000**
Properties under construction	-	5,979	-	1,762
Completed properties	4,820	2,291	2,088	1,793
	4,820	8,270	2,088	3,555

20. Debtors

	Group		Company	
	2016 £'000	**2015 £'000**	**2016 £'000**	**2015 £'000**
Due within one year				
Rent debtors	3,259	3,441	3,259	3,441
Less: provision for bad and doubtful debts	(1,042)	(1,000)	(1,042)	(1,000)
	2,217	2,441	2,217	2,441
Grant receivable	-	2,557	-	2,116
Amounts owed by subsidiary undertakings	-	-	809	79
Prepayments	995	488	904	471
Outstanding insurance claims	1,529	35	1,529	35
Sales ledger debtors	123	172	123	162
VAT receivable	87	62	91	9
Other debtors	461	148	29	-
	5,412	5,903	5,702	5,313
Due after one year				
Amounts owed by subsidiary undertakings	-	-	5,000	5,000
	5,412	5,903	10,702	10,313

Amounts owed by subsidiary undertakings due after one year comprise a loan to Monson Homes Limited of £5m (2015: £5m) with interest charged at 6.3%. The loan is repayable in 2035.

NOTES TO THE FINANCIAL STATEMENTS

21. Creditors: amounts falling due within one year

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**
Accrued loan interest and commitment fees	2,760	2,932	2,760	2,880
Trade creditors	1,429	3,387	591	1,909
Accruals	4,251	6,153	4,732	6,048
Amounts owed to subsidiary undertakings	-	-	3,170	1,848
Rent received in advance	2,044	2,187	2,044	2,187
Retentions on contracts	2,119	2,726	1,104	1,214
Other creditors	82	112	46	107
VAT payable	-	62	-	44
Corporation tax payable	419	69	354	-
Other taxation and social security payable	143	208	143	208
Recycled capital grant fund (note 24)	971	-	971	-
Disposal proceeds fund (note 25)	244	-	244	-
Social Housing Grant in advance	347	1,231	347	1,231
Housing loans	10,395	9,561	10,395	9,561
	25,204	28,628	26,901	27,237

There are no unpaid defined benefit contributions within the other taxation and social security payable figure (2015: nil). Interest on the inter-company balance was charged at 0.5% (2015: 0.5%) per annum.

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

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**
Housing loans				
Within two to five years	44,268	41,581	44,268	41,581
In five years or more	353,873	364,866	353,873	364,866
Total housing loans	398,141	406,447	398,141	406,447
Loans from subsidiary undertaking – due after more than five years	-	-	28,996	44,996
Bond – due after more than five years	80,000	80,000	-	-
Loan and bond arrangement fees	(920)	(962)	(920)	(962)
Deferred capital grant (note 23)	11,660	10,309	11,660	10,309
Recycled capital grant fund (note 24)	668	1,197	668	1,197
Disposal proceeds fund (note 25)	-	244	-	244
Leaseholder monies in respect of future major repairs	336	259	336	259
	489,885	497,494	438,881	462,490

NOTES TO THE FINANCIAL STATEMENTS

22. Creditors: amounts falling due after more than one year (continued)

The transaction value of housing loans (excluding arrangement fees) as at 31 March 2016 was £365,448k (2015: £370,009k).

Bank loans and bonds are secured by a charge on specified assets of the Group. Separate bank accounts totalling £260k (TCHG) are maintained to match leaseholder sinking funds. These are included within the balances shown as cash at bank and in hand of £19,204k (TCHG as at 31 March 2016).

During the year, the average interest rate (including margins) for the Group and Company was 3.82% (2015: 3.89%). Interest is paid quarterly on the bank loans and every six months on the bond. The fixed rates of interest charged during the year varied from 1.87% to 5.86% and variable rates of interest ranged from 0.84% to 1.64%. The weighted average interest rate for fixed rates of interest at 31 March 2016 was 4.71% (2015: 4.71%). The weighted average interest rate for floating rates of interest at 31 March 2016 was 1.17% (2015: 1.50%). The weighted average period for which interest rate was fixed at 31 March 2016 was 19.0 years (2015: 18.7 years). The benchmark for determining the interest rate payments on the floating liability was in all cases the London Interbank Offered Rate (LIBOR).

23. Deferred capital grant

	Group and Company	
	2016 **£'000**	**2015** **£'000**
At 1 April	10,309	4,936
Grants received	1,427	5,373
Released to statement of comprehensive income	(76)	-
At 31 March	11,660	10,309

Grants received or receivable at 31 March

	Group and Company	
	2016 **£'000**	**2015** **£'000**
Social Housing Grant – revenue reserves	175,491	175,306
Other grant – revaluation reserve	6,246	5,998
Social Housing Grant – deferred creditor	11,660	10,309
Recycled capital grant fund	1,639	807
Disposals proceed fund	244	244
Released to statement of comprehensive income	(76)	-
At 31 March	195,204	192,664

NOTES TO THE FINANCIAL STATEMENTS

24. Recycled capital grant fund (RCGF)

	Group		Company	
	2016 £'000	**2015 £'000**	**2016 £'000**	**2015 £'000**
At 1 April	1,197	807	1,197	807
Grants recycled	442	390	442	377
Transfer from subsidiary	-	-	-	13
Use of grant – new build	-	-	-	-
As at 31 March	1,639	1,197	1,639	1,197
Due within one year	971	-	971	-
Due within two years	390	807	390	807
Due within three years	278	390	278	390
	1,639	1,197	1,639	1,197

All of the fund relates to activities within areas covered by the Homes and Communities Agency.

25. Disposal proceeds fund

	Group and Company	
	2016 £'000	**2015 £'000**
At 1 April	244	244
Funds recycled	-	-
Transfer from subsidiary	-	-
Use of funds – new build	-	-
As at 31 March	244	244
Due within one year	244	-
Due within two years	-	244
Due within three years	-	-
	244	244

All of the fund relates to activities within areas covered by the Homes and Communities Agency.

NOTES TO THE FINANCIAL STATEMENTS

26. Controlling party

TCHG is not controlled by any one party as defined by FRS 102 Related Party Transactions.

27. Pensions

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for qualifying employees. The total expense charged to the statement of comprehensive income in the period ended 31 March 2016 was £542k (2015: £498k).

Defined benefit scheme

The Group participates in the Kent County Council Superannuation Fund, a funded defined benefit final salary scheme with assets and liabilities held in a separately administered fund. The Group closed its membership to new entrants in 2003. The fund is subject to the regulations of the Local Government Superannuation Scheme. Contributions to the scheme are determined by a qualified actuary on the basis of the valuations, using the projected unit method.

Pension benefits depend upon age, length of service and salary level.

A full actuarial valuation of the defined benefit scheme was carried out at 31 March 2013 and updated at 31 March 2015 and 2016 by a qualified independent actuary. Contributions to the scheme are made by the Group on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees.

There were no changes to the scheme during the year and no amounts owing at the year end.

Reconciliation of present value of plan liabilities

	2016 **£'000**	**2015** **£'000**
At 1 April	22,677	18,772
Current service cost	319	295
Interest cost	740	844
Actuarial (gains)/losses from change in financial assumptions	(1,957)	3,099
Estimated benefits paid	(597)	(428)
Contributions by scheme participants	80	95
At 31 March	21,262	22,677

NOTES TO THE FINANCIAL STATEMENTS

27. Pensions – defined benefit scheme (continued)

Composition of plan liabilities	**2016**	**2015**
Schemes wholly or partly funded	Partly	Partly

Reconciliation of fair value of plan assets	**2016** **£'000**	**2015** **£'000**
At 1 April	16,089	14,484
Interest income on fund assets	528	652
Return on assets less interest	(355)	965
Administration expenses	(11)	(11)
Contributions by employer including unfunded	337	332
Contributions by fund participants	80	95
Estimated benefits paid	(597)	(428)
At 31 March	16,071	16,089
Fair value of plan assets	16,071	16,089
Present value of defined benefit obligation	(21,262)	(22,677)
Net pension scheme liability	(5,191)	(6,588)
Amounts recognised in other comprehensive income:		
Current service cost	319	295
Administration expenses	11	11
Interest costs	212	192
	542	498

NOTES TO THE FINANCIAL STATEMENTS

27. Pensions – defined benefit scheme (continued)

	2016 £'000	2015 £'000
Analysis of actuarial gain/(loss) in recognised in other comprehensive income:		
Actual return on fund assets in excess of interest cost	(355)	954
Changes in financial assumptions	1,957	(3,099)
	1,602	(2,145)
Composition of plan assets		
Equities	10,717	10,970
Gilts	142	168
Other bonds	1,765	1,802
Property	2,335	2,011
Cash	414	440
Target return portfolio	698	698
Total plan assets	16,071	16,089
Principal actuarial assumptions used at the balance sheet date		
Discount rates	3.7%	3.3%
Future salary increases	2.9%	3.7%
Future pension increases	2.4%	2.4%
Inflation assumption		
- Retail Price Index (RPI) increases	3.3%	3.2%
- Consumer Price Index (CPI) increases	2.4%	2.4%
Mortality rates (life expectancy in years from age 65 years)		
Retiring today:		
- Males	22.9	22.8
- Females	25.3	25.2
Retiring in 20 years		
- Males	25.2	25.1
- Females	27.7	27.6

NOTES TO THE FINANCIAL STATEMENTS

28. Financial commitments

Capital commitments are as follows:

	Group and Company	
	2016	**2015**
	£'000	**£'000**
Contracted for but not provided for	2,791	11,837
Approved by the Board but not contracted for	2,767	38,649

The above commitments will be financed primarily by cash and borrowings and Social Housing Grant. At 31 March 2016, the company had funding facilities (including bond proceeds) in place totalling £490m, with £96m undrawn.

29. Operating leases

The Group and Company had minimum lease payments and receipts under non-cancellable operating leases as set out below:

Amounts payable as lessee	Group and Company	
	2016	**2015**
	£'000	**£'000**
Plant and equipment		
Within one year	33	43
Between one and five years	43	63
	76	106

Amount receivable as lessor	Group and Company	
	2016	**2015**
	£'000	**£'000**
Within one year	98	120
Between one and five years	198	266
	296	386

NOTES TO THE FINANCIAL STATEMENTS

30. Accommodation in management

The following numbers of units were in management at the end of the year:

GROUP AND COMPANY

At 31 March 2016	Owned & directly managed No.	Owned & managed by others No.	Total owned No.	Not owned & managed for others No.	Total managed No.
Social housing					
General needs	6,689	32	6,721	-	6,689
Affordable	873	-	873	-	873
Affordable Sheltered	104	-	104	-	104
Sheltered	412	-	412	-	412
Intermediate	245	-	245	-	245
Rent to HomeBuy	140	-	140	-	140
Shared ownership	530	-	530	-	530
	8,993	32	9,025	-	8,993
Non-social housing					
Market rented	151	-	151	-	151
All housing	9,144	32	9,176	-	9,144

At 31 March 2015	Owned & directly managed No.	Owned & managed by others No.	Total owned No.	Not owned & managed for others No.	Total managed No.
Social housing					
General needs	6,782	33	6,815	-	6,782
Affordable	814	-	814	-	814
Sheltered	438	-	438	-	438
Intermediate	240	-	240	-	240
Rent to HomeBuy	192	-	192	-	192
Shared ownership	481	-	481	5	486
	8,947	33	8,980	5	8,952
Non-social housing					
Market rented	151	-	151	-	151
All housing	9,098	33	9,131	5	9,103

NOTES TO THE FINANCIAL STATEMENTS

31. Cash flow from operating activities

	Group	
	2016	**2015**
	£'000	**£'000**
Surplus for the year before tax	**16,855**	**(14,531)**
Adjustment for non-cash items:		
Depreciation and amortisation of fixed assets	6,802	7,051
Fair value loan re-measurement	-	26,391
Gain on revaluation of investment properties	(1,375)	(1,058)
Difference between pension charge and cash contributions	18	117
Adjustments for investing or financing activities		
Gain on sale of housing properties	(3,500)	(214)
Interest payable	18,341	18,714
Interest receivable	(144)	(102)
Adjustments for working capital movements		
Decrease in properties for sale	3,450	1,334
(Increase)/decrease in debtors	(2,065)	232
Increase/(decrease) in creditors	401	(4,248)
Net cash inflow from operating activities	38,783	33,686

32. Contingent liability

A claim has been received from the contractor responsible for building a recently completed estate. The claim is for an "extension of time", on the grounds that we as employer, or our agents, are responsible for a delay in the building programme. The total claim, including liquidated and ascertained damages withheld in respect of the delay, is for £2.9m.

To date, the contractor has not provided evidence supporting the claim. Management believes there to be no justification for it. We have obtained specialist and legal advice that we have a strong defence.

33. Called-up share capital – non-equity

	2016	**2015**
	£	**£**
At 1 April	9	10
Issued during the year	2	2
Surrendered during the year	(1)	(3)
As at 31 March	10	9

The shares provide members with the right to vote at general meetings but are not transferable or withdrawable and carry no rights to interest, dividend or bonus.

NOTES TO THE FINANCIAL STATEMENTS

34. Related parties

Key management personnel
Details of remuneration and expenses of key management personnel are shown in note 9.

Tenant Board Members
Two members of the Board at 31 March 2016, Kim Hill and Kayleigh Ward, are tenants of TCHG. Their tenancy agreements pre-date their appointment to the Board, and their terms are standard, with rents and service charges calculated in accordance with our normal policies. In aggregate, the annual rent and service charges payable by the two members in the year totalled £11,061 (2015: £10,727). At 31 March 2016, each of their rent accounts was in credit, and the aggregate balance on the accounts was a credit of £752 (2015: credit of £423). The credit balances are unsecured and represent pre-payment of rent and service charges. They will be applied to future debits to their rent accounts.

South East Consortium (SEC)
TCHG is a member of the South East Consortium (SEC), a not-for-profit organisation which generates procurement efficiencies through the collective buying power of its members, principally housing associations and councils. SEC is run by a board of directors drawn from senior staff of its members, including Colin Lissenden. He receives no remuneration from SEC for this role. TCHG paid SEC a membership fee of £21k in the year (2015: £21k). There was no balance due at 31 March 2016 (2015: £144k).

The Group has transactions and balances with four subsidiaries – TCHG Living, MHL, CWR and Foundation – in order to recharge overhead costs within the Group. These charges are based on a calculation of the actual costs of delivering support service including a reasonable proportion of overheads. A consistent basis has been used in 2015/16 to that used in prior years. Total amounts recharged were £810k (2015: £1,460k).

MHL constructs and develops housing schemes on behalf of the Group. MHL charges TCHG for its actual costs in procuring construction services plus a 4% mark-up. In 2015/16, the amounts charged by MHL on this basis totalled £6,261k (2015: £24,974k).

TCHG made a £270k (2015: £238k) payment to Foundation to cover the costs of Foundation's charitable work and to deliver TCHG community investment activities. Additionally, MHL made a £70k (2015: £120k) payment to Foundation to cover the costs of regeneration activities at Sherwood.

CWR is a 51%-owned subsidiary with Wates Living Space Limited owning the remainder. CWR undertakes property repairs for the Group. The amounts charged to TCHG in 2016 were £4,525k (2015: £4,088k). The amount due to CWR from TCHG and vice versa (unsecured inter-company trade debtor/creditor) at 31 March 2016 was £441k (2015: £525k).

TCHG has entered into a loan agreement with TCHG Capital PLC (a special-purpose vehicle for raising bond finance) to borrow the monies raised from an £80m bond issue. A total of £29m (2015: £45m) had been drawn at 31 March 2016. TCHG Capital PLC's shares are held by an independent trustee with TCHG having an option to purchase them. TCHG meets all of TCHG Capital's net interest and running costs so that it achieves a break-even position. TCHG Capital PLC's results are included in the consolidated TCHG financial statements.

NOTES TO THE FINANCIAL STATEMENTS

35. Financial instruments

The carrying values of the Group and Company's financial assets and liabilities are summarised by category below:

	Group		Company	
	2016 £'000	**2015 £'000**	**2016 £'000**	**2015 £'000**
Financial assets				
Measured at fair value:				
- Listed investments – UK gilt	34,329	20,764	-	-
Measured at amortised cost				
- Loan due from subsidiary	-	-	5,000	5,000
Measured at undiscounted amount receivable				
- Amounts due from subsidiaries	-	-	809	79
- Rent arrears and other receivables	4,330	2,796	3,898	2,638
- Cash and cash equivalents	19,204	20,909	1,660	6,101
	57,862	44,469	11,366	13,818

	Group		Company	
Financial liabilities	**2016 £'000**	**2015 £'000**	**2016 £'000**	**2015 £'000**
Measured at amortised cost:				
- Loan/bond payable	485,075	495,046	405,995	416,008
- Loan from subsidiary over five years	-	-	28,996	44,996
Measured at undiscounted amount payable				
- Amounts owed to subsidiaries	-	-	3,170	1,848
- Trade and other creditors	9,634	16,055	8,226	12,955
	494,709	511,101	446,387	475,807

Loans carried at amortised cost include a loan which was initially fair-valued from its undiscounted amount payable of £50m to a fair value of £89.4m at 31 March 2015.

Interest rate and liquidity risk of financial liabilities
Interest rate risk
The Group borrows at both fixed and floating rates of interest. It does not borrow in foreign currencies. The Group's policy is to keep between 70% and 90% of its net borrowings at fixed rates of interest. At 31 March, 76.5% of the Group's net borrowings were at fixed rates.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. The Group's policy is that no more than 10% of fixed rates should mature in any one year.

NOTES TO THE FINANCIAL STATEMENTS

35. Financial instruments (continued)

Interest expense and fair value loss through the statement of comprehensive income	**Group 2016**	**Group 2015**	**Company 2016**	**Company 2015**
	£'000	**£'000**	**£'000**	**£'000**
Interest expense for financial liabilities at amortised cost	18,129	18,549	18,025	17,355
Fair value loss on financial liability measured at fair value	-	26,391	-	26,391
	18,129	44,940	18,025	43,746

Interest income through the statement of comprehensive income	**Group 2016**	**Group 2015**	**Company 2016**	**Company 2015**
	£'000	**£'000**	**£'000**	**£'000**
Interest income for financial assets at fair value	82	21	-	-
Interest income for financial assets at amortised cost	-	-	315	132
Interest income for financial assets at undiscounted amount receivable	62	81	105	17
	144	102	420	149

36. Post balance sheet event

As part of the Company's stock rationalisation programme on 9 May 2016, 283 properties in South East London were sold to a registered provider. The proceeds from the sale were £36m.

37. Explanation of transition to FRS 102

This is the first year that the Group has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 March 2015, and the date of transition to FRS 102 was therefore 1 April 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

In carrying out the transition to FRS 102, the Group has not applied any of the optional exemptions as permitted by Section 35 Transition to this FRS.

NOTES TO THE FINANCIAL STATEMENTS

37. Explanation of transition to FRS 102 (continued)

GROUP – reconciliation of net assets and reserves at 1 April 2014, the date of transition to FRS 102.

	Adjustment reference	UK GAAP as previously reported 1 April 2014	Restatement	Restated 1 April 2014
		£'000	£'000	£'000
Fixed assets				
Housing properties	A,B,C	685,775	58,138	743,913
Investment properties	B	-	17,212	17,212
Other property, plant and equipment	C	3,046	(565)	2,481
Intangible assets	D	-	267	267
		688,821	75,052	763,873
Current assets				
Properties for sale		9,604	-	9,604
Debtors		9,021	-	9,021
Current asset investments		-	-	-
Cash at bank and in hand		5,278	-	5,278
		23,903	-	23,903
Creditors: amounts falling due within one year		(26,604)	-	(26,604)
Net current liabilities		(2,701)	-	(2,701)
Total assets less current liabilities		686,120	75,052	761,172
Creditors: amounts falling due after more than one year	E	394,499	11,818	406,317
Defined pension liability		4,288	-	4,288
Long-term liabilities		398,787	11,818	410,605
Capital and reserves				
Revaluation reserve	G	258,058	(51,890)	206,168
Revenue reserve	G	27,723	115,124	142,847
Designated reserve		1,335	-	1,335
Non-controlling interest		217	-	217
Capital and reserves and long-term liabilities		686,120	75,052	761,172

NOTES TO THE FINANCIAL STATEMENTS

37. Explanation of transition to FRS 102 (continued)

GROUP – reconciliation of net assets and reserves at 31 March 2015

	Adjustment reference	UK GAAP as previously reported 31 March 2015	Restatement	Restated 31 March 2015
		£'000	£'000	£'000
Fixed assets				
Housing properties	A,B,C	803,735	(14,573)	789,162
Investment properties	B	-	18,270	18,270
Other property, plant and equipment	C	3,523	(1,001)	2,522
Intangible assets	D	-	708	708
Fixed asset investment				
		807,258	3,404	810,662
Current assets				
Properties for sale		8,270	-	8,270
Debtors		5,903	-	5,903
Current asset investments		20,764	-	20,764
Cash at bank and in hand		20,910	-	20,910
		55,847	-	55,847
Creditors: amounts falling due within one year	E	(29,189)	561	(28,628)
Net current assets		26,658	561	27,219
Total assets less current liabilities		833,916	3,965	837,881
Creditors: amounts falling due after more than one year	E,F	441,186	56,308	497,494
Defined pension liability		6,588	-	6,588
		447,774	56,308	504,082
Capital and reserves				
Revaluation reserve	G	344,806	(138,638)	206,168
Revenue reserve	G	39,267	86,295	125,562
Designated reserve		1,740	-	1,740
Non-controlling interest		329	-	329
		386,142	(52,343)	333,799
Capital and reserves and long-term liabilities		833,916	3,965	837,881

NOTES TO THE FINANCIAL STATEMENTS

37. Explanation of transition to FRS 102 (continued)

GROUP – reconciliation of total comprehensive income for the year ended 31 March 2015

	Adjustment reference	UK GAAP as previously reported 31 March 2015	Restatement	Restated 31 March 2015
		£'000	£'000	£'000
Turnover		69,266	-	69,266
Operating expenditure	A	(39,537)	(529)	(40,066)
Operating surplus		29,729	(529)	29,200
Gain/(loss) on disposal of property, plant and equipment		214	-	214
Interest receivable	H	182	(80)	102
Interest and financing costs	F	(15,928)	(2,786)	(18,714)
Change in fair value of financial instruments	F	-	(26,391)	(26,391)
Gain on revaluation of investment properties	B	-	1,058	1,058
Surplus before tax		14,197	(28,728)	(14,531)
Tax		(69)	-	(69)
Non-controlling interest		(135)	-	(135)
Surplus for the year		13,993	(28,728)	(14,735)
Actuarial loss in respect of pension schemes	H	(2,417)	272	(2,145)
Total comprehensive income for the year		11,576	(28,456)	(16,880)

NOTES TO THE FINANCIAL STATEMENTS

37. Explanation of transition to FRS 102 (continued)

COMPANY – reconciliation of net assets and reserves at 1 April 2014, the date of transition to FRS 102

	Adjustment reference	UK GAAP as previously reported 1 April 2014	Restatement	Restated 1 April 2014
		£'000	£'000	£'000
Fixed assets				
Housing properties	A,B,C	640,007	73,570	713,577
Investment properties	B	-	1,780	1,780
Other property, plant and equipment	C	3,046	(565)	2,481
Intangible assets	D	-	267	267
Fixed asset investment		204	-	204
		643,257	75,052	718,309
Current assets				
Properties for sale		4,035	-	4035
Debtors		19,756	-	14,061
Current asset investments		-	-	5,695
Cash at bank and in hand		2,475	-	2,475
		26,266	-	26,266
Creditors: amounts falling due within one year		(21,640)	-	(21,640)
Net current assets		4,626	-	4,626
Total assets less current liabilities		647,883	75,052	722,935
Creditors: amounts falling due after more than one year	E,F	366,615	14,721	381,336
Defined pension liability		4,288	-	4,288
		370,903	14,721	385,624
Capital and reserves				
Revaluation reserve	G	245,199	(55,714)	189,485
Revenue reserve	G	30,446	116,045	146,491
Designated reserve		1,335	-	1,335
Capital, reserves and long-term liabilities		647,883	75,052	722,935

NOTES TO THE FINANCIAL STATEMENTS

37. Explanation of transition to FRS 102 (continued)

COMPANY – reconciliation of net assets and reserves at 31 March 2015

	Adjustment reference	UK GAAP as previously reported 31 March 2015 £'000	Restatement £'000	Restated 31 March 2015 £'000
Fixed assets				
Housing properties	A,B,C	804,840	(14,573)	790,267
Investment properties	B	-	18,270	18,270
Other property, plant and equipment	C	3,523	(1,001)	2,522
Intangible assets	D	-	708	708
Fixed asset investment		102	-	102
		808,465	3,404	811,869
Current assets				
Properties for sale		3,555	-	3,555
Debtors		10,313	-	10,313
Cash at bank and in hand		6,101	-	6,101
		19,969	-	19,969
Creditors: amounts falling due within one year	E	(27,798)	561	(27,237)
Net current assets/(liabilities)		(7,829)	561	(7,268)
Total assets less current liabilities		800,636	3,965	804,601
Creditors: amounts falling due after more than one year	E,F	406,182	56,308	462,490
Defined pension liability		6,588	-	6,588
		412,770	56,308	469,078
Capital and reserves				
Revaluation reserve	G	328,124	(138,639)	189,485
Revenue reserve	G	58,002	86,296	144,298
Designated reserve		1,740	-	1,740
Capital, reserves and long-term liabilities		800,636	3,965	804,601

NOTES TO THE FINANCIAL STATEMENTS

37. Explanation of transition to FRS 102 (continued)

COMPANY – reconciliation of total comprehensive income for the year ended 31 March 2015

	Adjustment reference	UK GAAP as previously reported 31 March 2015 £'000	Restatement £'000	Restated 31 March 2015 £'000
Turnover		60,845	-	60,845
Exceptional item – transfer of TCHG Living		17,541	-	17,541
Turnover after exceptional item		78,386	-	78,386
Operating expenditure	A	(33,984)	(529)	(34,513)
Other income		-		
Operating surplus		44,402	(529)	43,873
Gain/(loss) on disposal of property, plant and equipment		118	-	118
Interest receivable	H	384	(80)	304
Interest and financing costs	F	(14,761)	(2,786)	(17,547)
Change in fair value of financial instruments	F	-	(26,391)	(26,391)
Gain on revaluation of investment properties	B	-	-	-
Surplus before tax		30,143	(29,786)	357
Tax		-	-	-
Surplus for the year		30,143	(29,786)	357
Actuarial loss in respect of pension schemes	H	(2,417)	272	(2,145)
Total comprehensive income for the year		27,726	(29,514)	(1,788)

NOTES TO THE FINANCIAL STATEMENTS

37. Explanation of transition to FRS 102 (continued)

Notes to the reconciliation

A – Housing properties carried at deemed cost
The Group changed its accounting policy from recording housing properties at valuation to being at historic cost. The Group has taken the transition option to measure its housing properties at fair value and use that fair value as the deemed cost of those assets at the transition date of 1 April 2014. The fair value at transition was a valuation prepared by professional valuers on an EUV-SH basis taking into consideration the amount potentially realisable from a sale of the stock to one or more registered providers in multiple lots to maximise the sale price. This had the effect of increasing the value of the Group's housing properties by £75m at transition on 1 April 2014. The value of the Group's housing properties reduced by £3.4m at 31 March 2015 as a result of bringing forward the valuation to the transition date and removing the previous valuation uplift from the transition date to 31 March 2015.

Recording properties at deemed cost instead of at valuation results in an increased depreciation charge in the statement of comprehensive income of £0.5m at 31 March 2015. This is as a result of a reduction in the proportion of the cost being allocated to land which is not depreciated.

B – Investment property
Properties held for market and commercial rent were previously held in housing properties and other tangible fixed assets respectively. As required by the SORP, these have been reclassified as investment properties since they predominantly have the characteristics of market rather than social rented properties. These properties are subject to annual revaluation with any gain or loss taken through profit and loss in the Statement of Comprehensive Income.

At 31 March 2015, £16.5m of market rent properties previously held as housing properties were reclassified as investment properties. A further £1m was reclassified from housing properties for a commercial property. Additionally, a commercial unit valued at £0.9m was reclassified from freehold office costs to investment properties (£0.4m from freehold office costs and £0.5m from revaluation reserve).

Gains on revaluation of investment properties are recorded as income in the statement of comprehensive income; previously they would have been recorded as a movement in revaluation reserves.

C and D – Other property, plant and equipment and intangible assets
Investment properties as described above were reclassified from other property, plant and equipment. Computer software costs of £0.7m at 31 March 2015 were reclassified from tangible to intangible assets as required under FRS 102.

E – Government grants
Government grants for schemes under construction have been reclassified from housing properties (and creditors under one year) to creditors over one year – deferred grant creditor. At the transition date of 1 April 2014 £11.8m was reclassified from housing properties. At 31 March 2015 a further £0.6m was reclassified from creditors under one year. Once schemes complete, the deferred grant creditor is amortised over the life of the property structure with the income shown in turnover.

F – Financial instruments, housing loans
Following a substantial modification, a loan (classified as 'other' under FRS 102) at a transaction price of £50m was de-recognised and re-recognised on 26 March 2015 as a basic financial instrument. The fair value at 26 March 2015 was £89m. At transition £13m of the £39m fair value adjustment was recognised. During 2015 interest rate swap rates fell and a further £26m was recognised in the restated statement of comprehensive income for the year ending 31 March 2015.

Other loans also classified as basic financial instruments were held at amortised cost instead of transaction price. This resulted in an adjustment to the 31 March 2015 statement of comprehensive income of £2.8m (increased interest cost) and an increase in loan carrying values of £6.6m.

NOTES TO THE FINANCIAL STATEMENTS

37. Explanation of transition to FRS 102 (continued)

Notes to the reconciliation (continued)

G – Revaluation reserves
Cumulative Social Housing Grant received to the transition date which previously formed part of the revaluation reserve, has been transferred to revenue reserves as prior to transition under the performance model this would have been recognised as income. The amount transferred was reduced by the deficit that would have been recognised in income for schemes completed where their value would have been less than the costs of acquisition and construction. The net transfer between revaluation reserves and revenue reserves was £128.6m.

H – Local Government defined benefit pension scheme
Under previous UK GAAP the Company recognised an expected return on defined benefit plan assets in the income and expenditure account. Under FRS 102, a net interest expense, based on the net defined benefit liability, is recognised in surplus or deficit in the statement of comprehensive income. There has been no change in the defined benefit liability at either 1 April 2014 or 31 March 2015.