TOWN AND COUNTRY HOUSING GROUP

Report and Financial Statements
for the year ended
31 March 2017

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

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2017

REPORT AND FINANCIAL STATEMENTS

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TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2017

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
Christine Pointer MSc., Ordinary Member
Kim Hill, Tenant Member
Marianne Hay, Ordinary Member and Chair of TCHG Foundation
Christopher Starke, Ordinary Member
Kayleigh Ward, Tenant Member
Gaylene Kendall, Ordinary Member (*appointed January 2017)*
Valerie Marshall, Ordinary Member (*appointed February 2017)*
Mark Dickinson, Ordinary Member (*appointed May 2017)*
Charles Leigh-Dugmore MCIOB, Ordinary Member (*resigned March 2017)*

EXECUTIVE DIRECTORS

Robert Heapy, Chief Executive
Robin Tebbutt, Finance Director, Company Secretary
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

Lloyds Bank PLC
HSBC PLC
Svenska Handelsbanken Ab (publ.)

LEGAL STATUS

Registered under the Co-operative and Community Benefit Societies Act 2014 number: 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

Our performance in 2016/17 demonstrated that we have successfully adapted our business plan in response to the government's policy to reduce social housing rents by 1% per annum (for a period of four years from April 2016). This change in rent policy immediately reduced the value of affected properties by approximately 15% and reduced the value of the portfolio as a whole by some 12%, as was reported in last year's accounts. In terms of the impact on our income, by the end of the 4 year period, the 1% per annum rent reductions will have resulted in income from affected properties being 12% lower than assumed under the previous policy of annual rent increases of CPI +1 % per annum.

Notwithstanding these changes to our operating environment, our actions have resulted in us strengthening our balance sheet, with financial gearing being lowered from 57% to 50%, and our Statement of Comprehensive Income shows that we increased the level of our reported annual surplus to £28m (£16m in 2015/16). Allowing for adjustments arising from variations to loan agreements, and non realised valuation gains, the surplus was £17.9m (£16.4m in 2015/16). At the same time, our key measure of resident satisfaction (satisfaction with overall services) improved over the year from 82.3% to 91.1%.

Our achievements in managing our finances flow partly from a range of Value for Money initiatives, which are summarised on page 13 where a link to our detailed Value for Money assessment can also be found.

Of particular note were our continuous improvement initiatives around use of technology. One element of this has involved creating a single seamless flow of data between our staff, including those working remotely when visiting our properties. The other element is our initiative to increase the proportion of our residents who interact with us on-line or digitally (for example, for payment of rent and requests for repairs). The proportion of our residents using our My Home Online service increased over the year from 21% to 27%, and our target is to increase this further in future years. These technology initiatives enabled us to reduce our Full Time Equivalent (FTE) staff numbers by 9% between the start of 2015/16 and the end of 2016/17.

Several years ago we increased our investment in staff dedicated to helping our residents to plan financially to meet their rent payments and other financial commitments. We believe that this has helped both our residents and ourselves in that our rent arrears stood at only 1.3% as compared to 1.6% and 1.8% in the two previous years. However, we are conscious that Universal Credit has not yet been rolled out in most of our areas of operation, but is due to be within the next 13 months. Experience from other parts of the country indicates that this may lead to a significant increase in rent arrears because of the time taken for new applicants to receive benefits. However, we are hopeful that our earlier investment in resources in this area will leave us relatively well positioned.

In terms of our development activities, we had a dip in the number of new homes completed in the year at 49, as last year we had scaled back our development activities in response to the impact of the rent cuts on our balance sheet and gearing levels. However, because of the actions we have taken to reduce gearing and to increase the level of our underlying annual surplus, we have been able to plan ahead for higher levels of development activity in the future. We have secured a number of new sites and expect to start on the development of 219 units during 2017/18. These will consist of a mix of shared ownership, intermediate rent and social rented homes together with some homes being developed for private sale, the projected profits from which will cross-subsidise our development of social rented homes. It remains the case that the quantum of homes we develop for private sale will be subject to a risk control measure which our Board put in place some four years ago.

As we take on the development of more homes for private sale, we have also considered the implications of this in terms of the optimum structure of our debt facilities. As a result, we have replaced a term loan with a revolving credit facility. We also agreed certain amendments to the provisions of a long-standing bank loan to improve flexibility.

CHAIR'S INTRODUCTION (continued)

Since the year end date, we have witnessed the tragedy of the fire at Grenfell Tower in west London. The Executive team and the Board have reviewed any implications for Town & Country and our residents. We have no buildings of more than 7 stories in height , which significantly reduces the risk to personal safety arising from a fire. We have identified cladding similar to that used at Grenfell Tower, but it is only at third floor level on one 3 storey building. Instructions have been placed to replace this cladding as soon as reasonably practical.

I would like to conclude by thanking the staff at Town and Country, and my Board colleagues, for their hard work during a period of significant change in our operating environment, and for their inventiveness in coming up with solutions to meet these new challenges.

Francis Salway
Chair
27 July 2017

REPORT OF THE BOARD

The Board presents its report and the audited financial statements of Town and Country Housing Group (TCHG, or the Group) for the year ended 31 March 2017.

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 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 8,930 properties at 31 March 2017; 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 communities 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.

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 a cash balance of £5k.

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

Governance
TCHG complies with the recommendations of the National Housing Federation Code of Governance (revised 2015), with one exception. For a temporary period, which commenced on 19 May 2017, the society's rules permit 13 members, against the code's suggested maximum of 12. The decision followed a recruitment exercise, during which more high calibre individuals were identified than were required to fill the available vacancies. Two members of the board are scheduled to retire on 23 April 2018, when the temporary rule will expire. The board is satisfied that the temporary rule, and associated failure to comply with the code, is a reasonable approach to succession planning.

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.

At 31 March there were 12 members, 11 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 2017.

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.

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 2016 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 warrant 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 2017

External influences and operating highlights

This was the first of four years in which the Government's revised rent policy for registered providers applies. Announced by the Chancellor of the Exchequer in his July 2015 Budget, the 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. The cumulative effect of this policy, and the various reductions to welfare benefits available to our tenants, will be felt throughout the 30 years of our business plan and beyond. The effect will be to reduce our capacity to provide additional social housing.

Despite the challenges of the welfare benefit reductions which are being progressively 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 restriction of Housing Benefit and the housing element of Universal Credit to the Local Housing Allowance commences.

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 £9.7m (2016: £10.8m) spent on planned, responsive and programmed maintenance.

The regeneration of our estate at Lakewood (formerly Sherwood) continued to make good progress, with the final phase commencing during the year.

We completed 49 dwellings in the year. Progress was slowed due to the more difficult environment following the new rent policy.

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. After five successful years' operation, their activity expanded to include our remaining stock with effect from April 2017.

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 on the following page.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

External influences and operating highlights (continued)

	FRS102	FRS102	FRS102	Old UK GAAP	Old UK GAAP
Annual accounts summaries	**2017**	**2016**	**2015**	**2014**	**2013**
Statement of comprehensive income (£m)					
Turnover	66.1	70.7	69.3	55.1	50.9
Income from social housing lettings	53.4	55.4	51.8	48.5	46.7
Operating surplus	30.5	30.2	29.2	24.0	17.7
Surplus/(deficit) on sales of fixed assets	4.9	3.5	0.2	0.4	(0.5)
Interest payable	(9.8)	(18.3)	(18.7)	(14.0)	(14.5)
Loan fair value movement	-	-	(26.4)	-	-
Surplus/(deficit) for the year before tax	28.5	16.9	(14.5)	10.2	2.8
Statement of financial position (£m)					
Fixed assets	775.4	808.2	809.1	688.8	642.2
Net current assets/(liabilities)	18.9	38.6	27.2	(2.7)	5.6
Loans due after more than one year	394.9	478.1	486.5	393.9	382.5
Revenue reserves	173.0	143.2	125.6	27.7	17.2
Revaluation reserve	203.4	206.2	206.2	258.1	244.7
Key ratios					
Interest cover	223%	217%	226%	203%	164%
Gearing (main lender’s calculation)	50%	57%	51%	57%	59%
Asset cover	166%	158%	142%	164%	156%
Average interest cost	3.52%	3.82%	3.89%	3.86%	4.11%
Gross operating margin	45.4%	42.8%	42.2%	43.6%	34.8%
Annual surplus/(deficit) margin	21.6%	23.2%	(21.3)%	18.5%	5.6%
Housing stock owned	8,930	9,176	9,131	8,746	8,536

Turnover fell in 2017 due to lower proceeds of sales of dwellings built for outright sale, the rent reduction referred to earlier, and the disposal of rented dwellings referred to on the next page. Interest payable fell due to a higher amortised cost loan measurement credit than in the prior year, and the continuing low interest rate environment. Our surplus for the year was also enhanced by strong income collection, and lower-than-budgeted operating costs.

Figures for 2015 have been restated for Financial Reporting Standard 102, which applied to us with effect from the 2016 financial year. The prior years (2013-2014) are based on the previous UK Generally Accepted Accounting Practice which applied at that time.

The annual surplus/ (deficit) margin is based on an adjusted net surplus for the years shown under FRS102. This excludes valuation gains on investment properties, non cash adjustments to interest costs, and actuarial (losses) / gains in the defined benefit pension scheme.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

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.

During the year, we completed the sale of 271 dwellings in the London Boroughs of Bromley and Bexley to another registered provider. This was part of a strategic decision to exit the London market. 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 49 new affordable rented and shared ownership homes and received £1m of grant funding from the Home and Communities Agency (HCA).

Objectives and strategy

Our 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

- 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.

We fully achieved 23 of 27 specific targets in our annual delivery plan, with the remaining targets partially met. Our progress towards our strategic objectives after the first year is as follows:

Viability:
We out-performed our business plan and budget in the year. We used some of the additional cash generated to break some fixed rate loans, and re-fixed at prevailing rates. This produces ongoing savings in future years. A new Value for Money Strategy was approved during the year. The strategy has helped to achieve further efficiencies during the year of £911k compared to the target of £826k. The budget for 2017/18 complies with the savings targets set out in our business plan.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

Objectives and strategy (continued)

Growth and asset investment:
We fell short of our targets for new starts on construction projects during the year, and will now target making these up in future years. A new Asset Management Strategy was approved by the Board and further work was carried out to improve the Return on Assets, including agreeing a new approach to consider opportunity costs when making decisions about the future of assets.

Customers – keeping residents at the heart of our business:
In 2017 our customer satisfaction with our overall services was 91.1%. This was a good improvement compared to the 2015/16 performance of 82.3%. Satisfaction with the way we dealt with enquiries in 2017 was 92.1%. We continue to receive excellent reports from our Resident Scrutiny Panel, and we act on almost all of their recommendations, providing a full explanation to them where we fail to do so.

Leadership – effective governance, leadership and people:
We have made three high-calibre appointments to our board during the year, to replace one member who retired during the year and with a view to replacing two who will retire early in 2018. We retained the Investors in People accreditation, a new People Development Plan was agreed, succession plans were approved and new recruitment arrangements were introduced in order to make better use of social media when advertising vacancies.

Support – for the most vulnerable in our homes:
Further work was carried out to help tenants sustain their tenancies, including training 288 residents, helping 24 residents gain employment and referring 203 tenants onto the tenancy sustainment programme.

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
- Governance failure
- People management
- Resident expectations
- Partnership risk and strategic contractors
- Legislative and regulatory
- External events
- Information and communication technology

In common with the sector generally, we have identified two risks as being the most significant we face. The first is government policies, including welfare reform and rent policy. The second is inflation, during the period when our rents are due to be reduced in cash terms. We have placed a great deal of emphasis on the introduction of a range of measures to mitigate the first risk, and on controlling our costs and improving efficiency to address the second.

We have agreed to participate in the new ‘Voluntary Right to Buy’, should it eventually be introduced. 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).

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

Financial position

Accounting policies

The Group's principal accounting policies are set out on pages 25 to 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 2017, for the purposes of loan covenants. They took account of a refreshed stock condition survey in doing so. The valuation bases are explained in note 11. The total value of the Group's completed housing stock is £692m with an additional sum of £11m, attributable to properties under construction, giving a total housing stock figure of £703m. (2016: £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 2017 is £6.3m (2016: £5.2m), an increase of £1.1m on the previous year's deficit principally due to a lower discount rate used in valuing the fund liabilities.

Group borrowings and treasury policy

The Group's loan facilities of £388m (2016: £410m) are provided by Nationwide Building Society and Co-operative Bank in syndicate, Barclays Bank PLC and Bank of Tokyo Mitsubishi UFG. The Group has also raised £80m (2016: £80m) through a bond issued by TCHG Capital PLC in 2014. The Group had loans and bond drawn of £363m at 31 March 2017, of which £10m was held by TCHG Capital PLC pending drawdown by TCHG. This left £95m available to be drawn by TCHG for future developments and regeneration activities.

The Group reduced its borrowings by £82m during the year. Sales proceeds and free cash flow were adequate to meet development costs. The Company reduced its borrowings by £41m. There was a reduction of £41m in the sum held by TCHG Capital PLC under the revolving facility, pending drawdown by TCHG.

The average interest rate for the year was 3.52% (2016: 3.82%). In February 2017, we paid £4.1m to break some long-term (embedded) fixed rates. We then re-fixed at prevailing market rates. This will reduce our interest costs in 2018 and succeeding years by £682k 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 2017, 84.6% (2016: 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. Year 14 of our business plan has maturities exceeding this limit, arising from arrangements entered into prior to the policy's introduction. We will work towards compliance before we reach that year.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

Liquidity risk (continued)

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

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 S&P Global Ratings was revised to A+ with a stable outlook in July 2016. This downgrading from the previous AA- with a stable outlook was solely and directly linked to the downgrading of the UK Government's rating. 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 UK Government's rating saw our grade reduced to the Stand-Alone Credit Profile grade. The rating was re-affirmed in January 2017.

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 23. 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.

Value for money self-assessment

Introduction

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

Improving value for money has remained a priority for Town and Country and good progress has been made in achieving the objectives set out in our Value for Money Strategy 2016-2020, including using new technology to deliver efficiencies and delivering social and environmental value by providing good quality homes and services.

In 2016/17, whilst reducing our staffing, we improved our performance in key areas such as rent and service charge collection, re-letting empty homes and customer satisfaction with our overall services. We were also pleased to maintain our 100% record on gas safety checks and properties meeting the Decent Homes Standard. These improvements were achieved against a backdrop of challenges such as the continued roll out of Universal Credit and other welfare reforms and the annual 1% reduction in rents.

Our overall approach to value for money is set out in our Corporate Strategy and our Value for Money Strategy. Both documents are owned by the Town and Country Board and show the objectives we are aiming to achieve by 2020. The definition of value for money we have agreed is:

> "To produce as much social, financial and environmental value as possible from the resources we use in order to deliver quality homes and services, in neighbourhoods people choose, with the ultimate goal of improving lives."

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

Value for money self-assessment (continued)

Our approach to making decisions on efficiencies and the use of resources continues to be robust and driven by the Board. The key elements are:

- The **Corporate Strategy** sets out our mission, vision and overall objectives.
- The **Value for Money Strategy** contains the value for money objectives, targets and specific actions that will be taken to improve value for money.
- The **30-year Business Plan** shows our overall financial plans for the organisation in order to achieve the objectives, including income and expenditure balance sheets and cashflows.
- **Annual budgets** are agreed by the Board in order to achieve the position set out in the Business Plan.
- **The Annual Delivery Plan** sets out the specific actions that will be taken during the year to help deliver our objectives and to deliver efficiencies.
- **Team Plans and individual objectives** translate the high-level actions contained in the Annual Delivery Plan into operational actions.

How do our costs compare with other providers?

The Social Housing Regulator publishes a set of Global Accounts each year setting out the headline cost per social rented home for registered providers, which we use to compare our costs against other providers (the latest figures relate to 2015/16). The figures show that our overall cost per social rented home was £2,990, which was much lower than the average for other providers in England (£3,570).

We use the HouseMark benchmarking club to compare our costs for individual services against other housing associations in the South East (excluding London). Our direct costs per home are lower than the peer group average for major works and cyclical maintenance, dealing with anti-social behaviour, estate cleaning and gardening and tenancy management. Our repairs and empty property costs increased in 2015/16 and were higher than the peer group average, because of a one-off settlement payment to one of our former contractors and an increase in the number of empty homes and asbestos removal work. Although our direct cost per home for rent and service charge collection remains above the average for our peers, we are mindful of the need to maintain a strong Income Management Team, including Money Advisers, in order to deal with the many challenges arising from the welfare reforms.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

Value for money self-assessment (continued)

Key Performance Indicators	2014/15	2015/16	2016/17	Target 2016/17	Peer Group Average (2015/16)
Tenants satisfied with the repairs service	88.0%	93.6%	91.1%	95.0%	88.0%
Repairs completed on the first visit	94.0%	91.0%	89.7%	91.0%	91.8%
Repairs appointments kept	99.7%	98.7%	99.0%	99.0%	98.1%
Tenants satisfied with planned maintenance	89.4%	91.4%	90.1%	94.0%	-
Rent collected (current tenants)	100.1%	99.5%	100.4%	99.8%	99.6%
Rent arrears of current tenants as % of rent due	1.8%	1.6%	1.3%	2.0%	1.8%
Rent loss due to voids	0.8%	0.7%	0.6%	0.6%	0.6%
Average time to re-let empty homes (calendar days)	17	17	16	18	20
Average days to close anti-social behaviour cases (calendar days)	51	44	41	50	-
Telephone calls answered	86.7%	85.8%	92.8%	90.0%	95.0%
Tenant satisfaction with overall services	74.6%	82.3%	91.1%	84.0%	86.7%
Tenant satisfaction with how we dealt with their last enquiry	90.0%	90.0%	92.1%	91.0%	-
Homes with a valid gas safety certificate	100%	100%	100%	100%	100%
Homes that meet the Decent Homes Standard	100%	100%	100%	100%	100%

Delivering value for money from our assets

Our financial return on assets for the three years ending 31 March 2017 was:

Indicators	2014/15	2015/16	2016/17	Peer Average 2015/16
Amount generated (surplus before interest / fixed asset disposals)	£29.8m	£30.2m	£30.5m	£22.2m
Historic cost of assets	£459.3m	£468.7m	£436.5m	N/A
% Return on assets	6.5%	6.4%	7.0%	N/A
% Return on assets (excl. property built for sale)	5.6%	5.7%	6.1%	N/A

During 2016/17 we achieved a healthy surplus of £30.5m (before interest and property sales). Our strong financial position has enabled us to increase the number of new homes we are planning to build in 2017/18 (100 homes) and to let some of these homes at social rents (as well as affordable rented properties) in order to cater for households on low incomes. The surplus helped us achieve a good overall return on assets of 7.0%.

Our 2016/17 surplus excluding all property sales was £26.7m (2016: £26.8m, 2015: £23.5m).

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

Value for money self-assessment (continued)

We continue to use Net Present Values (NPVs) to show the financial return for each property over a long period of time, taking into account rental income and maintenance costs. During 2016/17 we used Open Market Valuations and NPV results to identify the opportunity costs (the financial return we are foregoing by not selling a property) associated with individual properties. We continue to focus on the properties with the lowest NPVs and highest opportunity costs to identify poorly performing and high-value assets for sale to help us build more homes.

In 2016/17 we continued to improve the energy efficiency of the poorer performing homes, focusing especially on those with the worst performance.

Social value

Social value is the difference we make to individuals, communities and society through our programmes and activities. Producing social value is central to meeting our business objectives. Some of the main ways we deliver social value are by building new homes, the regeneration of neighbourhoods and through a range of community development initiatives carried out by Foundation, which is our charitable arm.

Social value from developing new homes – during 2016/17 we built 49 new homes (28 homes for rent and 21 for shared ownership). We received £1m of public grant to help build these homes. We have calculated that for every £1 of grant received our new homes will generate a social value of £5.88.

Regeneration of neighbourhoods – we continued to use the regeneration of Sherwood as a way of providing additional social value. In addition to the 185 new homes we have provided at Lakewood, we started the final phase of the project, which consists of 39 private sale and shared ownership units. The scheme continues the regeneration of the area and provides additional social value, for example, by:

- Employing seven new apprentices across the scheme during 2016/17.
- Exceeding our target of employing 20% of the workforce who live locally to the sites (within a 15-mile radius).
- Redeveloping former garage sites that were poorly used and had been a focus of anti-social behaviour.
- Providing allotments to support healthy eating initiatives.
- Ensuring that materials amounting to 20% of the construction costs were purchased locally.
- Creating three new formal access paths to the lake & woods from Greggs Wood Road including upgrading of the footpaths within the woodland.

Foundation (our charitable arm) - during 2016/17, Foundation's delivery themes were focused on learning, skills and employment, health and wellbeing and financial inclusion. Foundation also piloted the tenancy sustainment programme which delivered a wide range of interventions such as pre-employment support to help over 150 of our vulnerable tenants.

In 2016/17, some of the outcomes achieved were:

- We helped 288 residents to receive training against a target of 300,
- We helped 24 into employment against a target of 24,
- We referred 203 onto our tenancy sustainment programme (our target was 100).

During 2017/18, Foundation's principal focus will be on delivering learning, skills and employment interventions for our tenants through a new collaborative partnership arrangement with Tunbridge Wells Borough Council.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

Value for money self-assessment (continued)

Efficiencies achieved in 2016/17

In 2016/17 we were able to exceed our efficiency target of £826k by achieving efficiencies of £900k. 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 as shown in the following table:

Description	Target Savings £k	Actual Savings £k
Increased income from a review of garages	34	34
More use of information technology	77	113
Greater use of digital communications	21	21
Procurement savings	85	60
Repairs & maintenance efficiencies	54	43
Greater use of IT for resident involvement	-	81
Additional income from Feed in Tariffs	-	36
Sales & marketing efficiencies	67	24
Staffing efficiencies	488	488
Total	826	900

Efficiencies we are planning to achieve in 2017/18

During 2017/18 we will continue to improve value for money and generate efficiency savings through our service redesign programme and other reviews.

The efficiency savings planned in 2017/18 and those achieved in previous years will be used to achieve our corporate objective of at least maintaining the total number of social rented homes.

Efficiency Savings	Target Savings £k
Change in management of sewage pumping stations leading to a reduction in repairs costs	79
Improved processes for managing empty homes - reductions in council tax costs	30
Replacement of paper-based systems with digital forms and surveys	12
Introduction of a new approach for managing trees	9
Reorganisation of repairs contracts leading to efficiencies from Countrywise Repairs	278
Change of frequency of paper rent statements as part of the promotion of online statements	10
Increased external energy efficiency grants for cavity and loft insulation	20
Increased fees from local authorities for administering Disabled Facilities Grants	70
Repackaging and re-procurement of roof renewals based on a rolling programme	120
Handling more sales and marketing functions in-house	30
Improved arrangements for managing major works in empty properties	21
Total	679

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.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017

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 residents 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 Housing SORP 2014: Statement of Recommended Practice for registered social housing providers.

Approved by the Board and signed on its behalf by:

Francis Salway
Chair
27 July 2017

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 2017 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 34. 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 FRS 102 "The Financial Reporting Standard applicable in the UK and 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 the 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 the Board's Responsibilities set out on pages 5 and 6, the Board is responsible for the preparation of financial statements which 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 the consolidated Group and Company's affairs as at 31 March 2017 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
- the TCHG has not kept proper accounting records; or
- the financial statements of TCHG 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 AND COMPANY STATEMENT OF COMPREHENSIVE INCOME (INCOME AND EXPENDITURE ACCOUNT)

	Note	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Turnover	4	66,077	70,694	62,423	65,781
Operating expenditure	4	(35,536)	(40,517)	(33,904)	(37,131)
Operating surplus		30,541	30,177	28,519	28,650
Gain on disposal of property, plant and equipment	5	4,855	3,500	6,161	3,500
Interest receivable	6	145	144	375	555
Interest and financing costs	7	(9,768)	(18,341)	(9,645)	(18,237)
Gain on revaluation of investment properties	12	2,715	1,375	2,715	1,375
Surplus before tax		28,488	16,855	28,125	15,843
Tax	10	(156)	(381)	(16)	(355)
Non-controlling interest		(198)	(52)	-	-
Surplus for the year	8	28,134	16,422	28,109	15,488
Actuarial (loss)/gain in respect of pension schemes	27	(1,035)	1,602	(1,035)	1,602
Total comprehensive income for the year		27,099	18,024	27,074	17,090

All amounts relate to continuing activities.
The accompanying notes 1 to 34 form part of these financial statements.

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2017

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	Note	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Fixed assets					
Housing properties	11	750,725	785,738	751,048	786,545
Investment properties	12	22,360	19,645	22,360	19,645
Other property, plant and equipment	13	2,029	2,278	2,029	2,278
Intangible assets	14	304	566	304	566
Fixed asset investment	15	-	-	3,102	102
		775,418	808,227	778,843	809,136
Current assets					
Properties for sale	19	3,258	4,820	521	2,088
Debtors	20	4,429	5,412	9,345	10,702
Cash at bank and in hand	18	22,525	19,204	7,400	1,660
Current asset investments	16	-	34,329	-	-
		30,212	63,765	17,266	14,450
Creditors: amounts falling due within one year	21	(11,280)	(25,204)	(10,796)	(26,901)
Net current assets/(liabilities)		18,932	38,561	6,470	(12,451)
Total assets less current liabilities		794,350	846,788	785,313	796,685
Creditors: amounts falling due after more than one year	22	409,043	489,885	399,282	438,881
Defined pension liability	27	6,344	5,191	6,344	5,191
Long-term liabilities		415,387	495,076	405,626	444,072
Capital and reserves					
Revaluation reserve	34	203,355	206,168	186,672	189,485
Revenue reserve	34	173,038	143,181	190,815	160,983
Designated reserve	34	2,200	2,145	2,200	2,145
Non-controlling interest		370	218	-	-
		378,963	351,712	379,687	352,613
Capital and reserves and long-term liabilities		794,350	846,788	785,313	796,685

The accompanying notes 1 to 34 form part of these financial statements.
These financial statements were approved by the Board and signed on its behalf on 27 July 2017 by:

Francis Salway
Chair

Bob Heapy
Chief Executive

Robin Tebbutt
Company Secretary

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2017

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY AND RESERVES

	Revenue reserve £'000	Revaluation reserve £'000	Designated reserve £'000	Non-controlling interest £'000	Total £'000
Group					
At 1 April 2016	143,181	206,168	2,145	218	351,712
Surplus for the year	28,134	-	-	-	28,134
Surplus and dividends attributable to non-controlling interest	-	-	-	152	152
Actuarial loss in respect of pension schemes	(1,035)	-	-	-	(1,035)
Transfer from revaluation reserve to revenue reserve	2,813	(2,813)	-	-	-
Transfer from revenue reserve to designated reserve	(55)	-	55	-	-
At 31 March 2017	173,038	203,355	2,200	370	378,963
Company					
At 1 April 2016	160,983	189,485	2,145	-	352,613
Surplus for the year	28,109	-	-	-	28,109
Actuarial loss in respect of pension schemes	(1,035)	-	-	-	(1,035)
Transfer from revaluation reserve to revenue reserve	2,813	(2,813)	-	-	-
Transfer from revenue reserve to designated reserve	(55)	-	55	-	-
At 31 March 2017	190,815	186,672	2,200	-	379,687
Group					
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					
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

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2017

CONSOLIDATED STATEMENT OF CASH FLOWS

Group	2017 £'000	2016 £'000
Surplus for the year before tax	28,488	16,855
Adjustment for non-cash items:		
Depreciation and amortisation of fixed assets	6,572	6,802
Gain on revaluation of investment properties	(2,715)	(1,375)
Difference between pension charge and cash contributions	78	18
Adjustments for investing or financing activities:		
Gain on sale of housing properties	(5,367)	(3,500)
Interest payable	9,768	18,341
Interest receivable	(145)	(144)
Adjustments for working capital movements:		
Decrease in properties for sale	1,562	3,450
Decrease/(increase) in debtors	982	(2,065)
Increase in creditors	1,740	401
Net cash generated from operating activities	40,963	38,783
Cash flows from investing activities		
Purchase of fixed assets - housing properties	(11,072)	(19,857)
Purchase of fixed assets - other	(201)	(324)
Proceeds from sale of fixed assets - housing properties	42,209	16,975
Grants received	1,005	3,024
Divestment/(investment) in gilts	34,329	(13,565)
Net cash flows from investing activities	66,270	(13,747)
Cash flows from financing activities		
Interest paid	(21,854)	(22,256)
Interest received	145	144
New loans	-	5,000
Repayments of borrowings	(81,967)	(9,561)
Taxation	(236)	(69)
Net cash flows from financing activities	(103,912)	(26,742)
Net (decrease)/increase in cash and cash equivalents	3,321	(1,706)
Cash and cash equivalents at beginning of year	19,204	20,910
Cash and cash equivalents at end of year	22,525	19,204

Index of notes

General notes

Statement of comprehensive income (income and expenditure account) related notes

Statement of financial position (balance sheet) related notes

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), registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014.

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.

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 2017 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

1. 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.

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 and the 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 during the transition to FRS102 at 1 April 2014. The Group took the transition option to measure its completed 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.

For mixed tenure schemes, costs are directly allocated to the tenure where this is appropriate or they are allocated using an appropriate method (e.g. square metres of built units).

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
Solar panels	25 years

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

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Housing properties (continued)
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.

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 indicators of 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, direct development overheads and capitalised interest.

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 completes, 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
Prior to April 2017 the net proceeds from property sales made under Right to Acquire and Social HomeBuy are 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.

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.

Whenever the terms of a loan agreement are modified but the modification is not assessed as being substantial, TCHG re-measures the financial instrument at the value of its discounted expected future cash flows after the modification. For variable rate loans, the discount applied is one that results in the carrying value remaining unchanged (after recognition of any transaction costs). For fixed rate loans, it is the original effective interest rate when the loan was first entered into.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Financial instruments (continued)

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.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Other property, plant and equipment
Other property, plant and equipment is stated at historic cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all other 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Pensions (continued)
Local Government Pension Scheme (continued)

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.

Reserves
Revenue reserve
The revenue reserve represents the accumulated results of the Group and Company.

Revaluation reserve
A revaluation reserve is created from surpluses from asset revaluations.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Reserves (continued)
Designated reserve
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 in 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 Directors' and the Executive Management Team do not consider that there are any significant management judgements at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

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.

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. The defined benefit pension scheme liability at 31 March 2017 is £6,344k (2016: £5,191k).

Fixed assets housing properties – useful lives
Housing property assets are broken down into components based on management's assessment of an appropriate proportion to apply. Individual useful lives are assigned to these components based upon a management assessment and after considering advice from independent surveyors. The carrying value of components is:

	2017 £m	2016 £m
Structure	351.5	369.6
Roof	19.7	22.0
Bathroom	6.3	6.5
Windows and doors	18.4	20.7
Kitchen	12.7	13.8
Heating system: boiler	11.6	12.3
Lift	1.6	1.7
Solar panels	1.8	2.0

NOTES TO THE FINANCIAL STATEMENTS

4a. Turnover, operating expenditure and operating surplus

Group

	2017			2016		
	Turnover £'000	Operating expenditure £'000	Operating surplus £'000	Turnover £'000	Operating expenditure £'000	Operating surplus £'000
Social housing lettings (note 4b)	**53,442**	**(27,792)**	**25,650**	**55,357**	**(29,393)**	**25,964**
Other social housing activities						
Current asset property sales	6,547	(4,279)	2,268	7,201	(5,366)	1,835
Charges for support services	-	-	-	195	(195)	-
	59,989	(32,071)	27,918	62,753	(34,954)	27,799
Activities other than social housing						
Lettings	1,336	(486)	850	1,230	(501)	729
Property sales	4,371	(2,776)	1,595	6,421	(4,869)	1,552
Other	381	(203)	178	290	(193)	97
	66,077	(35,536)	30,541	70,694	(40,517)	30,177

Company

	2017			2016		
	Turnover £'000	Operating expenditure £'000	Operating surplus £'000	Turnover £'000	Operating expenditure £'000	Operating surplus £'000
Social housing lettings (note 4b)	**53,442**	**(28,618)**	**24,824**	**55,359**	**(29,879)**	**25,480**
Other social housing activities						
Current asset property sales	6,547	(4,279)	2,268	7,201	(5,366)	1,835
Charges for support services	-	-	-	195	(195)	-
Income from subsidiaries	182	-	182	229	-	229
	60,171	(32,897)	27,274	62,984	(35,440)	27,544
Activities other than social housing						
Lettings	1,336	(486)	850	1,230	(539)	691
Development	623	(521)	102	608	(1,152)	(544)
Gift aid	-	-	-	722	-	722
Other	293	-	293	237	-	237
	62,423	(33,904)	28,519	65,781	(37,131)	28,650

NOTES TO THE FINANCIAL STATEMENTS

4b. Income and expenditure from social housing lettings

Group	**General needs 2017 £'000**	**Housing for older people 2017 £'000**	**Intermediate 2017 £'000**	**Low-cost home ownership 2017 £'000**	**Total 2017 £'000**	**Total 2016 £'000**
Income						
Rents receivable	44,153	2,606	2,384	1,680	50,823	52,760
Service charge income	1,705	503	31	295	2,534	2,521
Amortised government grant	85	-	-	-	85	76
	45,943	3,109	2,415	1,975	53,442	55,357
Expenditure						
Management	7,679	695	234	430	9,038	9,089
Services	1,793	463	197	206	2,659	2,930
Routine maintenance	4,371	109	8	8	4,496	5,328
Planned maintenance	4,053	61	31	-	4,145	4,175
Major repairs	782	245	7	7	1,041	1,317
Bad debts	281	9	39	14	343	272
Depreciation of housing properties	5,214	208	218	301	5,941	6,092
Write-off of housing components replaced in the year	126	-	3	-	129	190
	24,299	1,790	737	966	27,792	29,393
Operating surplus	21,644	1,319	1,678	1,009	25,650	25,964
Void losses	478	74	119	39	710	612

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2017

NOTES TO THE FINANCIAL STATEMENTS

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

Company	General needs	Housing for older people	Intermediate	Low-cost home ownership	Total	Total
	2017	2017	2017	2017	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Income						
Rents receivable	44,153	2,606	2,384	1,680	50,823	52,762
Service charge income	1,705	503	31	295	2,534	2,521
Amortised government grant	85	-	-	-	85	76
	45,943	3,109	2,415	1,975	53,442	55,359
Expenditure						
Management	7,912	695	234	430	9,271	9,358
Services	1,793	463	197	206	2,659	2,930
Routine maintenance	4,964	109	8	8	5,089	5,544
Planned maintenance	4,053	61	31	-	4,145	4,175
Major repairs	782	245	7	7	1,041	1,317
Bad debts	281	9	39	14	343	273
Depreciation of housing properties	5,214	208	218	301	5,941	6,092
Write-off of housing components replaced in the year	126	-	3	-	129	190
	25,125	1,790	737	966	28,618	29,879
Operating surplus	20,818	1,319	1,678	1,009	24,824	25,480
Void losses	478	74	119	39	710	612

NOTES TO THE FINANCIAL STATEMENTS

5. Gain on disposal of property, plant and equipment	**Group**	**Group**	**Company**	**Company**
	2017	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**
Disposal proceeds of fixed assets	42,209	18,415	43,744	18,415
Carrying value and costs to sell	(36,741)	(14,473)	(36,970)	(14,473)
	5,468	3,942	6,774	3,942
Transferred to recycled capital grant fund	(613)	(442)	(613)	(442)
	4,855	3,500	6,161	3,500

During the year 271 housing properties in Bromley and Bexley were sold to a Registered Provider. The sales proceeds were £36.0m and the carrying value was £33.7m. A grant liability of £14.1m was transferred.

6. Interest receivable - on loans, bank deposits, gilts and government liquidity funds

	Group	**Group**	**Company**	**Company**
	2017	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**
Bank interest receivable	17	28	12	26
UK gilt interest receivable	9	82	-	-
Government liquidity fund interest receivable	119	34	-	-
Interest on extended credit to subsidiary	-	-	-	79
Interest on loan to subsidiary	-	-	315	315
Dividends from fixed asset investments	-	-	48	135
	145	144	375	555

7. Interest and financing costs - on loans, bank overdrafts and other loans

	Group	**Group**	**Company**	**Company**
	2017	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**
On bank loans, overdrafts and other loans	9,819	19,133	9,692	19,017
Interest payable to subsidiary	-	-	4	12
	9,819	19,133	9,696	19,029
Interest on pension scheme net liability	186	212	186	212
Borrowing costs capitalised	(237)	(1,004)	(237)	(1,004)
	9,768	18,341	9,645	18,237

Interest on bank loans, overdrafts and other loans includes an amortised cost loan measurement credit of £11,633k (2016: £2,911k credit). It also includes the cost of breaking fixed rate loans of £4,136k (2016: £4,226k). The interest rate used to capitalised borrowing costs is 3.89% (2016: 3.89%)

8. Surplus is stated after charging	**Group**	**Group**	**Company**	**Company**
	2017	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**
Depreciation of housing properties	5,941	6,092	5,941	6,092
Amortisation of intangible assets	368	379	368	379
Depreciation of other property, plant and equipment	263	331	263	331
Write-off of housing components replaced in year	129	190	129	190
Amount of stock recognised as an expense	6,768	9,027	4,036	4,993
Operating lease rentals – plant and equipment	62	67	62	67
Auditor’s remuneration (excluding VAT) - audit services	60	79	45	60
- other services	31	9	28	5

NOTES TO THE FINANCIAL STATEMENTS

9. Employee information

	Group 2017	Group 2016	Company 2017	Company 2016
Average number of full-time equivalent persons	186	201	138	148

The average number of full time equivalent persons (FTE's) is calculated by taking the average of the number of FTE's at the 1 April and at the 31 March.

Directors' and senior executives' 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:

	2017 No.	2016 No.
£60k to £70k	9	7
£70k to £80k	2	3
£80k to £90k	1	1
£110k to £120k	1	-
£120k to £130k	1	2
£130k to £140k	1	1
£160k to £170k	1	1

Executive Management Team emoluments

	Group 2017 £'000	Group 2016 £'000
Emoluments (including benefits in kind)	507	505
Pension contributions	36	45

The highest-paid Director during the year was the Chief Executive (2016: Chief Executive), whose remuneration details (salary, bonus and other benefits), excluding pension contributions, are shown below. No bonus was paid in 2017:

	Salary 2017 £'000	Other benefits 2017 £'000	Total 2017 £'000	Total 2016 £'000
Highest-paid Director	148	10	158	156

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.

NOTES TO THE FINANCIAL STATEMENTS

9. Employee information (continued)
Non-Executive Board Members' emoluments (Group, subsidiary boards and committees)

	£
Francis Salway (Chair)	15,996
Mark Easton	7,465
Graham Hill	7,465
Jenine Langrish	7,465
Christine Pointer	6,399
Marianne Hay	6,399
Charles Leigh-Dugmore	5,332
Kim Hill	5,332
Kayleigh Ward	5,332
Christopher Starke	5,332
Andy Mackay	3,612
Sanaya Robinson	2,313
Patrick Barr	1,600
Gaylene Kendall	1,114
Valerie Marshall	834
	81,990

10. Taxation

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Current tax				
UK corporation tax on surplus for the year	52	381	(88)	355
Deferred tax	104	-	104	-
Tax charge on surplus on ordinary activities	156	381	16	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 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Surplus/(deficit) for the year, before tax	28,488	16,855	28,125	15,843
Surplus on ordinary activities multiplied by the standard rate of corporation tax of 20% (2016: 20%)	5,698	3,371	5,625	3,169
Effects of:				
Fixed asset timing differences	104	-	104	-
Adjustment for prior period	(145)	-	(145)	-
Surpluses exempt from corporation tax	(5,501)	(2,990)	(5,568)	(2,814)
Total tax charge	156	381	16	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 2017, TCHG Living had tax losses of £29.9m (2016: £29.9m). These losses may be set against certain profits arising in that company in future accounting periods. A deferred tax asset of £5.1m (2016: £5.4m) 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	**Properties held for letting**				**Properties under construction**			**Total**
	General needs	**Intermediate**	**Rent to HomeBuy**	**Shared ownership & leasehold**	**General needs**	**Intermediate**	**Shared ownership & leasehold**	
	£'000	**£'000**	**£'000**	**£'000**	**£'00**	**£'000**	**£'000**	**£'000**
Deemed cost								
At 1 April 2016	710,067	23,459	11,985	39,748	10,555	534	3,312	799,660
Additions	-	-	-	168	4,419	544	2,175	7,306
New components (replacements)	2,883	44	-	-	-	-	-	2,927
Works to completed properties	409	-	-	-	-	-	-	409
Schemes completed	3,704	666	-	3,730	(3,670)	(666)	(3,764)	-
Property disposals	(32,147)	(39)	(584)	(4,971)	(2,768)	-	-	(40,509)
Component replacements	(1,648)	(12)	-	-	-	-	-	(1,660)
Transfer to current assets	-	-	-	(1,450)	-	-	-	(1,450)
Transfer of tenure	529	(469)	(5,105)	3,220	(1)	-	-	(1,826)
Reclassification	(73)	1	413	(38)	-	-	-	303
At 31 March 2017	683,724	23,650	6,709	40,407	8,535	412	1,723	765,160
Depreciation and impairment								
At 1 April 2016	(10,565)	(204)	(250)	(505)	(2,398)	-	-	(13,922)
Depreciation charge for the year	(5,414)	(170)	(47)	(310)	-	-	-	(5,941)
Depreciation on property disposals	1,743	9	32	93	2,398	-	-	4,275
Depreciation on component disposals	1,523	9	-	-	-	-	-	1,532
Transfer of tenure	-	19	250	(175)	-	-	-	94
Reclassification	-	-	(412)	(61)	-	-	-	(473)
At 31 March 2017	(12,713)	(337)	(427)	(958)	-	-	-	(14,435)
Net book value								
At 31 March 2017	671,011	23,313	6,282	39,449	8,535	412	1,723	750,725
At 31 March 2016	699,502	23,255	11,735	39,243	8,157	534	3,312	785,738

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets - housing properties (continued)

Company	Properties held for letting				Properties under construction			Total
	General needs	Intermediate	Rent to HomeBuy	Shared ownership & leasehold	General needs	Intermediate	Shared ownership & leasehold	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Deemed cost								
At 1 April 2016	711,465	23,459	11,985	40,113	9,576	534	3,312	800,444
Additions	-	-	-	168	3,935	544	2,175	6,822
New components (replacements)	2,883	44	-	-	-	-	-	2,927
Works to completed properties	409	-	-	-	-	-	-	409
Schemes completed	3,796	666	-	3,794	(3,826)	(666)	(3,764)	-
Property disposals	(32,147)	(39)	(584)	(4,971)	(2,768)	-	-	(40,509)
Component replacements	(1,648)	(12)	-	-	-	-	-	(1,660)
Transfer to current assets	-	-	-	(1,450)	-	-	-	(1,450)
Transfer of tenure	529	(469)	(5,105)	3,220	-	-	-	(1,825)
Reclassification	(75)	1	413	(38)	(1)	-	-	300
At 31 March 2017	685,212	23,650	6,709	40,836	6,916	412	1,723	765,458
Depreciation and impairment								
At 1 April 2016	(10,545)	(204)	(250)	(502)	(2,398)	-	-	(13,899)
Depreciation charge for the year	(5,414)	(170)	(47)	(310)	-	-	-	(5,941)
Depreciation on property disposals	1,743	9	32	93	2,398	-	-	4,275
Depreciation on component disposals	1,523	9	-	-	-	-	-	1,532
Transfer of tenure	-	19	250	(175)	-	-	-	94
Reclassification	2	-	(412)	(61)	-	-	-	(471)
At 31 March 2017	(12,691)	(337)	(427)	(955)	-	-	-	(14,410)
Net book value								
At 31 March 2017	672,521	23,313	6,282	39,881	6,916	412	1,723	751,048
At 31 March 2016	700,920	23,255	11,735	39,611	7,178	534	3,312	786,545

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets - housing properties (continued)
Improvements to properties - Group and Company

	2017 £'000	2016 £'000
Replacement of components	2,927	2,710
Other capitalised works to existing properties	409	881
	3,336	3,591
Improvements taken to statement of comprehensive income	1,041	1,317
	4,377	4,908

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 2017 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors using the following bases:

	Valuation	
	2017 £'000	2016 £'000
• Social housing – existing use value (EUV-SH)	588,805	583,756
• Intermediate rent – market value subject to tenancies (MVST)	30,681	27,470
• Rent to HomeBuy – market value subject to tenancies (MVST)	10,012	16,050
• Shared ownership – market value subject to tenancies (MVST)	41,750	38,227

12. Fixed assets - investment properties - Group and Company

	2017 £'000	2016 £'000
Valuation at 1 April	19,645	18,270
Surplus on revaluation	2,715	1,375
Valuation at 31 March	22,360	19,645

For the purposes of loan covenants, the Group's market rent properties (included in investment properties above) have been valued as at 31 March 2017 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 £20,680k (2016: £17,965k).

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 2016	2,399	149	822	927	4,297
Additions	-	-	59	36	95
Disposals	-	(149)	-	-	(149)
At 31 March 2017	2,399	-	881	963	4,243
Depreciation					
At 1 April 2016	(682)	(65)	(611)	(661)	(2,019)
Charge for the year	(28)	(3)	(140)	(92)	(263)
Disposals	-	68	-	-	68
At 31 March 2017	(710)	-	(751)	(753)	(2,214)
Net book value					
At 31 March 2017	1,689	-	130	210	2,029
At 31 March 2016	1,717	84	211	266	2,278

14. Intangible assets - Group and Company

	Computer software £'000
Cost	
At 1 April 2016	1,304
Additions	106
At 31 March 2017	1,410
Accumulated amortisation	
At 1 April 2016	(738)
Charge for the year	(368)
At 31 March 2017	(1,106)
Net book value	
At 31 March 2017	304
At 31 March 2016	566

15. Fixed asset investment

Investment in subsidiaries	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Countrywise Repairs Limited (51% owned)	-	-	102	102
Monson Homes Limited (100% owned)	-	-	3,000	-
	-	-	3,102	102

Countrywise Repairs (incorporated in England) is a joint venture partner which carries out repairs and maintenance services to the Group's properties in Kent and Sussex.

Monson Homes Limited (incorporated in England) develops homes for TCHG and for itself for outright sale. During the year TCHG purchased 2,999,999 £1 ordinary shares in Monson Homes to add to the single £1 share previously held.

NOTES TO THE FINANCIAL STATEMENTS

16. Current asset investments

	Group 2017 £'000	Group 2016 £'000
Listed investments - UK gilts	-	34,329

17. Interest rate risk of financial assets

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

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Cash at bank and in hand	22,525	2,509	7,400	1,660
Government liquidity funds	-	16,695	-	-
Listed investments – UK gilts	-	34,329	-	-
	22,525	53,533	7,400	1,660

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 0.10% (2016: 0.28%).

18. Cash and cash equivalents

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Cash at bank and in hand	22,525	2,509	7,400	1,660
Government liquidity funds	-	16,695	-	-
	22,525	19,204	7,400	1,660

19. Current assets - properties for sale

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Completed properties	175	4,820	175	2,088
Properties under construction	3,083	-	346	-
	3,258	4,820	521	2,088

NOTES TO THE FINANCIAL STATEMENTS

20. Debtors

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Due within one year				
Rent debtors	2,396	3,259	2,396	3,259
Less: provision for bad and doubtful debts	(1,062)	(1,042)	(1,062)	(1,042)
	1,334	2,217	1,334	2,217
Amounts owed by subsidiary undertakings	-	-	111	809
Prepayments	765	995	744	904
Outstanding insurance claims	1,530	1,529	1,530	1,529
Sales ledger debtors	127	123	136	123
VAT receivable	24	87	-	91
Other debtors	649	461	490	29
	4,429	5,412	4,345	5,702
Due after one year				
Amounts owed by subsidiary undertakings	-	-	5,000	5,000
	4,429	5,412	9,345	10,702

21. Creditors: amounts falling due within one year

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Accrued loan interest and commitment fees	2,358	2,760	2,358	2,760
Trade creditors	1,408	1,429	1,110	591
Accruals	2,741	4,251	2,189	4,732
Amounts owed to subsidiary undertakings	-	-	1,278	3,170
Rent received in advance	1,742	2,044	1,734	2,044
Retentions on contracts	1,452	2,119	834	1,104
Other creditors	172	82	10	46
VAT payable	-	-	44	-
Corporation tax payable	196	419	56	354
Other taxation and social security payable	163	143	135	143
Recycled capital grant fund (note 24)	476	971	476	971
Disposal proceeds fund (note 25)	225	244	225	244
Social Housing Grant in advance	347	347	347	347
Housing loans	-	10,395	-	10,395
	11,280	25,204	10,796	26,901

NOTES TO THE FINANCIAL STATEMENTS

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

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Housing loans				
Within two to five years	63,602	44,268	63,602	44,268
In five years or more	251,333	353,873	251,333	353,873
Total housing loans	314,935	398,141	314,935	398,141
Loans from subsidiary undertaking – due after more than five years	-	-	70,239	28,996
Bond – due after more than five years	80,000	80,000	-	-
Loan and bond arrangement fees	-	(920)	-	(920)
Deferred capital grant (note 23)	12,665	11,660	12,665	11,660
Recycled capital grant fund (note 24)	939	668	939	668
Leaseholder monies in respect of future major repairs	400	336	400	336
Deferred tax	104	-	104	-
	409,043	489,885	399,282	438,881

The transaction value of housing loans (excluding arrangement fees) as at 31 March 2017 was £283,480k (2016: £365,448k).

Bank loans and bonds are secured by a charge on specified assets of the Group. The Company has separate bank accounts totalling £352k which are maintained to match leaseholder sinking funds. These are included within the balances shown as cash at bank and in hand of £7,400k (Company as at 31 March 2017).

During the year, the average interest rate (including margins) for the Group and Company was 3.52% (2016: 3.82%). 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 1.59% to 5.63% and variable rates of interest ranged from 0.61% to 1.36%. The weighted average interest rate for fixed rates of interest at 31 March 2017 was 4.42% (2016: 4.71%). The weighted average interest rate for floating rates of interest at 31 March 2017 was 0.62% (2016: 1.17%). The weighted average period for which interest rate was fixed at 31 March 2017 was 21.1 years (2016: 19.0 years). The benchmark for determining the interest rate payments on the floating liability was in all cases the London Interbank Offered Rate.

23. Deferred capital grant - Group and Company

	2017 £'000	2016 £'000
At 1 April	11,660	10,309
Grants received	1,090	1,427
Released to statement of comprehensive income	(85)	(76)
At 31 March	12,665	11,660

NOTES TO THE FINANCIAL STATEMENTS

23. Deferred capital grant - Group and Company (continued)

Grant received or receivable at 31 March

	2017 £'000	2016 £'000
Social Housing Grant – revenue reserves	164,233	175,491
Other grant – revaluation reserve	3,433	6,246
Social Housing Grant – deferred creditor	12,826	11,736
Recycled capital grant fund	1,415	1,639
Disposals proceed fund	225	244
Released to statement of comprehensive income	(161)	(76)
At 31 March	181,971	195,280

24. Recycled capital grant fund (RCGF) - Group and Company

	HCA 1 2017 £'000	HCA 1 2016 £'000	GLA 2 2017 £'000	GLA 2 2016 £'000	Total 2017 £'000	Total 2016 £'000
At 1 April	1,516	1,197	123	-	1,639	1,197
Grants recycled	560	319	53	123	613	442
Use of grant – new build	(837)	-	-	-	(837)	-
	1,239	1,516	176	123	1,415	1,639
Due within one year	476	971	-	-	476	971
Due within two years	203	390	123	-	326	390
Due within three years	560	155	53	123	613	278
At 31 March	1,239	1,516	176	123	1,415	1,639

1 Homes and Communities Agency
2 Greater London Authority

25. Disposal proceeds fund - Group and Company

	2017 £'000	2016 £'000
At 1 April	244	244
Use of grant – new build	(19)	-
	225	244
Due within one year	225	244
At 31 March	225	244

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

26. Controlling party

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

NOTES TO THE FINANCIAL STATEMENTS

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 2017 was £237k (2016: £263k).

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 2016 and updated at 31 March 2017 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

	2017 £'000	2016 £'000
At 1 April	21,262	22,677
Current service cost	275	319
Interest cost	779	740
Actuarial losses/(gains) from change in financial assumptions	5,289	(1,957)
Actuarial gains from change in demographic assumptions	(369)	-
Experience gain on defined benefit obligation	(1,110)	-
Estimated benefits paid	(507)	(597)
Contributions by scheme participants	78	80
At 31 March	25,697	21,262

Composition of plan liabilities

	2017	2016
Schemes wholly or partly funded	Partly	Partly

27. Pensions (continued)

Reconciliation of fair value of plan assets	**2017**	**2016**
	£'000	**£'000**
At 1 April	16,071	16,089
Interest income on fund assets	593	528
Return on assets less interest	2,757	(355)
Other actuarial gain	18	-
Administration expenses	(10)	(11)
Contributions by employer including unfunded	353	337
Contributions by fund participants	78	80
Estimated benefits paid	(507)	(597)
At 31 March	19,353	16,071
Present value of defined benefit obligation	(25,697)	(21,262)
Net pension scheme liability	(6,344)	(5,191)
Amounts recognised in surplus for the year:		
Current service cost	275	319
Administration expenses	10	11
Interest costs	186	212
	471	542
Analysis of actuarial gain/(loss) recognised in other comprehensive income:		
Actual return on fund assets in excess of interest cost	2,757	(355)
Other actuarial gain	18	-
Changes in financial assumptions	(5,289)	1,957
Change in demographic assumptions	369	-
Experience gain on defined benefit obligation	1,110	-
	(1,035)	1,602
Composition of plan assets		
Equities	13,659	10,717
Gilts	144	142
Other bonds	1,885	1,765
Property	2,412	2,335
Cash	494	414
Absolute return fund	759	698
Total plan assets	19,353	16,071
Principal actuarial assumptions used at the balance sheet date		
Discount rates	2.70%	3.70%
Future salary increases	3.20%	2.90%
Future pension increases	2.70%	2.40%
Inflation assumption - Retail Price Index (RPI)	3.60%	3.30%
Inflation assumption - Consumer Price Index (CPI)	2.70%	2.40%

Mortality rates (life expectancy in years from age 65 years)	**2017 Males**	**2017 Females**	**2016 Males**	**2016 Females**
Retiring today	23.0	25.0	22.9	25.3
Retiring in 20 years	25.1	27.4	25.2	27.7

28. Financial commitments

Capital commitments are as follows:	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Contracted for but not provided for	17,946	2,791	8,417	144
Approved by the Board but not contracted for	15,728	2,767	-	-

The above commitments will be financed primarily by cash and borrowings and Social Housing Grant. At 31 March 2017, the Company had funding facilities (including bond proceeds) in place totalling £468m, with £105m undrawn.

29. Operating leases - Group and Company

Minimum lease payments and receipts under non-cancellable operating leases:

	2017 £'000	2016 £'000
Amounts payable as lessee		
Plant and machinery:		
Within one year	29	33
Between one and five years	16	43
	45	76
Land and buildings:		
Within one year	20	20
Between one and five years	-	20
	20	40
Amount receivable as lessor		
Land and buildings:		
Within one year	56	98
Between one and five years	142	198
	198	296

NOTES TO THE FINANCIAL STATEMENTS

30. Accommodation in management - Group and Company

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

At 31 March 2017	Owned & directly managed No.	Owned & managed by others No.	Total owned No.
Social housing			
General needs	6,491	24	6,515
Affordable	864	-	864
Affordable sheltered	109	-	109
Sheltered	407	-	407
Intermediate	241	-	241
Rent to HomeBuy	87	-	87
Shared ownership	556	-	556
	8,755	24	8,779
Non-social housing			
Market rented	151	-	151
All housing	8,906	24	8,930

At 31 March 2016	Owned & directly managed No.	Owned & managed by others No.	Total owned No.
Social housing			
General needs	6,689	32	6,721
Affordable	873	-	873
Affordable sheltered	104	-	104
Sheltered	412	-	412
Intermediate	245	-	245
Rent to HomeBuy	140	-	140
Shared ownership	530	-	530
	8,993	32	9,025
Non-social housing			
Market rented	151	-	151
All housing	9,144	32	9,176

31. Called-up share capital-non-equity

	2017 £	2016 £
At 1 April	10	9
Issued during the year	2	2
Surrendered during the year	(1)	(1)
As at 31 March	11	10

NOTES TO THE FINANCIAL STATEMENTS

32. Related parties

Key management personnel

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

Tenant Board Members

Two members of the Board at 31 March 2017, 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 £10,880 (2016: £11,061). At 31 March 2017, each of their rent accounts was in credit, and the aggregate balance on the accounts was a credit of £962 (2016: credit of £752). 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 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. From 1 April 2017, SEC changed the way it generates income. It reduced its membership fee, and charges a commission to suppliers on purchases made by its members. TCHG paid a membership fee of £3k in 2016/17 (2016: £21k). There was no balance due at 31 March 2017 (2016: Nil).

Inter-company

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 services including a reasonable proportion of overheads. A consistent basis has been used in 2016/17 to that used in prior years. Total amounts recharged were £780k (2016: £810k).

Monson Homes Limited (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 2016/17, the amounts charged by MHL on this basis totalled £3,298k (2016: £6,261k).

TCHG made a £233k (2016: £270k) payment to Foundation to cover the costs of Foundation’s charitable work and to deliver TCHG community investment activities. Additionally, MHL made a £20k (2016: £70k) payment to Foundation to cover the costs of regeneration activities at Sherwood.

Countrywise Repairs Limited (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 2017 were £4,162k (2016: £4,525k). The amount due to CWR from TCHG and vice versa (unsecured inter-company trade debtor/creditor) at 31 March 2017 was £211k (2016: £441k).

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 £70m (2016: £29m) had been drawn at 31 March 2017. 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

33. Financial instruments

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

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Financial assets				
Measured at fair value:				
- Listed investments – UK gilt	-	34,329	-	-
Measured at amortised cost	-	-	-	-
- Loan due from subsidiary	-	-	5,000	5,000
Measured at undiscounted amount receivable	-	-	-	-
- Amounts due from subsidiaries	-	-	111	809
- Rent arrears and other receivables	3,640	4,330	3,490	3,898
- Cash and cash equivalents	22,525	19,204	7,400	1,660
	26,165	57,863	16,001	11,367
Financial liabilities				
Measured at amortised cost :				
- Loan/bond payable	394,935	488,536	314,935	408,536
- Loan from subsidiary over five years	-	-	70,239	28,996
Measured at undiscounted amount payable	-	-	-	-
- Amounts owed to subsidiaries	-	-	1,278	3,170
- Trade and other creditors	8,260	10,608	6,623	9,200
	403,195	499,144	393,076	449,902

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, 84.6% 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.

Interest expense through the statement of comprehensive income

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Interest expense for financial liabilities at amortised cost	9,768	18,341	9,645	18,237

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments (continued)

Interest income through the statement of comprehensive income

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Interest income for financial assets at fair value	9	82	-	-
Interest income for financial assets at amortised cost	-	-	315	315
Interest income for financial assets at undiscounted amount receivable	136	62	12	105
	145	144	327	420

34. Reserves

The revenue reserve represents the accumulated results of the Group and Company.

The revaluation reserve represents the accumulated surpluses from asset revaluations.

The designated reserve is in respect of an estimate of the future buy-out debt costs from a local government defined benefit pension scheme.