

TOWN AND COUNTRY HOUSING GROUP

Report and Financial Statements

for the year ended

31 March 2018

Registered Society number 30167R

Homes and Communities Agency Registration number L4251

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

REPORT AND FINANCIAL STATEMENTS

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TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

BOARD, DIRECTORS, ADVISERS AND BANKERS

BOARD MEMBERS

Francis Salway, (Chair)
Graham Hill, (Vice-Chair and Chair of Audit Committee)
Mark Easton
Robert Heapy, Executive Member and Chair of Monson Homes, TCHG Living and TCHG Foundation
Kim Hill
Marianne Ismail
Christopher Starke
Gaylene Kendall
Valerie Marshall
Mark Dickinson, (*appointed May 2017*)
Melanie Forrester, (*appointed June 2018*)
Jenine Langrish, (*retired April 2018*)
Christine Pointer, (*retired April 2018*)
Kayleigh Ward, (*resigned December 2017*)

EXECUTIVE DIRECTORS

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

AUDITORS

External

BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA

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

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

CHAIR'S INTRODUCTION

Over the year, Town and Country Housing has made progress against a wide and diverse range of metrics:

- Maintained our key resident satisfaction metric (overall satisfaction %) at over 80%, with the average for the year at 89% versus 91% last year.
- Increased the number of new home starts to 320 (2016/17: 110).
- Maintained our gross operating margin at 45% (2016/17: 46%) despite a further rent decrease and increased maintenance costs (major works programme).
- Delivered a financial surplus for the year of £18m (2016/17: £28m).

The decrease in the financial surplus for the year is explained by a £12m interest credit in 2016/17 from a loan re-measurement under FRS102 accounting rules.

The fact that we have been able to broadly maintain our gross operating margin in a year when rents were reduced by Government by 1% is a testament to our focus on efficiency and our various Value for Money initiatives. These are summarised on page 14. A key initiative was the extension of the work of our successful repairs joint venture, Countrywise Repairs, to take on work in East Kent as well as West Kent, which increased the scope of its work by approximately 50%. This change came into effect from 1 April 2017 and, we estimate, delivered a 23% reduction in the prior year's cost for responsive repairs in our East Kent area.

Our striving for efficiency also prompted us to review the work of Town and Country Foundation ('Foundation'), a charity funded by Town and Country Housing to support our residents and their local communities. Our funding of Foundation represented only around 11% of our total budget for support to residents, and we concluded that Foundation's work could more efficiently be done by Town and Country Housing itself. We therefore made the decision to transfer the activities of Foundation to Town and Country Housing from April 2018. However, our total 2019 budget for resident support activities has been increased slightly.

Our Resident Scrutiny Panel has continued to shape our efforts to improve customer service, helping to identify detailed aspects of service delivery which can be improved. During the year, the Panel has produced reports on our money support service and our gas heating and servicing contract. We are much indebted to the members of the Panel for their diligence and hard work to ensure high service levels for the benefit of all our residents.

The roll-out of the Government's Universal Credit programme has been further delayed and subject to change in a number of areas. These changes take into account comments made by ourselves and others and, we believe, represent material improvements to the system. As a result, we now expect the impact of Universal Credit on rent arrears to be less significant than suggested by data from the early trials. Nevertheless, we continue to invest in our teams so that they can support residents through the changes which Universal Credit will bring.

There are currently around 200 of our residents on Universal Credit, and the material step up in numbers is likely to come from November 2018 when our largest concentration of homes in the borough of Tunbridge Wells comes into the scope of Universal Credit. This continues to represent a risk to our future income collection, albeit now at more moderate levels.

The housing sector continues to monitor learnings from the tragic fire at Grenfell Tower in June of last year. Town and Country has no buildings above seven storeys in height and only one case of cladding similar to that used at Grenfell Tower. This was on the top floor only of a three-storey building, and works to replace this cladding have already been completed.

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

CHAIR'S INTRODUCTION (continued)

I would like to take this opportunity to thank three of our long-standing Board and Committee members, Jenine Langrish, Christine Pointer and Sanaya Robinson, who stood down in April of this year having completed their nine-year terms with us. Their contribution across the areas of both finance and our social purpose has been outstanding. My thanks also to our Executive Management Team for their leadership of the organisation and to all the staff at Town and Country who do so much to provide high-quality housing and housing services for our residents.

Francis Salway
Chair
26 July 2018

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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 2018.

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; and
- 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 8,920 properties at 31 March 2018; this includes portfolios of shared ownership, sub-market rented and market-rented units.

TCHG Foundation (Foundation)

Foundation is a registered charity, number 1122306. Up to 31 March 2018 it was responsible for the Group's community development activity playing a key role in the local communities in which it operates. At 31 March 2018 Foundation's activities and net assets and reserves were transferred to TCHG. Foundation has ceased trading, but all of its activities will continue as part of TCHG. It is intended that Foundation will apply to the Charity Commissioners for deregistration when its 2018 financial statements have been filed.

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.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

REPORT OF THE BOARD (continued)

Governance

TCHG complies with the recommendations of the National Housing Federation Code of Governance (revised 2015). For a temporary period, between 19 May 2017 and 23 April 2018, the society's rules permitted a board of 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. The temporary rule expired on 23 April 2018 when two members of the Board were scheduled to retire. In practice, following a resignation in December 2017, the Board returned to 12 members from that date. The Board is satisfied that the temporary rule, and associated failure to comply with the code, was a reasonable approach to succession planning.

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 one Tenant Member. 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 performance 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 to 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 (FRS102) applicable in the UK and Republic of Ireland). 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.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

REPORT OF THE BOARD (continued)

Statement of the Board's responsibilities (continued)

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 Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, 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.

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.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

REPORT OF THE BOARD (continued)

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 2017 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.

During the year, a problem with gas safety certificates for a small number of dwellings was identified. We moved swiftly to correct the error and amend our controls to prevent recurrence. The matter was promptly disclosed to the Regulator of Social Housing, who was satisfied with the action taken. The Board confirms there are no other 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 Regulator of Social Housing's Governance and Financial Viability Standard. It confirms that TCHG is compliant with the standard. The Regulator of Social Housing carried out an 'In-Depth Assessment' in March and April 2016, and an annual 'stability check' in November 2017. Both resulted in the reaffirmation of 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.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

REPORT OF THE BOARD (continued)

STATEMENT OF COMPLIANCE WITH GOVERNANCE AND FINANCIAL VIABILITY STANDARD (continued)

The new General Data Protection Regulation came into force on 25 May 2018. TCHG undertook extensive work to prepare for the new regulation, and we are substantially compliant at the date of signing these accounts. In common with many other organisations, some work in respect of historic data held by us is outstanding. We are working to complete this as quickly as possible.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018

External influences and operating highlights

This was the second of four years in which the Government's revised rent policy for registered providers applied. 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 has been and will continue to be to reduce our capacity to provide additional social housing. In October 2017 the Government announced a return to CPI +1% rent increases for the five years from April 2020.

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.

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

We continue to prioritise investment in our assets with £10.3m (2017: £9.7m) spent on planned, responsive and programmed maintenance.

The regeneration of our estate at Lakewood (formerly Sherwood) continued to make good progress. The final phase is nearing completion, with the first sales expected in September 2018.

We completed 48 dwellings in the year. Progress was slowed due to the more difficult environment caused by the rent cuts referred to above. The 'pipeline' of new schemes is stronger, and we expect to start approximately 320 dwellings in 2018/19.

Our joint venture vehicle, Countrywise Repairs (51% owned by TCHG), successfully expanded its operations to undertake maintenance and void works for all of our stock. It had previously delivered these services to approximately two-thirds of the stock.

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.

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018 (continued)

External influences and operating highlights (continued)

| | FRS102 | FRS102 | FRS102 | FRS102 | Old UK GAAP |
|--|-------------|-------------|-------------|-------------|-------------|
| Annual accounts summaries | 2018 | 2017 | 2016 | 2015 | 2014 |
| | | Restated | Restated | Restated | Restated |
| Statement of comprehensive income | | | | | |
| (£m) | | | | | |
| Turnover | 59.7 | 66.1 | 70.7 | 69.3 | 55.1 |
| Income from social housing lettings | 52.6 | 53.4 | 55.4 | 51.8 | 48.5 |
| Operating surplus (before fixed asset sales) | 26.8 | 30.5 | 30.2 | 29.2 | 24.0 |
| Surplus/(deficit) on sales of fixed assets | 6.5 | 4.9 | 3.5 | 0.2 | 0.4 |
| Interest payable | (16.3) | (9.8) | (18.3) | (18.7) | (14.0) |
| Loan fair value movement | - | - | - | (26.4) | - |
| Surplus/(deficit) for the year before tax | 17.8 | 28.5 | 16.9 | (14.5) | 10.2 |
| Statement of financial position (£m) | | | | | |
| Fixed assets | 772.2 | 767.0 | 808.2 | 809.1 | 688.8 |
| Net current assets/(liabilities) | 21.1 | 18.9 | 38.6 | 27.2 | (2.7) |
| Loans due after more than one year | 383.2 | 394.9 | 478.1 | 486.5 | 393.9 |
| Revenue reserves | 185.7 | 166.8 | 134.8 | 118.9 | 20.7 |
| Revaluation reserve | 203.4 | 203.4 | 206.2 | 206.2 | 258.1 |
| Key ratios | | | | | |
| Interest cover | 247% | 215% | 217% | 226% | 203% |
| Gearing (main lender's calculation) | 48% | 50% | 57% | 51% | 57% |
| Asset cover | 174% | 166% | 158% | 142% | 164% |
| Average interest cost | 3.64% | 3.52% | 3.82% | 3.89% | 3.86% |
| Gross operating margin | 45.0% | 46.2% | 42.8% | 42.2% | 43.6% |
| Annual surplus/(deficit) margin | 25.7% | 21.6% | 23.2% | (21.3)% | 18.5% |
| Housing stock owned | 8,920 | 8,930 | 9,176 | 9,131 | 8,746 |

Turnover fell in 2018 due to lower proceeds of sales of dwellings built for outright sale and the rent reduction referred to earlier. Interest payable in 2017 was depressed by an amortised cost loan measurement credit of £12m. Our surplus for the year was enhanced by strong income collection.

Figures for 2017 and prior years have been restated for a prior year adjustment which reduces revenue reserves and housing property costs by £8.4m (see page 26).

Figures for 2015 have been restated for FRS102, which applied to us with effect from the 2016 financial year. Those for 2014 are based on the previous UK GAAP 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.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018 (continued)

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, TCHG completed 48 new affordable rented and shared ownership homes and received £1m of grant funding from Homes England.

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, if introduced)
- 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 are on target to complete 15 out of 18 specific targets in our delivery plan, with the remaining targets partially met. Our progress towards our strategic objectives after the second 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 amend some fixed rate loans. This produces ongoing savings in future years. We achieved further Value for Money efficiencies during the year of £980k compared to the target of £679k. The budget for 2018/19 complies with the savings targets set out in our business plan.

Growth and asset investment:

We fell short of our targets for new starts on construction projects during the year and have targeted making this up in future years. Further work was carried out to improve the Return on Assets, including the planned sale of a number of housing schemes where future maintenance costs are excessive. We continued to improve the energy efficiency of poorer performing homes, focusing on those with the worst performance. We delivered 251 insulation improvements and changed the heating systems in one home to a more efficient equivalent.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2017 (continued)

Objectives and strategy (continued)

Customers – keeping residents at the heart of our business:

In 2018 our customer satisfaction with our overall services was 88.5%, slightly below the 91.1% achieved in the prior year. Satisfaction with the way we dealt with enquiries in 2018 was 90.6%. 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 decide not to. We changed the platform of our My Home Online digital service and re-registered 19% of our residents within 3 months. The new platform brings significantly greater functionality which will facilitate wider use.

Leadership – effective governance, leadership and people:

We reviewed our governance arrangements using an external consultant. During the year we agreed a new human resources strategy and introduced a new learning and development policy.

Support – for the most vulnerable in our homes:

Further work was carried out to help tenants sustain their tenancies, including training 233 residents, (62 gained qualifications to assist with employment progression). We also helped 24 residents gain employment.

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 Executive 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

We have identified one risk as being the most significant we face. This is recruitment and retention of key staff. We have a range of measures in place to manage this risk and have set aside funds in the 2018/19 budget for an apprenticeship programme.

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 social rented homes we own).

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018 (continued)

Financial position

Accounting policies

The Group's principal accounting policies are set out on pages 29 to 36 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 2018, for the purposes of loan covenants. The valuation bases are explained in note 11. The total value of the Group's completed housing stock is £703m with an additional sum of £14m, attributable to properties under construction, giving a total housing stock figure of £717m (2017: £703m).

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 2018 is £5.6m (2017: £6.3m), a reduction of £0.7m on the previous year's deficit. This is principally due to a reduction in the assumptions of future pension and salary increases used in valuing the fund liabilities.

Group borrowings and treasury policy

The Group's loan facilities of £377m (2017: £388m) are provided by Nationwide Building Society and Co-operative Bank in syndicate, Barclays Bank PLC and MUFG Bank PLC. The Group has also raised £80m (2017: £80m) through a bond issued by TCHG Capital PLC in 2014. The Group had loans and bond drawn of £352m at 31 March 2018, of which £9m was held by TCHG Capital PLC pending drawdown by TCHG. This left £105m available to be drawn by TCHG for future developments and regeneration activities.

The Group reduced its borrowings by £11m during the year. Sales proceeds and free cash flow were adequate to meet development costs. The Company reduced its borrowings by £10m. There was a reduction of £1m in the sum held by TCHG Capital PLC under the revolving facility, pending drawdown by TCHG.

The average interest rate for the year was 3.64% (2017: 3.52%). In March 2018, we paid £3m to restructure some long-term (embedded) fixed rates. This will reduce our interest costs in 2019 and succeeding years.

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 2018, 80.5% (2017: 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. Maturities exceed this limit in 2030/31, arising from arrangements entered into prior to the policy's introduction. We will work towards compliance before we reach that year.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018 (continued)

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 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

The Group's rating from S&P Global Ratings was maintained at A+ with a stable outlook throughout the year.

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 27. 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

Introduction

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.

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.”

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

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018 (continued)

Value for money (continued)

- **Team Plans and individual objectives**, which translate the high-level actions contained in the Annual Delivery Plan into operational actions.

Our value for money performance

Efficiencies achieved in 2017/18

In 2017/18, we significantly exceeded our efficiency target of £679k delivering efficiencies of over £980k. Although some of the efficiencies expected did not materialise or were lower than expected, we were able to find other efficiencies to exceed the overall target as follows:

| Efficiency savings | Target savings £000s | Actual savings £000s |
|--|-------------------------|-------------------------|
| Change in management of sewage pumping stations leading to reduced repair costs | 79 | 50 |
| Improvements in the management of empty homes leading to reductions in council tax | 30 | 4 |
| Replacement of paper-based systems with digital forms and surveys | 12 | 42 |
| Introduction of a new approach for managing trees | 9 | - |
| Reorganisation of repairs contracts leading to efficiencies from Countrywise Repairs Ltd | 278 | 381 |
| Change of frequency of paper rent statements and the promotion of online statements | 10 | 10 |
| Increased external energy efficiency grants for cavity and loft insulation | 20 | - |
| Increased fees from local authorities for administering Disabled Facilities Grants | 70 | - |
| Re-packaging and re-procurement of roof renewals based on a rolling programme | 120 | 330 |
| Handling more sales and marketing functions in-house | 30 | 15 |
| Improved arrangements for managing major works in empty properties | 21 | 17 |
| Reorganisation of fire risk assessments | New | 108 |
| Re-procurement of document archive services and facilities | New | 4 |
| Reorganisation of staff parking facilities | New | 7 |
| Section 20 Leaseholders – administrative charge | New | 12 |
| Total | 679 | 980 |

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018 (continued)

Our value for money (continued)

Efficiencies planned in 2018/19

In addition to savings made in 2017/18 which are ongoing, the following efficiencies are planned for 2018/19:

| | Target efficiency saving £000s |
|--|-----------------------------------|
| Transfer of hosting for TCHG and 'Love Living Homes' websites from an external provider to an in-house arrangement | 8 |
| Paper information leaflets for residents replaced with website videos and email communications | 13 |
| Rebuilding a repair reporting tool on the TCHG website and termination of an external licence arrangement | 5 |
| Switch to online rent statements and termination of associated printing and mailing costs of producing paper copies | 11 |
| TCHG Foundation placed in dormant state meaning current and ongoing Foundation activities and tasks will be delivered directly by TCHG with existing staff, ensuring no disruption to beneficiaries and outcomes | 8 |
| Termination of specific website maps usage, Countrywise Repairs Ltd printer improvements and transfer of some ICT support from external providers to in-house arrangements | 20 |
| In-house processing of more shared ownership and outright home sales (13 units sold without the need for an agent with more expected) | 64 |
| TCHG acting on behalf of other organisations to sell homes | 14 |
| Website for Lakewood home sales designed in house | 1 |
| Negotiation of a reduced increase in West Kent contract cleaning costs | 7 |
| Negotiation of a better rate for fire alarm and emergency lighting servicing costs | 3 |
| Total | 154 |

Regulator of Social Housing – Value for Money metrics

In April 2018 the Regulator of Social Housing published seven metrics to measure economy, efficiency and effectiveness on a comparable basis across the sector. Our performance is set out in the table below. As this is the first year of publication there are some metrics without peer comparisons.

| Value for Money metrics | 2016/17 | 2017/18 | Target for 2017/18 | Target for 2018/19 | Peer Average 2016/17 |
|---|---------|---------|--------------------|--------------------|----------------------|
| 1 – Reinvestment % (Investment in properties as a % of total properties held) | 1.4% | 2.0% | 3.2% | 4.8% | N/A |
| 2A – New supply delivered (social housing units) (Social housing units developed as a % of social housing units owned) | 0.6% | 0.5% | 0.8% | 0.8% | 1.5% |
| 2B – New supply delivered (non social housing units) (Non social housing units developed as a % of total housing units owned) | 0.0% | 0.0% | 0.0% | 0.6% | N/A |
| 3 – Gearing % (Loans less cash as a % of the value of housing properties – different definition to loan covenant calculation used for table on page 9) | 49.6% | 49.1% | 48.6% | 49.1% | 42.8% |

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018 (continued)

Value for money (continued)

Regulator of Social Housing – Value for Money Metrics (continued)

| Value for Money metrics | 2016/17 | 2017/18 | Target for 2017/18 | Target for 2018/19 | Peer Average 2016/17 |
|--|---------|---------|--------------------|--------------------|----------------------|
| 4 – EBITDA MRI interest cover % (Surplus adjusted for depreciation and adding major repairs, as a % of interest payable) | 343.6% | 175.3% | 184.1% | 225.7% | 221.8% |
| 5 – Headline social housing cost per unit (Social housing costs excluding depreciation and bad debts divided by social housing units owned) | £2,769 | £3,031 | £2,889 | £2,943 | £3,105 |
| 6A – Operating margin (social housing lettings) (Operating surplus (social housing lettings) as a % of turnover from social housing lettings) | 48.0% | 45.6% | 40.4% | 43.5% | 39.9% |
| 6B – Operating margin overall (Operating surplus as a % of turnover) | 46.2% | 45.0% | 39.0% | 39.1% | 40.1% |
| 7 – Return on capital employed (ROCE) % (Operating surplus as a % of total assets less current liabilities) | 4.5% | 4.2% | 3.6% | 4.1% | 4.2% |

TCHG has historically maximised the delivery of new units, and would have scored amongst the highest on metrics one and two during the Affordable Housing Programme 2011 to 2015. This did mean that our debt relative to the value of our housing stock (metric three – gearing) was higher than many of our peers. When the Government announced cash terms rent reductions for the four Aprils 2016 to 2019, it was necessary for us to pause our development programme. It is in the nature of development programmes that they cannot easily be switched on and off. But we are building our pipeline and our business plan targets measures of 5.9% on metric 1, and 0.8% and 0.6% on metrics two a and b above in 2019/20 and succeeding years.

On metric four, the 2016/17 EBITDA MRI interest cover % is distorted by an FRS102 interest adjustment. For metrics five and six, for 2017/18, additional planned and major works maintenance expenditure increased the social housing costs per unit and reduced the operating margin.

The return on capital employed at metric seven is generally low for the whole sector, due to the sub market, regulated rents charged. This reflects our charitable social purpose.

We plan to undertake building new homes for sale with an anticipated operating margin in 2018/19 of 24.6%. Additionally we also undertake market rent where the 2018/19 anticipated return on capital employed is 3.8%.

Merger Code

The National Housing Federation has published ‘Mergers, Group Structures and Partnerships’. This is a voluntary code for housing associations. The Board accepts the principles underpinning the code but has decided not to adopt it in full. The code would require detailed consideration to be given to any approach received. Instead, the Board has agreed a set of criteria including strategic fit, financial sense and potential to improve our residents’ experience. These are used by the Executive Management Team to guide initial consideration of proposals received. Where the criteria are not met, the fact of the approach is reported to the Board, but no further work is carried out. Where the Board deems it appropriate to progress discussions about a possible merger, it is committed to following the relevant processes set out in the Merger Code.

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018 (continued)

Gender pay reporting

As TCHG has fewer than 250 employees, there is no legal requirement on the Group to report on its gender pay gap. The Board has decided that it will report voluntarily.

Summary gender pay gap

| Category | Gender pay gap % |
|-----------------------|-------------------------|
| Mean gender pay gap | 31 |
| Median gender pay gap | 24 |

There was no bonus gender pay gap as TCHG did not pay bonuses in 2017/18.

The table shows that men earn more than women on both measures. Overall however, we are confident that men and women are paid equally for equivalent roles throughout the Group.

Our gender pay gap results show that:

- On average across the Group men are paid more than women
- When comparing mean hourly rates, women earn 69p for every £1 that men earn
- When comparing median hourly rates, women earn 76p for every £1 that men earn.

Profile of the workforce

The gender pay gap can be explained when looking at the profile of the workforce. Our workforce is split 64% female and 36% male.

Women make up over 60% of the workforce indicating that we do not have a problem with attracting women to work for the Group. It is the distribution of gender in each pay quartile within the Group explains the gender pay gap.

The data illustrates the dominance of women in roles in the lower, lower middle and upper middle quartiles. By contrast, they make up a significantly lower percentage of the workforce in the upper quartile, where the higher paid roles are found.

| Pay quartile | Female % | Male % |
|---------------------|-----------------|---------------|
| Upper quartile | 32 | 68 |
| Upper middle | 65 | 35 |
| Lower middle | 74 | 26 |
| Lower quartile | 83 | 17 |

We recognise that we have more to do to close our pay gap and ensure that women are represented at all levels within the organisation, especially at Middle and Senior Leadership level and that there are no barriers preventing them from moving into roles at these levels. Our commitments to addressing the pay gap are shown below.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018

Gender pay reporting (continued)

Our commitments

We are committed to helping women achieve their potential throughout their careers and to reduce the gender pay gap by taking the following steps:

- **Providing extra support to those women who demonstrate the potential to grow into more senior level roles** as part of planned structured development programmes, e.g. succession planning, management training programme, Future Leaders programme.
- **Working with professional organisations** (e.g. the Chartered Institute of Housing, the Chartered Institute of Building, the Chartered Institute of Personnel and Development) to promote female career development initiatives and help develop networking and mentoring opportunities.
- **Examining vacancies from a gender perspective** to ensure that role specifications, criteria, working patterns and selection processes are not excluding either gender from applying.
- **Reviewing flexible working practices** to ensure that there are no barriers in place for flexibility in higher-level roles. We will work to improve the flexibility of our employment practices to ensure these are more family friendly at every level and support the Group in attracting and retaining a diverse workforce at all levels.

Going concern

The Board has reviewed the approved 2018/19 budget and the 30-year Business Plan and has a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Equal opportunities

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

Health and safety

The Chief Executive provides an annual health and safety report to the Group's Board and an update at each meeting. The health and safety of the Group's employees and 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.

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2018

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
26 July 2018

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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

Opinion

We have audited the financial statements of Town and Country Housing Group ("the Company") and its subsidiaries ("the Group") for the year ended 31 March 2018 which comprise the consolidated and Company statement of comprehensive income, the consolidated and Company statement of financial position, the consolidated and Company statement of changes in equity and reserves, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2018 and of the Group's and the Company's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

First year audit

This is the first year of our audit appointment and as a consequence we needed to obtain sufficient appropriate audit about whether opening balances contain misstatements that materially affect the current period's financial statements and whether appropriate accounting policies reflected in the opening balances have been consistently applied in the preparation of the current period's financial statements.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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

Because this is an audit of a Co-operative and Community Benefit Society, we had no right of access to the audit working papers of predecessor auditors and we therefore needed to perform our own work to gain the necessary assurance in this respect.

We consider this to be a key audit matter because of the effect that this work had on our audit strategy and the significant audit attention we therefore needed to give to the opening balances.

This key audit matter influenced our audit strategy through an additional emphasis on obtaining sufficient appropriate audit evidence over opening balances.

Our work on opening balances included (but was not limited to) the following:

- We performed our own assessment of risk of material misstatement of opening balances and targeted our efforts on those areas in which we considered the risk of material misstatement to be of greatest significance to the financial information of the current period.
- We performed sample-based procedures to check the completeness, existence and accuracy of the opening balances for housing property. We also verified rights and ownership for a sample of properties to title deeds.
- We checked opening balances of borrowings to relevant loan agreements and we confirmed that the recognition and measurement principles of the accounting standards had been appropriately applied.
- We agreed opening bank balances to bank statements and to the related reconciliations where relevant
- We reviewed material accounting policies to confirm compliance with the applicable accounting framework and the application of those policies to opening balances and compared to the policies applied in the preparation of financial information for the current year.

Our application of materiality

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

We determined materiality for the financial statements as a whole to be £12,070,000 which represents 1.5% of total assets.

We also apply a specific materiality level for all items comprising operating profit (including related disclosures) as that term is defined for the purposes of the entities lending covenants. This therefore involves adjusting operating profit for depreciation and grant amortisation. The specific materiality level that we applied was £1,980,000 which is 5.0 % of adjusted operating profit.

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

Materiality for the parent company was set at £11,960,000 with a specific materiality set at £1,950,000.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality or specific materiality depending on the financial statement area being audited. In setting the level of performance materiality. We considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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

We agreed with the Audit Committee that misstatements in excess of £240,000 for areas considered using financial statement materiality and £40,000 for areas considered using specific materiality, which were identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

An overview of the scope of our audit

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

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

Classification of components

A full scope statutory audit was carried out for each subsidiary that we considered to be a significant component of the group.

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

Other information

The board is responsible for the other information. Other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information including the Report of the Board and the Strategic Report for the year to 31 March 2018 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 to report to you if, in our opinion the information given in the Report of the Board and Strategic Report for the financial year for which the financial statements are prepared is not consistent with the financial statements;

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

Responsibilities of the board

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

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other matters

Following the recommendation of the Audit Committee, we were appointed by the board on 14 December 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ending 31 March 2018.

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

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

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

Date:

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC3051)

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

CONSOLIDATED AND COMPANY STATEMENT OF COMPREHENSIVE INCOME (INCOME AND EXPENDITURE ACCOUNT)

| | Note | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|--|------|------------------------|------------------------|--------------------------|--------------------------|
| Turnover | 4 | 59,679 | 66,077 | 60,264 | 62,423 |
| Cost of sales | 4 | (3,395) | (7,084) | (3,395) | (4,279) |
| Operating expenditure | 4 | (29,435) | (28,452) | (30,075) | (29,625) |
| Operating surplus before gain on disposal of property | | 26,849 | 30,541 | 26,794 | 28,519 |
| Gain on disposal of property | 5 | 6,543 | 4,855 | 8,033 | 6,161 |
| Operating surplus | | 33,392 | 35,396 | 34,827 | 34,680 |
| Interest receivable | 6 | 42 | 145 | 674 | 375 |
| Interest and financing costs | 7 | (16,297) | (9,768) | (16,386) | (9,645) |
| Gain on revaluation of investment properties | 12 | 640 | 2,715 | 640 | 2,715 |
| Surplus before tax | | 17,777 | 28,488 | 19,755 | 28,125 |
| Tax | 10 | 65 | (156) | - | (16) |
| Surplus for the year | 8 | 17,842 | 28,332 | 19,755 | 28,109 |
| Actuarial gain/(loss) in respect of pension schemes | 25 | 1,068 | (1,035) | 1,068 | (1,035) |
| Total comprehensive income for the year | | 18,910 | 27,297 | 20,823 | 27,074 |

Surplus for the year attributable to:

| | | | | |
|--------------------------|---------------|---------------|---------------|---------------|
| Non-controlling interest | 64 | 198 | - | - |
| The parent company | 17,778 | 28,134 | 19,755 | 28,109 |
| | 17,842 | 28,332 | 19,755 | 28,109 |

Total comprehensive income for the year attributable to:

| | | | | |
|--------------------------|---------------|---------------|---------------|---------------|
| Non-controlling interest | 64 | 198 | - | - |
| The parent company | 18,846 | 27,099 | 20,823 | 27,074 |
| | 18,910 | 27,297 | 20,823 | 27,074 |

All amounts relate to continuing activities.

The accompanying notes 1 to 30 form part of these financial statements.

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

| | Note | Group | Restated Group | Company | Restated Company |
|--|------|------------------|-------------------|------------------|---------------------|
| | | 2018 | 2017 | 2018 | 2017 |
| | | £'000 | £'000 | £'000 | £'000 |
| Fixed assets | | | | | |
| Housing properties | 11 | 746,589 | 742,320 | 746,757 | 742,643 |
| Investment properties | 12 | 23,000 | 22,360 | 23,000 | 22,360 |
| Other property, plant and equipment | 13 | 2,014 | 2,029 | 2,014 | 2,029 |
| Intangible assets | 14 | 539 | 304 | 420 | 304 |
| Fixed asset investment | 15 | 20 | - | 3,122 | 3,102 |
| | | 772,162 | 767,013 | 775,313 | 770,438 |
| Current assets | | | | | |
| Properties for sale | 16 | 12,116 | 3,258 | 1,674 | 521 |
| Debtors | 17 | 7,939 | 4,429 | 17,546 | 9,345 |
| Cash at bank and in hand | | 12,485 | 22,525 | 2,875 | 7,400 |
| | | 32,540 | 30,212 | 22,095 | 17,266 |
| Creditors: amounts falling due within one year | 18 | (11,439) | (11,280) | (10,457) | (10,796) |
| Net current assets | | 21,101 | 18,932 | 11,638 | 6,470 |
| Total assets less current liabilities | | 793,263 | 785,945 | 786,951 | 776,908 |
| Creditors: amounts falling due after more than one year | 19 | (398,391) | (409,043) | (389,275) | (399,282) |
| Defined benefit pension liability | 24 | (5,571) | (6,344) | (5,571) | (6,344) |
| Net assets | | 389,301 | 370,558 | 392,105 | 371,282 |
| Capital and reserves | | | | | |
| Revenue reserve | | 183,479 | 164,633 | 203,233 | 182,410 |
| Designated reserve | | 2,200 | 2,200 | 2,200 | 2,200 |
| | | 185,679 | 166,833 | 205,433 | 184,610 |
| Revaluation reserve | | 203,355 | 203,355 | 186,672 | 186,672 |
| Non-controlling interest | | 267 | 370 | - | - |
| Capital and reserves | | 389,301 | 370,558 | 392,105 | 371,282 |

The accompanying notes 1 to 30 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board and signed on its behalf on 26 July 2018 by:

Francis Salway
Chair

Bob Heapy
Chief Executive

Robin Tebbutt
Company Secretary

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY AND RESERVES

| | Revenue reserve | Designated reserve | Sub total | Revaluation reserve | Non- controlling interest | Total |
|--|--------------------|-----------------------|----------------|------------------------|---------------------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Group | | | | | | |
| At 1 April 2017 | 164,633 | 2,200 | 166,833 | 203,355 | 370 | 370,558 |
| Surplus for the year | 17,778 | - | 17,778 | - | - | 17,778 |
| Surplus and dividends attributable to non-controlling interest | - | - | - | - | (103) | (103) |
| Actuarial gain in respect of pension schemes | 1,068 | - | 1,068 | - | - | 1,068 |
| At 31 March 2018 | 183,479 | 2,200 | 185,679 | 203,355 | 267 | 389,301 |
| Company | | | | | | |
| At 1 April 2017 | 182,410 | 2,200 | 184,610 | 186,672 | - | 371,282 |
| Surplus for the year | 19,755 | - | 19,755 | - | - | 19,755 |
| Actuarial gain in respect of pension schemes | 1,068 | - | 1,068 | - | - | 1,068 |
| At 31 March 2018 | 203,233 | 2,200 | 205,433 | 186,672 | - | 392,105 |
| Group | | | | | | |
| At 1 April 2016 as previously stated | 143,181 | 2,145 | 145,326 | 206,168 | 218 | 351,712 |
| Prior year adjustment 1 | (8,405) | - | (8,405) | - | - | (8,405) |
| At 1 April 2016 restated | 134,776 | 2,145 | 136,921 | 206,168 | 218 | 343,307 |
| Surplus for the year | 28,134 | - | 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) | - | - | (1,035) |
| Transfer from revaluation reserve to revenue reserve | 2,813 | - | 2,813 | (2,813) | - | - |
| Transfer from revenue reserve to designated reserve | (55) | 55 | - | - | - | - |
| At 31 March 2017 | 164,633 | 2,200 | 166,833 | 203,355 | 370 | 370,558 |
| Company | | | | | | |
| At 1 April 2016 as previously stated | 160,983 | 2,145 | 163,128 | 189,485 | - | 352,613 |
| Prior year adjustment 1 | (8,405) | - | (8,405) | - | - | (8,405) |
| At 1 April 2016 restated | 152,578 | 2,145 | 154,723 | 189,485 | - | 344,208 |
| Surplus for the year | 28,109 | - | 28,109 | - | - | 28,109 |
| Actuarial loss in respect of pension schemes | (1,035) | - | (1,035) | - | - | (1,035) |
| Transfer from revaluation reserve to revenue reserve | 2,813 | - | 2,813 | (2,813) | - | - |
| Transfer from revenue reserve to designated reserve | (55) | 55 | - | - | - | - |
| At 31 March 2017 | 182,410 | 2,200 | 184,610 | 186,672 | - | 371,282 |

1 - Prior year adjustment - Following a review of housing property costs a number of historic balances which were not attributable to specific assets were written off.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2017

CONSOLIDATED STATEMENT OF CASH FLOWS

Group

| | 2018 £'000 | 2017 £'000 |
|---|-----------------|------------------|
| Surplus for the year before tax | 17,777 | 28,488 |
| Adjustment for non-cash items: | | |
| Cost of housing property disposals | 3,039 | 36,842 |
| Depreciation and amortisation of fixed assets | 6,308 | 6,572 |
| Gain on revaluation of investment properties | (640) | (2,715) |
| Difference between pension charge and cash contributions | 117 | 78 |
| Adjustments for investing or financing activities: | | |
| Interest payable | 16,297 | 9,768 |
| Interest receivable | (42) | (145) |
| Adjustments for working capital movements: | | |
| (Increase)/decrease in properties for sale | (8,858) | 1,562 |
| (Increase)/decrease in debtors | (3,546) | 982 |
| Increase in creditors | 2,467 | 1,740 |
| Net cash generated from operating activities | 32,919 | 83,172 |
| Cash flows from investing activities | | |
| Purchase of fixed assets - housing properties | (14,967) | (11,072) |
| Purchase of fixed assets - other | (690) | (201) |
| Grants received | 918 | 1,005 |
| Divestment in gilts | - | 34,329 |
| Net cash flows from investing activities | (14,739) | 24,061 |
| Cash flows from financing activities | | |
| Interest paid | (16,517) | (21,854) |
| Interest received | 42 | 145 |
| Repayments of borrowings | (11,582) | (81,967) |
| Taxation | (163) | (236) |
| Net cash flows from financing activities | (28,220) | (103,912) |
| Net (decrease)/increase in cash and cash equivalents | (10,040) | 3,321 |
| Cash and cash equivalents at beginning of year | 22,525 | 19,204 |
| Cash and cash equivalents at end of year | 12,485 | 22,525 |

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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 Regulator of Social Housing (RSH) 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 historic 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 parent Company.

Basis of consolidation

The Group financial statements consolidate the financial statements of TCHG and all its subsidiaries at 31 March 2018 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
- Amortisation of government grants

Rental income is recognised from the point when the properties under development reach practical completion and are let to tenants. 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.

Other income

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

Transfers of the business of a Registered Provider of Social Housing are treated as if they were gifts with the fair value of the net assets transferred recorded as income.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

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. The principal assumptions used in the valuation were:

- Discount rate 4.5%
- Retail price index 3.2% year 1, 2.5% year 2 onwards
- Consumer price index (CPI) 2.0%
- Long term rental growth CPI plus 1%
- Voids 2.0%
- Bad debts 1.0%
- Management costs £700 per unit
- Maintenance costs As per the 2012 stock condition survey

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 |

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Housing properties (continued)

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

Freehold land is not depreciated on the basis of its indefinite useful economic life.

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.

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 housing properties. 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 (including Rent to HomeBuy properties that convert to shared ownership) are accounted for as turnover in the statement of comprehensive income of the period in which the disposal completes. 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.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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 Homes England, local authorities, devolved government agencies, health authorities and the European Union 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 Homes England, 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.

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.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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 transaction price and then at the end of the reporting period they are measured at amortised cost using the effective interest rate method.

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.

Arrangement fees and legal costs incurred in connection with loan facilities and bond finance are included in the transaction price of the facility and then recorded at amortised cost using the effective interest rate method.

Intangible assets

Intangible assets are stated at historic cost, 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 |
|-------------------|---------|

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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, historic 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.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

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. The Group has established a designated reserve for the future buy-out debt costs from a local government defined benefit pension scheme. The level of the reserve is adjusted periodically to reflect the future buy-out debt.

Revaluation reserve

A revaluation reserve is created from surpluses from asset revaluations.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

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 2018 is £5,571k (2017: £6,344k).

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:

| | 2018 £m | 2017 £m |
|------------------------|---------|---------|
| Structure | 352.9 | 351.5 |
| Roof | 19.6 | 19.7 |
| Bathroom | 6.5 | 6.3 |
| Windows and doors | 17.9 | 18.4 |
| Kitchen | 13.0 | 12.7 |
| Heating system: boiler | 11.7 | 11.6 |
| Lift | 1.5 | 1.6 |
| Solar panels | 1.7 | 1.8 |

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

4a. Turnover, cost of sales, operating expenditure and operating surplus

| Group | 2018 | | | | 2017 | | | |
|---|---------------|---------------|-----------------------|-------------------|---------------|---------------|-----------------------|-------------------|
| | Turnover | Cost of sales | Operating expenditure | Operating surplus | Turnover | Cost of sales | Operating expenditure | Operating surplus |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Social housing lettings (note 4b) | 52,608 | - | (28,609) | 23,999 | 53,442 | - | (27,792) | 25,650 |
| Other social housing activities | | | | | | | | |
| Current asset property sales | 5,281 | (3,395) | - | 1,886 | 6,547 | (4,279) | - | 2,268 |
| | 57,889 | (3,395) | (28,609) | 25,885 | 59,989 | (4,279) | (27,792) | 27,918 |
| Activities other than social housing | | | | | | | | |
| Lettings | 1,457 | - | (499) | 958 | 1,336 | - | (486) | 850 |
| Development and property sales | 21 | - | (134) | (113) | 4,371 | (2,805) | - | 1,566 |
| Other | 312 | - | (193) | 119 | 381 | - | (174) | 207 |
| | 59,679 | (3,395) | (29,435) | 26,849 | 66,077 | (7,084) | (28,452) | 30,541 |

| Company | 2018 | | | | 2017 | | | |
|---|---------------|---------------|-----------------------|-------------------|---------------|---------------|-----------------------|-------------------|
| | Turnover | Cost of sales | Operating expenditure | Operating surplus | Turnover | Cost of sales | Operating expenditure | Operating surplus |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Social housing lettings (note 4b) | 52,608 | - | (29,033) | 23,575 | 53,442 | - | (28,618) | 24,824 |
| Other social housing activities | | | | | | | | |
| Current asset property sales | 5,281 | (3,395) | - | 1,886 | 6,547 | (4,279) | - | 2,268 |
| Income from subsidiaries | 174 | - | - | 174 | 182 | - | - | 182 |
| | 58,063 | (3,395) | (29,033) | 25,635 | 60,171 | (4,279) | (28,618) | 27,274 |
| Activities other than social housing | | | | | | | | |
| Lettings | 1,457 | - | (499) | 958 | 1,336 | - | (486) | 850 |
| Development and property sales | 450 | - | (543) | (93) | 623 | - | (521) | 102 |
| Other | 294 | - | - | 294 | 293 | - | - | 293 |
| | 60,264 | (3,395) | (30,075) | 26,794 | 62,423 | (4,279) | (29,625) | 28,519 |

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

4b. Income and expenditure from social housing lettings

Group

| | General needs | Housing for older people | Intermediate | Low-cost home ownership | Total | Total |
|--|------------------|-----------------------------|---------------|-------------------------------|---------------|---------------|
| | 2018 £'000 | 2018 £'000 | 2018 £'000 | 2018 £'000 | 2018 £'000 | 2017 £'000 |
| Income | | | | | | |
| Rents receivable | 43,423 | 2,727 | 1,853 | 2,002 | 50,005 | 50,823 |
| Service charge income | 1,538 | 523 | 15 | 441 | 2,517 | 2,534 |
| Amortised government grant | 86 | - | - | - | 86 | 85 |
| | 45,047 | 3,250 | 1,868 | 2,443 | 52,608 | 53,442 |
| Expenditure | | | | | | |
| Management | 7,745 | 712 | 200 | 488 | 9,145 | 9,038 |
| Service charge costs | 2,312 | 240 | 59 | 175 | 2,786 | 2,659 |
| Routine maintenance | 4,379 | 81 | 22 | 22 | 4,504 | 4,496 |
| Planned maintenance | 4,288 | 66 | 9 | 2 | 4,365 | 4,145 |
| Major repairs | 1,352 | 116 | 4 | 1 | 1,473 | 1,041 |
| Bad debts | 170 | 38 | 9 | 9 | 226 | 343 |
| Depreciation of housing properties | 5,184 | 206 | 174 | 321 | 5,885 | 5,941 |
| Write-off of housing components replaced in the year | 218 | - | 7 | - | 225 | 129 |
| | 25,648 | 1,459 | 484 | 1,018 | 28,609 | 27,792 |
| Operating surplus | 19,399 | 1,791 | 1,384 | 1,425 | 23,999 | 25,650 |
| Void losses | 432 | 41 | 93 | 124 | 690 | 710 |

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

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 |
|--|------------------|-----------------------------|---------------|-------------------------------|---------------|---------------|
| | 2018 £'000 | 2018 £'000 | 2018 £'000 | 2018 £'000 | 2018 £'000 | 2017 £'000 |
| Income | | | | | | |
| Rents receivable | 43,423 | 2,727 | 1,853 | 2,002 | 50,005 | 50,823 |
| Service charge income | 1,538 | 523 | 15 | 441 | 2,517 | 2,534 |
| Amortised government grant | 86 | - | - | - | 86 | 85 |
| | 45,047 | 3,250 | 1,868 | 2,443 | 52,608 | 53,442 |
| Expenditure | | | | | | |
| Management | 7,884 | 712 | 200 | 488 | 9,284 | 9,271 |
| Service charge costs | 2,312 | 240 | 59 | 175 | 2,786 | 2,659 |
| Routine maintenance | 4,664 | 81 | 22 | 22 | 4,789 | 5,089 |
| Planned maintenance | 4,288 | 66 | 9 | 2 | 4,365 | 4,145 |
| Major repairs | 1,352 | 116 | 4 | 1 | 1,473 | 1,041 |
| Bad debts | 170 | 38 | 9 | 9 | 226 | 343 |
| Depreciation of housing properties | 5,184 | 206 | 174 | 321 | 5,885 | 5,941 |
| Write-off of housing components replaced in the year | 218 | - | 7 | - | 225 | 129 |
| | 26,072 | 1,459 | 484 | 1,018 | 29,033 | 28,618 |
| Operating surplus | 18,975 | 1,791 | 1,384 | 1,425 | 23,575 | 24,824 |
| Void losses | 432 | 41 | 93 | 124 | 690 | 710 |

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

5. Gain on disposal of property

| | Group | Group | Company | Company |
|--|---------|----------|---------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Disposal proceeds of fixed assets | 9,582 | 42,209 | 11,072 | 43,744 |
| Carrying value and costs to sell | (2,847) | (36,741) | (2,847) | (36,970) |
| | 6,735 | 5,468 | 8,225 | 6,774 |
| Transferred to recycled capital grant fund | (192) | (613) | (192) | (613) |
| | 6,543 | 4,855 | 8,033 | 6,161 |

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

| | Group | Group | Company | Company |
|---|-------|-------|---------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Bank interest receivable | 23 | 17 | 22 | 12 |
| UK gilt interest receivable | - | 9 | - | - |
| Government liquidity fund interest receivable | 19 | 119 | - | - |
| Interest on extended credit to subsidiary | - | - | - | - |
| Interest on loan to subsidiary | - | - | 479 | 315 |
| Dividends from fixed asset investments | - | - | 174 | 48 |
| | 42 | 145 | 674 | 375 |

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

| | Group | Group | Company | Company |
|---|--------|-------|---------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| On bank loans, overdrafts and other loans | 16,418 | 9,819 | 16,398 | 9,692 |
| Interest payable to subsidiary | - | - | - | 4 |
| | 16,418 | 9,819 | 16,398 | 9,696 |
| Interest on pension scheme net liability | 169 | 186 | 169 | 186 |
| Borrowing costs capitalised | (290) | (237) | (181) | (237) |
| | 16,297 | 9,768 | 16,386 | 9,645 |

Interest on bank loans, overdrafts and other loans includes an amortised cost loan measurement credit of £81k (2017: £11,633k credit). It also includes the cost of breaking fixed rate loans of £2,958k (2017: £4,136k). The interest rate used to capitalised borrowing costs is 3.60% (2017: 3.89%)

8. Operating surplus is stated after charging

| | Group | Group | Company | Company |
|---|-------|-------|---------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Depreciation of housing properties | 5,885 | 5,941 | 5,885 | 5,941 |
| Amortisation of intangible assets | 272 | 368 | 272 | 368 |
| Depreciation of other property, plant and equipment | 198 | 263 | 198 | 263 |
| Write-off of housing components replaced in year | 225 | 129 | 225 | 129 |
| Amount of stock recognised as an expense | 3,148 | 9,027 | 3,148 | 4,993 |
| Operating lease rentals – plant and equipment | 260 | 281 | 61 | 62 |
| Auditor's remuneration (excluding VAT) - audit services | 68 | 70 | 45 | 45 |
| - other services | - | 31 | - | 28 |

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

9. Employee information

| | Group 2018 | Group 2017 | Company 2018 | Company 2017 |
|--|---------------|---------------|-----------------|-----------------|
| Average number of full-time equivalent persons | 186 | 186 | 135 | 138 |

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.

Staff costs (for above persons)

| | Group 2018 | Group 2017 | Company 2018 | Company 2017 |
|-----------------------|---------------|---------------|-----------------|-----------------|
| Wages and salaries | 6,561 | 6,379 | 4,925 | 5,031 |
| Social security costs | 660 | 648 | 497 | 512 |
| Pension cost | 405 | 376 | 375 | 361 |
| | 7,626 | 7,403 | 5,797 | 5,904 |

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:

| | 2018 No. | 2017 No. |
|----------------|-------------|-------------|
| £60k to £70k | 4 | 9 |
| £70k to £80k | 4 | 2 |
| £80k to £90k | 1 | 1 |
| £110k to £120k | - | 1 |
| £120k to £130k | 2 | 1 |
| £130k to £140k | - | 1 |
| £140k to £150k | - | - |
| £160k to £170k | 1 | 1 |

Executive Management Team emoluments

| | Group 2018 £'000 | Group 2017 £'000 |
|---|------------------------|------------------------|
| Emoluments (including benefits in kind) | 522 | 507 |
| Pension contributions | 39 | 36 |

The highest-paid Director during the year was the Chief Executive (2017: Chief Executive), whose remuneration details (salary, bonus and other benefits), excluding pension contributions, are shown below. No bonus was paid in 2018:

| | Salary 2018 £'000 | Other benefits 2018 £'000 | Total 2018 £'000 | Total 2017 £'000 |
|-----------------------|-------------------------|------------------------------------|------------------------|------------------------|
| Highest-paid Director | 150 | 11 | 161 | 158 |

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

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

9. Employee information (continued)

Non-Executive Board Members' emoluments (Group, subsidiary boards and committees)

| | £ |
|------------------------|---------------|
| Francis Salway (Chair) | 16,316 |
| Mark Easton | 7,614 |
| Graham Hill | 7,614 |
| Jenine Langrish | 7,614 |
| Christine Pointer | 6,526 |
| Marianne Hay | 6,526 |
| Kim Hill | 5,439 |
| Christopher Starke | 5,439 |
| Mark Dickinson | 5,439 |
| Gaylene Kendall | 5,439 |
| Valerie Marshall | 5,439 |
| Andy Mackay | 4,351 |
| Kayleigh Ward | 3,835 |
| Sanaya Robinson | 2,359 |
| | <u>89,950</u> |

10. Taxation

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Current tax | | | | |
| UK corporation tax on surplus for the year | (65) | 52 | - | (88) |
| Deferred tax | - | 104 | - | 104 |
| Tax charge on surplus on ordinary activities | <u>(65)</u> | <u>156</u> | <u>-</u> | <u>16</u> |

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:

| | | | | |
|--|-------------|------------|----------|-----------|
| Surplus for the year, before tax | 17,778 | 28,488 | 19,755 | 28,125 |
| Surplus on ordinary activities multiplied by the standard rate of corporation tax of 19% (2017: 20%) | 3,378 | 5,698 | 3,754 | 5,625 |
| Effects of: | | | | |
| Fixed asset timing differences | 13 | 104 | 13 | 104 |
| Adjustment for prior period | - | (145) | - | (145) |
| Surpluses exempt from corporation tax | (3,456) | (5,501) | (3,767) | (5,568) |
| Total tax charge | <u>(65)</u> | <u>156</u> | <u>-</u> | <u>16</u> |

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 2018, TCHG Living had tax losses of £29.9m (2017: £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 (2017: £5.1m) has not been recognised due to uncertainties as to the extent and timing of its recovery.

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

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 | £'000 | £'000 | £'000 | £'000 |
| Deemed / historic cost | | | | | | | | |
| At 1 April 2017 as previously stated | 683,722 | 23,650 | 6,709 | 40,407 | 8,535 | 412 | 1,723 | 765,158 |
| Prior year adjustment 1 | (8,405) | - | - | - | - | - | - | (8,405) |
| At 1 April 2017 as restated | 675,317 | 23,650 | 6,709 | 40,407 | 8,535 | 412 | 1,723 | 756,753 |
| Additions | - | - | - | - | 5,414 | 1,933 | 3,907 | 11,254 |
| New components (replacements) | 4,102 | 30 | - | - | - | - | - | 4,132 |
| Schemes completed | 5,451 | 350 | - | 1,985 | (5,451) | (350) | (1,985) | - |
| Property disposals | (636) | - | - | (1,561) | (194) | - | - | (2,391) |
| Component replacements | (1,591) | (26) | - | - | - | - | - | (1,617) |
| Transfer to current assets | - | - | - | (598) | - | - | - | (598) |
| Transfer of tenure | - | (1,126) | (4,500) | 3,426 | - | - | - | (2,200) |
| At 31 March 2018 | 682,643 | 22,878 | 2,209 | 43,659 | 8,304 | 1,995 | 3,645 | 765,333 |
| Depreciation and impairment | | | | | | | | |
| At 1 April 2017 | (12,711) | (337) | (427) | (958) | - | - | - | (14,433) |
| Depreciation charge for the year | (5,395) | (157) | (15) | (318) | - | - | - | (5,885) |
| Depreciation on property disposals | 31 | - | - | 33 | - | - | - | 64 |
| Depreciation on component disposals | 1,374 | 18 | - | - | - | - | - | 1,392 |
| Transfer of tenure | - | 109 | 276 | (267) | - | - | - | 118 |
| At 31 March 2018 | (16,701) | (367) | (166) | (1,510) | - | - | - | (18,744) |
| Net book value | | | | | | | | |
| At 31 March 2018 | 665,942 | 22,511 | 2,043 | 42,149 | 8,304 | 1,995 | 3,645 | 746,589 |
| At 31 March 2017 | 662,606 | 23,313 | 6,282 | 39,449 | 8,535 | 412 | 1,723 | 742,320 |

1 - Prior year adjustment - Following a review of housing property costs a number of historic balances which were not attributable to specific assets were written off.

The net book value of leasehold land and buildings included above is £5.8m (2017: £5.7m). Additions to housing properties in the course of construction during the year included capitalised interest of £0.3m (2017: £0.2m) at an average interest rate during the year of 3.60% (2017: 3.89%).

The deemed/historic cost includes cumulative capitalised interest of £22.2m (2017: £22.0m).

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

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 / historic cost | | | | | | | | |
| At 1 April 2017 as previously stated | 685,212 | 23,650 | 6,709 | 40,836 | 6,916 | 412 | 1,723 | 765,458 |
| Prior year adjustment 1 | (8,405) | - | - | - | - | - | - | (8,405) |
| At 1 April 2017 as restated | 676,807 | 23,650 | 6,709 | 40,836 | 6,916 | 412 | 1,723 | 757,053 |
| Additions | - | - | - | - | 5,259 | 1,933 | 3,907 | 11,099 |
| New components (replacements) | 4,100 | 30 | - | - | - | - | - | 4,130 |
| Schemes completed | 5,600 | 350 | - | 1,985 | (5,600) | (350) | (1,985) | - |
| Property disposals | (636) | - | - | (1,561) | (194) | - | - | (2,391) |
| Component replacements | (1,591) | (26) | - | - | - | - | - | (1,617) |
| Transfer to current assets | - | - | - | (598) | - | - | - | (598) |
| Transfer of tenure | - | (1,126) | (4,500) | 3,426 | - | - | - | (2,200) |
| At 31 March 2018 | 684,280 | 22,878 | 2,209 | 44,088 | 6,381 | 1,995 | 3,645 | 765,476 |
| Depreciation and impairment | | | | | | | | |
| At 1 April 2017 | (12,691) | (337) | (427) | (955) | - | - | - | (14,410) |
| Depreciation charge for the year | (5,395) | (157) | (15) | (318) | - | - | - | (5,885) |
| Depreciation on property disposals | 31 | - | - | 33 | - | - | - | 64 |
| Depreciation on component disposals | 1,374 | 18 | - | - | - | - | - | 1,392 |
| Transfer of tenure | - | 109 | 276 | (267) | - | - | - | 118 |
| Reclassification | 2 | - | - | - | - | - | - | 2 |
| At 31 March 2018 | (16,679) | (367) | (166) | (1,507) | - | - | - | (18,719) |
| Net book value | | | | | | | | |
| At 31 March 2018 | 667,601 | 22,511 | 2,043 | 42,581 | 6,381 | 1,995 | 3,645 | 746,757 |
| At 31 March 2017 | 664,116 | 23,313 | 6,282 | 39,881 | 6,916 | 412 | 1,723 | 742,643 |

1 - Prior year adjustment - Following a review of housing property costs a number of historic balances which were not attributable to specific assets were written off. The net book value of leasehold land and buildings included above is £5.8m (2017: £5.7m). Additions to housing properties in the course of construction during the year included capitalised interest of £0.2m (2017: £0.2m) at an average interest rate during the year of 3.60% (2017: 3.89%).

The deemed/historic cost includes cumulative capitalised interest of £22.2m (2017: £22.0m).

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets - housing properties (continued)

Improvements to properties - Group and Company

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Replacement of components | 4,132 | 2,927 |
| Other capitalised works to existing properties | - | 409 |
| | 4,132 | 3,336 |
| Improvements taken to statement of comprehensive income | 1,473 | 1,041 |
| | <u>5,605</u> | <u>4,377</u> |

Valuation: Group and Company

For the purposes of our loan covenants, the Group's properties have been valued by professional external valuers, Savills (UK) Limited, (Savills) Chartered Surveyors of 37-39 Perrymount Road, Haywards Heath, West Sussex, RH16 3BN as at 31 March 2018 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors (RICS) using the following bases:

| | Valuation | |
|--|----------------|----------------|
| | 2018 £'000 | 2017 £'000 |
| • Social housing – existing use value (EUV-SH) | 597,998 | 588,805 |
| • Intermediate rent – market value subject to tenancies (MVST) | 30,930 | 30,681 |
| • Rent to HomeBuy – market value subject to tenancies (MVST) | 3,549 | 10,012 |
| • Shared ownership – market value subject to tenancies (MVST) | 47,893 | 41,750 |
| | <u>680,370</u> | <u>671,248</u> |

12. Fixed assets - investment properties - Group and Company

| | 2018 £'000 | 2017 £'000 |
|------------------------|---------------|---------------|
| Valuation at 1 April | 22,360 | 19,645 |
| Surplus on revaluation | 640 | 2,715 |
| Valuation at 31 March | <u>23,000</u> | <u>22,360</u> |

The Group's market rent properties (included in investment properties above) are fair valued annually at 31 March. The valuation (fair value) is in accordance with the Appraisal and Valuation Manual of RICS using the Market Value Vacant Possession basis (MVVP). The valuation was undertaken by the Group's professional external valuers, Savills. The valuation was £21,320k (2017: £20,680k) and is based on research of comparable MVVP's on a property by property basis in the locations covered by the portfolio. The Group's other investment properties (two commercial properties) were valued in 2015/16 at £1,680k (2017: £1,680k) using a rent capitalisation method.

Savills have over 400 valuers who are RICS registered and annually undertake thousands of property valuations for Registered Providers, Banks and building societies, property companies, developers, investors and fund managers.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

13. Other plant, property and equipment - Group and Company

| | Freehold offices & premises | Computer equipment | Office equipment & fixtures | Total |
|-----------------------|-----------------------------------|-----------------------|-----------------------------------|---------|
| Cost | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2017 | 2,399 | 881 | 963 | 4,243 |
| Additions | - | 51 | 132 | 183 |
| At 31 March 2018 | 2,399 | 932 | 1,095 | 4,426 |
| Depreciation | | | | |
| At 1 April 2017 | (710) | (751) | (753) | (2,214) |
| Charge for the year | (28) | (82) | (88) | (198) |
| At 31 March 2018 | (738) | (833) | (841) | (2,412) |
| Net book value | | | | |
| At 31 March 2018 | 1,661 | 99 | 254 | 2,014 |
| At 31 March 2017 | 1,689 | 130 | 210 | 2,029 |

14. Intangible assets

| | GROUP Computer software £'000 | COMPANY Computer software £'000 |
|--|--|--|
| Cost | | |
| At 1 April 2017 | 1,410 | 1,410 |
| Additions | 507 | 388 |
| At 31 March 2018 | 1,917 | 1,798 |
| Accumulated amortisation | | |
| At 1 April 2017 | (1,106) | (1,106) |
| Charge for the year (operating expenditure) | (272) | (272) |
| At 31 March 2018 | (1,378) | (1,378) |
| Net book value | | |
| At 31 March 2018 | 539 | 420 |
| At 31 March 2017 | 304 | 304 |

15. Fixed asset investment

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Investment in subsidiaries | | | | |
| Countrywise Repairs Limited (51% owned) | - | - | 102 | 102 |
| Monson Homes Limited (100% owned) | - | - | 3,000 | 3,000 |
| | - | - | 3,102 | 3,102 |
| Investment in MORhomes Limited | 20 | - | 20 | - |
| | 20 | - | 3,122 | 3,102 |

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

Monson Homes Limited (incorporated in England) develops homes for TCHG and for itself for outright sale. MORhomes is a borrowing vehicle for the social housing sector. Over 40 major borrowing Registered Providers have joined together to set up a brand-new limited company which will convert to a PLC and list on the stock exchange. It will borrow on its own balance sheet and lend to Registered Providers.

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

16. Current assets - properties for sale

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Completed properties | 107 | 175 | 107 | 175 |
| Properties under construction | 12,009 | 3,083 | 1,567 | 346 |
| | <u>12,116</u> | <u>3,258</u> | <u>1,674</u> | <u>521</u> |
| Capitalised interest included in the above £'000: | 127 | 22 | 18 | 22 |

17. Debtors

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Due within one year | | | | |
| Rent debtors | 1,878 | 2,396 | 1,878 | 2,396 |
| Less: provision for bad and doubtful debts | (445) | (1,062) | (445) | (1,062) |
| | <u>1,433</u> | <u>1,334</u> | <u>1,433</u> | <u>1,334</u> |
| Amounts owed by subsidiary undertakings | - | - | 104 | 111 |
| Prepayments | 809 | 765 | 712 | 744 |
| Outstanding insurance settlements | 142 | 1,530 | 142 | 1,530 |
| Sales ledger debtors | 161 | 127 | 143 | 136 |
| VAT receivable | 231 | 24 | - | - |
| Other debtors | 5,163 | 649 | 5,012 | 490 |
| | <u>7,939</u> | <u>4,429</u> | <u>7,546</u> | <u>4,345</u> |
| Due after one year | | | | |
| Amounts owed by subsidiary undertakings | - | - | 10,000 | 5,000 |
| | <u>7,939</u> | <u>4,429</u> | <u>17,546</u> | <u>9,345</u> |

18. Creditors: amounts falling due within one year

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Accrued loan interest and commitment fees | 2,341 | 2,358 | 2,341 | 2,358 |
| Trade creditors | 2,066 | 1,408 | 1,443 | 1,110 |
| Accruals | 2,434 | 2,741 | 2,011 | 2,189 |
| Amounts owed to subsidiary undertakings | - | - | 833 | 1,278 |
| Rent received in advance | 1,772 | 1,742 | 1,764 | 1,734 |
| Retentions on contracts | 1,581 | 1,452 | 849 | 834 |
| Other creditors | 93 | 172 | 86 | 10 |
| VAT payable | - | - | 30 | 44 |
| Corporation tax payable | - | 196 | - | 56 |
| Other taxation and social security payable | 189 | 163 | 137 | 135 |
| Recycled capital grant fund (note 24) | 424 | 476 | 424 | 476 |
| Disposal proceeds fund (note 25) | 192 | 225 | 192 | 225 |
| Social Housing Grant in advance | 347 | 347 | 347 | 347 |
| Housing loans | - | - | - | - |
| | <u>11,439</u> | <u>11,280</u> | <u>10,457</u> | <u>10,796</u> |

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

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

| | Group | Group | Company | Company |
|--|----------------|----------------|----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Housing loans | | | | |
| Within two to five years | 56,567 | 63,602 | 56,567 | 63,602 |
| In five years or more | 246,705 | 251,333 | 246,705 | 251,333 |
| Total housing loans | 303,272 | 314,935 | 303,272 | 314,935 |
| Loans from subsidiary undertaking – due after more than five years | - | - | 70,821 | 70,239 |
| Bond – due after more than five years | 80,000 | 80,000 | - | - |
| Deferred capital grant (note 20) | 13,583 | 12,665 | 13,583 | 12,665 |
| Recycled capital grant fund (note 21) | 751 | 939 | 751 | 939 |
| Leaseholder and tenant monies in respect of future major repairs | 721 | 400 | 721 | 400 |
| Deferred tax | 64 | 104 | 127 | 104 |
| | 398,391 | 409,043 | 389,275 | 399,282 |

The transaction value of housing loans (excluding arrangement fees) as at 31 March 2018 was £271,898k (2017: £283,480k).

At 31 March 2018, 7,373 properties with a net book value of £604,795k were charged to lenders as security for housing loans.

The Company has separate bank accounts totalling £546k which are maintained to match leaseholder sinking funds. These are included within the balances shown as cash at bank and in hand of £2,875k (Company as at 31 March 2018).

During the year, the average interest rate (including margins) for the Group and Company was 3.64% (2017: 3.52%). 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 5.67% and variable rates of interest ranged from 0.60% to 0.90%. The weighted average interest rate for fixed rates of interest at 31 March 2018 was 4.46% (2017: 4.42%). The weighted average interest rate for floating rates of interest at 31 March 2018 was 0.85% (2017: 0.62%). The weighted average period for which interest rate was fixed at 31 March 2018 was 22.0 years (2017: 21.1 years). The benchmark for determining the interest rate payments on the floating liability was in all cases the London Interbank Offered Rate.

20. Deferred capital grant - Group and Company

| | 2018 | 2017 |
|---|---------------|---------------|
| | £'000 | £'000 |
| At 1 April | 12,665 | 11,660 |
| Grants received | 1,004 | 1,090 |
| Released to statement of comprehensive income | (86) | (85) |
| At 31 March | 13,583 | 12,665 |

TOWN AND COUNTRY HOUSING GROUP

Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

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

Grant received or receivable at 31 March

| | 2018 | 2017 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Social Housing Grant – revenue reserves | 161,906 | 164,233 |
| Other grant – revaluation reserve | 7,027 | 3,433 |
| Social Housing Grant – deferred creditor | 13,754 | 12,826 |
| Recycled capital grant fund | 1,175 | 1,415 |
| Disposals proceed fund | 192 | 225 |
| Released to statement of comprehensive income | (247) | (161) |
| At 31 March | <u>183,807</u> | <u>181,971</u> |

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

| | HE 1 | HE 1 | GLA 2 | GLA 2 | Total | Total |
|--------------------------|--------------|--------------|----------|------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 April | 1,239 | 1,516 | 176 | 123 | 1,415 | 1,639 |
| Grants recycled | 192 | 560 | - | 53 | 192 | 613 |
| Use of grant – new build | (256) | (837) | - | - | (256) | (837) |
| Grant repaid | - | - | (176) | - | (176) | - |
| | <u>1,175</u> | <u>1,239</u> | <u>-</u> | <u>176</u> | <u>1,175</u> | <u>1,415</u> |
| Due within one year | 424 | 476 | - | - | 424 | 476 |
| Due within two years | 560 | 203 | - | 123 | 560 | 326 |
| Due within three years | 191 | 560 | - | 53 | 191 | 613 |
| At 31 March | <u>1,175</u> | <u>1,239</u> | <u>-</u> | <u>176</u> | <u>1,175</u> | <u>1,415</u> |

1 Homes England

2 Greater London Authority

22. Disposal proceeds fund - Group and Company

| | 2018 | 2017 |
|--------------------------|------------|------------|
| | £'000 | £'000 |
| At 1 April | 225 | 244 |
| Use of grant – new build | (33) | (19) |
| | <u>192</u> | <u>225</u> |
| Due within one year | 192 | 225 |
| At 31 March | <u>192</u> | <u>225</u> |

All of the fund relates to activities within areas covered by Homes England.

23. Controlling party

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

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Year ended 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS

24. 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 2018 was £235k (2017: £237k).

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 2018 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

| | 2018 | 2017 |
|---|---------------|---------------|
| | £'000 | £'000 |
| At 1 April | 25,697 | 21,262 |
| Current service cost | 352 | 275 |
| Interest cost | 686 | 779 |
| Actuarial (gains)/losses from change in financial assumptions | (926) | 5,289 |
| Actuarial gains from change in demographic assumptions | - | (369) |
| Experience gain on defined benefit obligation | - | (1,110) |
| Estimated benefits paid | (639) | (507) |
| Contributions by scheme participants | 66 | 78 |
| At 31 March | <u>25,236</u> | <u>25,697</u> |

Composition of plan liabilities

| | 2018 | 2017 |
|---------------------------------|---------------|---------------|
| Schemes wholly or partly funded | <u>Partly</u> | <u>Partly</u> |

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NOTES TO THE FINANCIAL STATEMENTS

24. Pensions (continued)

Reconciliation of fair value of plan assets

| | 2018 | | 2017 |
|--|--------------|----------------|----------------|
| | £'000 | | £'000 |
| At 1 April | 19,353 | | 16,071 |
| Interest income on fund assets | 518 | | 593 |
| Return on assets less interest | 142 | | 2,757 |
| Other actuarial gain | - | | 18 |
| Administration expenses | (10) | | (10) |
| Contributions by employer including unfunded | 235 | | 353 |
| Contributions by fund participants | 66 | | 78 |
| Estimated benefits paid | (639) | | (507) |
| At 31 March | 19,665 | | 19,353 |
| Present value of defined benefit obligation | (25,236) | | (25,697) |
| Net pension scheme liability | (5,571) | | (6,344) |
| Amounts recognised in surplus for the year: | | | |
| Current service cost | 352 | | 275 |
| Administration expenses | 10 | | 10 |
| Interest costs | 168 | | 186 |
| | 530 | | 471 |
| Analysis of actuarial gain/(loss) recognised in other comprehensive income: | | | |
| Actual return on fund assets in excess of interest cost | 142 | | 2,757 |
| Other actuarial gain | - | | 18 |
| Changes in financial assumptions | 926 | | (5,289) |
| Change in demographic assumptions | - | | 369 |
| Experience gain on defined benefit obligation | - | | 1,110 |
| | 1,068 | | (1,035) |
| Composition of plan assets | | | |
| Equities | 13,122 | | 13,659 |
| Gilts | 150 | | 144 |
| Other bonds | 1,880 | | 1,885 |
| Property | 2,473 | | 2,412 |
| Cash | 652 | | 494 |
| Absolute return fund | 1,388 | | 759 |
| Total plan assets | 19,665 | | 19,353 |
| Principal actuarial assumptions used at the balance sheet date | | | |
| Discount rates | | | 2.70% |
| Future salary increases | | | 3.20% |
| Future pension increases | | | 2.70% |
| Inflation assumption - Consumer Price Index (CPI) | | | 2.70% |
| Mortality rates (life expectancy in years from age 65 years) | 2018 | 2018 | 2017 |
| | Males | Females | Males |
| Retiring today | 23.1 | 25.2 | 23.0 |
| Retiring in 20 years | 25.3 | 27.5 | 25.1 |
| | | | 2017 |
| | | | Females |
| | | | 25.0 |
| | | | 27.4 |

TOWN AND COUNTRY HOUSING GROUP
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NOTES TO THE FINANCIAL STATEMENTS

25. Financial commitments

Capital commitments are as follows:

| | Group | Group | Company | Company |
|---|---------------|---------------|----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Contracted for but not provided for: | | | | |
| Construction of properties for rent | 2,316 | 7,179 | 2,316 | 7,179 |
| Construction of properties for sale | 8,628 | 7,772 | 307 | 1,239 |
| | 10,944 | 14,951 | 2,623 | 8,418 |
| Approved by the Board but not contracted for: | | | | |
| Construction of properties for rent | 22,098 | 4,410 | - | - |
| Construction of properties for sale | 13,860 | 11,318 | - | - |
| Approved by the Board but not contracted for | 35,958 | 15,728 | - | - |
| | 46,902 | 30,679 | 2,623 | 8,418 |

The above commitments will be financed primarily by cash and borrowings and Social Housing Grant. At 31 March 2018, the Group had funding facilities (including bond proceeds) in place totalling £457m, with £105m undrawn.

26. Operating leases - Group and Company

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

| | 2018 | 2017 |
|-------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Amounts payable as lessee | | |
| Plant and machinery: | | |
| Within one year | 14 | 29 |
| Between one and five years | 7 | 16 |
| | 21 | 45 |
| Land and buildings: | | |
| Within one year | 20 | 20 |
| Between one and five years | 20 | - |
| | 40 | 20 |
| Amount receivable as lessor 1 | | |
| Land and buildings: | | |
| Within one year | 236 | 207 |
| Between one and five years | 819 | 755 |
| | 1,055 | 962 |

1 - Amounts receivable as lessor are rents receivable from the unsold equity in shared ownership properties, and rents receivable from commercial properties.

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NOTES TO THE FINANCIAL STATEMENTS

27. Accommodation in management - Group and Company

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

| At 31 March 2018 | Owned & directly managed No. | Owned & managed by others No. | Total owned No. |
|---------------------------|---|--|------------------------|
| Social housing | | | |
| General needs | 6,482 | 24 | 6,506 |
| Affordable | 895 | - | 895 |
| Affordable sheltered | 110 | - | 110 |
| Sheltered | 375 | - | 375 |
| Intermediate | 236 | - | 236 |
| Rent to HomeBuy | 28 | - | 28 |
| Shared ownership | 619 | - | 619 |
| | 8,745 | 24 | 8,769 |
| Non-social housing | | | |
| Market rented | 151 | - | 151 |
| All housing | 8,896 | 24 | 8,920 |

| 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 |

| | 2018 No. | 2017 No. |
|---------------------|-----------------|-----------------|
| Leaseholders | 356 | 344 |

28. Called-up share capital-non-equity

| | 2018 £ | 2017 £ |
|-----------------------------|---------------|---------------|
| At 1 April | 11 | 10 |
| Issued during the year | 1 | 2 |
| Surrendered during the year | (1) | (1) |
| As at 31 March | 11 | 11 |

TOWN AND COUNTRY HOUSING GROUP

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NOTES TO THE FINANCIAL STATEMENTS

29. Related parties

Key management personnel

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

Tenant Board Members

One member of the Board at 31 March 2018, Kim Hill and a further member who retired in December 2017, 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 £10,821 (2017: £10,880). At 31 March 2018, each of their rent accounts was in credit, and the aggregate balance on the accounts was a credit of £1,301 (2016: credit of £962). 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. SEC charges a membership fee, and also charges a commission to suppliers on purchases made by its members. TCHG paid a membership fee of £3k in 2017/18 (2017: £3k). There was no balance due at 31 March 2018 (2017: 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 2017/18 to that used in prior years. Total amounts recharged were £605k (2017: £780k).

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 mark-up of 4% or 10% (depending upon the degree of management required). In 2017/18, the amounts charged by MHL on this basis totalled £5,066k (2017: £3,298k). MHL has a loan from TCHG at LIBOR plus 2% with a revolving facility of £40m, it is secured by a floating charge over all of MHL's assets and is repayable in 2027. At 31 March 2018 the the amount loaned was £10m (2017: £5m).

TCHG made a £174k (2017: £233k) payment to Foundation to cover the costs of Foundation's charitable work and to deliver TCHG community investment activities. On 31 March 2018 Foundation transferred its reserves of £35k to TCHG. At 31 March 2018 the amount due to Foundation by TCHG (inter-company balance) was £28k (2017: £24k)

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 2018 were £5,131k (2017: £4,162k). The amount due to CWR from TCHG and vice versa (unsecured inter-company trade debtor/creditor) at 31 March 2018 was £642k (2017: £211k).

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 £71m (2017: £70m) had been drawn at 31 March 2018. 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.

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30. Financial instruments

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

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Financial assets | | | | |
| <i>Measured at amortised cost</i> | | | | |
| - Loan due from subsidiary | - | - | 10,000 | 5,000 |
| <i>Measured at undiscounted amount receivable</i> | | | | |
| - Amounts due from subsidiaries | - | - | 104 | 111 |
| - Rent arrears and other receivables | 6,898 | 3,640 | 6,729 | 3,490 |
| - Cash and cash equivalents | 12,485 | 22,525 | 2,875 | 7,400 |
| | 19,383 | 26,165 | 19,708 | 16,001 |
| Financial liabilities | | | | |
| <i>Measured at amortised cost:</i> | | | | |
| - Loan/bond payable | 383,272 | 394,935 | 303,271 | 314,935 |
| - Loan from subsidiary over five years | - | - | 70,821 | 70,239 |
| <i>Measured at undiscounted amount payable</i> | | | | |
| - Amounts owed to subsidiaries | - | - | 833 | 1,278 |
| - Trade and other creditors | 9,018 | 8,262 | 7,222 | 6,624 |
| | 392,290 | 403,197 | 382,147 | 393,076 |

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 2018, 80.5% 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.

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 | 16,297 | 9,768 | 16,386 | 9,645 |

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NOTES TO THE FINANCIAL STATEMENTS

30. Financial instruments (continued)

Interest income through the statement of comprehensive income

| | Group | Group | Company | Company |
|--|--------------|--------------|----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Interest income for financial assets at fair value | - | 9 | - | - |
| Interest income for financial assets at amortised cost | - | - | 480 | 315 |
| Interest income for financial assets at undiscounted amount receivable | 42 | 136 | 194 | 60 |
| | 42 | 145 | 674 | 375 |