Two Castles Housing Association Limited

Annual Report and Financial Statements
For the year ended 31st March 2016

Registered number: 17663R

Contents

Two Castles Housing Association Limited
Board of Directors, Executives and Advisers for the Year Ended 31st March 2016

Registered Office: 3 Paternoster Row, Carlisle, Cumbria, CA3 8TT

Director Details	Board	Audit Committee	Resources Committee	Customer Services Committee (Disbanded February 2016)	Staffing and Remuneration Committee	Annual salary entitlement to 31st March 2016
Michael Johnson – last appointed 2013	Chair	-	√	-	Chair (to June 2015)	£7693
Stephen Bennett - last appointed 2014	√	Chair	-	-	√	£4244
Ann Carr – last appointed 2014	√	-	√	Deputy Chair	-	£2918**
Phil Cottrill – last appointed 2013	√	-	Chair	√	√	£4244
Rosalind Johnson – last appointed 2013	√	-	-	Chair	√	£4244
Martin Knowles – last appointed 2015	√	√	√	-	-	£2918
Fiona Moore – last appointed 2014	Deputy Chair	√	√	-	√ (Chair from July 2015)	£4244
Claire Scholfield – last appointed 2013	√	√	-	√	-	£2918
Jane Vickers – last appointed 2013	√	-	√	√	-	£2918

Executive Officers

Stephanie Murphy	Chief Executive
Gill Boyd	Finance Director and Company Secretary
David Armstrong	Housing Services Director
Rob Brittain	Property Services Director

Auditor	**Solicitors**	**Bankers**
Mazars LLP 45 Church Street Birmingham B3 2RT	Winckworth Sherwood 35 Great Peter Street Westminster London SW1P 3LR	Barclays Bank plc

**Member waived their entitlement

The Association's remuneration policy for the Board is in line with the National Housing Federation Code of Governance good practice.

Chairman's introduction

I have been Chairman of Two Castles Housing Association for six years, and although this year has been one of the most challenging I can recall for our sector, I am pleased to report that Two Castles continues to perform very well, showing strong financial viability into the future. This Board and Strategic Report is a means of showcasing to stakeholders the organisation's key achievements and strengths, and, just as importantly, how Two Castles is seeking to tackle the challenges faced by the sector and the wider economy.

Government policy during 2015/16 delivered some big challenges for us - the cut in rents for the next four years, the introduction of a right to buy and the total switch from developing rented homes to home ownership products. Although the Government's strategy is challenging, the Association has been working hard this year to respond and innovate. As this document will demonstrate, we continue to be in a strong financial position to deliver an increase in home ownership and to drive down operating costs, whilst looking to improve how we deliver core services.

It hasn't just been on policy changes where we have faced challenge – in December 2015 many of our residents were badly affected by flooding from Storm Desmond across our area. This resulted in us having to re-house residents, many who were frail and elderly, whilst we undertook the extensive works required to put their homes back to normal. The total cost of putting everything right ran into millions of pounds. Our robust disaster recovery procedures and the hard work of staff has resulted in a successful conclusion with all residents back home at the time of writing this report.

One of the Board's key priorities continues to be meeting the need for more affordable homes across the regions in which we work. During 2015/16, we took handover of 111 new homes which were a mix of rented and shared ownership. To look at new ways of developing our home ownership offer and to meet the different expectations of those potential customers, Board and officers have been working to develop an innovative and flexible product which we are currently market testing. This, together with a thorough review of our development strategy should see us well placed to continue to be able to produce housing which meets the needs of residents across our base in the North of England.

In seeking to continually improve our services to existing and new residents, and how we deliver those, we have just completed a review of our Housing Services directorate. The drivers for this have been to improve key performance indicators, to have a more flexible, 24 hour web based service alongside our face to face and telephone offering, and to respond to issues raised by our recent Scrutiny Panel report on leasehold services

It is our aim to deliver the new way of working whilst maintaining already high levels of resident satisfaction with our overall service, and keeping our management and maintenance costs value for money. The HCA, our regulator recently published headline costs for all Associations on management, maintenance and service charges for 2015/16, and we were very pleased to note that ours are amongst some of the best (efficient) in the sector.

During 2015/16 we published our most recent five year plan showing our residents when they could expect planned maintenance works to their homes, and what those would be. Feedback from residents show this information is important to them, as well as demonstrating a robust approach to the ongoing and future maintenance of our stock – keeping it maintained to a modern, high standard, attractive and lettable.

On treasury, we have reviewed our loan requirements and have, as a result, been able to make efficiencies which reflect in a healthy surplus in our 2015/16 accounts. However, it is not just in treasury where we have made efficiencies; our Value for Money Statement, (a summary of which is contained in this report), shows that efficiencies have been generated across the whole business and the statement shows how these have been re-invested.

During 2015/16 the Board concluded its work on renewal and succession plans for Board and committees and the Board has a clear future succession strategy which will ensure we have members with the required skills and experience the business needs for the future.

We were again pleased to receive our V1 and G1 (the highest possible) ratings from the HCA during 2015/16, giving external validation to the success of our financial management strategy, our approach to value for money, risk and internal controls and good governance practices. I remain proud to be Chairman of Two Castles, and I commit to lead our Board so that it is ready to meet whatever challenges and opportunities arise in the future.

Michael Johnson

Michael Johnson
Chairman

22nd September 2016

Board and Strategic Report

The Board of Directors present their Board and Strategic Report, on the affairs of the Group together with the financial statements, statement of internal controls and auditor's report, for the year ended 31st March 2016

As Two Castles Housing Association (**TCHA**) has less than 5000 units it is not compulsory for us to present a separate strategic report and board of directors' report. We have, however, elected to follow the spirit of the disclosure requirements and have prepared the following combined report.

TCHA is registered under the Co-operative and Community Benefit Societies Act 2014 (Registered No: 17663R), Section 3 of the Housing Act 1996 (Registered No: LH1534), is a registered Housing Association and a Registered Provider (**RP**) and has charitable status.

Code of Governance

The Board has adopted the latest NHF Code of Governance 2015 – 'Promoting Board Excellence for Housing Associations'. The Code requires The Board to declare if there are any sections where the Association isn't compliant and give reasons for that.

We do not comply with sections C3-6 and H5 of the Code, which are specifically for Group and Subsidiaries. Our reason for non-compliance is that the Association doesn't have a group structure so these sections do not apply.

Section D4 of the Code is a conflict with our current Rules. This covers how long after nine years can elapse before someone can request to come back onto the Board. The Code recommends that three years must elapse; our current Rules say just a year. Compliance will be achieved when we adopt the latest version of the Rules.

Board Performance and Adding Value

The Board reviews its performance annually using a range of mechanisms. These include individual Board member and Chairman appraisals, a whole Board effectiveness review and self-assessment against the NHF Code of Governance. From time to time the Board uses external review, in line with good practice.

Board Payment

The Board pays its members and details of payments are listed separately at the beginning of the Annual Report and Financial Statements document. One member has elected not to take payment. The Board has its payment amounts subject to external review every few years to ensure that these are in line with good practice in the not-for-profit sector. Payments to Board members do not exceed half a per cent of turnover, in line with good practice.

Responsibilities of the Board and Delegation
The Board of TCHA is responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

The Co-operative and Community Benefit Societies Act 2014 requires the Board to prepare financial statements for each financial year. Under that legislation the Board have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Housing Association legislation the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Association and of the surplus of the Group and Association for that period. In preparing these accounts, the Board is required to:

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

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Association's transactions and disclose with reasonable accuracy at any time, the financial position of the Group and Association, and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008. The Board is also responsible for safeguarding the assets of the Group and Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

Each of the Board members at the date of approval of this report has confirmed that –

- As far as the Board members are aware, there is no relevant audit information of which the auditor is unaware. And
- The Board members have taken all steps they ought to have taken as Board members in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

The Board is responsible for the strategic direction of the organisation, for setting its policy framework and for ensuring that its functions are properly performed. During 2015/16, as part of the full governance review, the role of the committees, and whether they add value to the Association, was examined and reviewed. As a result of this review the Board elected to disband the Customer Services Committee at the end of the 2015/16 financial year. The Board has agreed a scheme of delegation to the three remaining sub committees of the Board through the relevant Terms of Reference of those committees:

- **Resources Committee** – Its role is to review and recommend to Board the financial policies and strategies of the Association, ensure regular, timely and accurate financial reporting, review the treasury management function and development finance function.
- **Staffing and Remuneration Committee** – The committee considers matters relating to salary structure and the organisation's policy on employee remuneration and benefits in order to ensure the organisation can attract and retain high calibre staff.
- **Audit Committee** – Its role is to independently contribute to the Board's overall process for ensuring that an effective internal control system is maintained and oversee the implementation of the Risk Management Strategy. In line with best practice, has an *in camera* meeting with the auditors without officers present before each meeting.

The Board has a number of Board Champions who take a leadership role for key cross-cutting aspects of the Association's business:

- Health and Safety – Fiona Moore
- Equality and Diversity – Jane Vickers
- Asset Management – Phil Cottrill
- Value for Money (VFM) – Martin Knowles

Day-to-day management is delegated to the Chief Executive supported by Directors of Finance, Property Services and Housing Services.

The Board meets at least five times per year and has two Board Conferences per year. All Board members serve on sub-committees, and the Board retains responsibility for appointing the chair and members of all sub-committees.

Board Membership
At 31st March 2016 the Board consisted of nine non-executive members, of which two members are residents of the Association. The Board has a skills matrix which ensures that it has the appropriate level of skills across the whole Board which is required for the effective running of the organisation. During 2015/16, the Board undertook a full governance review making plans for recruitment and succession of existing members.

There are no executive Board members. Details of serving Board members are listed separately at the beginning of the Annual Report and Financial Statements document.

Shareholding Board Members
At the date of the AGM (22nd September 2016), all Board members are £1 shareholders.

Compliance with the HCA Governance and Financial Viability Standard
The Board has assessed compliance with the Governance and Financial Viability Standard for the year 2015/16, including the requirement for a robust Assets and Liabilities Register. The Board certifies compliance with the Governance and Financial Viability Standard 2015/16.

Business Model
TCHA is a traditional RP with over 3,700 properties across the north of England. The Company's principal activities are the building and management of rented and leasehold housing. Other activities which are undertaken include enabling employment, skills and training opportunities through key development and procurement partnerships across the northern region. The Association also works in partnerships with other associations to develop its 'Green Technology' Strategy, and to provide innovative, cost saving delivery of its responsive repairs to residents.

The Association has a broad mix of stock, with its portfolio split between general needs (65%), supported and older persons' housing (15%) and leasehold accommodation (20%). The state of the stock has been validated by external consultants and is considered to be good, with all of the relevant stock meeting the Decent Homes Standard. It is mainly of traditional build, with the majority of fairly recent, (post 1980), construction, and with no high rise stock.

Of the Association's stock, 61% is held in the North West within the following Local Authorities: Carlisle 23%, Copeland 12%, Eden 11%, South Lakeland 12%, other 3%. The remaining 39% of stock is within the following North East Local Authorities: Gateshead 9%, Northumberland 10%, Sunderland 11%, other 9%.

The Association is regulated by the Homes and Communities Agency (**HCA**) and is required to comply with the HCA's Regulatory Code. For the financial year under review, the Association had a HCA regulatory judgment of V1 for financial viability and G1 regulatory judgment for governance.

TCHA's key stakeholders include residents, the HCA, Local Authorities, funders and external partners.

Objectives and Strategies
The vision of the Association is to "Deliver quality homes and services with pride, passion and principles".

The Association's Corporate Plan details its key corporate goals, how it will achieve them and how it will monitor achievements. The key corporate goals are as follows:

Goal 1 – Customer
To involve and empower residents to help the Association to deliver a high quality service to residents and prospective residents.

Goal 2 – Employer
To be the preferred employer for both existing and prospective employees.

Goal 3 – Property
To build and maintain safe, secure and sustainable homes and communities.

Goal 4 – Viable
To be a financially viable, well run, organisation.

Goal 5 – Leadership
To ensure that the organisation has effective and accountable leadership and governance to enable it to meet challenges and opportunities.

The following cross-cutting themes are considered fundamental to the successful delivery of the Association's corporate goals:

Value for Money (**VFM**) – The Association believes that customers and prospective customers should receive first class homes and services. It concentrates resources on service improvements, working with residents, listening to them, and always seeks better VFM in everything it does, and plans to do. This ensures that it should achieve the greatest benefit for its customers. There is a summary of the Association's approach to VFM for 2015/16 contained later in this document. The Association's detailed approach to VFM is contained within the VFM Strategy and in the annual VFM self assessment statement, available on the website - www.twocastles.org.uk.

Health and Safety – Health and safety is of fundamental importance to the Association. It is an area central to its operations and one which it is not prepared to compromise upon. The Association's detailed commitment to health and safety is contained within its Health and Safety Statement.

Equality and Diversity – The Association acknowledges, values and respects the diversity of its customers, staff and partners and looks to exceed statutory requirements in this area. It is committed to developing an organisational culture which values people from all sections of the community, along with the contribution each individual can make to the work of the Association. The approach to Equality and Diversity is set, reviewed and monitored by the Board.

Risk Management – In achieving its corporate goals, the Association recognises the fundamental importance of identifying and effectively managing the risks it and the rest of the sector faces. It also recognises that the risks faced by the business will be subject to change over time, both in terms of their nature and in terms of the likelihood and potential impact. The active management of risk, as an integral aspect of business management, will reflect this. Further details of the Association's approach to risk are covered later in this document in the section headed 'Dynamics of the Social Landlord'.

Monitoring Delivery – the Balanced Scorecard

In monitoring and delivering objectives and strategies, the Association uses a performance management framework, known as the Balanced Scorecard (**BSC**) (originated by Drs. Robert Kaplan (Harvard Business School) and David Norton). The BSC is used extensively in other sectors, including business and industry, government, and not-for-profit organisations worldwide. Using a BSC approach enables the Association to measure its performance of both strategic non-financial measures and traditional financial measures, giving managers and executives a balanced view of the organisation's performance.

Resourcing the Delivery of the Corporate Goals

The Financial Plan reflects the current and projected financial position for the Association. This is measured over a 30 year time horizon, with the budget monitoring annual performance.

The Financial Plan is reviewed on a regular basis. It reflects the Association's objectives and long-term affordability along with a careful assessment of the risks associated with the social housing environment, and makes prudent assumptions in all major areas of its operations. In particular, it concentrates on the financially critical areas of major repairs, development and treasury.

The Board is responsible for the design, delivery and monitoring of the Association's corporate goals. The table below shows how major initiatives for 2015/16 have been achieved and the indicators used to measure them:

Corporate Goals	Strategies and Initiatives	Indicators
Goal 1 – Customer To involve and empower residents to help the Association to deliver a high quality service to residents and prospective residents	Completed a comprehensive review of the Housing Services Department to deliver a modern customer facing service taking advantage of advances within IT. The agreed implementation programme commenced in April 2016.	Review carried out by consultants to ensure the future housing service delivery meets the increasing need to deliver value for money in an era of tightening budgetary constraints.
	Implementation of resident involvement action plan.	Report to Board September 2015
	Evolution of the Equality and Diversity Strategy and action plan.	Implementation of e-learning training programme for staff.

Corporate Goals	Strategies and Initiatives	Indicators
	Monitoring of KPIs and annual review of KPI targets.	Meeting KPIs for service delivery or action plans to committee and Board where these are needed for improvement.
Goal 2 – Employer To be the preferred employer for both existing and prospective employees.	Improving Leadership and Management Capacity and Capability. Improving Skills. To maintain Investors in People accreditation.	The development training programme extended to line managers following successful completion by executive and senior management. Delivery of our 'Your Fingerprint' vision and engagement for Customer Services Team completed and commenced for property services staff and finance staff. IiP gold standard retained December 2015

Corporate Goals	Strategies and Initiatives	Indicators
Goal 3 – Property To build and maintain safe, secure and sustainable homes and communities.	Design and implementation of a new scheme led stock condition survey nearing completion.	Accurate forecasting, modelling and costing of stock condition works will assist investment decision making in stock.
	Continued implementation of stock rationalisation plan.	Negotiations with third parties for transfer of some peripheral stock are ongoing.
	To commence the process of updating/replacing the existing North west procurement vehicle.	Collaborative working with other RPs within Cumbria to ensure framework is developed which delivers value for money.
	To complete bids in accordance with the continuous market engagement.	Existing bids progressed in accordance with timeframe.
	To respond to central governments requirement for the supply of homeownership products.	Developing a unique “dynamic model” aimed at delivering home ownership in both the North West and North East.

Corporate Goals	Strategies and Initiatives	Indicators
Goal 4 – Viable To be a financially viable, well run, organisation.	Financial Strategy and Compliance with Governing Bodies.	Finance Strategy reviewed and updated following central government's 1% rent cut over four years. Plans include reducing operating costs by £500k over four years. Financial Plan updated quarterly and benchmarked against other RPs and the Global Accounts publication from HCA. Work carried out on the Financial Plan includes perfect storm modelling. Financial advisors tendered in July 2015. Management Accounts reviewed by committee quarterly. Budget approved by Board annually (zero based approach).
	Treasury.	Annual review of Treasury Policy and Strategy completed. Loan covenant compliance reported quarterly to Resources Committee. (No breaches of covenant arose). Treasury advisors tendered in July.
	VFM Strategy.	Identification of £500k reduction in operating costs by 2019/20.

Goal 5 – Leadership To ensure that the organisation has effective and accountable leadership and governance to enable it to meet challenges and opportunities.	Meeting central government's social housing requirements.	Association has commenced plans for developing home ownership products, efficiency savings, collaborative working. Board remain aware of future opportunities arising from the voluntary right to buy and also the potential capping of sheltered and supported housing benefit payments.
	Renewal and Succession.	Full review of skills and succession undertaken for the replacement of retiring members and Chairman
	To improve Board and committee member performance.	Annual individual appraisals and review of Board effectiveness. Board training programme delivered. E-governance implemented for all committees.
	Ongoing improvement.	Reviewed regulatory changes prior to implementation. Reviewed new Code of Governance prior to adoption.

Dynamics of the Social Landlord

The Association recognises that the social, political and economic environment is rapidly changing and that it needs to have strategies in place to ensure it can identify and meet the challenges and opportunities it faces going forward.

It is important to identify and mitigate risks in a robust manner. The risk setting and monitoring methodology is reviewed annually. The key strategic risks are reviewed on a quarterly basis by directors and the Audit Committee. These go onward to Board quarterly for final discussion and approval.

Key Strategic and Operational Risks

During 2015/16, the Board identified nine strategic risks which were subject to quarterly review by the directors, Audit Committee and Board. There are also key operational risk tables covering each department.

The key strategic risks (for 2015/16) affecting TCHA are outlined in the table below, as at 31st March 2016. Board has reviewed these between 31st March 2016 and the time of approving this report (September 2016), so the current risk table will have amendments not reflected here.

Strategic Risk	**Impact**	**Mitigation**
Risk arising from using our type of development partnership: • What the full extent of our obligations to any third parties are in relation to the chosen procurement route • Whether we meet legislative requirements (eg EU Procurement Directives). The Board agreed, at the March 2015 meeting, to procure a new framework as the existing one comes to the end of its term in November 2015.	The consequences of not managing development effectively would be increased regulatory focus, financial loss and reputational damage.	The work on implementing 'Plan B' has commenced, whereby we have reverted to an EU Procurement route with the option of considering a new vehicle again in the future. We have appointed Paul Hyland of Hyland Legal as a procurement specialist to help design the new framework to ensure it delivers the most appropriate partner for the future, from a cost, quality, service delivery and innovation perspective. All work in this area has paused until the Development Strategy has been agreed.
Unacceptable pressure on our income streams as a result of Government policy on rental income (rent reduction) and Welfare Reform. Given the Government's Budget announcement in	Possible viability issues, regulatory issues and reputational loss.	▪ Regular reviews with scenario testing in the 30 Year Financial Plan to Board. ▪ Key assumptions in the 30 Year Financial Plan validated externally. ▪ Increased bad debt provision. ▪ Key risks of Welfare Reform separately itemised and monitored by Board. ▪ Board has agreed Financial Inclusion Officers to run until March 2016 to maximise the collection of income. Now extended to June 2016 as Housing Services Review still to be completed. ▪ Monitoring of rent arrears and bad debts, particularly in relation to increases following on from Welfare Reform. KPIs reported to Board quarterly. ▪ Over the next two years, we will review the methods of paying rent, in particular

Strategic Risk	Impact	Mitigation
July 2015, and the continued implementation of Welfare Reform, the risk to the Association has increased. Government policy remains largely uncontrollable by the Association; however, given mitigation actions in place, the overall risk is being controlled within an acceptable level.		looking to increase the payment of rent by website/phones. ▪ Rent review date arising from new tenancies (mid May 2013 and onwards) moved to an anniversary increase. (Currently under review with the solicitors as to whether anniversary review dates are still possible given the Government's July 2015 Budget announcement). ▪ Board received a report in March 2015 regarding the latest position on roll out of Universal Credit, potential impact and actions being taken to mitigate risks to our income. An update report, on the wider Welfare Reform agenda, including changes to the benefit cap and proposals for limiting housing benefit payments to social housing residents to Local Housing Allowance levels, will be brought to March 2016 Board. ▪ The Board has had a series of Board meetings and away days since the July 2015 Government announcement, which culminated in the September 2015 Board report on the Financial Plan. The Association is well placed to meet the rent cut, although to maintain financial strength going forward, and to protect the Association from further Government financial controls, a saving of £500k per annum on the 2015/16 budgeted operating costs is to be realised between now and 2019/20. ▪ Following the Government's July 2015 Budget announcement, consulting with solicitors as to the interpretation of the detailed legislation. ▪ To have an increased rate of income collection and arrears performance as key objectives for the ongoing Housing Services review.

Strategic Risk	Impact	Mitigation
Unable to meet one of the Board's key objectives, to continue to build new homes	Failure to deliver on a key objective in the Corporate Plan.	▪ Financial Plan monitored by Board including scenario testing. ▪ External treasury advice being sought on capacity in financial ratios. ▪ Use of unit cost targets. ▪ Extensive review of development delivery partnership with external validation. ▪ Development finances closely monitored by Board and/or Resources Committee. ▪ Impact of development regularly monitored through the Financial Plan. ▪ Cash flows maintained showing impact of development. ▪ Committed cash flow used to ensure sufficient cash funds are available to complete a scheme before a contractor's contract is signed. ▪ Financial performance of schemes tracked at all stages of the life cycle. ▪ Negative NPVs on new schemes at contract stage approval are not permitted. ▪ Modelling of scheme and Financial Plan level to ensure viability of the Association. ▪ Review of any proposed bids to the HCA and their impact to be agreed with Board. ▪ Development progress reports regularly to Board identifying cost variations, issues which may impact on our ability to deliver in line with the HCA contract and any exceptional risks in relation to specific schemes. ▪ Regularly assessing housing demand. ▪ Regular meetings with the HCA discussing potential barriers to achievement, such as delayed planning, site risks too great etc. and agreeing in advance substitutions or variations. ▪ The impact of not controlling development risk has been measured as part of the 'p storm' scenario exercise in at April 2015 Board Conference. The plan is able to recover a series of stresses with a suite of strategic recoveries available to the Association. ▪ Impact of 1% reduction in rents has been reviewed and short term capacity of 236 units confirmed in Financial Plan approved by the Board. This included sensitivity testing.

Strategic Risk	Impact	Mitigation
		▪ Review of Development Strategy commenced at September 2015 Board meeting and October 2015 Board Conference to reflect the impact of voluntary RTB, rent reduction and Government emphasis on delivering home ownership products. Timetable to complete Strategy review approved by the Board and new Development Strategy should be approved in June 2016. ▪ HCA has confirmed that no new funding available for rented properties and new prospectus for 2016-21 is due to be published in the Spring 2016. Development Strategy will incorporate impact of changes in funding streams. ▪ New ‘Dynamic’ tenure model proposed for future home ownership developments has been approved to feasibility stage by the Board at the October 2015 Board Conference. Two Registered Provider partners have reviewed the model and provided valuable feedback and support for the model. Informal dialogue ongoing with DCLG on likely support for the model. Refinement of financial model ongoing. ▪ Revised approach to shared equity using new models anticipated following work by focus group of Registered Providers, the NHF and DCLG. ▪ Ongoing dialogue with development partners, including house builders, to monitor sector response to rent reduction and RTB impact.

Strategic Risk	Impact	Mitigation
Risk of ineffective Board leadership and governance in the organisation.	Downgrading by the HCA, loss of reputation, failure to meet corporate objectives.	▪ Board maintains a skills matrix, which was updated following annual appraisals and also at January 2016 Board to identify skills gaps for Spring 2016 recruitment. ▪ Regular appraisal undertaken for members and the Chairman. Training and development needs identified from this. ▪ Board Member training and development formulated, including attendance at key conferences and briefing sessions to ensure members keep up to date, both within the sector and externally. ▪ External speakers invited to Board Conferences to give a ‘wider view’ and assist with ‘horizon scanning’. ▪ Governance policies and procedures which are regularly reviewed for best practice. ▪ Internal and external audit. ▪ Regulatory engagement, including any meeting the regulator requires, self assessments. ▪ Effective and timely Board reporting. ▪ Adopted 2015 NHF Code of Governance. Will demonstrate compliance with this annually (June 2016 Board). ▪ Clear reporting to Board (June 2015 and January 2016) on each of the regulatory requirements, whether we currently meet them, and, if we don’t, what we need to do. ▪ Board Conference, April 2015 – externally facilitated session on Board and Chairman succession, Board skills and Board size in response to regulatory changes. ▪ Succession planning report agreed at January 2016 Board and consequent recruitment report also agreed. ▪ Board Conference (October 2015) – full review of committee structure undertaken to ensure they are fit for purpose and add value to the organisation. Agreed to remove CSC from the structure, with consequent reporting on what scrutiny will look like as a result (to February 2016 CSC). ▪ Agreed to retain Resources and Audit Committees, with some additional responsibilities for those committees to ensure they fully take the weight of some relevant delegated issues on behalf of the Board. ▪ Published an Operational and Financial Review (OFR) in line with good practice. ▪ Review of the Board’s self assessment of effectiveness to September 2015 Board. ▪ January 2016 – HCA confirmed G1 and V1 gradings.

Strategic Risk	Impact	Mitigation
Failure to meet the Association's obligations under health and safety.	Potential for prosecution of the organisation and individuals, legal claims against the organisation, significant reputational damage and regulatory intervention.	▪ A rigorous Health & Safety Policy. ▪ High quality advice from a qualified 'competent' Health and Safety advisor. ▪ Approval from Board to retain Health & Safety Consultant on a 5 year (reviewable) basis, giving continuity, consistency and allowing forward planning. ▪ Adequate insurance cover, where this can be provided. ▪ Ongoing training and the provision of proper health and safety equipment, where required. ▪ Commitment by Board and SMT to following good practice, including resourcing appropriately. ▪ Internal audit. ▪ Additional specialist audit, e.g. gas safety, Legionella. ▪ Implementing a Cost Sharing Vehicle with ISOS to deliver gas servicing to improve performance in this area. ▪ Proper monitoring and reporting of key performance statistics. ▪ Overseen on a more detailed level (in particular on aspects such as asbestos, legionella, fire etc.) by Audit Committee, but with overall responsibility being clearly retained at Board level. ▪ Board Champion. ▪ Staff Forum acting as the consultative body. ▪ Provision of proper advice to residents, contractors and people who work for us. ▪ Board considering alternative proposals to deliver gas servicing and improve performance. ▪ Continuous review of policies and procedures.
Ineffective management of the treasury function.	Loss of financial viability, breach of loan covenants, loss of reputation, regulatory intervention.	▪ Treasury advisors are appointed on a cyclical basis. ▪ 30 year Financial Plan is externally validated on an annual basis and key assumptions are externally validated. ▪ Cash flow monitors ongoing requirements on a daily, monthly, 12 month rolling, and 3 year basis. ▪ Legal and treasury consultants appointed to advise on new funding requirements (in particular any clauses which may become onerous, e.g. cross default, break, counter party). Board approves all new funding.

Strategic Risk	Impact	Mitigation
		▪ Resources Committee receives quarterly reports on treasury activity, including detailed covenant compliance schedules. ▪ Resources Committee receives a quarterly 12 month rolling cash flow as part of Management Accounts. ▪ Regular liaison and dialog with funders, including the meeting of covenant requirements and annual review meetings. ▪ Database is maintained, recording accurate records for those properties secured against funding. ▪ Treasury Policy and annual Treasury Strategy reported to Resources Committee and to Board. ▪ Having a specific skills requirement for Board members with significant financial experience (which is currently met). ▪ Set of internal benchmarks re. funders' covenants are tighter than funders' requirements. ▪ For 2015/16, treasury was considered as part of the Association's work on our strategy and financial modelling of a 'perfect storm'. The plan is able to recover from a series of stresses with a suite of strategic recoveries available to the Association. ▪ Financial Plan assumes bullet loan can be re-financed – treasury consultants believe this will be possible. ▪ Treasury advisors re-tendered July 2015 with Resources Committee. ▪ Santander £5m draw-down facility and Barclays £10m rolling draw-down facility in the loan agreements were extended by 12 months, to 31.01.2016 and 31.03.2016 respectively. The Board authorised the moving of £9m Barclays' debt from variable to fixed interest. The £9m was agreed with Barclays in December 2014 in 5 tranches, for 5-20 years at forward fixed rates of between 1.52% and 2.23% (exclusive of margins). The Santander loan of £5m was extended for a further 12 months to January 2017. ▪ January 2016 Board agreed when we recruit in Spring 2016, that the Board skills requirement should include a specific treasury qualification or experience in addition to general finance experience. ▪ Early liaison with funders in relation to the Government's July 2015 Budget announcement, including the impact of the rent deflation, mitigating actions and also

Strategic Risk	Impact	Mitigation
		to commence talks with funders for the financing of a new home ownership product.
There is a risk that the Association fails to properly maintain its stock because of: • insufficient funds available in the Financial Plan going forward • insufficient asset management information available to make well judged decisions.	Viability, effect on future income and reputation, high levels of dissatisfaction.	▪ A detailed Asset Management Strategy regularly reviewed (last to March 2015 Board) with specialist external advice ▪ Internal audit ▪ Stock Condition Survey information based on regular surveys with reasonable assumptions on life spans etc. (based on specialist external advice and own local knowledge). ▪ Financial planning process based on information from detailed Stock Condition Survey. ▪ Scenario modelling in the Financial Plan on a regular basis giving 'what if' consequences, such as cost increases above inflation. ▪ Sessions with Board (at Board Conference for example) around the financial, health and safety, and end user impact and consequences of investing at specific levels, e.g. Decent Homes versus Decent Homes Plus versus Two Castles' high standard. ▪ Board Champion for Asset Management with a good understanding of the key issues. ▪ External review of stock condition data by external consultant concludes that data is robust. Analysis of Schedule of Rates used by responsive repairs shows no significant repair trends. ▪ The risk of the financial cost of maintaining stock being greater than the available funds was modelled in 2014/15 as part of the work on the 'perfect storm'. This was discussed at April 2015 Board Conference. The plan is able to recover from a series of stresses with a suite of strategic recoveries available to the Association. ▪ New five year planned maintenance programme published in June 2015 covering period up to 2020. ▪ The impact of rent reduction has not required any changes to current stock investment plans and services to residents. ▪ Scenario planning module for OPENHousing undergoing testing and on course to be operational in 2016/17.
Potential for an adverse impact of RTB legislation	Loss of financial viability, breach of loan covenants on secured stock sold under RTB, inability	▪ Support NHF in any lobbying on Government policy. ▪ Monitor information, sector discussions through trade publication and informal networks. ▪ Attend relevant seminars as when they occur. ▪ Pilots have been identified and the feedback from those will help inform our approach. They are including any tenants with >10 years tenure in social housing as being

Strategic Risk	Impact	Mitigation
	to replenish stock. Reputational damage and increasing complaints as we implement the potential exemptions.	eligible. ▪ Recent (February 2016) indicators from HCA are that 'off the shelf' purchases may count as replacement units which, if in the final detail, will reduce the risk on re-providing. ▪ For what we know we are: - reviewing the Financial Plan for various scenarios once the risks become clearer - assessing the use of exemptions and where our current stock may fall under those - estimating the number of units to be affected (using the >10 year indicator from the pilots) - considering our response for replacements within the timescales - assessing whether a Cost Sharing Vehicle with other landlords, for administering sales, would be appropriate. ▪ Keep staffing structures under review to ensure service delivery to fewer, but still geographically dispersed, stock.
Government policy changes in a radical and fast moving way following recent political events		▪ Financial Plan regularly monitored by Board and updated for Government changes. January 2016 HCA confirmed G1 and V1 gradings. ▪ Stress testing and sensitivities carried out. Last agreed by Board June 2015. ▪ Horizon scanning through external speakers and specialists to Board Conferences. ▪ Attendance at key sector conferences and seminars to hear about new policies first hand. ▪ Collaboration with other Registered Providers within the area to share knowledge and best practice. ▪ Reviews of cost control, including Housing Services and office accommodation. ▪ In responding to Government agenda on home ownership, we are working on introducing a new home ownership model and liaising with funders, solicitors and Financial Plan consultants. ▪ The impact of Government policies on rent reduction and Welfare Reform are covered separately under other strategic risks.

Analysis Using Financial and Non financial key performance indicators
The operational performance of the Association is monitored through the use of a BSC and by monitoring actual performance against a suite of KPIs. Examples of these are below:

Fundamental operational KPIs	Target	Year end performance	Self Assessment
Housing Services			
Rent arrears outstanding as a % of rent debit	4%	3.2%	✓
Leasehold arrears outstanding as a % of debit	4%	5.0%	=
Average re-let time for all properties	28 days	37 days	X*
Amount of rent lost through void property	2.1%	2.3%	=
% of homes vacant and available to let	1%	1.3%	=
% of homes vacant and unavailable to let	1%	0.4%	✓
Rent increases implemented on time (for rented properties)	100%	100%	✓
Satisfaction with re-sales process	80%	100%	✓
Property Services			
% of emergency repairs completed in timescale	98%	97.8%	✓
% of urgent repairs completed in timescale	95%	96.4%	✓
% of routine repairs completed in timescale	95%	96.4%	✓
Resident satisfaction with grounds maintenance	96%	95.9%	✓
% of residents satisfied with repairs	96%	95.6%	✓
% of homes that are Decent	100%	100%	✓
Resident satisfaction with planned maintenance	96%	99.0%	✓
Resident satisfaction with cyclical programme	96%	96.6%	✓
% of contractual invoices paid by due date	100%	100%	✓

Colour Key
Green ✓ - Achieved or better than target
Amber = - Small improvements required to achieve or better target, progress reported quarterly to Board
Red X - Significant improvements required to achieve or better target, progress reported quarterly to Board

The accounting policies for the year are disclosed in ‘Notes to the Financial Statements for the year ended 31st March 2016’, later in this document, and the Board confirms that there have been no substantial changes during the year other than those required to comply with FRS102.

At 31st March 2016, the Group had a surplus before taxation of £3,501,000 (2015: £3,360,000).

The Association continues to have strong financial performance which compares well to that of its peers. In particular, the treasury function (as discussed further below) outperforms the sector when compared to the HCA's Global Accounts data.

The key financial highlights over the last five years are shown below:

Consolidated Results	**2015/16 £000s**	**2014/15 Restated £000s**	**2013/14 £000s**	**2012/13 £000s**	**2011/12 £000s**
Turnover (i)	16,812	15,439	13,723	13,084	12,372
Operating surplus (i)	5,270	4,342	3,930	3,477	2,813
Other income	282	668	222	176	53
Interest payable	2,051	1,649	1,480	1,314	1,260
Surplus for the year (i)	3,501	3,360	2,671	2,338	1,605
Operating margin (i)	31.3%	28.1%	28.6%	26.6%	22.7%
Interest cover (including major repairs capitalisation) (i)	2.3	2.1	1.9	2.2	2.4
Housing properties at cost less depreciation (i)	166,774	157,618	154,382	145,065	136,527
Grant (i)	74,542	74,816	89,887	87,862	86,752
Net current assets	6,767	5,830	1,710	811	276
Short and long term debt	58,723	52,043	38,343	33,129	26,772
Revenue reserve (i)	44,206	40,705	29,166	26,495	24,157
Gearing (consolidated) (i)	46.4%	45.1%	32.2%	29.0%	24.1%
Net capital expenditure	10,813	13,781	9,030	10,277	6,543
Loans drawn down	7,500	26,000	6,000	7,000	2,000
Loan tranches wholly repaid	N/A	11,500	N/A	N/A	N/A

(i) The introduction of FRS102 means that prior to 31/3/14 figures will not be strictly comparable.

The Association's turnover has grown from £12.4m in 2011/12 to £15.9m (excluding grant amortisation of £936k) in 2015/16, a total growth rate of 28.3%. The Association has had an active policy of controlling operating costs which has contributed to the operating surplus increasing by 87% from £2.8m to £5.2m over the five years. £0.4m of the increase in operating surplus is due to the impact of FRS102. Although some distortion is caused by FRS102, the overall efficiency of the Association is shown by the operating margin which, in the last four years has been in excess of 25.0%. In going forward the Association anticipates that the operating margin will fall due to the impact of the four year rent cut outweighing any savings made by the Association. The Association is not reliant upon the sale of property in order to produce a surplus for the year, nor does it have any “off balance sheet” financing or complex leasing arrangements.

The loan portfolio has more than doubled from £26.8m in 2011/12 to £58.7m in 2015/16. Against this, the interest payable has increased from £1.3m to £2.1m or 63%. The Association has an active approach to treasury management and has benefitted from low interest rates which, when combined with internal efficiencies, has enabled the Association to maintain a stable interest cover ratio despite loans doubling over the period.

Capital Structure and Treasury Policy
Borrowings as at 31st March 2016 were £58.7m, with a further £5.0m facility available; the undrawn facility must be drawn down no later than 31st January 2017. During 2015/16 the Association undertook work with one of its principal funders which resulted in a deferral on the final drawdown date on its loan facilities by 12 months. The Association has sufficient funding in place to complete its existing contractual development commitments.

The management of treasury is the responsibility of the Finance Director. The Treasury Strategy is reviewed annually by the Board and Resources Committee. Following an exercise carried out in 2014/15 whereby the Association fixed an additional £9m debt in order to protect itself against the threat of rising interest rates, the Association had, at 31st March 2016, a fixed to floating debt ratio of 71:29 on fixed rates (31st March 2015 75:25). The Association does not use derivatives. The Association appointed new treasury advisors in July 2015 following a competitive tender. On treasury, the Association is generally risk averse, which is reflected in its loan portfolio having a mix of fixed and variable debt. The optimum mix is determined in the annual Treasury Management Strategy taking into account hedging arrangements, forecasted drawings and the current interest rate and economic environment.

The table below shows the repayment profile of the existing debt drawn:

Repayment bands	< 1yr	1 - 3 yrs	3 - 5 yrs	5 - 10 yrs	10 - 15 yrs	15 - 20 yrs	20 - 25 yrs	25 - 30 yrs	
Amount repayable £000	1,112	1,790	2,769	25,873	12,536	8,430	5,907	306	**58,723**

Of the whole of the loan portfolio, including any as yet undrawn facility, £20m is repayable as a bullet in 2022/23, the remainder of the portfolio being repaid on an amortising basis.

Cashflow

The cashflow for the period is set out in the financial results. Net cash inflows from operating activities are from the management of housing stock. Cash flows from investing activities are primarily in relation to development whilst cash flow from financing activities primarily relate to the loan portfolio. As at 31st March 2016 the Group held £9.8m of which £1.0m was held on trust for leaseholders.

Current Liquidity

As at 31st March 2016, the cash and investments amounted to £9.8m. Of this figure, £1.0m was held in a bank account in trust for leaseholders. In addition to the as yet undrawn loan facility of £5.0m noted above, the Association has a £1m overdraft facility with its principal bank. The Association funds its day-to-day activities, including the major repairs programme, out of the income generated from renting or leasing its properties and consequently only holds debt in order to fund its development programme. The Association's gearing at the year end was 46.4%, with the tightest gearing ratio within the financial covenants capped at 65%. The Association's cashflow is not affected by seasonal movements.

Credit Risk

The Group's principal financial assets are bank balances and cash, rent arrears and other receivables. The Group's credit risk is primarily attributable to its rent arrears. The amounts presented in the Statement of Financial Position are net of allowances for bad debts. The credit risk on liquid funds is limited because the counterparties are banks and building societies with high credit ratings assigned by international credit rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and tenants.

Value for Money (VFM)

The Board believes the Association's VFM self assessment statement for 2015/16 demonstrates to its various stakeholders a clear evidence based, benchmarked picture of its track record, where it is now and what are its future expectations. In line with the HCA VFM standard this will enable stakeholders to make their own judgement as to whether they believe the Association is committed to, and delivering, VFM.

We remain committed towards the delivery of existing and future VFM. The environment in which we work is challenging, with the recent 'Brexit' announcement adding to those challenges.

All information contained within this section on VFM is a condensed version, suitable for the Strategic and Board report, of the Association's full VFM self assessment. The full self assessment is available on the Association's website www.twocastles.org

As well as cost savings and cost benchmarks, quality indicators have been used in the assessment. The Association believes VFM is not just about services at their lowest cost, it is also about quality. Stakeholders have to be satisfied with the standards of services as well as the cost.

The Association understands that a healthy operating surplus for its size and type of organisation is not necessarily an indicator that it is delivering VFM. However, it believes it does reflect that the organisation is balancing income and expenditure in a way which will enable future investment to be directed into achieving its five corporate goals.

VFM Strategy
The Association's VFM Strategy is subject to an annual review and was last reviewed by the Board in January 2016. The strategy is set by the Board which has responsibility for ensuring a robust assessment of the performance of our assets and resources (including financial, social and environmental returns).

In particular, the Board has:

- Appointed a VFM Champion from its membership
- Made decisions on how resources are used in delivering objectives and considered the trade-offs and opportunity costs of such decisions
- Instilled an understanding of the return on assets, and has a strategy for optimising the future return on assets. This includes a rigorous appraisal of the potential options for improving VFM, including the potential benefits of alternative delivery models
- An effective process of scrutinising performance management to drive and deliver improved VFM performance
- A process for understanding costs and outcomes of delivering specific services, to understand why and how the underlying factors influence these costs
- Delivered VFM whilst maintaining good governance and good financial viability. In its delivery of VFM, the Association has not endangered the security of tenure of our residents, or breached any of our loan covenants, health and safety or HCA regulations
- Maximised the potential of IT in the delivery of VFM
- Delivered the regulatory requirements of the HCA in relation to VFM.

Ultimately, one of the key drivers in the strategy is for TCHA to operate as efficiently and effectively as possible, whilst controlling and optimising the relationships between costs and quality of services. The VFM Strategy is supported by the Association's other key strategic documents, including Asset Management, Treasury, Procurement.

Efficiencies, including a review of whether we achieved VFM efficiency targets set for 2015/16
The Association exceeded its savings targets, set in 2014/15, for 2015/16 in a number of ways

The Board's rolling three year VFM target (excluding development), based on 5-10% of the budgeted 2015/16 turnover gave a savings target of £787k to £1,573k over the three year period to 31st March 2016. In 2013/14 we achieved £836k, in 2014/15 we achieved £666k and in 2015/16 we achieved £721k. We have, therefore, exceeded our 10% target over the three year period.

In 2014/15 the Association predicted that its annual savings (excluding development) would be £459,703. The actual saving (excluding development) was £721,441. The actual saving of £721,441 represents 4.3% of the Association's turnover in 2015/16. We are pleased to note that this saving is 57% higher than that originally estimated – we believe this to be a reflection of staff recognising the increasing importance of VFM in the current economic climate and driving small efficiencies through.

In response to the 1% rent cut a further VFM target of £500k of the 2015/16 operating costs was set with a target date for achievement being 31st March 2019. Included in the above efficiencies are contributions towards this target.

In all, the savings, including development, for 2015/16 amounted to £1,362,381 which represents 8.1% of the Association's turnover in 2015/16.

In looking forward, the Association is anticipating saving £1,043,138 over the next three years with a year one (2016/17) anticipated saving of £445,484.

The Association, in addition to making savings of direct benefit to ourselves also, through our green technology programme, will save an estimated £519,238 in fuel bills for our residents between the years 2015/16 to 2021/22.

The Association also contributed towards both social and environmental efficiencies.

A full analysis of the Association's efficiencies are contained within the full VFM self assessment available on the Association's website www.twocastles.org.uk

Current and Future Reinvestment of Savings

Re-investment choices from 2015/16 onwards form part of an ongoing programme addressing all our corporate goals, as follows:

Reinvestment Area	2015/16 £	2016/17 £	2017/18 £	2018/19 and beyond £	Total £
Development	-	657,500	-	-	657,500
Green Technology	931,250	-	-	-	931,250
Other, including IT systems	294,409	178,231	81,231	105,000	658,870
	1,225,659	835,731	81,231	105,000	2,247,620

The Board continues to regard investment in existing homes and in future homes to be key priorities. The Board invested £931,250 during 2015/16 in green technologies designed to alleviate fuel poverty for our residents. The Association is also investing the development efficiency figure of £657,500 in development during 2016/17, or, in simple terms, this is equivalent to an extra five new homes over and above what the Association could normally have afforded to deliver without VFM savings.

Re-investment of £658,570 in 'Other' relates to projects and initiatives which are either underway or are anticipated, with some of the key highlights being:

- Goal 1 – Customer - Housing Services review, pre and post implementation £45k
- Goal 2 – Employer - New training programme on effective customer service £27k
- Goal 3 – Property (including development) - Collaborative working with Cumbrian landlords on a Cost Sharing Vehicle (**CSV**) model; flood resilience work not covered by grant ; New "dynamic model" home ownership product £199k
- Goal 4 – Viable - Early work on office accommodation plans (reducing future footprint by scanning documents) ; Voids and Financial inclusion initiative £224k

A full analysis of the Association's reinvestment decisions are contained within the full VFM self assessment available on the Association's website www.twocastles.org.uk

Benchmarking and monitoring costs and performance

The Association has monitored its financial performance by benchmarking itself against the latest available data from the HCA Global Accounts. The Association believes that, as this information will have been verified by external auditors, it is the most reliable financial information against which to compare itself. For 2014/15 (the latest data available) the key financial benchmarking achievements were:

Description	TCHA	Sector Average	Variance
Management costs per unit	£874	£1,034	£160 = 15% better than the sector average
Routine and planned maintenance cost per unit	£884	£1,017	£133 = 13% better than he sector average
Total major repairs cost per unit	£889	£929	£40 = 4% better than the sector average
Retained surplus as a percentage of turnover	21%	19%	Above average performance
Margin of return on asset over cost of financing asset	1.7%	1.7%	In line with sector performance
Debt per unit	£15,045	£23,961	Above average performance
Voids	1.7%	1.7%	In line with sector performance
Bad debts	0.8%	0.8%	In line with sector performance
Current resident arrears	3.2%	4.6%	In line with sector performance

**This ratio represents the gross value of the Association's assets and whether or not their ability to generate income (as measured by operating surplus plus property sales plus interest receivable) exceeds loan interest payments against the assets (as measured by net book value of fixed assets plus capital grants plus current assets).*

The Association has also benchmarked itself against the HCA's understanding cost analysis (June 2016). On the whole, we compare favourably against the sector average and we will be exploring cost analysis further with other RPs during 2015/16.

For monitoring the operational performance and satisfaction rates of the Association, it benchmarked itself against data from Housemark. Given the HCA's feedback on the sector's response to the VFM Standard for 2014/15 the Association has reviewed its operational performance benchmarking group. The HCA was concerned that comparator groups were often too large and were not specific to the geographical area in which they operate. We have, therefore, revised our benchmarking group to 'all England of between 2,500-10,000 units located in the North East and/or the North West'. We have chosen the group size based on the fact we believe these will include associations who have a development programme, as we do.

A full detailed comparison of the Association's benchmarking results are contained within the full VFM self assessment available on the Associations website www.twocastles.org.uk

Return on Assets, including social and environmental returns

Understanding how our assets perform financially is very important to us, not just in terms of our financial viability, but also in determining our stock rationalisation plans and our Development Strategy.

The Association has had an active approach to asset management. This approach ensures that we respond to customer expectations whilst meeting the challenges of the sector. This is achieved against a background of ensuring the Association's Financial Plan is updated to reflect the decisions made to ensure the Association has the resources needed and achieves the optimum return on its assets.

The Association sees asset management as having both quantitative and qualitative information available so that we can make the best decision for that stock which will deliver VFM and also deliver the strategic goals of the Association. For example;

- Data is accurate. For example, the stock condition database holds completed surveys for 90% of stock , the data is regularly updated and subject to external validation.
- We know what we own. For example, the Association maintains an accurate security database of our housing stock which we believe to be highly accurate and, as at April 2015, the title property deed number was 99.9% reconciled to the records held by the Land Registry office
- We carry out regular reviews of stock and consider the various options available. For example, the Association also reviewed the 3% of rented stock which showed a negative NPV. This exercise highlighted that the Board are aware of poorer performing stock and have put into place appropriate strategies.

- We have pertinent information. For example, the Association has carried out a Net Present Value (**NPV**) analysis of all of its rented stock. The NPV discount rate used for this exercise was 5%. For all rented units assessed in NPV terms, the Association analysed the data by geography, business type, property type and bedroom size. The analysis showed that the results were in line with that expected and in line with current investment/dis-investment decisions
- We have an active development programme and deliver a new housing supply where need has been identified. For example, two of the local authorities within which we work have an affordability ratio in excess of the national average.
- We are committed towards future investment and publish data to our residents. For example, the robust nature of stock condition data has allowed the Association to confidently publish its second five year planned maintenance programme for residents for the period 2015-20. The Association also published a five year cyclical re-decoration programme for the first time in 2015 to complement the already published planned programme
- We will invest money in initiatives which deliver both environmental and cost savings to residents. For example during 2015/16 we installed 537 solar panels saving residents an estimated £161 per property in fuel bills and reducing our carbon footprint by 301 CO_2
- By investing in a maintenance procurement group we are, within the North West, able to place one apprentice for every £325k spent.

A full analysis of the Association's achievements and decisions in relation to return on assets are contained within the full VFM self assessment available on the Association's website www.twocastles.org.uk

Overall self-assessment

We consider that we met the VFM Standard in 2015/16. We have listed on the left of the table below each of the key areas required by the Standard. We have summarised on the right how we believe we have demonstrated we meet the requirements within this self assessment document.

The specific expectations of the VFM Standard	Summary of how TCHA believes it demonstrates compliance for 2015/16
Have a robust approach to making decisions on the use of resources to deliver the provider's objectives, including an understanding of the trade offs and opportunity costs of its decisions.	• Reports to the Board on the performance and use of resources enabling a thorough documented approach to decision making include: ▪ The BRIXX 30 year Financial Plan ▪ The annual budget process which includes zero based budgeting and clearly links use of resources with meeting key objectives ▪ Actual performance against the Asset Management Strategy ▪ Stock rationalisation reports ▪ KPI reports

The specific expectations of the VFM Standard	Summary of how TCHA believes it demonstrates compliance for 2015/16
	▪ The Corporate Plan, which details the organisation's objectives and the resources required and identified to deliver those over a three year period. • The most significant resources are incurred in delivery of stock re-investment and building new homes. The Association, therefore, has specific tools and mechanisms which enable opportunity costs to be considered and decision making to be documented based on evidenced financial performance. These include: ▪ An appraisal model for new developments and re-modelling of existing schemes ▪ An Asset Management Matrix tool which, together with NPV modelling, assesses performance of all rented stock at a scheme level and on a unit basis going forward, enabling decisions to be made which maximise returns on stock ▪ A VFM Strategy which was last reviewed in 2016.
Understand the return on its assets, and have a strategy for optimising the future returns on assets – including rigorous appraisal of all potential options for improving VFM including the potential benefits in alternative delivery models - measured against the organisation's purpose and objectives.	• The Association has a methodology which explains the calculation of return on assets used by it. • For the last six years the Association has modelled all existing schemes to ascertain whether they generate more than they cost to run. Where they do not, they have been evaluated and included in the ongoing stock rationalisation review. Details are contained earlier in the statement. • As a social landlord, 'return' is not just about financial return - social returns and environmental returns are also detailed in the full self assessment statement. • The Association anticipates, as a result of development efficiencies delivered in 2015/16 alone, that this funds an additional five homes. • There is a detailed asset database which has been in place for over 10 years, detailing clearly which properties are secured, what specific covenants properties may have, Land Registry details and holding key legal documents. The security database is incorporated within the Association's overall Assets and Liabilities Register. • There is a robust Stock Condition Survey, which has led, in 2016, to the

The specific expectations of the VFM Standard	Summary of how TCHA believes it demonstrates compliance for 2015/16
	publishing of a further five year plan for maintenance on a scheme by scheme basis for all residents.
Have performance management and scrutiny functions which are effective at driving and delivering improved VFM performance.	• There is key performance and satisfaction reporting to Board and committees across all operational areas showing areas of deterioration or concern which could be considered for VFM review. • The Association, through its Asset Management Strategy (last reviewed in March 2015), has systematically worked through responsive, planned and cyclical maintenance over the last five years driving down inefficiencies, seeking to improve satisfaction, and maintaining or increasing the value of existing assets. • Benchmarking of satisfaction is done through HouseMark using a peer group consisting of all England 2,500-10,000 NE and NW RPs. • Benchmarking of costs and key financial ratios is done through the HCA's Global Accounts data (latest available – 2014/15). • Further benchmarking of operating costs is included, for the first time, in line with data published by the HCA in June 2016. • Resident scrutiny reporting continues with review of leasehold services. • Full financial management information is provided to Resources Committee and Board on a regular basis.
Understand the costs and outcomes of delivering specific services and which underlying factors influence these costs and how they do so.	• The self assessment shows clear evidence of good current and past performance on management and maintenance costs when benchmarking against the HCA's Global Accounts data. For example, the data for 2014/15 (latest available year on Global Accounts) shows the organisation to be better than the average cost for all associations by: - 15% on management costs per unit - 13% on responsive and cyclical costs per unit. • Commenced a review of the HCA's publication 'Understanding Differences in Unit Costs'. The Association's costs are, however, on the whole, below the average. Service charges are in the upper quartile due, in part, to the Association holding a high percentage of older persons' housing. • The self assessment shows the understanding the organisation has of cost drivers and the impact of those across the most significant area of spend for

The specific expectations of the VFM Standard	Summary of how TCHA believes it demonstrates compliance for 2015/16
	the organisation – development of new homes. • The organisation's current savings (excluding development) are detailed in the self assessment by organisational goal, showing one-off and recurrent. Future investment areas are detailed by corporate goal. For 2015/16 savings totalling £721,441 have been made, representing 4.3% of the turnover for that year. • Targets for future saving, and how these have been set, are detailed in the self assessment. They are split, once again, between development and other savings and efficiencies and future plans for re-investment.
Annually publish a robust self assessment which sets out in a way that is transparent and accessible to stakeholders how they are achieving VFM in delivering their purpose and objectives.	• This document is TCHA's full self assessment of how the organisation believes it meets the HCA VFM Standard for the year 2015/16. It will be published on the Association's website by 30th September 2016. A separate summary, specifically drawn up for residents, will also be available on the website by 30th September 2016.

Although the above table demonstrates compliance with the Standard for 2015/16, there are still areas we have identified for improvement which we have covered under **Next steps - future plans and improvements** below. The Board, through this statement, is committed to delivering those improvements through 2016/17 and beyond.

Next steps - future plans and improvements

We remain committed to the delivery of existing and future VFM. The environment in which we work continues to be challenging. However, we believe that there are still opportunities for innovative thinking and new development models. The Board remains committed to achieving VFM efficiencies and that efficiencies realised will be primarily re-invested in future delivery of home ownership and core services.

Value for money targets 2016/17 and onwards

Looking forward, the Board has set the following VFM efficiency targets:

- Operating cost savings – Over the four year period to 31st March 2020 to reduce operating costs by £500k
- Development target savings – an aspirational VFM target has been set whereby development costs should be 25% below the published relevant BCIS inflationary increase over the life of the 2015-20 programme (subject to a review following the Board agreeing the future Development Strategy)

- Treasury target – to manage the portfolio of new and existing debt so that the average fixed interest rate anticipated for the period 2016/17 to 2021/22 does not exceed the long term interest rate included in the Financial Plan.

What we will improve on in 2016/17 and onwards in order to achieve the VFM targets above

- To continue exploring a bigger partnership for procuring responsive and void repairs across Cumbria, through a CSV, involving other Cumbrian landlords.
- Within the above group to look at sharing wider services, e.g. development and HR.
- Following the Board agreeing a new Development Strategy, to review our development partnership to see what further efficiencies can be delivered.
- Following the Board agreeing a new Development Strategy to review a VFM KPI for future development which better reflects the Board's decision to adopt new home ownership products.
- Continue with an ongoing review of tenders and partnership arrangements for key support services.
- Continue our ongoing investment in IT.
- Continue to implement our ongoing stock rationalisation review.
- Initial proof of concept and research project with Northumbria University and Capita on Building Information Modelling (**BIM**) completed during 2015/16. During 2016/17 we will be developing models to enable detailed testing of the new Capita OPENHousing BIM module due to be available in 2017/18.
- Continue to review the adoption of 'channel shift', in particular to draw up action plans for the increased use of the Residents' Portal and also for the reduction in the Association's rent collection costs.
- Following the implementation of the fundamental housing management services review (implementation date Q2 2016/17) the immediate VFM priorities are:
    - To carry out an options review for the medium and long term provision of sheltered housing accommodation
    - During 2016/17 to design new KPIs which will measure the performance of the re-structured Housing Services department (new structure implemented Q2 2016/17)
    - To complete the internal leasehold services review
- Following the Board's agreement, in March 2016, to implement a revised set of KPIs, in particular KPIs which measure the success of strategies agreed by the Board.
- To continue reviewing, with other RPs, the reasons for differences within unit costs.
- To implement stage one of a three year plan to rationalise office accommodation.
- To re-procure our cyclical maintenance contracts.

What we said we needed to improve on in 2015/16 and did we achieve it?

The Association believes it can always improve its performance in delivering VFM. In addition to various specific VFM initiatives, the Association has an ongoing programme of ensuring that VFM continues to be a key strategy in that it underpins all that we do. In 2015/16 we set a number of specific tasks and targets and we are pleased that in the majority of cases these have been achieved Greater details of what was promised and what we actually achieved is contained within the full VFM self assessment available on the Association's website www.twocastles.org.uk

Donations

The Association has made no political donations during the course of its ordinary activities.

Indemnity for directors' liability

The Board members are insured under the National Housing Federation Directors and Officers Liability Insurance Scheme.

Post Balance Sheet Events

There are no post balance sheet events to be reported

Michael Johnson

Board member

Phil Cottrill

Board member

The Board of Two Castles Housing Association – Internal Controls Assurance Statement for the financial year 2015/16

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

The Board recognises that no system of internal controls can provide absolute assurance against material misstatement or loss, or eliminate all risk of failure to achieve business objectives. The system of internal controls is designed to manage key risks and to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Association's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which are embedded within the normal management and governance processes. The Board retains responsibility for internal controls and is assisted by the Audit Committee. In preparing this report the Board has gained assurance in line with the NHF publication "Understanding Assurance: A Guide for Housing Association Board Members", published in December 2014.

The process adopted by the Board in reviewing the effectiveness of the system of internal controls, together with some of the key elements of the control framework includes:

- **Identification and evaluation of key risks**
  The Board has responsibility for defining the process of identification, evaluation and control of significant risks. There is a formal and ongoing process of Board review in each area of the Association's activities. The executive team regularly considers and updates significant risks facing the Association and the Chief Executive is responsible for reporting to the Board any significant changes affecting key risks.

- **Overall control procedures**
  The Board retains responsibility for a defined range of issues covering strategic, operational and financial and compliance issues including treasury strategy and new investment projects. Policies and procedures cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection.

- **Information and financial reporting systems**
  Financial reporting procedures include: detailed budgets for the year ahead, detailed management accounts produced monthly, forecasts for the remainder of the financial year, and detailed 30 year plans reviewed quarterly. These are reviewed, considered and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes as detailed in the Balanced Scorecard.

- **Monitoring and corrective action**
  A process of regular management reporting on control issues provides assurance to senior management and to the Board. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those that may have a material impact on the financial statements and delivery of our services.

The internal controls framework and the risk management process are subject to regular review by internal auditors who advise the Senior Management Team and report to the Audit Committee. The Audit Committee considers internal controls and risk at each of its meetings during the year.

The Audit Committee conducts an annual review of the effectiveness of the system of internal controls and has taken account of any changes needed to maintain the effectiveness of risk management and control process.

There were no actual cases of fraud reported or found during 2015/16.

The Board confirms that there is an ongoing process for identifying and managing significant risks faced by the Association. This process has been in place throughout the year under review, up to the date of the annual report and accounts, and is regularly reviewed by the Board.

This statement was approved by the Board on 14th June 2016.

Michael Johnson

Board member

Phil Cottrill

Board member

Report of the Independent Auditors to the Members of Two Castles Housing Association Limited

We have audited the financial statements of Two Castles Housing Association Limited for the year ended 31st March 2016 which comprise the Consolidated and the parent entity's Statements of Comprehensive Income, the Consolidated and the parent entity's Statements of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated and parent entity's Statements of Changes in Reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Respective responsibilities of The Board and auditor

As explained more fully in the Statement of the Board's Responsibilities set out on pages 5-6, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the parent entity's members, as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the parent entity'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 parent entity and the parent entity's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and the parent entity's affairs as at 31st March 2016 and of the Group and the parent entity's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and

- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion;

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

Glen Jones

Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street
Birmingham
B3 2RT

Date:

Two Castles Housing Association Limited
Consolidated Statement of Comprehensive Income
for the year ended 31st March 2016

	Notes	2016 £000s	2015 £000s
Turnover	**2**	16,812	15,439
Operating expenditure	**2**	(11,542)	(11,097)
Operating surplus	**2**	5,270	4,342
Surplus on disposal of property, plant and equipment	**5**	259	651
Interest and financing costs	**6**	(2,051)	(1,649)
Other finance income	**7**	24	17
Surplus before taxation		3,502	3,361
Taxation	**8**	(1)	(1)
Surplus for the year	**11**	3,501	3,360
Total comprehensive income for the year		3,501	3,360

The notes which follow form an integral part of the financial statements.

All amounts relate to continuing activities.

The notes which follow form an integral part of the financial statements.
The financial statements were approved by the Board of Management on *22/09/16* and were signed on its behalf by :

Board Member : Michael Johnson

Board Member : Phil Cottrill

Secretary : Gill Boyd

Two Castles Housing Association Limited
Parent Entity Statement of Comprehensive Income
for the year ended 31st March 2016

	Notes	2016 £000s	2015 £000s
Turnover	**3**	16,812	15,439
Operating expenditure	**3**	(11,540)	(11,096)
Operating surplus	**3**	5,272	4,343
Surplus on disposal of property, plant and equipment	**5**	259	651
Interest and financing costs	**6**	(2,051)	(1,649)
Other finance income	**7**	19	13
Surplus before taxation		3,499	3,358
Taxation	**8**	-	-
Surplus for the year	**11**	3,499	3,358
Total comprehensive income for the year		3,499	3,358

The notes which follow form an integral part of the financial statements.

All amounts relate to continuing activities.

The notes which follow form an integral part of the financial statements.
The financial statements were approved by the Board of
Management on *22/09/16* and were signed on its behalf by :

Board Member : Michael Johnson

Board Member : Phil Cottrill

Secretary : Gill Boyd

Two Castles Housing Association Limited
Consolidated Statement of Financial Position
as at 31st March 2016

	Notes	2016 £000s	2015 £000s
Fixed assets			
Housing properties	**12**	166,774	157,618
Intangible assets	**13**	255	350
Other property, plant and equipment	**13**	1,468	1,206
Total fixed assets		168,497	159,174
Current assets			
Shared ownership first tranche	**14**	816	184
Property awaiting disposal	**15**	315	274
Debtors	**16**	1,913	2,330
Cash at bank and in hand	**17**	9,778	9,438
		12,822	12,226
Creditors			
amounts falling due within one year	**18**	(6,055)	(6,396)
Net current assets		6,767	5,830
Total assets less current liabilities		175,264	165,004
Creditors			
amounts falling due after more than one year	**19**	131,058	124,299
		131,058	124,299
Net assets		44,206	40,705
Capital and reserves			
Called-up share capital	**27**	-	-
Revenue reserve		44,206	40,705
Total reserves		44,206	40,705

The notes which follow form an integral part of the financial statements.
The financial statements were approved by the Board of Management on *22/09/16* and were signed on its behalf by :

Board Member : Michael Johnson

Board Member : Phil Cottrill

Secretary : Gill Boyd

Two Castles Housing Association Limited
Parent Entity Statement of Financial Position
as at 31st March 2016

	Notes	2016 £000s	2015 £000s
Fixed assets			
Housing properties	**12**	166,774	157,618
Intangible assets	**13**	255	350
Other property, plant and equipment	**13**	1,468	1,206
Total fixed assets		168,497	159,174
Current assets			
Shared ownership first tranche	**14**	816	184
Property awaiting disposal	**15**	315	274
Debtors	**16**	1,912	2,330
Cash at bank and in hand	**17**	9,738	9,400
		12,781	12,188
Creditors			
amounts falling due within one year	**18**	(6,326)	(6,394)
Net current assets		6,455	5,794
Total assets less current liabilities		174,952	164,968
Creditors			
amounts falling due after more than one year	**19**	131,058	124,573
		131,058	124,573
Net assets		43,894	40,395
Capital and reserves			
Share capital	**27**	-	-
Revenue reserve		43,894	40,395
Total reserves		43,894	40,395

The notes which follow form an integral part of the financial statements.
The financial statements were approved by the Board of Management on *22/09/16* and were signed on its behalf by :

Board Member : Michael Johnson

Board Member : Phil Cottrill

Secretary : Gill Boyd

Two Castles Housing Association Limited
Consolidated and Parent Entity's Statements of Changes in Reserves
as at 31st March 2016

Revenue Reserve (Group)

	2016 Group £000s	2015 Group £000s
At 1st April	40,705	37,345
Surplus for the year	3,501	3,360
At 31st March	44,206	40,705

Revenue Reserve (Parent)

	2016 Parent entity £000s	2015 Parent entity £000s
At 1st April	40,395	37,037
Surplus for the year	3,499	3,358
At 31st March	43,894	40,395

Two Castles Housing Association Limited
Consolidated Statement of Cash Flows for the year ended 31st March 2016

	Notes	2016 £000s	2015 £000s
Net cash generated from operating activities	**a**	**6,563**	**8,034**
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,989)	(16,872)
Purchase of intangible assets		(21)	(142)
Proceeds from sale of property, plant and equipment		427	387
Grants received		1,770	2,846
Interest received		23	17
Net cash flows from investing activities		**(10,790)**	**(13,764)**
Cash flows from financing activities			
Interest paid		(2,051)	(1,649)
New loans		7,500	26,000
Repayments of borrowings		(881)	(12,156)
Taxation		(1)	-
Net cash flows from financing activities		**4,567**	**12,195**
Net increase in cash and cash equivalents		**340**	**6,465**
Cash and cash equivalents at beginning of year	**17**	**9,438**	**2,974**
Cash and cash equivalents at end of year	**17**	**9,778**	**9,438**
		-	

Note a - Net cash generated from operating activities

	2016 £000s	2015 £000s
Surplus for the year	3,501	3,360
Adjustment for non-cash items:		
Depreciation of property, plant and equipment	1,806	2,668
Amortisation of intangible assets	101	67
Decrease / (increase) in inventories	91	464
Decrease / (increase) in debtors	(609)	(75)
Increase / (decrease) in creditors	49	820
Carrying amount of property, plant & equipment disposals	794	635
Adjustments for investing or financing activities:		
Proceeds from the sale of property, plant and equipment	(259)	(651)
Government grants utilised in the year	(939)	(886)
Interest payable	2,051	1,649
Interest received	(23)	(17)
Net cash generated from operating activities	**6,563**	**8,034**

Notes to the Financial Statements for the year ended 31st March 2016

Two Castles Housing Association is a Registered Society under the Co-operative and Community Benefit Societies Act 2014 incorporated and domiciled in the United Kingdom. The address of its registered office and principal place of business are as disclosed on the first page of these financial statements

The financial statements are presented in Sterling which is also the Association's functional currency.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Group's accounting policies.

Principal accounting policies
The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

General information and basis of accounting
The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and comply with the Statement of Recommended Practice for registered social housing providers 2014 (SORP), the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2015. Two Castles Housing Association Group is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

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

Basis of consolidation
The Group financial statements consolidate the financial statements of the Association and its subsidiary undertakings drawn up to 31st March each year.

Property, plant and equipment - housing properties
Housing properties and office buildings are stated at cost less depreciation less accumulated depreciation and accumulated impairment losses. Cost includes the cost of acquiring land and buildings, directly attributable development costs and borrowing costs directly attributable to the construction of new housing properties during the development. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

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

Major components
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 economic lives at the following annual rates:

Structure	100 years
Roofs	70 years
Electrical wiring	40 years
Doors, windows and heating systems	30 years
Bathrooms	30 years
Air Source Heat Pumps	25 Years
Electrical fittings and PV panels	20 years
Kitchens	17 years
Boilers	15 years

Properties held on long leases are depreciated over their estimated useful economic lives or the lease duration if shorter.

Improvements
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 works to housing properties which do not replace a component or do not result in an incremental future benefit are charged as expenditure in surplus or deficit 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 Association 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 tenant.

Non-housing property, plant and equipment
Non-housing property, plant and equipment is stated at historic cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all non-housing property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Furniture, fixtures & fittings	15% per annum on cost
Vehicles	20 % per annum on reducing balance
Computer hardware	20% per annum on cost
Scheme equipment	In accordance with service charge legislation

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	20% per annum on cost

Impairment of social housing properties
Properties held for their social benefit are not held solely for the cash inflows they generate and are held for their service potential.

An assessment is made at each reporting date as to whether an indicator of impairment exists. If such an indicator exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is made. Where the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in surplus or deficit in the Statement of Comprehensive Income. The recoverable amount of an asset is the higher of its value in use and fair value less costs to sell. Where assets are held for their service potential, value in use is determined by the present value of the asset's remaining service potential plus the net amount expected to be received from its disposal. Depreciated replacement cost is taken as a suitable measurement model.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply and included in surplus or deficit in the Statement of Comprehensive Income.

Social Housing Grant and other Government grants
Where grants are received from government agencies such as the Homes and Communities Agency or local authorities that 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.

Government grants are recognised using the accrual model and are classified either as a grant relating to revenue or a grant relating to assets. Grants relating to revenue are recognised in income on a systematic basis over the period in which related costs for which the grant is intended to compensate are recognised.

Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset. Grants received for housing properties are recognised in income over the expected useful life of the housing property structure. Where a grant is received specifically for components of a housing property, the grant is recognised in income over the expected useful life of the component.

Donation or acquisition of land or other asset at below market value
Where a donation of land and/or other asset is received or land and/or other assets are acquired at below market value from a government source, this is accounted for as a non-monetary government grant. The difference between the fair value of the asset donated or acquired and the consideration paid for the asset is recognised as a government grant and included in the Statement of Financial Position as a liability.

Where a donation of land and/or other asset is received or acquisitions of land and/or other assets at below their market value from a third party that does not meet the definition of a government source the transaction is recognised as an asset in the Statement of Financial Position at fair value, taking account of any restrictions on the use of the asset. Income equivalent to the difference between any amounts paid or payable for the asset and the fair value of the asset is recognised in surplus or deficit in the Statement of Comprehensive Income as a donation when future performance-related conditions are met.

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 and is not be recognised as a provision. 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 or recycle the grant, any unamortised grant remaining within liabilities in the Statement of Financial Position related to this asset is derecognised as a liability and recognised as revenue in surplus or deficit in the Statement of Comprehensive Income.

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.

Properties for outright sale
Where properties are developed for outright sale and land held for sale, these are measured at the lower of cost and estimated selling price less costs to complete and sell. Cost includes materials, direct labour and an attributable proportion of overheads based on normal levels of activity.

Interest payable
Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds. Interest charges incurred on the financing of housing properties are capitalised up to the date of practical completion.

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.

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 profits 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. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Pensions

The Group participates in 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.

Turnover

Turnover represents rent and service charges receivable (net of rent and service charge losses from voids) and disposal proceeds of current assets such as properties developed for outright sale or shared ownership first tranche sales at completion. Service charge income is recognised when expenditure is incurred as this is considered to be the point at which the service has been performed and the revenue recognition criteria met.

Supported housing and other managing agents

Where the Group has ownership of a supported housing or other scheme but also has an agreement with a third party to manage the scheme (including Supporting People funded schemes or services), where there has been a substantial transfer of the risks and benefits attached to the scheme to the third party, any scheme revenue and expenditure is excluded from these financial statements.

Shared ownership property sales

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

Proceeds from first tranche disposals are accounted for as turnover in the Statement of Comprehensive Income of the period in which the disposal occur and the cost of sale is transferred from current assets to operating costs. Proceeds from subsequent tranche sales are treated as disposals of fixed assets.

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.

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets carried at amortised cost
Financial assets carried at amortised cost comprise rent arrears, trade and other receivables and cash and cash equivalents. 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 derecognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and reward are transferred.

If an arrangement constitutes a financing transaction, the financial asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities carried at amortised cost
These financial liabilities include trade and other payables and interest bearing loans and borrowings.

Non-current debt instruments which meet the necessary conditions in FRS 102, are initially recognised at fair value adjusted for any directly attributable transaction cost and subsequently measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the Statement of Comprehensive Income. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

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

Judgments in applying accounting policies and key sources of estimation uncertainty
The preparation of the financial statements in conformity with generally accepted accounting principles requires the Board to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results in the future could differ from those estimates. In this regard, the Board believe that the critical accounting policies where judgements or estimations are necessarily applied are summarised below:

Depreciation and residual values
The Board have reviewed the asset lives and associated residual values of all fixed asset classes, and in particular, the useful economic life and residual values of fixtures and fittings, and have concluded that asset lives and residual values are appropriate.

Provisions and accruals
Management bases its judgements on the circumstances relating to each specific event and upon currently available information. However, given the inherent difficulties in estimating liabilities in these areas, it cannot be guaranteed that additional costs will not be incurred beyond the amounts accrued.

Impairment of trade debtors
An estimate of the collectible amount of trade debtors is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

2. Turnover, operating costs and operating surplus before taxation by class of business (Group)

		2016 Turnover £000s	Operating costs £000s	Operating surplus £000s
SOCIAL HOUSING ACTIVITIES:				
Income and expenditure from lettings				
Social housing lettings	**(Note 4)**	16,519	11,445	5,074
Other social housing activities				
Current asset property sales		85	91	(6)
Charges for supported services		4	4	-
Other		204	2	202
Total		16,812	11,542	5,270

		2015 Turnover £000s	Operating costs £000s	Operating surplus £000s
Income and expenditure from lettings				
Social housing lettings	**(Note 4)**	15,321	11,071	4,250
Other social housing activities				
Current asset property sales		-	-	-
Charges for supported services		25	25	-
Other		93	1	92
Total		15,439	11,097	4,342

See note 4 for a detailed analysis of the income and expenditure from lettings

3. Turnover, operating costs and operating surplus before taxation by class of business (Parent Entity)

		2016		
		Turnover	**Operating costs**	**Operating surplus**
SOCIAL HOUSING ACTIVITIES:		**£000s**	**£000s**	**£000s**
Income and expenditure from lettings				
Social housing lettings	**(Note 4)**	16,519	11,445	5,074
Other social housing activities				
Current asset property sales		85	91	(6)
Charges for supported services		4	4	-
Other		204	-	204
Total		16,812	11,540	5,272

		2015		
		Turnover	**Operating costs**	**Operating surplus**
		£000s	**£000s**	**£000s**
Income and expenditure from lettings				
Social housing lettings	**(Note 4)**	15,321	11,071	4,250
Other social housing activities				
Current asset property sales		-	-	-
Charges for supported services		25	25	-
Other		93	-	93
Total		15,439	11,096	4,343

See note 4 for a detailed analysis of the income and expenditure from lettings

4 Income and expenditure from lettings (Group and Parent Entity)

	General Needs Housing	Supported & Older People Housing	Shared Ownership	Leaseholders	Total 2016	Total 2015
INCOME	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Rents receivable	10,305	2,795	468	-	13,568	12,472
Service charge income	409	1,120	177	307	2,013	1,963
Rent and service charge income	10,714	3,915	645	307	15,581	14,435
Amortised government grant	680	181	60	17	938	886
Turnover from social housing lettings	11,394	4,096	705	324	16,519	15,321
EXPENDITURE						
Housing accommodation						
Management	2,318	898	86	-	3,302	3,146
Services charge costs	430	1,127	132	292	1,981	2,043
Routine maintenance	1,321	440	-	-	1,761	1,774
Planned maintenance	758	217	-	-	975	759
Major repairs expenditure	662	151	-	-	813	797
Bad debts	90	11	-	-	101	106
Depreciation of housing properties	2,017	441	-	-	2,458	2,213
Impairment of housing properties	-	-	-	-	-	200
Other costs	54	-	-	-	54	33
Operating costs on social housing lettings	7,650	3,285	218	292	11,445	11,071
Operating surplus on social housing lettings	3,744	811	487	32	5,074	4,250
Void losses	(195)	(147)	-	-	(342)	(261)

5. Surplus on disposal of property, plant and equipment (Group and Parent Entity)

	Shared Ownership £000s	Others £000s	Total 2016 £000s	Total 2015 £000s
Proceeds of sales	404	-	404	1,346
Less: Cost of sales	(146)	1	(145)	(695)
Surplus	258	1	259	651

6. Interest and financing costs

	2016 Group £000s	2016 Parent Entity £000s	2015 Group £000s	2015 Parent Entity £000s
Bank loans and overdrafts	2,045	2,045	1,631	1,631
Bank charges & commission	38	38	42	42
Amortisation of loan issue costs & Non utilisation fees	141	141	203	203
	2,224	2,224	1,876	1,876
Borrowing costs capitalised	(173)	(173)	(227)	(227)
Total	2,051	2,051	1,649	1,649

Borrowing costs have been capitalised based on a capitalisation rate of 3.9% (2015: 3.5%) which is the weighted average of rates applicable to the Association's general borrowings outstanding during the year.

7. Other finance income

	2016 Group £000s	2016 Parent Entity £000s	2015 Group £000s	2015 Parent Entity £000s
Bank interest receivable	24	19	17	13
	24	19	17	13

Bank interest is shown after allowing for transfer to RCGF and scheme equipment replacement

8. Taxation on surplus on ordinary activities

The parent entity is a Co-operative and Community Benefit Society, registered with HM Revenue & Customs and able to claim the tax reliefs available to charities. As all of its income is derived from its primary purpose there is a £1k (2015: £1k) liability for Corporation Tax in accordance with s478 CTA 2010.

The parent entity's subsidiary, Two Castles Limited, is a trading company and subject to corporation tax on the profits of its activities.

9. Directors' emoluments (Group and Parent Entity)

	2016	2015
	£000s	£000s
The aggregate emoluments paid to or receivable by executive directors and former directors	387	379
The aggregate emoluments paid to or receivable by non executive directors and former directors	35	33
The emoluments paid to the highest paid director of the Association excluding pension contributions	113	110

Number of senior staff with remuneration in excess of £60k, expressed as full time equivalents 36.25hrs

	2016	2015
	No.	No.
60,000 - 69,999	-	1
70,000 - 79,999	2	2
80,000 - 89,999	1	-
90,000 - 100,000	1	1
	4	4

The Chief Executive is an ordinary member of the pension scheme. The pension scheme is a defined contribution scheme funded by annual contributions by the employer and employee. No enhanced or special terms apply. There are no additional pension arrangements. A contribution by the Association of £10,578 (2015: £10,299) was paid in addition to the personal contributions of the Chief Executive.

Directors are defined as the members of the Board, the Chief Executive and any other person who is a member of the Senior Management Team or its equivalent.

10. Employee information (Group and Parent Entity)

The average weekly number of persons employed during the year was : (expressed as full time equivalents of 36.25hrs)	2016 No.	2015 No.
Office staff	72	74
Scheme officer, resident managers, caretakers and cleaners	18	20
	90	94

	2016		2015	
	Staff	Non executive	Staff	Non executive
	£000s	£000s	£000s	
Staff and non executive costs (for the above persons)				
Wages and salaries	2,702	35	2,527	33
Social security costs	245	-	236	-
Other pension costs (see note 25)	262	-	270	-
	3,209	35	3,033	33

11. Surplus for the year (Group and Parent Entity)

	2016	2015
	£000s	£000s
Is stated after charging:		
Depreciation on tangible fixed assets - housing	2,458	2,213
Depreciation on scheme fixed assets - housing	105	124
Depreciation on tangible fixed assets - other	214	199
Impairment	-	200
Government grants	938	886
Audit fees: Statutory audit	15	17
Audit fees: Audit-related assurance services	6	-
Audit fees: Tax advisory services	-	4
Operating leases rentals	69	84
Bad debt expenditure	101	106

12. Tangible fixed assets - Housing properties (Group and Parent Entity)

	Housing properties held for letting completed	Housing properties under construction	Completed shared ownership housing properties	Shared ownership housing properties under construction	Total Housing Properties
	£000s	£000s	£000s	£000s	£000s
Cost as at 1 April 2015	170,247	4,718	9,081	737	184,783
Development schemes acquired in year	585	-	-	-	585
Development schemes started in year	-	8,880	-	907	9,787
Development schemes completed in year	7,375	(9,804)	3,978	(1,548)	-
Development scheme transferred to sale	-	(69)	-	69	-
New assets expenditure on existing schemes *	647	-	81	-	728
Expenditure under component accounting	1,788	-	-	-	1,788
Disposal under component accounting	(794)	-	-	-	(794)
Transfer to current assets (Note 14 & 15)	(918)	-	(723)	(83)	(1,724)
Disposals on schemes	-	-	(138)	-	(138)
At 31 March 2016	178,930	3,725	12,279	82	195,016
Depreciation					
At 1 April 2015	27,165	-	-	-	27,165
Charge for the year	2,458	-	-	-	2,458
Charge for the year scheme equipment	105	-	-	-	105
Eliminated in respect of disposals	(800)	-	-	-	(800)
Transfer to current assets (Note 15)	(686)	-	-	-	(686)
At 31 March 2016	28,242	-	-	-	28,242
Net book value **At end of year**	150,688	3,725	12,279	82	166,774
Net book value **At beginning of year**	143,082	4,718	9,081	737	157,618

Costs are analysed as follows:	2016 £000s	2015 £000s
Freehold	170,440	161,134
Long Leasehold	7,003	7,003
Short Leasehold	-	774
Scheme Equipment	1,487	1,337
Total	178,930	170,248

	2016 £000s	2015 £000s
Value of property secured	106,660	105,383
Value of property not secured	72,270	64,865
Total	178,930	170,248

Aggregate of finance costs included in tangible fixed assets is £5,086k (2015: £4,912k).

The total major repairs expenditure (excluding overheads) is £2.1m of which £1.78m was capitalised (2015: £1.75m)

* the £647k includes, £498k (2015: £556k) for installation of photovoltaic panels on existing development schemes

13. Property, plant and equipment - other tangible fixed assets (Group & Parent Entity)

	Property freehold offices	Plant & equipment fixtures & fittings	Motor vehicles	Computer hardware	Computer software	Total other fixed assets
	£000s	£000s	£000s	£000s	£000s	£000s
Cost as at 1 April 2015	1,335	365	25	239	627	2,591
New assets expenditure on existing offices	43	4	-	43	21	111
Transfer back from current assets (Note 15)	462	-	-	-	-	462
Disposals	(5)	(43)	-	(16)	(15)	(79)
At 31 March 2016	1,835	326	25	266	633	3,085
Depreciation						
At 1 April 2015	316	301	15	126	277	1,035
Charge for the year	19	30	5	46	114	214
Eliminated in respect of disposals	(5)	-	-	-	-	(5)
Transfer back from current asset (Note 15)	188	-	-	-	-	188
Impairment	-	(43)	-	(14)	(13)	(70)
At 31 March 2016	518	288	20	158	378	1,362
Net book value **At end of year**	1,317	38	5	108	255	1,723
Net book value **At beginning of year**	1,019	64	10	113	350	1,556

14. Shared ownership first tranche

	2016 Group £000s	2016 Parent Entity £000s	2015 Group £000s	2015 Parent Entity £000s
Opening shared ownership first tranche	184	184	-	-
First tranche sales in the year	(91)	(91)	-	-
Additions in the year	723	723	184	184
Closing shared ownership first tranche	816	816	184	184

15. Property awaiting disposal

	2016 Group £000s	2016 Parent Entity £000s	2015 Group £000s	2015 Parent Entity £000s
Opening property awaiting disposal	274	274	-	-
Costs transferred from fixed asset	315	315	274	274
Costs transferred back to fixed asset	(274)	(274)	-	-
Cost of sales	-	-	-	-
Total	315	315	274	274

16. Debtors

	2016 Group £000s	2016 Parent Entity £000s	2015 Group £000s	2015 Parent Entity £000s
Amounts falling due within one year :				
Rent arrears	992	992	894	894
less: Provision for bad debts rent and service charge	(553)	(553)	(501)	(501)
	439	439	393	393
Social Housing and other Grants receivable	-	-	1,026	1,026
Prepayments and accrued income	1,058	1,058	591	591
Other debtors	416	415	320	320
	1,913	1,912	2,330	2,330

Of the £992k rent arrears, £138k related to Housing Benefit that was received in the next payment receipt. No disclosure has been made of the net present value of rent arrears subject to repayment plans as the amount is deemed to be insignificant.

17. Cash at bank and in hand

Included in cash at bank are balances amounting to £1,049k (2015: £899k) held in trust for leaseholders.

	2016 Group £000s	2016 Parent Entity £000s	2015 Group £000s	2015 Parent Entity £000s
Cash at bank	493	453	(161)	(199)
Short term investment	8,236	8,236	8,700	8,700
Leaseholders	1,049	1,049	899	899
	9,778	9,738	9,438	9,400

18. Creditors

Amounts falling due within one year	**2016 Group £000s**	**2016 Parent Entity £000s**	**2015 Group £000s**	**2015 Parent Entity £000s**
Amounts held in Trust for leaseholders	1,049	1,049	899	899
Trade creditors	1,347	1,347	1,416	1,416
Corporation tax	-	-	1	-
Other taxation and social security payable	77	77	72	72
Accruals and deferred income	1,129	1,125	1,217	1,216
Rents received in advance	410	410	371	371
Loan repayments in one year or less (Note 20)	837	1,112	1,094	1,094
Loan interest payable	267	267	355	355
Government grants (Note 22)	939	939	886	886
Leased repairs provision (Note 23)	-	-	85	85
	6,055	6,326	6,396	6,394

19. Creditors

Amounts falling due after more than one year	**2016 Group £000s**	**2016 Parent Entity £000s**	**2015 Group £000s**	**2015 Parent Entity £000s**
Housing loans (Note 20)	56,946	56,946	49,982	50,256
Recycled Capital Grant Fund (Note 21)	310	310	275	275
Government grants (Note 22)	73,603	73,603	73,930	73,930
Leased repairs provision (Note 23)	199	199	112	112
	131,058	131,058	124,299	124,573

The loans are secured on freehold housing properties. Interest is payable at 3.92%
The total accumulated amount of capital grant received or receivable at the balance sheet date is £74.5m

20. Housing loans (Parent entity)

Housing loans from the banks, building societies and other lending institutions are secured by specific charges on the Association's housing properties and floating charges on all of the Association's assets and are repayable at varying rates of interest as follows :

	2016 £000s	**2015 £000s**
By instalments		
Within one year	837	1,094
Between one and two years	856	1,694
Between two and five years	3,703	1,988
In more than five years	38,052	32,267
On demand or within a year	275	-
	43,723	37,043
Not by instalments		
In more than five years	15,000	15,000
Less: Loan issue costs	(665)	(693)
	58,058	51,350

21. Recycled Capital Grant Fund

		2016 £000s	2015 £000s
Opening balance		275	270
Inputs to fund :			
	Grants recycled	79	118
	Interest accrued	-	-
	Outputs	(44)	(113)
Closing balance		310	275

22. Deferred income - Government grants

	2016 £000s	2015 £000s
At 1 April 2015	74,816	72,747
Grants receivable	664	2,955
Amortisation to Statement of Comprehensive Income	(938)	(886)
At 31st March 2016	74,542	74,816
Due within one year	939	886
Due after one year	73,603	73,930

23. Leased repairs provision

		2016 £000s Leased Provision	2015 £000s Leased Provision
Opening balance		112	314
	Transferred back from creditors < 1 year	85	-
	Transfer from income and expenditure	38	15
	Interest accrued	-	-
	Utilised in year	(36)	(217)
Closing balance		199	112

24. Finance facilities

At 31st March 2016 the Association had £63.7m in bank finance facilities in place and a committed overdraft facility of £1m. Of the £63.7m, £58.7 m had been drawn down at 31st March 2016.

25. Retirement benefit schemes

The Group operates defined contribution retirement benefit schemes for qualifying employees. The total expense charged to Statement of Comprehensive Income in the period ended 31st March 2016 was £262k (2015 £270k)

26. Financial instruments

The carrying values of the consolidated and Association's financial assets and liabilities are summarised by category below:-

	2016 Group £000s	2016 Parent Entity £000s	2015 Group £000s	2015 Parent Entity £000s
Financial assets				
Measured at undiscounted amount receivable				
Rent arrears and other debtors (Note 16)	855	855	1,739	1,739
Cash at bank and in hand (Note 17)	9,778	9,738	9,438	9,400
	10,633	10,593	11,177	11,139
Financial liabilities				
Measured at amortised costs				
Loans payable (Note 18 and Note 19)	57,783	58,058	51,076	51,351
Measured at undiscounted amount payable				
Trade and other creditors (Note 18 and Note 19)	5,417	5,413	5,414	5,412
Recycled capital grant fund (Note 21)	310	310	275	275
	63,510	63,781	56,765	57,038

The consolidated income, expense, gains and losses in respect of financial instruments are summarised below:-

	2016 Group £000s	2015 Group £000s
Interest income and expense		
Total interest income for financial assets and amortised costs	-	-
Total interest expense for financial liabilities at amortised costs, Note 6	(2,051)	(1,649)
	(2,051)	(1,649)

27. Called-up share capital (Group & Parent Entity)

Each member of the Board of Management holds one share of £1 in the Association. The shares do not have a right to any dividend or distribution in a winding up and are not redeemable. Each shareholder has full voting rights.

	2016		2015	
Allotted issued and fully paid	**Group**	**Parent Entity**	**Group**	**Parent Entity**
	£	**£**	**£**	**£**
At start of the year	22	22	25	25
Issued during year	-	-	-	-
Forfeited during year	(1)	(1)	(3)	(3)
At end of year	21	21	22	22

28. Financial capital commitments (Group & Parent Entity)

	2016 £000s	2015 £000s
Capital expenditure that has been contracted for but has not been provided for in the financial statements	1,408	11,336
Capital expenditure that has been authorised by the Board of Management but has not yet been contracted	15,455	7,923
	16,863	19,259
The Association expects to finance the expenditure above by:		
Proceeds from the sale of properties	2,307	435
Social Housing Grant	1,921	2,781
Committed loans facilities	12,635	16,043
	16,863	19,259

29. Financial operating lease commitments (Group & Parent Entity)

The Association holds properties and office equipment under non cancellable operating leases. At the end of the year the Association had annual commitments under theses leases as follows:-

	2016 £000s	2015 £000s
Payments due		
Within one year	14	47
Between one and five years	55	37
After five years	-	-
	69	84

30. Units/bed spaces (Group & Parent Entity)

	2016 Number	2015 Number
Under development at end of year		
Housing accommodation	31	68
Under management at end of year		
General needs	1,773	1,785
General needs at affordable rent	516	403
Supported housing and housing for older people	569	561
Shared ownership	389	383
LSE	282	284
Sold, staircased and RTB with no freehold	69	69
Other	91	91
	3,720	3,644

31. Accommodation managed by agents

The Association owns property managed by other bodies.

	2016	2015
No. of units of accommodation	22	22

32. Grant

The total accumulated grant received or receivable at the balance sheet date from both capital and revenue sources

	2016 £000s	2015 £000s
Grant to date	93,206	92,541
Amortisation to date	(18,664)	(17,725)
Balance of Grant	74,542	74,816

33. Subsidiaries

The Company is exempt from disclosing transactions with other group undertakings under section 33.1(a) of FRS102 and these transactions are eliminated on consolidation.

The Association has the following subsidiary that is 100% owned and based in the UK:

Two Castles Limited - not a Registered Provider (incorporated in the UK)

The Association has prepared group accounts.

34. Legislative provisions

The Association is registered under the Co-operative and Community Benefit Societies Act 2014 and is registered with the HCA as a Registered Provider as defined by the Housing and Regeneration Act 2008.

35. Contingent liability

At 31st March 2016 there were no known contingent liabilities.

36. Related parties

The Board includes members who are also tenants of the Association. These members are subject to the same terms and conditions as all tenants in similar properties. At the year-end total rent arrears for these Board members totalled £Nil (2015: £Nil). During the year total rent received was £11.0k (2015: £10.6k).

37. Explanation of transition to FRS 102

This is the first year that the Group has presented its financial statements under Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year end 31st March 2015 and the date of transition to FRS 102 was therefore 1st April 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Reconciliation of net assets and reserves at 1st April 2014 for the Group - As at 31st March 2016

	UK GAAP as previously reported	Effect of transition into FRS 102					FRS 102
		A	B	C	D	E	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
ASSETS							
Fixed assets	64,495	-	(10,475)	89,887	-	-	143,907
Intangible assets	-	384	-	-	-	-	384
Property, plant and equipment	1,937	(384)	-	-	-	-	1,553
	66,432	-	(10,475)	89,887	-	-	145,844
Current assets							
Shared ownership first tranche	-	-	-	-	-	-	-
Property awaiting disposal	435	-	-	-	-	-	435
Debtors	2,328	-	-	-	-	-	2,328
Investments	2,026	-	-	-	-	-	2,026
Cash at bank and in hand	948	-	-	-	-	-	948
	5,737	-	-	-	-	-	5,737
Total assets	**72,169**	**-**	**(10,475)**	**89,887**	**-**	**-**	**151,581**
LIABILITIES							
Current liabilities	4,027	-	-	-	-	-	4,027
Capital grant and amortisation	-	-	-	885	-	-	885
	4,027	-	-	885	-	-	4,912
Non - current liabilities							
Creditors greater than 1 year	38,976	-	-	-	(1,815)	-	37,161
Capital grant and amortisation	-	-	-	72,162	-	-	72,162
	38,976	-	-	72,162	(1,815)	-	109,323
Total liabilities	**43,003**	**-**	**-**	**73,047**	**(1,815)**	**-**	**114,235**
Net assets	**29,166**	**-**	**(10,475)**	**16,840**	**1,815**	**-**	**37,345**
EQUITY							
Share capital	-	-	-	-	-	-	-
Revenue reserve	29,166	-	(10,475)	16,840	1,815	-	37,345
Total equity	**29,166**	**-**	**(10,475)**	**16,840**	**1,815**	**-**	**37,345**

37. Explanation of transition to FRS 102

Reconciliation of net assets and reserves at 1st April 2015 for the Group - as at 31st March 2016

	UK GAAP as previously reported	Effect of transition into FRS 102					FRS 102
		A	B	C	D	E	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
ASSETS							
Fixed assets	76,100	-	(11,023)	92,541	-	-	157,618
Intangible assets	-	350	-	-	-	-	350
Property, plant and equipment	1,556	(350)	-	-	-	-	1,206
	77,656	-	(11,023)	92,541	-	-	159,174
Current assets							
Shared ownership first tranche	184	-	-	-	-	-	184
Property awaiting disposal	274	-	-	-	-	-	274
Debtors	2,330	-	-	-	-	-	2,330
Investments	8,700	-	-	-	-	(8,700)	-
Cash at bank and in hand	738					8,700	9,438
	12,226	-	-	-	-	-	12,226
Total assets	**89,882**	**-**	**(11,023)**	**92,541**	**-**	**-**	**171,400**
LIABILITIES							
Current liabilities	5,510	-	-	-	-	-	5,510
Capital grant and amortisation	-	-	-	886	-	-	886
	5,510	-	-	886	-	-	6,396
Non - current liabilities							
Creditors greater than 1 year	52,184	-	-	-	(1,815)	-	50,369
Capital grant and amortisation	-	-	-	73,929	-	-	73,929
	52,184	-	-	73,929	(1,815)	-	124,299
Total liabilities	**57,695**	**-**	**-**	**74,815**	**(1,815)**	**-**	**130,695**
Net assets	**32,187**	**-**	**(11,023)**	**17,726**	**1,815**	**-**	**40,705**
EQUITY							
Share capital	-	-	-	-	-	-	-
Revenue reserve	32,187	-	(11,023)	17,726	1,815	-	40,705
Total equity	**32,187**	**-**	**(11,023)**	**17,726**	**1,815**	**-**	**40,705**

37. Explanation of transition to FRS 102

Reconciliation of total comprehensive income for the year ended 31st March 2016 - Group

	UK GAAP as previously reported	Effect of transition into FRS 102					FRS 102
		A	B	C	D	E	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	14,553	-	-	886	-	-	15,439
Operating expenditure	(10,549)	-	(548)	-	-	-	(11,097)
Operating surplus	4,004	-	(548)	886	-	-	4,342
Gain on disposal of property, plant and equipment	651	-	-	-	-	-	651
Interest and financing costs	(1,649)	-	-	-	-	-	(1,649)
Interest receivable	17	-	-	-	-	-	17
Surplus for the year	3,022	-	(548)	886	-	-	3,361
Taxation	(1)	-	-	-	-	-	(1)
Total comprehensive income for the year	3,021	-	(548)	886	-	-	3,360

37. Explanation of transition to FRS 102

Reconciliation of net assets and reserves at 1st April 2014 for the Parent Entity - As at 31st March 2016

	UK GAAP as previously reported	Effect of transition into FRS 102					FRS 102
		A	B	C	D	E	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
ASSETS							
Fixed assets	64,495	-	(10,475)	89,887	-	-	143,907
Intangible assets	-	384	-	-	-	-	384
Property, plant and equipment	1,937	(384)	-	-	-	-	1,553
	66,432	-	(10,475)	89,887	-	-	145,844
Current assets							
Shared ownership first tranche	-	-	-	-	-	-	-
Property awaiting disposal	435	-	-	-	-	-	435
Debtors	2,328	-	-	-	-	-	2,328
Investments	2,026	-	-	-	-	-	2,026
Cash at bank and in hand	905	-	-	-	-	-	905
	5,694	-	-	-	-	-	5,694
Total assets	**72,126**	**-**	**(10,475)**	**89,887**	**-**	**-**	**151,538**
LIABILITIES							
Current liabilities	4,018	-	-	-	-	-	4,018
Capital grant and amortisation	-	-	-	885	-	-	885
	4,018	-	-	885	-	-	4,903
Non - current liabilities							
Creditors greater than 1 year	39,251	-	-	-	(1,815)	-	37,436
Capital grant and amortisation	-	-	-	72,162	-	-	72,162
	39,251	-	-	72,162	(1,815)	-	109,598
Total liabilities	**43,269**	**-**	**-**	**73,047**	**(1,815)**	**-**	**114,501**
Net assets	**28,857**	**-**	**(10,475)**	**16,840**	**1,815**	**-**	**37,037**
EQUITY							
Share capital	-	-	-	-	-	-	-
Revenue reserve	28,857	-	(10,475)	16,840	1,815	-	37,037
Total equity	**28,857**	**-**	**(10,475)**	**16,840**	**1,815**	**-**	**37,037**

37 Explanation of transition to FRS 102

Reconciliation of net assets and reserves at 1st April 2015 for the Parent Entity - as at 31st March 2016

	UK GAAP as previously reported	Effect of transition into FRS 102 A	B	C	D	E	FRS 102
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
ASSETS							
Fixed assets	76,100	-	(11,023)	92,541	-	-	157,618
Intangible assets	-	350	-	-	-	-	350
Property, plant and equipment	1,556	(350)	-	-	-	-	1,206
	77,656	-	(11,023)	92,541	-	-	159,174
Current assets							
Shared ownership first tranche	184	-	-	-	-	-	184
Property awaiting disposal	274	-	-	-	-	-	274
Debtors	2,330	-	-	-	-	-	2,330
Investments	8,700	-	-	-	-	(8,700)	-
Cash at bank and in hand	700					8,700	9,400
	12,188	-	-	-	-	-	12,188
Total assets	**89,844**	**-**	**(11,023)**	**92,541**	**-**	**-**	**171,362**
LIABILITIES							
Current liabilities	5,508	-	-	-	-	-	5,508
Capital grant and amortisation	-	-	-	886	-	-	886
	5,508	-	-	886	-	-	6,394
Non - current liabilities							
Creditors greater than 1 year	52,459	-	-	-	(1,815)	-	50,644
Capital grant and amortisation	-	-	-	73,929	-	-	73,929
	52,459	-	-	73,929	(1,815)	-	124,573
Total liabilities	**57,967**	**-**	**-**	**74,815**	**(1,815)**	**-**	**130,967**
Net assets	**31,877**	**-**	**(11,023)**	**17,726**	**1,815**	**-**	**40,395**
EQUITY							
Share capital	-						-
Revenue reserve	31,877	-	(11,023)	17,726	1,815	**-**	40,395
Total equity	**31,877**	**-**	**(11,023)**	**17,726**	**1,815**	**-**	**40,395**

37. Explanation of transition to FRS 102

Reconciliation of total comprehensive income for the year ended 31st March 2016 - Parent Entity

	UK GAAP as previously reported	Effect of transition into FRS 102					FRS 102
		A	B	C	D	E	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	14,553	-	-	886	-	-	15,439
Operating expenditure	(10,548)	-	(548)	-	-	-	(11,096)
Operating surplus	4,005	-	(548)	886	-	-	4,343
Gain on disposal of property, plant and equipment	651	-	-	-	-	-	651
Interest and financing costs	(1,649)	-	-	-	-	-	(1,649)
Interest receivable	13	-	-	-	-	-	13
Surplus for the year	3,020	-	(548)	886	-	-	3,358
Total comprehensive income for the year	3,020	-	(548)	886	-	-	3,358

37. Explanation of transition to FRS 102

A. Fixed asset - Intangible Asset

Under the previous UK GAAP the Computer software was shown under tangible other fixed assets. Computer software, with a net book value of £383.5k as at 1 April 2014 has been reclassified from tangible other fixed assets to intangible assets as required under FRS 102. This has no effect on the net assets nor on the surplus for the year.

B. Fixed asset - Depreciation

Under the previous UK GAAP deprecation was net of grant. Grant has been reclassified from Fixed Asset to Liabilities and as such an increase in deprecation has occurred. The depreciation charge at 1 April 2014. increased to £10.5m and a further £548k was required for the 1 April 2015 charge.

C. Grant Amortisation

Previously under UK GAAP, grant had been shown in fixed asset, as at 1 April 2014 grant has been reclassified to long term liabilities under the FRS 102. As from 1 April 2014 amortisation charge of £16.8m was provided for and a £886k for 1 April 2015 charge.

D. Replacement Scheme Creditor

The replacement schemed creditor was originally designed for scheme replacement items where income and expenditure would go through this account. The scheme replacement are now shown under Fixed assets and as such this creditor is not long required, the amount of £1.8m has been moved to reserves and the above account closed.

E. Investment

This is a movement between investment and cash, as these are all short term investment and as such should of been shown under cash, this has had no effect on the Group or Holdings current assets nor on the surplus for the year.

Other Adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect the surplus for the financial year, the following adjustments have arisen which have had no effect on net reserves or Statement of Comprehensive Income but which have affected the presentation of these items on the Statement of Financial Position. The main items are:

(a) Statement of cash flows

The Group's cash flow statement reflects the presentation requirements of FRS102, which is different to that prepared under FRS1. In addition, the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined in FRS102 as 'cash in hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value'. Whereas cash is defined in FRS1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The FRS1 definition is more restrictive.

(b) Holiday pay accrual

FRS 102 requires short term employee benefits to be charged in surplus or deficit to the Statement of Comprehensive Income as the employee service is received, This has resulted in the Group recognising a liability for holiday pay of £30k on transition to FRS 102. Previously holiday pay accruals were not recognised and were charged to the Income and Expenditure account as they were paid in the year 31st March 2015 an additional charge was recognised in the Statement of Comprehensive Income and the liability at 31st March 2016 was £30k.