# Two Rivers Housing

## Annual report and financial statements
## for the year ended 31 March 2018

Registered number: 4263691

# Two Rivers Housing

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# Two Rivers Housing

## Company information

**EXECUTIVE DIRECTORS**

Mr Garry King BA (Hons), DIP Business Admin, DIP Housing Admin. FCIH
(Chief Executive)
Mr Jonathon Coe DMS FCIH (Corporate Director - Operations)
Mr Barry Thompson CIPFA (Corporate Director - Resources)

**BOARD MEMBERS**

Mr David Powell CIPFA, BA (Hons), Dip Management (Chair) – Resigned 12-05-18
Mr John Bloxsom MBA, Prince2 FCIH (Chair)
Mr Alan Blundell FMAAT, AAT
Mr Jonathan Richards BA (Hons), CPE
Ms Susan Holmes
Mr Christopher Hillidge BSc, BVetMed, PhD
Mr Neil Sutherland OBE DL, BSc (Eng), MA, CEng, CMgr, FICE, FCMI
Mrs Rita Jones
Mr Tim Jackson FCA BSc – appointed 12-05-18
Miss Yvonne Leishman OBE BA FCIH – appointed 30-11-17

**SECRETARY**

Mr Garry King BA (Hons), DIP Business Admin, DIP Housing Admin. FCIH
(Chief Executive)

**REGISTERED OFFICE**

Rivers Meet
Cleeve Mill Lane
Newent
Gloucestershire
GL18 1DS

**REGISTERED UNDER THE COMPANIES ACT 2006**

4263691

**CHARITY REGISTRATION**

1104723

**AUDITOR**

Mazars LLP
45 Church Street
Birmingham
B3 2RT

**FUNDERS**

Barclays Bank

**SOLICITORS**

Anthony Collins Solicitors
Wright Hassall
Trowers & Hamlins

# Two Rivers Housing

## Chair's Statement

As Chair of TRH it gives me great pleasure to be reporting on another successful year on a number of fronts.

It is the passion of our staff to deliver a consistently excellent service which epitomises what TRH is all about. The board appreciates the link between highly satisfied staff and highly satisfied customers and we encourage the management team to invest in staff engagement and trust. So it is with a great sense of pride for me that TRH was recently recognised again by the Times 100 survey National Awards as a great place to work being positioned number 11. In order to continue to navigate through the many significant on going challenges facing our sector it is imperative that organisational values and culture are nurtured with care and meaning and the board clearly understands its role in this respect.

The board continues to put customer excellence as a key objective and it is clear that the services to our tenants continue to be responsive and of high quality.

Without question the sector is having to change in order to stay relevant to its customers and for TRH this means making sure that we align our resources to the Boards clearly defined priorities for the future. During 2017 the Board has debated the future direction for TRH and this has resulted in a new Corporate plan for 2018 – 28 setting out a clear set of priorities. An important part of this strategy is to continue to develop properties and an ambitious target of 100 properties per year has been set. Indeed in 2017/18 TRH delivered in excess of 100 new properties clearly demonstrating a strong commitment to this objective.

Underpinning all of this is the need to ensure we continue to deliver Value for Money for our customers. We have a strong focus on VFM and the board is committed to making sure we control our costs at a time when resources in the sector are being reduced. For 2017/18 I am pleased to report that our total housing unit cost per property has further reduced to well below the sector average. Managing costs will continue to be a future challenge to the board and is embedded as part of our budget process.

Finally I would like to thank all my fellow board members and the Executive Team who have all provided much valued leadership and support over the last 12 months and I am confident that TRH can continue to build excellent communities with passion and pride.

**John Bloxsom**

Chair

# Two Rivers Housing

## Strategic Report

### Principal activities

Two Rivers Housing (TRH) has principal activities which include the development and management of affordable housing in the Forest of Dean and surrounding areas.

The Association's main streams of business consist of the management of housing for people in need of affordable housing both with and without grant from the HCA.

### Business and Financial Review

The Board is pleased to report a Group surplus for the year of £5.3m (2017: £5.0m) and an Association surplus for the year of £5.1m (2017: £5.2m) in what has been another successful year.

We have continued to invest in our existing stock in order to maintain homes above Decent Homes Standard. The cost of investment during the year was £2.1m.

During the year we completed 95 and acquired 21 new homes. This included 12 homes for sale on the open market.

The support services provided to vulnerable tenants continued during the year with really positive results for our customers.

The Group produces a 30 year financial forecast which is reviewed on an annual basis. The following table sets out a five year picture;

### Forecast Financial performance

| | 2018.19 | 2019.20 | 2020.21 | 2021.22 | 2022.23 |
|---|---|---|---|---|---|
| Statement of comprehensive income | £m | £m | £m | £m | £m |
| Turnover | 26.037 | 32.603 | 26.657 | 23.282 | 24.037 |
| Operating surplus | 7.005 | 7.711 | 6.633 | 5.835 | 6.112 |
| Transfer to reserves | 4.330 | 3.345 | 1.663 | 1.110 | 1.502 |
| Statement of financial position | | | | | |
| Total assets less current liabilities (Excl bank loans) | 178.720 | 179.373 | 177.062 | 173.460 | 164.623 |
| Creditors over one year | 132.964 | 130.273 | 126.299 | 121.588 | 111.249 |
| Reserves | 45.092 | 48.437 | 50.099 | 51.209 | 52.711 |

# Two Rivers Housing

# Strategic Report

### Strategic Performance Indicators

The Association monitors and benchmarks its ongoing performance via the Operations team on a monthly basis and monitors the key performance indicators and reports to the board on a quarterly basis. This enables us to identify areas for improvement and take corrective action where necessary. The following results were achieved in 2017/18;

| Indicator | Target | Performance | Top Quartile (Housemark 16/17) |
|---|---|---|---|
| Rent collected | 99.95% | 100.36% | 100.44% |
| Rent lost | 1.00% | 0.65% | 0.46% |
| Decent homes standard | 100% | 100% | 100% |
| Valid gas certificate | 100% | 100% | 100% |
| Current tenant rent arrears | 1.65% | 1.25% | 1.86% |

### Objectives and Strategy

Our mission is "creating great homes and supporting communities".

The achievement of this mission statement is underpinned by four strategic priorities each containing agreed projects and objectives.

- Our Tenants and their Homes – to achieve customer satisfaction with TRH landlord services (STAR Survey) of 89% - March 2019
- Creating a strong organisation – to remain an excellent employer as categorised by the Sunday Times Top 100 Companies or other accreditation.
- Income and Growth – to achieve a total turnover, for Centigen TRH and Centigen Facilities Management, of greater than £385,300 and a net profit of not less than £38,900.
- Governance and Viability- to achieve an EBITDA MRI operating margin in excess of 30% in 2018/19.

These objectives are delivered through key strategic initiatives and projects monitored by the board as part of its overall Corporate plan.

### Treasury

The purpose of the treasury strategy is to support the delivery of the Group's strategic objectives and financial plan. It is approved annually by the Board and details how we mitigate and manage treasury risks such as liquidity risk, interest rate risk and covenant risk.

The role of Treasury is to ensure that the Group has sufficient liquidity to fund its operations and investments for a minimum of 24 months, mitigating the impact of adverse movements in interest rates and ensuring loan covenants are met at all times. The group is wholly financed by Barclays Bank

At the 31.3.2018, the Group is forecasting a requirement for additional finance in 2022/23 and that the proportion of fixed debt stood at 46% following the draw down of the remaining loan facility at the year end . This is shortly to be corrected to through additional fixes bringing the fixed level back up 66% in line with the board strategy. The surplus finds drawn will be used to fund new development in the coming years.

**Risk Management**

TRH has a comprehensive system of risk management. During the year, with the support of the External Auditor, the Board appraised its risk appetite position. This resulted in a clear level of risk appetite being assigned to business activities and a set of risk appetite metrics put in place to monitor the position. The highest risks in terms of their impact and probability are discussed by the Audit Committee on a quarterly basis and are reported through to the Board. The report identifies action taken to manage risks as well as new and emerging risks.

The latest assessment of the major risks to the successful achievement of the Associations objectives is set out below;

| Strategic Risk | Controls and actions |
|---|---|
| 1.Welfare reform<br>The continued roll out of welfare reform represents a significant threat to future income streams which will be carefully monitored | • Welfare reform action plan<br>• Extra resources allocated<br>• Regular reports to Executive and Board<br>• Good relationships with local authority. |
| 2. Rent Formula uncertainty<br>The introduction of 4 years of -1% rent reductions from April 2016 has reduced the financial plan capacity. While a degree of certainty has been restored though a four year rent plan, it is not certain what will follow. | • Revised financial plan to accommodate lower cost base<br>• Reserved list of potential future actions<br>• Financial plan sensitivity analysis<br>• Mitigation plan with assessment of impact. |
| 3. Health and safety obligations<br>Continuing extended legislative requirements. | • Comprehensive health and safety management system, which monitors risks and actions to control risks<br>• Regular reports to Executive and Board. |
| 4 Loan Covenants<br>Failure to comply with financial loan covenants, leading to potential withdrawal of loan facility. | • Regular monitoring and projection of all covenants<br>• Early warning breach indications “golden rules”<br>• Mitigation action plans. |

**Value for Money**

Value for Money (VFM) is achieved when limited financial resources are spent and invested in ways that produce the greatest long-term beneficial effects. At TRH we believe the organisation exists to provide ‘social value’ and we are developing a model to demonstrate the social value benefits of the work that we do.

**Role of the Board**

The board is fully committed to delivering Value for Money (VFM) in support of delivering against the associations objectives. The board appraises VFM throughout the year. The year-end position for 2017/18 was appraised by the Audit Committee on 19 July 2018 and approved by the board at its meeting on August 9th 2018. The board is compliant with the Regulators’ VFM standard.

The Board is fully committed to the delivery of VFM for our customers, seeking an appropriate balance between cost, performance and customer satisfaction. VFM is a very important component of one of TRH’s 4 corporate objectives and indeed cuts across all other objectives.

VFM is used as a business improvement driver within TRH, facilitating the alignment of resources to the Boards strategic priorities. In addition, the Board has approved a number of bespoke metrics which are also linked to our strategic objectives.

# Two Rivers Housing

## Strategic Report

The Regulator of Social Housing (RSH) published a new VFM standard which became operational on 1 April 2018. One of the key requirements is the new standard is that registered providers are expected to report performance against a suite of seven VFM metrics, as defined by the regulator, with the express intention of providing measures with wide applicability which permit comparability across the sector. TRH's performance against the suite of metrics is illustrated in the table below.

Sector wide figures are not currently available for 2017/18 for the suite of metrics defined by the regulator. Therefore, the table below uses 2016/17 Sector Scorecard results in an effort to benchmark against the sector on the basis of the new metrics.

**Value for Money Metrics**

| | Two Rivers Housing | | PlaceShapers Group | Whole Sector |
|---|---|---|---|---|
| | 2016/17 Actuals | 2017/18 Actuals | 2016/17 Actuals | 2016/17 Actuals |
| Reinvestment % | 7.07% | 12.66% | 7.11 | 6.52% |
| New supply delivered % (Social housing) | 1.39% | 2.62% | 1.44% | 1.73% |
| New supply delivered % (Non - social housing) | 0.15% | 0.35% | 2.80% | 3.02% |
| Gearing % | 58% | 58% | 52% | 50% |
| EBITDA MRI interest cover % | 232% | 255% | 237% | 334% |
| Headline Social Housing cost per unit | £3,205 | £3,082 | £3,620 | £4,180 |
| Operating Margin % - Social housing only | 31.72% | 28.29% | 33.99% | 32.95% |
| Operating Margin % - Overall | 31.42% | 28.83% | 31.23% | 29.87% |
| Return on capital employed (ROCE) | 7.68% | 7.63% | 5.15% | 5.20% |

**<u>Assessment of 2017/18 performance</u>**

A commentary in relation to each of the metrics in turn along with a brief description of the metric is contained below;

# Two Rivers Housing

## Strategic Report

### Reinvestment

This indicator looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held

This figure shows TRH in a good position investing and adding the supply of social housing and as can be seen is ahead of both the PlaceShapers and Sector levels, particularly in 2017/18. It is important to note that the level of spend on maintenance of existing stock required to achieve decent homes standard is approximately 55% of actual level of expenditure.

### New supply delivered

This sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at the period end.

New supply has picked up particularly in 2017/18 with the percentage of new social housing being ahead of the sector averages for both PlaceShapers and Global accounts.

### Gearing

Assesses how much of the assets are made up of debt and is an approximate indication of capacity, in that more highly geared associations may have less capacity to develop further.

TRH's gearing ratio is higher than the sector averages for both PlaceShapers and the whole sector and is indicative TRH having geared up to develop more units. It is not uncommon for developing associations to be more highly geared. It is also important to note that TRH has a good level of headroom in relation to our covenants with our funders.

### EBIDA MRI interest cover

This ratio measures the level of surplus created against interest payments.

The performance in this area broadly similar or slightly ahead of the PlaceShapers group but not as strong as the sector average. This ratio also reflects the fact that the full loan facility has now been drawn ahead of requirement as a cost effective solution which will however artificially lower the ratio. A high interest cover ratio is not automatically a good thing as it may indicate that there is further capacity to borrow further to develop, although it does need to be taken into context with the other financial indicators.

### Headline Social housing cost per unit

This is an indication of the total costs of providing social housing (as defined by the Regulator) divided by the total number of units.

TRH's cost per unit compares well with both the PlaceShapers and the Sector, and is good to report that there has been a downward movement in costs in 2017/18.

### Operating Margin

The operating margin demonstrates the profitability of the operating assets before exceptional expenses are taken into account, split into operating margin for social housing lettings only and operating margin overall.

TRH's operating margin is slightly less than the PlaceShapers averages and the Sector averages. However, it is important to remember that it is likely that the sector averages may also have fallen due to continuation of the rent reductions and their inevitable impact.

**Return on capital employed (ROCE)**

This ratio measures how well a provider its capital to generate a financial return.

To some extent this ratio is influenced by when the assets of an organisation were acquired in historic cost terms as this can greatly affect the denominator. TRH has achieved good performance in this area and is ahead of the sector averages.

**Performance against TRH specific metrics**

The Board has agreed a number of bespoke metrics which are linked to TRH strategic objectives which are designed to ensure that TRH delivers VFM in a local context.

| Corporate Objective | Description | Measure of success | Target 2018/19 | Actual as at March 2018 |
|---|---|---|---|---|
| Customer satisfaction | Customer satisfaction | STAR survey results | 89% | 88% |
| Customer satisfaction | Completing repairs right first time | Customer feedback | 88% | 86% |
| Customer satisfaction | Health and safety | Percentage of homes meeting decent homes standard | 100% | 100% |
| | | Percentage of homes with a valid gas certificate | 100% | 100% |
| Creating a strong organisation | By ensuring we have the right people in the right place with the right skills and capacity, we will seek to optimise our people to deliver corporate objectives for the organisation | To remain an excellent employer as categorised by the Sunday Times Top 100 or other accreditation<br><br>Reduce staff turnover | To be in the top 25 best companies<br><br>Below 9% | 11<br><br>13.74% voluntary<br>19.08% overall |
| Income and growth | To generate additional alternative income strands for the association to be invested in the provision of housing. | EBITDA MRI operating margin | 30% | 27% |
| Income and growth | We will develop and acquire new homes to increase our stock holding | Number of new homes developed/acquired | 70 | 104 |
| Governance and viability | Board possess the required skills. Undertake a board effectiveness review | Actions completed following governance improvement plan | 100% | 100% |
| Governance and Viability | | RSH evaluation<br>Golden rules complied with | G1V2<br><br>100% | G1V1<br><br>100% |

| | | | | |
|---|---|---|---|---|
| Governance and Viability | | Percentage of attendance at board meetings | 80% | 89% |
| Governance and viability | | Current arrears as a percentage of debit | Less than 1.65% | 1.25% |
| Governance and Viability | | Income collection as a percentage of debit raised | 99.95% | 100.36% |

The Board agreed to set the above metrics as targets for 2018/19 and will continue to monitor them on a quarterly basis.

In addition to the above targets the board agreed the following Corporate targets for 2018/19;

- To continue with an annual reduction in responsive repairs spend of £100k per annum to continue the journey of bringing the total cost per property in line with the average for the sector as defined by Housemark. So far two years or reductions of £100k per annum have been achieved. It is anticipated a further two to three years of reductions will be required.
- A further review of SAP ratings to be carried out during 201/19 to see what further actions can be carried out to improve the SAP ratings of properties
- A further reduction of management costs of £83k per annum as agreed as part of the 2018/19 budget.
- Individual departments to continue with VFM initiatives to generate further saving

**RSH Governance and Financial Viability Standard**

On July 19 2018, the Audit Committee considered a report in relation to a self-assessment of TRH's compliance with the Governance and Viability Standard. The Committee concluded that TRH complied with the standard and reported its findings to the Board on 9 August 2018. The Board then formally confirmed TRH's compliance with Governance and Financial Viability Standard.

**National Housing Federation Code of Governance**

The Board have adopted the National Housing Federation's "Code of Governance: Promoting Board Excellence for Housing Associations (2015 edition)" and confirm that the Group complies fully with the Code.

**Statement of Compliance**

In preparing this Strategic Report (incorporating Operating and Financial Review) and Board Report, the Board has followed the principles set out in the Housing SORP 2014.

The Strategic Report (incorporating the Operating Financial Review) was approved by the Board on August 9th 2018 and signed on its behalf by;

**John Bloxsom**

Chair

# Two Rivers Housing

# Board Report

The Board is pleased to present its report together with the audited financial statements for the year ended 31 March 2018.

### Principal activities, Business Review and Future Developments

Details of the Association's principal activities, its performance during the year and future development are contained within the Strategic Report, which precedes this report.

### Board Members

The following Board Members have served office from 1 April 2017 to the date of this report unless otherwise stated:

Mr David Powell CIPFA, BA (Hons), Dip Management (Chair) – Resigned 12-05-18
Mr John Bloxsom MBA, Prince2 FCIH (Chair)
Mr Alan Blundell FMAAT, AAT
Mr Jonathan Richards BA (Hons), CPE
Ms Susan Holmes
Mr Christopher Hillidge BSc, BVetMed, PhD
Mr Neil Sutherland OBE DL BSc (Eng), MA, CEng, CMgr, FICE, FCMI
Mrs Rita Jones
Mr Tim Jackson FCA BSc – appointed 12-05-18
Miss Yvonne Leishman OBE BA FCIH – appointed 30-11-17

### Joint development forum

The Company and the Forest of Dean District Council have created a Joint Development Forum (as agreed at transfer) whose role is to consult on the use of money recovered from a VAT sharing agreement and it is primarily concerned with applying these resources to the provision of new affordable housing in the area.

### Board members' indemnity

The Board Members have confirmed that the Company does have Members and Officers Insurance in place.

### Financial instruments

Neither the Company nor any of its subsidiary undertakings have any abnormal exposure to price, credit, liquidity, and cash flow risks arising from its trading activities. They do not enter into any hedging transactions and no trading in financial instruments is undertaken.

### Going Concern

The Association's business activities, its current financial position and future development are set out with the Operating and Financial Review. The Association has adequate resources to finance committed development schemes, along with day to day operations. The Association also has a long term financial plan which shows that it is able to service its debt facility.

On this basis, the Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason it continues to adopt a going concern basis for its financial statements.

# Two Rivers Housing

# Board Report

### Internal controls assurance

The purpose of this statement is to enable the Board in turn to give its assurance on the adequacy of those controls. The Board is required to acknowledge its responsibility for:

- Internal controls giving reasonable assurance against material misstatement or loss;
- Procedures in respect of risk management;
- Ensuring arrangements for providing effective internal controls are incorporated into normal governance procedures;
- Information on the process adopted for addressing material control aspects of significant problems disclosed in the annual report and accounts; and
- Confirming that the Board has reviewed the effectiveness of these systems of control.

Two Rivers has policies and procedures in place which cover, and give assurance in respect of all our key activities. These include:

- Accounting and treasury policies;
- Financial regulations;
- Standing orders relating to contracts;
- Annual budgets;
- Fraud Policy;
- 30 year Financial Plan; and
- Risk Map and Plan.

In addition, wherever feasible, segregation and separation of duties has been undertaken to maximise control.

Control is further strengthened by the use of RSM as our internal auditors. The internal auditors prepared a plan which was approved by the Audit Committee and was delivered and monitored by the Committee and Board during the year.

The Group has in place policies in respect of preventing, detecting and investigating fraud and the Board is satisfied that these effectively manage the risk of fraud. There have been no reported cases of fraud during the year and no reported breakdowns of internal control causing significant or material loss to the Group.

The Board has received the Chief Executive's annual report, has conducted its annual review of the effectiveness of the system of internal control and has taken account of any changes needed to maintain the effectiveness of the risk management and control process.

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

### Statement of the Board Responsibilities

The Board is required by legislation to prepare financial statements for each financial year, which give a true and fair view of the state of the Association as at the end of the financial year. In preparing these financial statements, suitable accounting policies have been used to the best of the Boards' knowledge and belief, by reference to reasonable judgements and estimates and applied consistently. In doing so, applicable accounting standards have been followed. The Board is also required to indicate where the financial statements are prepared other than on the basis that the association is a going concern.

The Board is responsible for ensuring that arrangements are made for keeping proper books of account with respect to the transactions and assets and liabilities and for maintaining a satisfactory system of control over the books of account and transactions. The Board is also responsible for ensuring that arrangements are made to safeguard the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board has reviewed the effectiveness of internal control, and in addition, established a three year internal audit plan based on risk assessment. The board has established a risk strategy and implemented a comprehensive risk management approach.

# Two Rivers Housing

# Board Report

**Disclosure of information to the Auditor**

In the case of each of the persons who are Board members of the Association at the date when this report was approved;

- So far as each Board member is aware, there is no relevant audit information of which the Association's auditor is not aware.
- Each of the Board members has taken all steps that they ought to have taken as a Board member to make them aware of any relevant audit information and to establish that the Association's auditor is aware of that information.

The Report of the Board was approved by the Board on August 9th 2018 and signed on its behalf by

**John Bloxsom**
Chair

# Independent auditor's report to the members of Two Rivers Housing Group

### Opinion

We have audited the financial statements of Two Rivers Housing (the 'parent association') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Group and the parent association's Statements of Comprehensive Income, the Group and the parent association's Statements of Financial Position, the Group Statement of Cash Flows and the Group and the parent association's Statements of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent association's affairs as at 31 March 2018 and of the group's and the parent association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

### Basis for opinion

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

### Conclusions relating to going concern

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

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

### Other information

The Board is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

# Independent auditor's report to the members of Two Rivers Housing Group

statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the Strategic Report and the Board Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Board Report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In light of the knowledge and understanding of the group and the parent association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Board Report.

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

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

**Responsibilities of the Board**

As explained more fully in the Statement of the Board's responsibilities set out on page 12, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

## Independent auditor's report to the members of Two Rivers Housing Group

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

**Use of the audit report**

This report is made solely to the association's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 association'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 association and the association's members as a body for our audit work, for this report, or for the opinions we have formed.

Signed:

Lee Cartwright
(Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street,
Birmingham
B3 2RT
Date: 27 September 2018

# Two Rivers Housing

## Consolidated Statement of Comprehensive Income
For the year ended 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Turnover** | 3 | 24,735 | 21,212 |
| Cost of sales | 3 | (3,333) | (217) |
| Operating expenditure | 3 | (14,837) | (14,414) |
| **Operating surplus** | 3 | 6,565 | 6,581 |
| Surplus on disposal of property, plant and equipment | 4 | 1,409 | 958 |
| Other finance income | 5 | 2 | 8 |
| Interest and financing costs | 6 | (3,188) | (3,259) |
| **Surplus before tax** | 7 | 4,788 | 4,288 |
| Taxation | 10 | (5) | - |
| **Surplus for the year** | | 4,783 | 4,288 |
| Loss in respect of investment properties | 14a | (8) | - |
| Actuarial gain in respect of pension scheme | 19 | 561 | 685 |
| **Total comprehensive income for the year** | | 5,336 | 4,973 |

# Two Rivers Housing

## Association Statement of Comprehensive Income
For the year ended 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Turnover** | 3 | 22,771 | 20,947 |
| Cost of sales | 3 | (1,943) | - |
| Operating expenditure | 3 | (14,572) | (14,160) |
| **Operating surplus** | 3 | 6,256 | 6,787 |
| Surplus on disposal of property, plant and equipment | 4 | 1,409 | 958 |
| Interest receivable | 5 | 129 | 8 |
| Interest and financing costs | 6 | (3,264) | (3,253) |
| **Surplus before tax** | 7 | 4,530 | 4,500 |
| Taxation | 10 | - | - |
| **Surplus for the year** | | 4,530 | 4,500 |
| Loss in respect of investment properties | 14a | (8) | - |
| Actuarial gain in respect of pension scheme | 19 | 561 | 685 |
| **Total comprehensive income for the year** | | 5,083 | 5,185 |

# Two Rivers Housing

## Consolidated Statement of Financial Position
At 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 Restated |
|---|---|---|---|
| **Fixed assets** | | | |
| Housing properties | **11** | 133,967 | 126,298 |
| Other tangible fixed assets | **12** | 4,313 | 4,160 |
| Intangible fixed assets | **13** | 35 | 65 |
| Investment properties | **14a** | 290 | - |
| | | 138,605 | 130,523 |
| **Current assets** | | | |
| Inventories | **15** | 3,324 | 2,377 |
| Debtors | **16** | 1,403 | 875 |
| Cash and cash equivalents | | 35,619 | 3,046 |
| | | 40,346 | 6,298 |
| **Creditors: Amounts falling due within one year** | **17** | (5,361) | (4,594) |
| **Net current assets** | | 34,985 | 1,704 |
| **Total assets less current liabilities** | | 173,590 | 132,227 |
| **Creditors:** Amounts falling due after more than one year | **18** | (131,645) | (95,314) |
| **Defined benefit pension liability** | **19** | (359) | (663) |
| **Net assets** | | 41,586 | 36,250 |
| **Capital and reserves** | | | |
| Revenue reserve | | 41,586 | 36,250 |
| **Total reserves** | | 41,586 | 36,250 |

The notes on pages 24 to 55 form part of these financial statements.

The financial statements were approved by the Board on August 9th 2018 and signed on its behalf by:

Mr John Bloxsom
**Chair**

Miss Yvonne Leishman
**Member**

Mr Garry King
**Chief Executive and Secretary**

**Registered number: 4263691**

## Two Rivers Housing

## Association Statement of Financial Position
At 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 Restated |
|---|---|---|---|
| **Fixed assets** | | | |
| Housing properties | **11** | 134,118 | 126,434 |
| Other tangible fixed assets | **12** | 4,260 | 4,078 |
| Intangible assets | **13** | 29 | 56 |
| Investment properties | **14a** | 290 | - |
| | | 138,697 | 130,568 |
| **Current assets** | | | |
| Inventories | **15** | 1,845 | 14 |
| Debtors | **16** | 5,260 | 4,163 |
| Cash and cash equivalents | | 34,336 | 2,701 |
| | | 41,441 | 6,878 |
| **Creditors: Amounts falling due within one year** | **17** | (6,197) | (4,615) |
| **Net current assets** | | 35,244 | 2,263 |
| **Total assets less current liabilities** | | 173,941 | 132,831 |
| **Creditors:** Amounts falling due after more than one year | **18** | (131,645) | (95,314) |
| **Defined benefit pension liability** | **19** | (359) | (663) |
| **Net assets** | | 41,937 | 36,854 |
| **Capital and reserves** | | | |
| Revenue reserve | | 41,937 | 36,854 |
| **Total reserves** | | 41,937 | 36,854 |

The notes on pages 24 to 55 form part of these financial statements.

The financial statements were approved by the Board on August 9th 2018 and signed on its behalf by:

Mr John Bloxsom
**Chair**

Miss Yvonne Leishman
**Member**

Mr Garry King
**Chief Executive and Secretary**

**Registered number: 4263691**

## Two Rivers Housing

## Consolidated Statement of Changes in Reserves
For the year ended 31 March 2018

| | Revenue reserve £'000 | Total £'000 |
|---|---|---|
| At 1 April 2016 | 31,277 | 31,277 |
| Surplus for the year | 4,288 | 4,288 |
| Actuarial gain in respect of pension schemes | 685 | 685 |
| At 31 March 2017 | 36,250 | 36,250 |
| Surplus for the year | 4,783 | 4,783 |
| Loss in respect of investment properties | (8) | (8) |
| Actuarial gain in respect of pension schemes | 561 | 561 |
| At 31 March 2018 | 41,586 | 41,586 |

## Two Rivers Housing

## Association Statement of Changes to Reserves
For the year ended 31 March 2018

| | Revenue reserve £'000 | Total £'000 |
|---|---|---|
| At 1 April 2016 | 31,669 | 31,669 |
| Surplus for the year | 4,500 | 4,500 |
| Actuarial gain in respect of pension schemes | 685 | 685 |
| At 31 March 2017 | 36,854 | 36,854 |
| Surplus for the year | 4,530 | 4,530 |
| Loss in respect of investment properties | (8) | (8) |
| Actuarial gain in respect of pension schemes | 561 | 561 |
| At 31 March 2018 | 41,937 | 41,937 |

## Two Rivers Housing

## Consolidated Statement of Cash Flows
For the year ended 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 Restated |
|---|---|---|---|
| **Net cash generated from operating activities** | **21** | 8,328 | 7,774 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (13,283) | (8,827) |
| Purchase of investment properties | | (298) | - |
| Purchase of intangible assets | | (1) | (4) |
| Proceeds from sale of property, plant and equipment | | 3,095 | 2,221 |
| Grants received | | 1,280 | 833 |
| Interest received | | 2 | 8 |
| **Net cash flows from investing activities** | | (9,205) | (5,769) |
| **Cash flows from financing activities** | | | |
| Interest paid | | (3,188) | (3,259) |
| New loans | | 36,638 | 2,593 |
| **Net cash flows from financing activities** | | 33,450 | (666) |
| **Net increase in cash and cash equivalents** | | 32,573 | 1,339 |
| **Cash and cash equivalents at beginning of year** | **21** | 3,046 | 1,707 |
| **Cash and cash equivalents at end of year** | **21** | 35,619 | 3,046 |

# Notes to the financial statements
For the year ended 31 March 2018

## 1. 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**

Two Rivers Housing Group is a company limited by guarantee and a registered provider of social housing in England. The address of its registered office and principal place of business are as disclosed on page 1 of these financial statements.

The financial statements have been prepared under the historical cost convention, 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 Rivers Housing Group is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

**Basis of consolidation**

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

**Property, plant and equipment - housing properties**

Housing properties 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 is not depreciated.

<u>Major components</u>

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:

| | |
|---|---|
| Traditional Housing Structure | 60 years |
| Non-traditional Housing Structure | 30 years |
| Roofs | 60 years |
| Doors and windows | 20 years |
| Kitchens | 20 years |
| Bathrooms | 20 years |
| Heating systems | 15 years |
| Electrics | 30 years |

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

<u>Improvements</u>

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 result in an incremental future benefit are charged as expenditure in surplus or deficit in the Statement of Comprehensive Income.

1. **Accounting policies (continued)**

Leaseholders

Where the rights and obligations for improving a housing property reside with the leaseholder or tenant, any works to improve such properties incurred by the 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, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

| | |
|---|---|
| Freehold offices | 60 years |
| Furniture, fixtures & fittings | 5 years |
| Vehicles | 5 years |
| Computer equipment | 5 years |

**Intangible assets**

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

| | |
|---|---|
| Computer software | 5 years |

**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 Homes England, local authorities, devolved government agencies, health authorities and the European Commission which meet the definition of government grants they are recognised when there is reasonable assurance that the conditions attached to them will be complied with and that the grant will be received.

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. Where a grant is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised as revenue in the period in which it becomes receivable.

1. **Accounting policies (continued)**

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.

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

**Recycling of grants**

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

For shared ownership staircasing sales, when full staircasing has not taken place, the recycling of the grant may be deferred if the net sales proceeds are insufficient to meet the grant obligation relating to the disposal 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 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.

**Restricted reserves**

Where reserves are subject to an external restriction they are separately recognised within reserves as a restricted reserve. Revenue and expenditure is included in surplus or deficit in the Statement of Comprehensive Income and a transfer is made from the general reserve to the restricted reserve.

**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**

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

1. **Accounting policies (continued)**

**Taxation**

There will be no future liability to Corporation Tax for the Company and Two Rivers Initiatives Limited due to the charitable registration of these Companies.

Two Rivers Developments Limited, Centigen Facilities Management Limited and Centigen TRH Facilities Management Limited are liable to Corporation Tax on their taxable surpluses.

**Pensions**

Multi-employer defined benefit pension scheme – Social Housing Pension Scheme

The Group participates in an industry wide multi-employer defined benefit pension scheme where the scheme assets and liabilities cannot be separately identified for each employer. This is accounted for as a defined contribution scheme as there is insufficient information available to account for the scheme as defined benefit. For this multi-employer scheme, there is a contractual agreement between the scheme and the Group that determines how the deficit will be funded and a liability is recognised in the Statement of Financial Position and the resulting expense in surplus or deficit in the Statement of Comprehensive Income for the present value of the contributions payable that arise from the agreement to the extent that they relate to the deficit.

Local Government Pension Scheme

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

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

Defined contribution scheme

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 together with revenue grants from local authorities and the Homes and Communities Agency and charitable fees and donations. 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.

1. **Accounting policies (continued)**

**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 non-current assets.

Proceeds from first tranche disposals are accounted for as turnover in the Statement of Comprehensive Income of the period in which the disposals 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.

**Investments**

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

**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.

## 1. Accounting policies (continued)

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.

## 2. Significant management judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

**Significant management judgements**

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

*Impairment of social housing properties*

The Group have to make an assessment as to whether an indicator of impairment exists. In making the judgement, management considered the detailed criteria set out in the SORP.

**Estimation uncertainty**

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

**Fair value measurement**

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

**Provisions**

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

**Defined benefit pension scheme**

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

## Notes to the financial statements
For the year ended 31 March 2018

### 3. Particulars of turnover, cost of sales operating costs and operating surplus – Group

| | | | 2018 | |
|---|---|---|---|---|
| | Turnover £'000 | Cost of sales £'000 | Operating costs £'000 | Operating surplus £'000 |
| **Social housing lettings (note 3a)** | 20,226 | - | (14,546) | 5,680 |
| **Other social housing activities** | | | | |
| 1st tranche property sales | 1,971 | (1,713) | - | 258 |
| Other activities | 72 | - | - | 72 |
| Garages | 196 | - | (26) | 170 |
| | 2,239 | (1,713) | (26) | 500 |
| **Activities other than social housing activities** | | | | |
| Market rent | 16 | - | - | 16 |
| Open market sales | 2,031 | (1,504) | (18) | 509 |
| Other | 223 | (116) | (247) | (140) |
| | 2,270 | (1,620) | (265) | 385 |
| **Total** | **24,735** | **(3,333)** | **(14,837)** | **6,565** |

| | | | 2017 | |
|---|---|---|---|---|
| | Turnover £'000 | Cost of sales £'000 | Operating costs £'000 | Operating surplus £'000 |
| **Social housing lettings (note 3a)** | 20,232 | - | (13,814) | 6,418 |
| **Other social housing activities** | | | | |
| 1st tranche property sales | 432 | - | (170) | 262 |
| Other activities | 87 | - | - | 87 |
| Garages | 196 | | (176) | 20 |
| | 715 | - | (346) | 369 |
| **Activities other than social housing activities** | 265 | - | (471) | (206) |
| **Total** | **21,212** | - | **(14,631)** | **6,581** |

# Notes to the financial statements
For the year ended 31 March 2018

**3. Particulars of turnover, cost of sales operating costs and operating surplus – Association**

**2018**

| | Turnover £'000 | Cost of sales £'000 | Operating costs £'000 | Operating surplus £'000 |
|---|---|---|---|---|
| **Social housing lettings (note 3a)** | 20,226 | - | (14,546) | 5,680 |
| **Other social housing activities** | | | | |
| 1st tranche property sales | 1,971 | (1,713) | - | 258 |
| Other activities | 72 | - | - | 72 |
| Garages | 196 | - | (26) | 170 |
| | 2,239 | (1,713) | (26) | 500 |
| **Activities other than social housing activities** | | | | |
| Market rent | 16 | - | - | 16 |
| Open market sales | 290 | (230) | - | 60 |
| | 306 | (230) | - | 76 |
| **Total** | **22,771** | **(1,943)** | **(14,572)** | **6,256** |

**2017**

| | Turnover £'000 | Cost of sales £'000 | Operating costs £'000 | Operating surplus £'000 |
|---|---|---|---|---|
| **Social housing lettings (note 3a)** | 20,232 | - | (13,814) | 6,418 |
| **Other social housing activities** | | | | |
| 1st tranche property sales | 432 | - | (170) | 262 |
| Other activities | 87 | - | - | 87 |
| Garages | 196 | | (176) | 20 |
| | 715 | - | (346) | 369 |
| **Activities other than social housing activities** | - | - | - | - |
| **Total** | **20,947** | - | **(14,160)** | **6,787** |

## Notes to the financial statements
For the year ended 31 March 2018

### 3a. Particulars of Income and Expenditure from social housing lettings – Group and Association

| | General Needs Housing | Supported Housing and housing for older people | 2018 Total | 2017 Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Income** | | | | |
| Rents receivable | 16,292 | 2,700 | 18,992 | 19,058 |
| Service charge income | 229 | 599 | 828 | 798 |
| Amortised government grant | 367 | 3 | 370 | 339 |
| Other grants | - | 36 | 36 | 37 |
| Turnover from social housing lettings | 16,888 | 3,338 | 20,226 | 20,232 |
| **Expenditure** | | | | |
| Service charge costs | 113 | 386 | 499 | 496 |
| Management | 3,797 | 716 | 4,513 | 4,048 |
| Routine maintenance | 1,850 | 353 | 2,203 | 2,284 |
| Planned maintenance | 2,294 | 418 | 2,712 | 2,521 |
| Bad debts | 52 | - | 52 | 108 |
| Abortive development | 73 | - | 73 | 223 |
| Depreciation of housing properties | 4,222 | 272 | 4,494 | 4,136 |
| Operating costs | 12,401 | 2,145 | 14,546 | 13,814 |
| Operating surplus social housing lettings | 4,487 | 1,193 | 5,680 | 6,418 |
| *Void losses* | *110* | *20* | *130* | *94* |

## 4. Surplus on disposal of property, plant and equipment

| Group and Association | 2018 £'000 | 2017 £'000 Restated |
|---|---|---|
| Sale of subsequent tranche shared ownership properties and other properties | 3,095 | 2,221 |
| Cost of sales | (43) | (34) |
| Disposals at cost | (1,643) | (1,229) |
| Surplus on disposal | 1,409 | 958 |

Right to Buy cost sharing agreement costs, with the Forest of Dean Council of £676k, has been restated in 2017 as cost of sales.

## 5. Other finance income

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Bank interest receivable | 2 | 8 | 2 | 2 |
| Interest due from group companies | - | - | 127 | 6 |
| | 2 | 8 | 129 | 8 |

## 6 Interest and financing costs

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts | 3,577 | 3,556 | 3,577 | 3,550 |
| Unwinding of discounts on provisions | (141) | (134) | (141) | (134) |
| Net interest on defined benefit liability (see note 19) | 25 | 53 | 25 | 53 |
| | 3,461 | 3,475 | 3,461 | 3,469 |
| Interest capitalised | (273) | (216) | (197) | (216) |
| | 3,188 | 3,259 | 3,264 | 3,253 |

Borrowing costs have been capitalised based on a capitalisation rate of 4.3 per cent (2017: 3.7 per cent) which is the weighted average of rates applicable to the Group's general borrowings outstanding during the year.

# Notes to the financial statements
For the year ended 31 March 2018

## 7. Surplus on ordinary activities before taxation

Surplus on ordinary activities before taxation is stated after charging/(crediting):

| | Group | | Association | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Depreciation of housing stock | 4,494 | 4,133 | 4,494 | 4,133 |
| Depreciation of property, plant and equipment | 232 | 212 | 201 | 180 |
| Amortisation of intangible assets | 31 | 82 | 27 | 79 |
| Amortised government grants | (370) | (345) | (370) | (345) |
| Surplus on disposal of fixed assets | (1,326) | (958) | (1,326) | (958) |
| Auditors remuneration (excluding VAT) | 26 | 26 | 15 | 15 |
| Fees payable to the company's auditors for other services | | | | |
| - Other services | 2 | 2 | 2 | 2 |
| - Tax compliance services | 2 | 1 | 1 | - |
| Operating lease rentals | 176 | 88 | 176 | 88 |
| Defined contribution pension cost | 379 | 347 | 343 | 343 |

## 8. Staff costs

| | Group | | Association | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Wages and salaries | 4,214 | 4,128 | 3,327 | 3,667 |
| Social security costs | 398 | 399 | 324 | 363 |
| Other pension costs | 293 | 306 | 283 | 302 |
| | 4,905 | 4,833 | 3,934 | 4,332 |

The full time equivalent number of staff who received emoluments, excluding pension contribution, in excess of £60,000 were shown below:

| | **2018** | **2017** |
|---|---|---|
| | **Number** | **Number** |
| **Salary Band (£)** | | |
| 60,000 – 69,999 | - | - |
| 70,000 – 79,999 | - | - |
| 80,000 – 89,999 | - | 1 |
| 90,000 – 99,999 | 1 | 1 |
| 100,000 – 109,999 | 1 | - |
| 120,000 – 129,999 | - | 1 |
| 130,000 – 139,999 | 1 | - |

### 8. Staff costs (continued)

The average full time equivalent number of employees was:

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 Number** | **2017 Number** | **2018 Number** | **2017 Number** |
| **Average monthly number of employees (including executive directors) expressed as full time equivalents:** | | | | |
| Administration | 62 | 64 | 56 | 56 |
| Property management | 23 | 25 | 14 | 15 |
| Housing for older people and housing management | 30 | 24 | 30 | 24 |
| Repairs team | 31 | 30 | 16 | 30 |
| Office cleaners | 10 | 6 | - | - |
| | 156 | 149 | 116 | 125 |

The basis of the calculation of the full time equivalents was calculated on 40 hours per week for the Repairs team and 37 hours for all other staff.

Housing increase due to a staff turnover increase

## 9. Directors' remuneration and transactions

### Key management personnel remuneration

| | 2018 | 2017 |
|---|---|---|
| **Directors who are executive staff members** | **£'000** | **£'000** |
| Wages and salaries | 335 | 320 |
| Social security costs | 43 | 40 |
| Other pension costs | 52 | 50 |
| **Board members** | | |
| Wages and salaries | - | - |
| Social security costs | - | - |
| Other pension costs | - | - |
| | 430 | 410 |

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

| | 2018 | 2017 |
|---|---|---|
| | **£'000** | **£'000** |
| **Remuneration of the highest paid director, excluding pension contributions:** | | |
| Emoluments | 133 | 130 |

The Chief Executive is an ordinary member of the pension scheme. The pension is a final salary scheme funded by annual contributions by the employer and employee. No enhanced or special terms apply.

**Non-Executive Board Members**

The following non-executive board members received the following remuneration during the financial year (2016/17 £27,420).

| | 2018 | 2017 |
|---|---|---|
| | **£'000** | **£'000** |
| Mr David Powell | 4 | 4 |
| Mr John Bloxsom | 4 | 4 |
| Mrs Gillian Robins | - | 2 |
| Mr Alan Blundell | 4 | 4 |
| Mr Patrick Harkness | - | 3 |
| Mr Jonathan Richards | 3 | 3 |
| Ms Susan Holmes | 3 | 3 |
| Mr Christopher Hillidge | 3 | 3 |
| Mr Neil Sutherland | 3 | 3 |
| Ms Shelley Renwick | - | 1 |
| Mrs Rita Jones | 4 | - |
| Mr Tim Jackson | 1 | - |
| Miss Yvonne Leishman | 1 | - |

# Notes to the financial statements
For the year ended 31 March 2018

## 10. Taxation

| | Group | | Association | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| **Corporation Tax:** | | | | |
| Current tax on surplus for the year | 16 | - | - | - |
| Adjustments in respect of previous years | (11) | - | - | - |
| | 5 | - | - | - |
| **Deferred Tax** | - | - | - | - |
| **Total tax** | 5 | - | - | - |
| **Reconciliation of the total tax charge** | | | | |
| Surplus on ordinary activities before tax | 4,705 | 4,288 | 4,489 | 4,500 |
| Tax charged at standard rate of 19% (2017: 20%) | 894 | 858 | 853 | 900 |
| Effect of: | | | | |
| Utilisation of tax losses | (11) | - | - | - |
| Surplus arising with charitable status | (878) | (860) | (853) | (900) |
| Deferred tax not recognised | - | 2 | - | - |
| | 5 | - | - | - |

## Notes to the financial statements
For the year ended 31 March 2018

### 11. Tangible fixed assets – housing properties

| Group | Completed properties £'000 | Under construction £'000 | Completed Shared ownership £'000 | Shared ownership under construction £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2017 | 148,447 | 5,136 | 3,781 | - | 157,364 |
| Reclassifications | - | (1,406) | - | 1,406 | - |
| Additions | - | 8,835 | - | 6,000 | 14,835 |
| Components capitalised | 2,134 | - | - | - | 2,134 |
| Disposals | (579) | - | (270) | - | (849) |
| Schemes completed in the year | 9,821 | (9,821) | 2,294 | (2,294) | - |
| Transfer to Investment properties | (298) | - | - | - | (298) |
| Transfer to properties held for sale | - | - | - | (3,786) | (3,786) |
| Tenure changes | (755) | - | 755 | - | - |
| At 31 March 2018 | 158,770 | 2,744 | 6,560 | 1,326 | 169,400 |
| **Depreciation** | | | | | |
| At 1 April 2017 | 30,405 | - | 661 | - | 31,066 |
| Charge for the year | 4,385 | - | 109 | - | 4,494 |
| Eliminated on disposals | (99) | - | (28) | - | (127) |
| Tenure changes | (82) | - | 82 | - | - |
| At 31 March 2018 | 34,609 | - | 824 | - | 35,433 |
| **Net book value** | | | | | |
| At 31 March 2018 | 124,161 | 2,744 | 5,736 | 1,326 | 133,967 |
| At 31 March 2017 | 118,042 | 5,136 | 3,120 | - | 126,298 |

All property is freehold.

Additions in the year include £243k of capitalised interest and £278k of capitalised development overheads.

Freehold land and buildings with a carrying amount of £57m (2017: £53m) have been pledged to secure borrowings of the Association. The Association is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

# Notes to the financial statements
For the year ended 31 March 2018

## 11. Tangible fixed assets – housing properties (continued)

| Association | Completed properties £'000 | Under construction £'000 | Completed Shared ownership £'000 | Shared ownership under construction £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2017 | 148,447 | 5,272 | 3,781 | - | 157,500 |
| Reclassifications | - | (1,406) | - | 1,406 | - |
| Additions | - | 8,850 | - | 6,000 | 14,850 |
| Components capitalised | 2,134 | - | - | - | 2,134 |
| Disposals | (579) | - | (270) | - | (849) |
| Schemes completed in the year | 9,821 | (9,821) | 2,294 | (2,294) | - |
| Transfer to Investment properties | (298) | - | - | - | (298) |
| Transfer to properties held for sale | - | - | - | (3,786) | (3,786) |
| Tenure changes | (755) | - | 755 | - | - |
| At 31 March 2018 | 158,770 | 2,895 | 6,560 | 1,326 | 169,551 |
| **Depreciation** | | | | | |
| At 1 April 2017 | 30,405 | - | 661 | - | 31,066 |
| Charge for the year | 4,385 | - | 109 | - | 4,494 |
| Eliminated on disposals | (99) | - | (28) | - | (127) |
| Tenure changes | (82) | - | 82 | - | - |
| At 31 March 2018 | 34,609 | - | 824 | - | 35,433 |
| **Net book value** | | | | | |
| At 31 March 2018 | 124,161 | 2,895 | 5,736 | 1,326 | 134,118 |
| At 31 March 2017 | 118,042 | 5,272 | 3,120 | - | 126,434 |

All property is freehold.

Additions in the year include £197k of capitalised interest and £263k of capitalised development overheads.

**12. Property, plant and equipment - other**

| Group | Office premises £'000 | Vehicles £'000 | Computer equipment £'000 | Fixtures and fittings £'000 | Plant & machinery £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2017 | 4,428 | 4 | 629 | 166 | 154 | 5,381 |
| Additions | 320 | - | 63 | 8 | 7 | 398 |
| Disposals | - | (4) | (2) | - | (7) | (13) |
| At 31 March 2018 | 4,748 | - | 690 | 174 | 154 | 5,766 |
| **Depreciation** | | | | | | |
| At 1 April 2017 | 468 | 1 | 533 | 146 | 73 | 1,221 |
| Charge for the year | 130 | - | 47 | 26 | 30 | 233 |
| Disposals | - | (1) | - | - | - | (1) |
| At 31 March 2018 | 598 | - | 580 | 172 | 103 | 1,453 |
| **Net book value** | | | | | | |
| At 31 March 2018 | 4,150 | - | 110 | 2 | 51 | 4,313 |
| At 31 March 2017 | 3,960 | 3 | 96 | 20 | 81 | 4,160 |

| Association | Office premises £'000 | Vehicles £'000 | Computer equipment £'000 | Fixtures and fittings £'000 | Plant & machinery £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2017 | 4,428 | - | 627 | 158 | 12 | 5,225 |
| Additions | 320 | - | 62 | 8 | - | 390 |
| Disposals | - | - | - | - | (7) | (7) |
| At 31 March 2018 | 4,748 | - | 689 | 166 | 5 | 5,608 |
| **Depreciation** | | | | | | |
| At 1 April 2017 | 468 | - | 532 | 142 | 5 | 1,147 |
| Charge for the year | 130 | - | 47 | 24 | - | 201 |
| Disposals | - | - | - | - | - | - |
| At 31 March 2018 | 598 | - | 579 | 166 | 5 | 1,348 |
| **Net book value** | | | | | | |
| At 31 March 2018 | 4,150 | - | 110 | - | - | 4,260 |
| At 31 March 2017 | 3,960 | - | 95 | 16 | 7 | 4,078 |

### 13. Intangible fixed assets

**Group**

| | Computer software | Total |
|---|---|---|
| | £'000 | £'000 |
| **Cost** | | |
| At 1 April 2017 | 889 | 889 |
| Additions | 1 | 1 |
| Disposals | (1) | (1) |
| As at 31 March 2018 | 889 | 889 |
| **Amortisation** | | |
| At 1 April 2017 | 824 | 824 |
| Charge for the year | 31 | 31 |
| Eliminated on disposals | (1) | (1) |
| As at 31 March 2018 | 854 | 854 |
| **Net book value** | | |
| As at 31 March 2018 | 35 | 35 |
| As at 31 March 2017 | 65 | 65 |

**Association**

| | Computer software | Total |
|---|---|---|
| | £'000 | £'000 |
| **Cost** | | |
| At 1 April 2017 | 874 | 874 |
| Additions | - | - |
| Disposals | - | - |
| As at 31 March 2018 | 874 | 874 |
| **Amortisation** | | |
| At 1 April 2017 | 818 | 818 |
| Charge for the year | 27 | 27 |
| Eliminated on disposals | - | - |
| As at 31 March 2018 | 845 | 845 |
| **Net book value** | | |
| As at 31 March 2018 | 29 | 29 |
| As at 31 March 2017 | 56 | 56 |

## 14. Investments

### 14a. Investment properties

| | Group | | Association | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Market rented properties | 290 | - | 290 | - |

Market rented properties are treated as investment properties. Changes in the value of market rented properties are taken to the statement of comprehensive income. A valuation loss of £8k (2017: £nil) was made in the year.

### 14b. Principal Group investments

The parent Association and the Group have investments in the following subsidiary undertakings, associates and other investments which principally affected the surpluses or net assets of the Group.

| **Subsidiary undertaking** | **Legal form** | **Principal activity** | **Holding (%)** |
|---|---|---|---|
| Two Rivers Developments | Limited company | Developing properties on behalf of Two Rivers Housing | 100 |
| Two Rivers Initiatives | Limited company | A charitable organisation whose primary business is the support and funding of community activities and initiatives within the Forest of Dean | 100 |
| Centigen TRH Facilities Management Limited | Limited company | Facilities management and grounds maintenance for Two Rivers Housing | 100 |
| Centigen Facilities Management Limited | Limited company | Facilities Management and grounds maintenance for external clients | 100 |

## 15. Inventories

| | Group | | Association | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Maintenance stock | 2 | 14 | 2 | 14 |
| Properties held for sale | | | | |
| 1st tranche sale properties - Completed | 632 | - | 632 | - |
| 1st tranche sale properties - Under construction | 1,211 | - | 1,211 | - |
| Open market sale properties - Completed | 360 | - | | |
| Open market sale properties - Under construction | 1,119 | 2,363 | - | - |
| | 3,324 | 2,377 | 1,845 | 14 |

# Notes to the financial statements
For the year ended 31 March 2018

## 16. Debtors

| | Group | | Association | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Amounts falling due within one year: | | | | |
| Rent arrears | 737 | 847 | 737 | 847 |
| Provision for bad debts | (582) | (570) | (582) | (570) |
| Trade debtors | 37 | 67 | - | - |
| Amounts owed by Group undertakings | - | - | 4,307 | 3,391 |
| Other debtors | 783 | 195 | 411 | 190 |
| Prepayments and accrued income | 428 | 336 | 387 | 305 |
| | 1,403 | 875 | 5,260 | 4,163 |

## 17. Creditors – amounts falling due within one year

| | Group | | Association | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| | | Restated | | Restated |
| Bank loans | 1,073 | - | 1,073 | - |
| Bank overdraft | - | 1 | - | 1 |
| Rents received in advance | 318 | 223 | 318 | 223 |
| Trade creditors | 859 | 888 | 808 | 673 |
| Amounts owed to Group undertakings | - | - | 1,122 | 303 |
| Corporation tax | 5 | - | - | - |
| Other taxation and social security | 140 | 100 | 112 | 93 |
| Other creditors | 1,644 | 1,220 | 1,637 | 1,198 |
| Government grants (see note 18) | 370 | 338 | 370 | 338 |
| Accruals and deferred income | 898 | 1,772 | 703 | 1,734 |
| Pension deficit funding liability (see note 19) | 54 | 52 | 54 | 52 |
| | 5,361 | 4,594 | 6,197 | 4,615 |

## 18. Creditors – amounts falling due after more than one year

| | Group | | Association | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| | | Restated | | Restated |
| **Other creditors** | | | | |
| Bank loans | 112,217 | 76,652 | 112,217 | 76,652 |
| Recycled capital grant fund | 225 | 153 | 225 | 153 |
| Government grants | 18,958 | 18,210 | 18,958 | 18,210 |
| Pension deficit funding liability | 245 | 299 | 245 | 299 |
| | 131,645 | 95,314 | 131,645 | 95,314 |

The loans are secured on freehold housing properties. Interest is payable at rates ranging from 1.46% to 6.18%.

The total accumulated amount of capital grant received or receivable at the Statement of Financial Position date is £20,893k.

## Notes to the financial statements
For the year ended 31 March 2018

### 18. Creditors – amounts falling due after more than one year (continued)

| | Group | | Association | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Deferred income - Government grants** | | | | |
| At 1 April 2017 | 18,548 | 18,060 | 18,548 | 18,060 |
| Grants receivable | 1,280 | 833 | 1,280 | 833 |
| Transfer to RCGF | (130) | | (130) | - |
| Amortisation to Statement of Comprehensive Income | (370) | (345) | (370) | (345) |
| At 31 March 2018 | 19,328 | 18,548 | 19,328 | 18,548 |
| Due within one year | 370 | 338 | 370 | 338 |
| Due after one year | 18,958 | 18,210 | 18,958 | 18,210 |

| | Group | | Association | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Recycled Capital Grant Fund** | | | | |
| At 1 April 2017 | 153 | 90 | 153 | 90 |
| Inputs to RCGF | 72 | 63 | 72 | 63 |
| Recycling of grant | - | - | - | - |
| Interest accrued | - | | - | - |
| At 31 March 2018 | 225 | 153 | 225 | 153 |

| | Group | | Association | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| | | **Restated** | | **Restated** |
| **Bank loans** | | | | |
| Between one and two years | 3,622 | 1,073 | 3,622 | 1,073 |
| Between two and five years | 23,355 | 3,622 | 23,355 | 3,622 |
| After five years | 85,000 | 71,605 | 85,000 | 71,605 |
| | 111,977 | 76,300 | 111,977 | 76,300 |
| Effective interest rate adjustment | 829 | 970 | 829 | 970 |
| Less: Facility arrangement fee | (589) | (618) | (589) | (618) |
| | 112,217 | 76,652 | 112,217 | 76,652 |

## 19. Retirement benefit schemes

**Defined contribution schemes**

The Group operates defined contribution retirement benefit schemes for qualifying employees. The total expense charged to Statement of Comprehensive Income in the year ended 31 March 2018 was £52,746.

**Defined benefit schemes**

The Group operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to retirement benefits varying between 1% and 2% per cent of final salary on attainment of Normal Pension Age (which varies by scheme but has a minimum age of 65) .Both schemes offer some flexibility for earlier or later retirement subject to an actuarial adjustment. No other post-retirement benefits are provided. The schemes are funded schemes.

1) The Gloucestershire County Council Pension Fund which is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 1997, as amended.

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out at 31 March 2016 by Douglas Green, Fellow of the Institute and Faculty of Actuaries, from Hymans Robertson LLP. The present value of the defined benefit obligation, the related current service cost and past service cost was measured using the projected unit credit method.

| | Valuation at | |
|---|---|---|
| | **2018** | **2017** |
| Key assumptions used: | | |
| Discount rate | **2.7%** | **2.6%** |
| Salary Increase rates | **2.7%** | **2.7%** |
| Future pension increases | **2.4%** | **2.4%** |

**Mortality assumptions:**

Vita curves with improvements in line with the CMI 2013 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions the average future life expectancies at age 65 are summarised below:

| | **Males** | **Females** |
|---|---|---|
| Current Pensioners: | 22.4 years | 24.6 years |
| Future Pensioners: | 24.0 years | 26.4 years |

Historic mortality

Life expectancies for the prior period end are based on the fund's Vita Curves. The allowance for future life expectancies is shown below:

| **Period Ended** | **Prospective Pensioners** | **Pensioners** |
|---|---|---|
| 31 March 2016 | CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. | CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. |

**Commutation**

An allowance is included for future retirements to elect to take 35% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 68% of the maximum tax-free cash for post-April 2008 service.

# Notes to the financial statements
For the year ended 31 March 2018

## 19. Retirement benefit schemes (continued)

Amounts recognised in the Statement of Comprehensive Income in respect of these defined benefit schemes are as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Current service cost | 426 | 269 |
| Net interest cost | 21 | 45 |
| Plan introductions, changes, curtailments and settlements | - | - |
| | 447 | 314 |
| Recognised in other comprehensive income Income (OCI) | 561 | 685 |
| Total cost relating to defined benefit scheme | 1,008 | 999 |

The amount included in the Statement of Financial Position arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Present value of defined benefit obligations | (14,835) | (14,546) |
| Fair value of scheme assets | 14,476 | 13,883 |
| Net liability recognised in the Statement of Financial Position | (359) | (663) |

Movements in the present value of defined benefit obligations were as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| At 1 April | 14,546 | 13,151 |
| Service cost | 426 | 269 |
| Interest cost | 381 | 462 |
| Actuarial (gains) and losses | (310) | 829 |
| Contributions from scheme participants | 83 | 87 |
| Benefits paid | (291) | (252) |
| At 31 March | 14,835 | 14,546 |

### 19. Retirement benefit schemes (continued)

Movements in the fair value of scheme assets were as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| At 1 April | 13,883 | 11,897 |
| Interest income | 360 | 417 |
| Actuarial gains and (losses) | 251 | 1,514 |
| Contributions from the employer | 190 | 220 |
| Contributions from scheme participants | 83 | 87 |
| Benefits paid | (291) | (252) |
| At 31 March | 14,476 | 13,883 |

The analysis of the scheme assets at the Statement of Financial Position date was as follows:

| | Fair value of assets | |
|---|---|---|
| | 2018 % | 2017 % |
| Equity instruments | 67 | 71 |
| Debt instruments | 23 | 20 |
| Property | 8 | 7 |
| Cash | 2 | 2 |

**Projected Pension Expense for the Year to 31 March 2018**

| **Period Ended 31 March 2018** | **Assets** | **Obligations** | **Net (liability)/asset** | |
|---|---|---|---|---|
| | **£(000)** | **£(000)** | **£(000)** | **% of Pay** |
| Projected Current Service cost | - | (412) | (412) | (39.2) |
| **Total Service Cost** | - | **(412)** | **(412)** | **(39.2)** |
| Interest Income on Plan assets | 391 | - | 391 | 37.3 |
| Interest Cost in defined Benefit obligation | - | (404) | (404) | (38.5) |
| **Total Net Interest Cost** | **391** | **(404)** | **(13)** | **(1.2)** |
| **Total Included in Statement of comprehensive Income** | **391** | **(816)** | **(425)** | **(40.4)** |

The current service cost includes an allowance for administration expenses of 0.5% of payroll. The monetary value is based on a projected payroll of £1,049,000.

The contributions paid by the Employer are set by the Fund Actuary at each triennial valuation (the most recent being as at 31 March 2016), or at any other time as instructed to do so by the Administering Authority. The estimated employer contributions for the period to 31 March 2019 will be approximately £190,000.

**19. Retirement benefit schemes (continued)**

**Sensitivity**

The sensitivities regarding the principle assumptions used to measure the scheme liabilities are set out below:

| **Change in assumptions at 31 March 2017** | **Approximate % increase to Employer Liability** | **Approximate Monetary amount (£000)** |
|---|---|---|
| 0.5% decrease in Real Discount Rate | 11% | 1,616 |
| 0.5% increase in Salary increase rate | 2% | 284 |
| 0.5% increase in the Pension increase rate | 9% | 1,308 |

**2) The Pensions Trust – Social Housing Pension Scheme**

The Group participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Group to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out at 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

## 19. Retirement benefit schemes (continued)

**Deficit contributions**

**Tier 1**
From 1 April 2016 to 30 September 2020:
£40.6m per annum
Payable monthly and increasing by 4.7% each year on 1st April

**Tier 2**
From 1 April 2016 to 30 September 2023:
£28.6m per annum
Payable monthly and increasing by 4.7% each year on 1st April)

**Tier 3**
From 1 April 2016 to 30 September 2026:
£32.7m per annum
Payable monthly and increasing by 3.0% each year on 1st April)

**Tier 4**
From 1 April 2016 to 30 September 2026:
£31.7m per annum
Payable monthly and increasing by 3.0% each year on 1st April)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed: assets of £2,062m, liabilities of £3,097 and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 and 3 deficit contributions.

Where the scheme is in deficit and where the Group has agreed to a deficit funding arrangement, the Group recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

**Present values of provision**

| | 31 March 2018 £000's | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---|---|---|
| Present value of provision | 299 | 351 | 384 |

## 19. Retirement benefit schemes (continued)

**Reconciliation of opening and closing provisions**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Provision at start of period | 351 | 384 |
| Unwinding of the discount factor (interest expense) | 4 | 8 |
| Deficit contribution paid | (52) | (50) |
| Re-measurements - impact of any change in assumptions | (4) | 9 |
| Re-measurements - amendments to the contribution schedule | | - |
| **Provision at end of period** | 299 | 351 |

**Statement of Comprehensive Income (SOCI) impact**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Interest expense | 4 | 8 |
| Re-measurements - impact of any change in assumptions | (4) | 9 |
| Re-measurements - amendments to the contribution schedule | - | - |
| Costs recognised in the SOCI | 46 | 109 |

**Assumptions**

| | 31 March 2018 % per annum | 31 March 2017 % per annum | 31 March 2016 % per annum |
|---|---|---|---|
| Rate of discount | 1.72 | 1.33 | 2.06 |

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

### 20. Financial instruments

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

| | Group | | Association | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| **Financial assets** | | | | |
| Measured at undiscounted amount receivable | | | | |
| - Rent arrears and other debtors (see note 16) | 155 | 277 | 155 | 277 |
| - Amounts due from related undertakings (see note 16) | - | - | 3,987 | 3,391 |
| - Trade debtors (see note 16) | 37 | - | - | - |
| - Cash and cash equivalents | 35,619 | 3,046 | 34,336 | 2,705 |
| | 34,811 | 3,323 | 38,478 | 6,373 |
| **Financial liabilities** | | | | |
| Measured at amortised cost | | | | |
| - Loans payable (see note 17 and 18) | 113,292 | 76,652 | 113,292 | 76,652 |
| - Pension deficit funding liability (see note19) | 299 | 351 | 299 | 351 |
| Measured at undiscounted amount payable | | | | |
| - Bank overdraft (see note 17) | - | 1 | - | 1 |
| - Rent received in advance (see note 17) | 318 | 223 | 318 | 223 |
| - Trade creditors (see note 17) | 1,178 | 888 | 1,342 | 673 |
| - Corporation tax (see note 17) | 31 | - | - | - |
| - Amounts owed to related undertakings (see note 17) | - | - | 592 | 303 |
| - Other taxation and social security (see note 17) | 96 | 100 | 68 | 93 |
| - Other creditors (see note 17) | 1,644 | 1,219 | 1,638 | 1,198 |
| | 116,858 | 79,434 | 117,549 | 79,494 |

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

| | Group and Association | |
|---|---|---|
| | 2018 | 2017 |
| | £'000 | £'000 |
| **Interest income and expense** | | |
| Total interest income for financial assets at undiscounted amount | 2 | 8 |
| Total interest expense for financial liabilities at amortised cost | (3,264) | (3,259) |

# Notes to the financial statements
For the year ended 31 March 2018

## 21. Statement of Cash Flows

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Surplus for the year | 4,788 | 4,288 |
| **Adjustment for non-cash items:** | | |
| Depreciation of property, plant and equipment | 4,600 | 4,225 |
| Amortisation of intangible assets | 31 | 82 |
| Decrease/(increase) in inventories | (947) | (2,371) |
| Decrease/(increase in debtors | (528) | 16 |
| Increase/(decrease) in creditors | (1,280) | (508) |
| Carrying amount of property, plant & equipment disposals | - | - |
| Corporation tax | (5) | - |
| Adjustments relating to pension scheme | 257 | 94 |
| **Adjustments for investing or financing activities:** | | |
| Gain on sale of property, plant and equipment | (1,409) | (958) |
| Government grants utilised in the year | (370) | (345) |
| Interest payable | 3,188 | 3,259 |
| Interest received | (2) | (8) |
| Taxation | 5 | - |
| **Cash generated by operations** | 8,328 | 7,774 |

| | | |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash at bank and in hand | 35,619 | 3,047 |
| Bank overdrafts (see note 17) | - | (1) |
| Cash and cash equivalents | 35,619 | 3,046 |

## 22. Financial commitments

Capital commitments are as follows:

| | Group | | Association | |
|---|---|---|---|---|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Contracted for but not provided for | 14,676 | 21,425 | 14,659 | 21,425 |
| Approved by the directors but not contracted for | 20,308 | - | 17,287 | - |
| | 34,984 | 21,425 | 31,946 | 21,425 |

**22. Financial commitments (continued)**

Total future minimum lease payments under non-cancellable operating leases are as follows:

| | Group | | Association | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Payments due:- | | | | |
| - within one year | 150 | 155 | 121 | 94 |
| - between one and five years | 110 | 201 | 79 | 155 |
| - after five years | - | - | - | - |
| | 260 | 356 | 200 | 249 |

Future financial commitments will be met from operating surpluses and from the outstanding capacity that exists within our funding agreement with Barclays Plc.

**23. Housing stock**

| | Group | | Association | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **Units** | **Units** | **Units** | **Units** |
| **Social housing accomodation** | | | | |
| General needs housing accommodation | 2,883 | 2,913 | 2,883 | 2,913 |
| Housing accommodation at affordable rent | 362 | 289 | 362 | 289 |
| Housing accommodation at intermediate rent | 13 | 15 | 13 | 15 |
| Housing for older people accommodation | 594 | 594 | 594 | 594 |
| Shared ownership accommodation | 111 | 83 | 111 | 83 |
| Total | 3,963 | 3,894 | 3,963 | 3,894 |
| **Non-social housing accommodation** | | | | |
| Leaseholders | 44 | 44 | 44 | 44 |
| Market rent | 2 | - | 2 | - |
| | 46 | 44 | 46 | 44 |
| Total | 4,009 | 3,938 | 4,009 | 3,938 |

**24. Related party transactions**

Tenant representative board members who have served during the year rent properties from the Company under the same terms and conditions as all tenants in similar properties. They are Mrs Rita Jones and Mr Christopher Hillidge.

The aggregate amount of rent and service charges received from tenant board members in the year was £9,225 (2017: £9,415). The value of rent arrears at year-end from tenant board members was £160 (2017: £nil).

Two Rivers Housing which is registered in England and Wales is the ultimate parent undertaking of:

- Two Rivers Initiatives Limited – a registered charity in England and Wales

# Notes to the financial statements
For the year ended 31 March 2018

## 24. Related party transactions (continued)

- Two Rivers Developments Limited – a company limited by shares and registered in England and Wales
- Centigen Facilities Management Limited – a company limited by shares and registered in England and Wales
- Centigen TRH Facilities Management Limited – a company limited by shares and registered in England and Wales

| Non-regulated subsidiary | Transfers | Cost in year £'000 | Income in year £'000 | Balance at year end £'000 |
|---|---|---|---|---|
| **Two Rivers Developments Limited** | Recharge of development staff and admin costs from Two Rivers Housing. Provision of design and build Services from Two Developments to Two Rivers Housing in accordance with contract fees. Intercompany loan interest payable to Two Rivers Housing. | 2,961 | 3,067 | - |
| | Intercompany debtor | - | - | 2,403 |
| **Centigen TRH Facilities Management Limited** | Recharge of admin and set up costs to Centigen. Provision of facilities management and cleaning to Two Rivers Housing. Intercompany loan interest payable to Two Rivers Housing. | 1,706 | 1,719 | - |
| | Intercompany debtor | - | - | 79 |
| **Centigen Facilities Management Limited** | Recharge of minor set up costs for Centigen Facilities Management Ltd. Intercompany loan interest payable to Two Rivers Housing. | - | 23 | - |
| | Intercompany debtor | - | - | 778 |

Two Rivers Housing has taken the exemption in section 33.1A of Financial Reporting Standard 102 not to disclose any further transactions with other Group members aside from those disclosed above in accordance with the Accounting Direction for Private Registered Providers of Social Housing 2015.