In the temporary housing business, under the terms of the leases, funds are set aside on acquisition of property in order to meet contractual obligations.

## Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## Critical accounting estimates and assumptions

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 financial year are addressed below.

## Useful economic lives of other fixed assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

## Impairment of debtors

The Group makes an estimate of the recoverable value of trade and other debtors including rental debtors. When assessing impairment of debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience of cash collection from tenants and future expected credit losses as per IFRS9 requirements.

## Investment property

The fair value of investment properties is determined by using valuation techniques. The valuation of commercial properties is determined using open market value with vacant possession. Properties rented on the open market are valued at market value subject to tenancies using a discounted cash flow methodology.

## Deemed cost valuation

When converting, the Group has elected to apportion 100% of the deemed cost valuation uplift to the land component. This is to reflect our valuer's view that due to the location and condition of the Group's assets, 85% of the value of our existing properties is attributable to the land. This is based on objective evidence to reflect land values appropriate for our portfolio.

## Onerous contracts

The Group has recognised £10.9m (2016: £13.9m) of impairment in relation to one of our developments to reflect the cost of our

contractual obligations with the contracting authority.

## Housing property cost allocation

Housing property costs include the cost of acquiring land and buildings, cost of construction, directly attributable management costs and capitalised interest. Directly attributable management costs are allocated at 1.5% (2016: 1.5%) of project costs to a maximum of costs incurred. Interest is capitalised up to the date of practical completion based on the weighted average cost of capital at a rate of 3.89% (2016: 4.09%), reviewed annually.

## Note 9 — Housing properties

On transition to FRS102, the Group took the option of carrying out a one-off valuation on the majority of its housing properties and using that amount as deemed cost. To determine the deemed cost at 1 April 2014, the Group engaged Jones Lang LaSalle (JLL) to value housing properties on an EUV-SH basis. Housing properties are subsequently to be measured at cost.

The valuation was carried out as a desktop exercise on an EUV-SH basis using discounted cash flows. The properties were grouped by local authority area.

The cash flow was calculated over 50 years with the net income in the final year capitalised into perpetuity with an assumption of 1% real rent increase per annum with a discount rate of between 5.25% and 6.25%.

The carrying value of the properties under the cost model would be £2.93bn (2016: £3.03bn) compared with £3.15bn (2016: £3.03bn) shown above.

### Impairment

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Following the Government announcement of a 1% rent reduction for social housing properties for four years in July 2015, the Group undertook an impairment exercise on all housing properties to assess the impairment impact.

It is the Group's view that as housing assets are held for their service potential, a cash-flow driven valuation is not appropriate for assessing impairment. The Group has used the depreciated replacement cost as a measure when assessing impairment. As a result no impairment has been recognised in the financial statements in relation to the 1% rent reduction in the year.

The Group assessed two development sites as impaired due to the combination of the 1% rent reduction for four years plus rising construction costs. A total of £10.9m was recognised. £7.3m to write down costs incurred to date, £0.4m in respect of investment properties and £3.2m as a provision to meet future obligations.

| Group | Completed properties held for letting £m | Letting properties in the course of development £m | Completed shared ownership properties £m | Shared ownership properties in the course of development £m | Total £m |
|---|---|---|---|---|---|
| At 1 April 2016 | 2,306.1 | 157.0 | 500.3 | 124.9 | 3,088.3 |
| Additions | 11.9 | 90.8 | 0.6 | 69.4 | 172.7 |
| Impairment | - | (7.3) | - | - | (7.3) |
| Works to existing properties | 8.3 | - | - | - | 8.3 |
| Properties completed | 175.7 | (175.7) | 82.2 | (82.2) | - |
| Disposals | (14.2) | - | (23.7) | - | (37.9) |
| At 31 March 2017 | 2,487.8 | 64.8 | 559.4 | 112.1 | 3,224.1 |
| **Accumulated depreciation** | | | | | |
| At 1 April 2016 | 48.5 | - | 5.5 | - | 54.0 |
| Charge for the year | 22.2 | - | 3.6 | - | 25.8 |
| Disposals | (5.1) | - | (0.3) | - | (5.4) |
| At 31 March 2017 | 65.6 | - | 8.8 | - | 74.4 |
| **Net book value** | | | | | |
| At 31 March 2017 | 2,422.2 | 64.8 | 550.6 | 112.1 | 3,149.7 |
| At 31 March 2016 | 2,257.6 | 157.0 | 494.8 | 124.9 | 3,034.3 |
| Historical cost at 31 March 2017 | 2,375.5 | 70.1 | 506.8 | 112.1 | 3,064.5 |
| Historical cost at 1 April 2016 | 2,193.1 | 162.2 | 446.9 | 124.9 | 2,927.1 |