

4 PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

| | GROUP | | | | 2017 Total £000 | 2016 Total £000 |
|---|--------------------------|--|-----------------------------|----------------------------|-----------------------|-----------------------|
| | Housing accom £000 | Care and supported housing £000 | Shared ownership £000 | Temporary accom £000 | | |
| Rent receivable | 114,855 | 16,847 | 9,659 | 1,081 | 142,442 | 141,633 |
| Service charges | 6,288 | 6,620 | 5 | 14 | 12,927 | 12,081 |
| Gross rental income | 121,143 | 23,467 | 9,664 | 1,095 | 155,369 | 153,714 |
| Voids | (686) | (958) | (61) | (63) | (1,768) | (2,000) |
| Net rental income | 120,457 | 22,509 | 9,603 | 1,032 | 153,601 | 151,714 |
| Amortised government grants | 7,748 | 1,176 | 944 | 3 | 9,871 | 9,825 |
| Revenue grants | 109 | 34,126 | - | - | 34,235 | 38,987 |
| Other income | 1,151 | 1,494 | 443 | - | 3,088 | 3,238 |
| Turnover from social housing lettings | 129,465 | 59,305 | 10,990 | 1,035 | 200,795 | 203,764 |
| Management | 19,683 | 7,038 | 4,244 | 149 | 31,114 | 32,773 |
| Routine maintenance | 15,760 | 3,008 | 999 | 97 | 19,864 | 21,729 |
| Planned maintenance | 12,850 | 2,461 | 154 | 51 | 15,516 | 23,879 |
| Support services | - | 30,960 | - | - | 30,960 | 35,832 |
| Service charge costs | 5,976 | 5,013 | 224 | 48 | 11,261 | 12,567 |
| Bad debts | 478 | 302 | (20) | 63 | 823 | 893 |
| Property lease charges | - | 908 | 8 | 15 | 931 | 1,453 |
| Depreciation of housing properties | 23,798 | 3,685 | - | 170 | 27,653 | 25,268 |
| Impairment of housing properties | 1,394 | - | - | - | 1,394 | - |
| Operating costs on social housing lettings | 79,939 | 53,375 | 5,609 | 593 | 139,516 | 154,394 |
| Operating surplus on social housing lettings | 49,526 | 5,930 | 5,381 | 442 | 61,279 | 49,370 |
| Operating margin % | 38.3% | 10.0% | 49.0% | 42.7% | 30.5% | 24.2% |

11 HOUSING PROPERTIES

Social housing properties are stated at cost less depreciation. The cost of housing properties is their purchase price together with any costs of acquisition, including the incidental costs of development, interest capitalised up to the date of practical completion and directly attributable development costs.

The major separate components that make up a housing property are accounted for separately. Housing properties are split between land, the structure and major components which require periodic replacement. Expenditure to replace, enhance or refurbish major components is assessed against life cycle costing principles. If replaced components have an estimated life in excess of 10 years they are capitalised into fixed assets and depreciated over their useful life. If the useful life is less than 10 years or the cost is below £1,000 costs are charged directly to the Statement of Comprehensive Income.

Costs of responsive repairs and planned cyclical maintenance are, to the extent that such costs do not relate to replacing a component, recognised in the Statement of Comprehensive Income as incurred.

Shared ownership

Shared ownership properties under development are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset until sold. Sales proceeds are then included in turnover. The unsold balance is classed as a fixed asset with any subsequent sale treated as a disposal of the fixed asset.

Depreciation

Depreciation is charged so as to write down the value of freehold housing properties, other than freehold land, to their estimated residual value on a straight-line basis over their remaining expected useful economic lives as follows:

| | |
|-----------------------------------|-----------|
| › housing properties | 120 years |
| › building envelope and structure | 30 years |
| › bathrooms and kitchens | 15 years |
| › heating systems | 10 years |

Components and their useful lives are reviewed periodically to ensure they are still appropriate and benchmarking is carried out with other housing associations to ensure they are in line with sector good practice.

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



Depreciation is not charged on shared ownership assets.

Impairment

The housing property portfolio for the Group is assessed for indicators of impairment at each reporting date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets, or cash generating units for which impairment is indicated, with their recoverable amounts. The carrying amount is taken to be cost less accumulated depreciation net of amortised grant. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use. For social housing assets, EUV-SH is considered to be an appropriate measure of fair value and VIU-SP (depreciated replacement cost) to be an appropriate measure of value in use. EUV-SH is calculated by a qualified valuer and the net present value of future rental streams, net of costs, discounted at an appropriate rate. Depreciated replacement cost is calculated by reference to the current average build cost on similar units (taking into account size, type and location) on recent schemes.

The Group defines cash generating units based on type of property, tenure and location. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value, an impairment is recorded through a charge to income and expenditure.

11 HOUSING PROPERTIES → CONTINUED

Investment property

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business. Investment properties are measured at cost on initial recognition and subsequently at fair value at the reporting date, with changes in fair value recognised in income and expenditure. Fair value is determined on a regular basis (at least once every 3 years) by appropriately qualified external valuers and is derived from current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided on investment properties.

The Group valued the portfolio at £9.1m on an investment basis.

Properties held for security

Family Mosaic had 14,125 properties with a net book value of £809m (EUV-SH: £1,157m) pledged as security at 31 March 2017.

| | GROUP | | | | | |
|-------------------------------|------------------------------|------------------|---------------------------------------|------------------|-----------------------|------------------|
| | Completed housing properties | | Housing properties under construction | | Investment properties | Total |
| | Social housing | Shared ownership | Social housing | Shared ownership | | |
| £000 | £000 | £000 | £000 | £000 | £000 | |
| COST | | | | | | |
| At 1 April 2016 | 2,017,799 | 271,756 | 154,527 | 88,226 | 7,553 | 2,539,861 |
| Additions | 20,543 | – | 94,962 | 24,887 | – | 140,392 |
| Disposals | (5,565) | (12,819) | – | – | – | (18,384) |
| Schemes completed in the year | 46,015 | 20,987 | (46,015) | (20,987) | – | – |
| <u>Impairments</u> | – | – | <u>(1,394)</u> | – | – | (1,394) |
| Revaluation | – | – | – | – | 1,549 | 1,549 |
| At 31 March 2017 | 2,078,792 | 279,924 | 202,080 | 92,126 | 9,102 | 2,662,024 |
| DEPRECIATION | | | | | | |
| At 1 April 2016 | 203,185 | – | – | – | – | 203,185 |
| Charge for the year | 27,653 | – | – | – | – | 27,653 |
| Disposals | (3,963) | – | – | – | – | (3,963) |
| At 31 March 2017 | 226,875 | – | – | – | – | 226,875 |
| NET BOOK VALUE | | | | | | |
| At 31 March 2017 | 1,851,917 | 279,924 | 202,080 | 92,126 | 9,102 | 2,435,149 |
| At 1 April 2016 | 1,814,613 | 271,756 | 154,527 | 88,226 | 7,553 | 2,336,674 |

Interest of £10.3m has been capitalised in the year to 31 March 2017 (2016: £10.5m). Additions to housing properties during the year include £20.5m (2016: £35.4m) in respect of investment in the existing property stock.

13 OTHER TANGIBLE FIXED ASSETS → CONTINUED

ASSOCIATION

| | Freehold office premises | Leasehold office premises | Other fixed assets | Total |
|------------------|--------------------------|---------------------------|--------------------|---------------|
| | £000 | £000 | £000 | £000 |
| COST | | | | |
| At 1 April 2016 | 16,585 | 785 | 7,899 | 25,269 |
| Additions | 309 | 15 | 1,407 | 1,731 |
| Disposals | - | - | - | - |
| At 31 March 2017 | 16,894 | 800 | 9,306 | 27,000 |

DEPRECIATION

| | | | | |
|------------------|--------------|------------|--------------|--------------|
| At 1 April 2016 | 1,901 | 306 | 4,568 | 6,775 |
| Charge for year | 264 | 104 | 1,563 | 1,931 |
| Disposals | - | - | - | - |
| At 31 March 2017 | 2,165 | 410 | 6,131 | 8,706 |

NET BOOK VALUE

| | | | | |
|------------------|---------------|------------|--------------|---------------|
| At 31 March 2017 | 14,729 | 390 | 3,175 | 18,294 |
| At 1 April 2016 | 14,684 | 479 | 3,331 | 18,494 |

14 PROPERTIES FOR SALE

Properties for sale include both open market properties and shared ownership first tranche sales. Some are completed and awaiting sale, some are still under construction. These are all carried at the lower of cost and net realisable value. Cost includes acquisition and development cost together with interest payable. Net realisable value is based on estimated sales price after allowing for further costs of completion and disposal.

Impairment reviews are carried out on an annual basis to compare cost and net realisable value. Where necessary appropriate write downs are made. A reduction in net realisable value of £1.7m (2016: £nil) has been recognised on one scheme held for sale.

Properties held for sale are not depreciated.

| | GROUP | | ASSOCIATION | |
|--|----------------|----------------|--------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | £000 | £000 | £000 | £000 |
| Shared ownership properties under construction | 27,382 | 27,171 | 525 | 1,347 |
| Open market properties under construction | 132,047 | 97,042 | 1,395 | 9,346 |
| <u>Write down</u> | (1,718) | - | - | - |
| Open market completed properties awaiting sale | 7,803 | 3,953 | - | - |
| | 165,514 | 128,166 | 1,920 | 10,693 |

28 CONTINGENT LIABILITIES

At 31 March 2017 there were £nil of contingent liabilities in respect of claims arising in the ordinary course of business (2016: £nil).

29 FINANCIAL INSTRUMENTS

Cash and cash equivalents in the Group's Consolidated Statement of Financial Position consist of cash at bank, in hand, deposits and short term investments. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the Statement of Cash Flows.

| | GROUP | | ASSOCIATION | |
|--|----------------|----------------|----------------|----------------|
| | 2017 £000 | 2016 £000 | 2017 £000 | 2016 £000 |
| Financial assets measured at historical cost: | | | | |
| Other investments | 1,932 | 1,911 | 1,932 | 1,911 |
| Cash and cash equivalents | 35,656 | 25,985 | 34,129 | 25,961 |
| Financial assets measured at <u>cost less impairment</u> : | | | | |
| Homebuy loan | 4,521 | 4,597 | - | - |
| Trade and other receivables | 19,565 | 16,862 | 234,004 | 235,930 |
| | 61,674 | 49,355 | 270,065 | 263,802 |
| Financial liabilities measured at historical cost: | | | | |
| Trade and other creditors | 25,844 | 21,521 | 18,579 | 18,750 |
| Loans | 779,949 | 738,412 | 779,949 | 738,412 |
| Financial liabilities measured at fair value through income and expenditure: | | | | |
| Derivatives | 5,410 | 5,046 | 5,410 | 5,046 |
| Index linked loan | 912 | 1,106 | 912 | 1,106 |
| | 812,115 | 766,085 | 804,850 | 763,314 |

30 RELATED PARTY TRANSACTIONS

Rents received from tenant and leaseholder board members during the year are £18k. There were no rent arrears from tenant and leaseholder board members as at 31 March 2017. Any rent arrears balance would be subject to the same bad debt provision and debt recovery process as all other rent arrears.

Tenants who are members of the Board have tenancies which are on normal commercial terms and as such their position does not afford them any additional benefits compared with other tenants.