Report and Financial Statements

2016/17

PA Housing Limited Consolidated Report and Financial Statements for the year ended 31 March 2017

Comprising the consolidated report and financial statements for Paragon Community Housing Limited and the consolidated report and financial statements for asra Housing Group Limited

Paragon Asra
PA Housing

pahousing.co.uk

Paragon Community Housing Limited

Consolidated Financial Statements

Year ended 31 March 2017

Exempt Charity and Community Benefit Society incorporated under the
Co-operative and Community Benefit Society Act 2014
Registration number (FCA): 31033R

Homes and Communities Agency number: LH4262

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Board members, executives, advisors and bankers

Board of management

The Board prior to 13 April 2017 of Paragon Community Housing Limited

John Cudd (Chair)
Ebele Akojie (resigned 15 September 2016)
David Edwards
Richard Harris
David Hunter
Curtis Juman (appointed 15 September 2016)
Dilip Kavi
Ruth Mitchell (resigned 15 September 2016)
Christine Pockson (resigned 15 September 2016)
Paul Powici (resigned 31 March 2017)
Gemma Saffhill

The Board from 13 April 2017 of Paragon Asra Housing Limited

Aman Dalvi (Chair)
David Edwards (Vice-Chair)
Stephen Amos
Christopher Cheshire
John Cudd
Richard Harris
David Hunter
Curtis Juman
Katherine Lyons
Wayne Morris
Gemma Saffhill
Anne Turner

Executive Management Team of Paragon Community Housing Limited

Chief Executive
Dilip Kavi

Finance Director
Paul Rickard (resigned 10 May 2016)
Malcolm Wilson (appointed 10 May 2016 and resigned 31 March 2017)

Business Development Director
Chris Whelan

Director of Customer Services
Ian Watts

Corporate Services Director
Marion Hall

Company Secretary
Marion Hall

Registered Office
Case House
85-89 High Street
Walton-on-Thames
Surrey KT12 1DZ

Auditors

BDO LLP
Gatwick
2 City Place
West Sussex RH6 0PA

Principal Solicitors

Devonshires
30 Finsbury Circus
London EC2M 7DT

Bankers

Royal Bank of Scotland
Floors 8 and 9
280 Bishopsgate
London EC2M 4RB

Chairman's statement

On 13 April 2017 we completed our amalgamation with asra Housing Group, to form Paragon Asra Housing ('PA Housing'). This ushers in an exciting period of opportunity and change for both organisations. The newly amalgamated entity owns and manages well over 24,000 homes in London, Surrey and the Midlands; and it sees the bringing together of two housing associations with shared aims and ambitions. We want to deliver quality services to our customers and contribute to the acute need for new affordable housing across our area of operation.

The creation of PA Housing is the culmination of 18 months of hard work, led by our Executive Management Team and involving a number of agencies and advisors. I am grateful for the efforts of everyone who helped to make this happen, and I firmly believe that we have the potential to achieve brilliant things in the years ahead. In the short term though, there is much to do in order to harmonise our systems, processes and ways of working in order to unlock the benefits which amalgamation will bring. We intend to make this happen at pace whilst at the same time delivering change in a controlled and measured way, and the PA Housing Board will be closely monitoring progress against the agreed integration plan to ensure that key success measures are achieved.

Turning to the national picture, changes to the political landscape in the immediate aftermath of last year's vote to leave the European Union have, in turn, led to a change in the relationship between the UK government and the housing association sector. The government has an expectation that our sector will rise to the challenges presented by a severe shortage of affordable housing in most areas of the country, and is prepared to forge constructive relationships with our sector to promote delivery of new homes across a range of tenures. We recognise that we have a crucial role to play in using our leverage to help increase the supply of new homes. PA Housing has a bedrock of financial strength, and we have worked with our banks and investors to put in place the credit lines we need to deliver a sizeable programme of growth over the next few years, in line with government ambitions.

Our growth targets build on the experience we already have of delivering new shared ownership properties, and they establish an ongoing programme of sales activity in order to provide surpluses to compensate for the reductions to our rental income through to 2020. This plan gives us moderate exposure to housing market risks and so we continue to robustly stress test and sensitise our development programme at both an aggregate and individual scheme level to ensure that these risks are fully identified and properly controlled.

We also remain firmly committed to rented housing at the core of our organisation. Many of our current and future customers either are not able, or have no desire, to buy, and so access to safe and secure housing at a genuinely affordable rent is essential. Our growth plans therefore include an ongoing commitment to developing new rented housing to serve the needs of the neighbourhoods where we work. This is in accordance with our founding objectives, and it remains as important today as it ever has been.

There are further strands of government policy which will continue to influence our work. These include a range of welfare reform initiatives which are incrementally affecting our customers' ability to meet their rent payment obligations alongside other household commitments; and more broadly the, as yet unknown, social and economic impacts of whatever final Brexit deal is agreed with the European Union.

Good financial performance will remain critical to our mission, giving us the capacity we need to deliver high quality services to our customers. To this end, we continue to explore ways in which our services can be delivered more efficiently without detriment to their quality.

Chairman's statement

Although we now tackle future challenges as PA Housing, it is appropriate for me to end my time at Paragon Community Housing Limited by briefly reflecting on our rich history. Over the years Paragon has delivered much needed services to a diverse range of customers, and created a heritage which remains woven into the fabric of the new organisation. Staff, board members and partners past and present can all be very proud of the part they have played in the Paragon story. This will live on through the work of PA Housing, and I want to thank everyone who has contributed to Paragon's many great achievements, recognised at the national level, throughout my past six years as Chairman, in enabling my Board to put Paragon on the map.

John Cudd
Board member
21 July 2017

Company review

Welcome to the Company Review

Paragon, 2016/17

Paragon's five-year corporate plan was launched in 2014, setting out three key objectives:

1. We remain dedicated to improving customer satisfaction
2. We will be more effective and efficient, to provide better homes and services
3. We will grow to provide more homes and better services

Our performance in each of the above three areas has improved year on year. Our service delivery in 2016/17 was of a very high standard, shown by the results of the regular surveys carried out by a reputable external firm. In summary, 35 customer-facing activities achieved satisfaction rates of 85% and many of them were more than 90%. This is a very pleasing performance, delivered by all colleagues working with a range of customers and with our contractors.

The customers' groups consisting of four area forums, the Resident Council and the Scrutiny Team have been excellent in helping us to identify what works best for our customers. Their input has led to a series of changes, and cumulatively the impact of their efforts has been of huge benefit. A number of services have been tested against 'customer journey' experience to highlight where colleagues need to improve internal processes for our customers' benefit.

The financial performance in 2016/17 was better than planned, and the rest of this document provides further detail in line with statutory requirements. We have exceeded all targets set by banks and investors, and the regulatory and credit ratings remain unchanged.

PA Housing, 2017/18

PA Housing, with its greater size and scale, has more scope to deliver step-change efficiencies by reducing costs this year and next. Our aspiration to build more homes is becoming a reality by having additional capacity to operate in a highly competitive market.

PA Housing, with its 600 colleagues, is well placed to deliver quality services to our customers, and to continue to enhance services from customers' perspective.

John Cudd, Paragon Chairman, is retiring

Paragon has made year on year improvements under the guidance of its Chairman over the last six years. All colleagues, Board members past and present, and a range of stakeholders can testify that he has done an outstanding job as evidenced by the improvements seen by our customers and the internal corporate changes witnessed by colleagues. He has decided to retire in September 2017, and on behalf of all of us I wish to thank him for his relentless commitment to modernise Paragon and prepare it for future opportunities and challenges.

Dilip Kavi
Chief Executive

Strategic report

The Board of Management presents its Strategic report for the year. In approving the financial statements, the directors approve this report in their capacity as directors.

Business model

We remained focused on being a provider of affordable housing, and our ambitions in this respect led to the Board's strategic decision to seek a merger partner in order to leverage our capacity for customer service delivery and business growth. During 2016/17 we progressed merger discussions with asra Housing Group, a registered provider with 14,000 homes in London and the Midlands. These discussions identified sufficient common ground in terms of strategic aims, approach to service provision, financial profile and geographic areas of operations to justify a formal business case for merging. Following a significant amount of work to undertake mutual due diligence, obtain regulatory and lender approval, and establish operating priorities and principles, the two organisations completed their amalgamation on 13 April 2017 when Paragon Asra Housing Limited commenced trading. On this date, Paragon Community Housing Limited, asra Housing Association Limited and Leicester Housing Association Limited ceased to exist as separate entities and became one new entity Paragon Asra Housing Limited ('PA Housing').

Prior to the amalgamation, Paragon had two incorporated subsidiary businesses providing specifically-related but separate activities. Funding was secured from capital markets through Paragon Treasury Plc and on-lent to Paragon, whilst elements of development were supported by Paragon Development & Construction Services Limited.

All core social housing assets and activities are now owned and undertaken within PA Housing. The organisation has three incorporated subsidiary businesses providing specifically-related but separate activities. Some of PA Housing's funding is secured from capital markets through Paragon Treasury Plc and on-lent to PA Housing, whilst elements of new housing development are supported by Paragon Development & Construction Services Limited and Asra Construction Services Limited.

The new PA Housing business model builds on the existing models previously in place at Paragon and asra, and it will unlock capacity to continue with an ambitious growth plan whilst delivering good quality services to our customers. Our business plan reaffirms our commitment to genuinely affordable rented social housing, although some elements of housing for sale (on both a shared ownership and outright sale basis) are planned in order to provide cross-subsidy back into rented accommodation and meet the housing needs of particular market segments.

Governance

During the year ended 31 March 2017 and up to 13 April 2017, the Paragon Board of nine non-executive directors and the Chief Executive, was responsible for setting the strategic direction and overseeing the financial management of Paragon. From 13 April 2017 the Board of PA Housing, comprising twelve non-executive directors, took over this role.

Paragon adopted the National Housing Federation (NHF) 2015 Code of Governance and was fully compliant with the code. Paragon complies with the Social Housing Regulator's Governance and Viability Standard. Paragon's regulatory rating remained at V1 and G1 status: the highest available. Moody's credit rating was also unchanged at A2 negative. Moody's has assigned an A2 negative rating to Paragon Asra Housing Limited.

Paragon has operated a number of committees as detailed on pages 13 to 15. The most important committee from a risk management and internal control perspective was the Audit and Risk Committee (ARC) which has met three or four times a year. The committee comprised four Board members and was responsible for recommending the appointment of auditors, setting their terms of reference and monitoring their performance. It received reports from the internal auditors, reviewed the statutory accounts with the external auditors prior to their submission to the Board for approval and reviewed internal controls.

Strategic report

Paragon maintained a risk register, updated for each meeting of the ARC, which set out the main areas of risk and the effectiveness of the internal control mechanisms developed to mitigate such risk. A business assurance map was produced in conjunction with the internal auditors and presented to ARC. This was reviewed annually along with the business risk appetite. During 2017/18 the PA Housing ARC will be reviewing the assurance map and its application to PA Housing.

Financial and non-financial key performance indicators

We reported to the Board on a number of key performance indicators including profitability, as measured through our operating surplus and margin, and non-financial measures such as customer satisfaction and re-let times.

Our turnover for the year was £71.8m, which was an increase on last year and through lower operating costs and cost of sales, and a higher surplus on asset disposals, our operating surplus rose to £28.2m, a 21% increase on last year. Turnover and our operating surplus have exceeded budget targets, generated from higher first tranche sales, lower depreciation charges and savings within operating costs.

Our operating performance has improved significantly in most areas, notably in lettings, first tranche sales and the management of operating costs. Customer satisfaction with individual services remains high and the overall satisfaction has increased considerably during the period. Details are provided in the Report of the Board of management largely within the Operating review.

Developments during the reporting period and financial position at the year end

We actively continue to develop high quality and much needed new homes. During the year we completed 120 homes, have a further 446 homes in the pipeline and our aspiration is to deliver 1,000 by 2019.

Our revenue reserves increased by £21.7m to £123.9m (2016 - £19.8m increase). Borrowing totalled £354.0m (2016 - £357.7m) and cost of fixed assets, including our housing assets and investment properties, stood at £691.3m (2016 - £667.1m).

Further details of financial performance are included in the Report of the Board of management and the financial statements. We will also be publishing a comprehensive Value for money statement.

Principal risks and uncertainties

The principal risks and uncertainties continue to revolve around the economic and political uncertainties, as the withdrawal of the previous 10 year rent settlement has illustrated. We also remain exposed to the continuance of reform of the welfare system, although we have invested heavily in this area and implemented additional controls to limit any adverse impact.

Paragon and now PA Housing, like other registered providers, is subject to economic risk such as house and land prices, labour and material supply constraints, and underlying economic drivers such as interest rates and inflation. All of these are monitored regularly and early warning triggers and mitigation strategies are in place and reviewed regularly as circumstances change.

The impact of the decision to leave the European Union is being assessed. As potential impacts on the business emerge specific strategies will be developed, but we are confident that we are well placed to respond positively.

Further details of risks are included in the Report of the Board of management.

Strategic report

Future prospects

Despite the challenging and uncertain environment in which we operate, we remain optimistic about the future. Paragon has amalgamated with asra to enable it to deliver its core objectives, improve services to customers and deliver more new homes. The changes to the sector will also give rise to opportunities and PA Housing, with its strong financial position and robust governance and with backing from lenders and investors to continue with its growth plans, is well placed to take advantage of these.

For PA Housing, there is much work in the year ahead to harmonise our ways of working so that high customer service standards are maintained and further financial efficiency is delivered. The Board and the Executive will work together to ensure that the vision behind the formation of PA Housing is implemented, and that the identified critical success milestones are achieved along the way.

Approval

This Strategic report was approved by order of the PA Housing Board on 21 July 2017.

John Cudd
Board member

Report of the Board of management

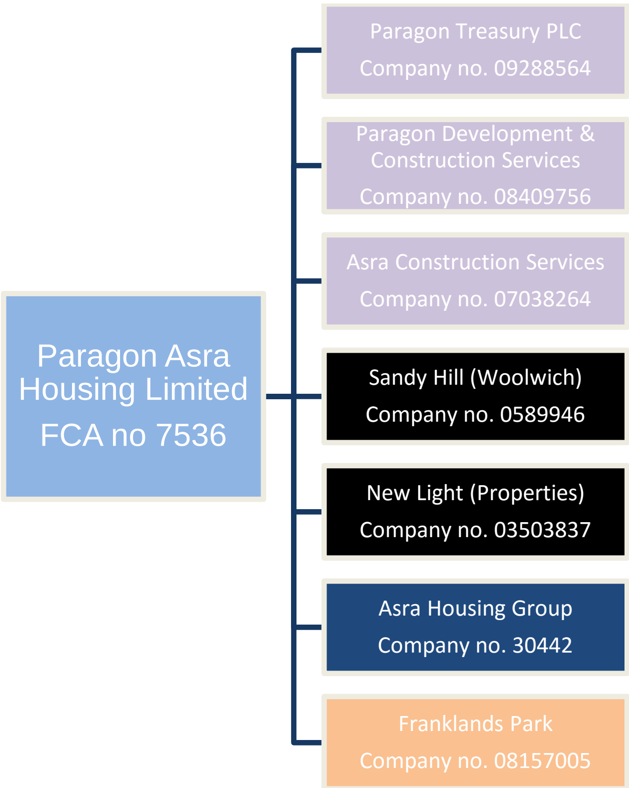
The Board of management presents its report and audited financial statements for the year ended 31 March 2017.

Business model and developments during the year

Paragon Community Housing Limited (Paragon) was a Community Benefit Society (CBS), registered as a provider of social housing with the Homes and Communities Agency (HCA). On 13 April 2017 Paragon amalgamated with asra Housing Association Limited and Leicester Housing Association Limited, also registered providers of social housing, to form Paragon Asra Housing Limited. On this date, Paragon Community Housing Limited, asra Housing Association Limited and Leicester Housing Association Limited ceased to exist as separate entities and became one new entity, Paragon Asra Housing Limited (PA Housing).

During the year Paragon continued to operate in all of the areas we were operating in previously, primarily South West London and Surrey. The formation of PA Housing provides access to wider markets in London and the Midlands in order to seek opportunities for business growth and service development.

PA Housing is the parent company of several wholly owned subsidiaries, as illustrated in the structure chart below:



Paragon Treasury Plc is a special purpose funding vehicle used to secure capital markets funding for PA Housing. The main activities of Paragon Development & Construction Services Limited and Asra Construction Services Limited are to support the development and construction activities of PA Housing. Sandy Hill (Woolwich) Limited and New Light (Properties) Limited are dormant companies. Asra Housing Group is the previous non-asset holding parent company of Leicester Housing Association and Asra Housing Association, and is now an unregistered subsidiary. Franklands Park LLP is a joint venture with Accent Housing Limited to provide management services to an estate on which both organisations own property.

Report of the Board of management

In these financial statements, amounts denoted as being "Association" refer to Paragon Community Housing Limited. Amounts denoted as "Group" refer to the combination of this entity with Paragon Treasury Plc and Paragon Development & Construction Services Limited. On 13 April 2017 the underlying business with all the assets and liabilities, was transferred to the newly formed entity, PA Housing. Results for the Franklands Park joint venture are not consolidated into the Group financial statements on the grounds of immateriality.

Paragon owned or provided management services to 9,050 units (2016 – 9,130 units) as detailed in note 5 to the financial statements, with a further 446 units (2016 – 540 units) in the course of construction at the end of the year.

Governance

Board members and Executive Management Team

During the year under review, the Board comprised nine non-executive directors and the Chief Executive. Non-executive directors were appointed for a term of three years or less and served a maximum of nine years.

All Board members and Executive Management Team members who held office through the year are detailed on page 3.

Each Board member held one fully paid up share of £1 except the Chief Executive. There were four shareholders who were not Board members.

The Board reviewed its combined strengths and weaknesses on a regular basis and Board members were selected in order to provide the best possible range of relevant skills and experience.

Other members of the Executive Management Team attended meetings of the Board but were not members.

Paragon had insurance to indemnify Board members and officers against liability when acting on behalf of Paragon.

The Board was committed to the highest standards of governance and was responsible for setting the strategic direction and overseeing financial management of the business.

The Board was collectively responsible for ensuring the success of Paragon and its compliance with all legal and regulatory obligations. It was responsible for setting Paragon's values and objectives, ensuring that high standards of integrity and probity were maintained and for the management oversight of Paragon and its constituent parts.

There was a training programme for Board members designed to inform them of changes to government policy and prepare for a merger. Industry experts provided training sessions on a wide range of relevant topics:

- a partner from a leading legal firm ran a session for the Board on sector restructuring
- a partner from a leading housing sector consultancy provided the Board with training on strategic political and sector risks following the vote for Brexit
- legal advisors provided Board training on due diligence for mergers
- the relevant professional advisors provided the Board training on treasury management, financial planning, tax and information communications technology
- the internal auditors ran a training session and facilitated a workshop on risk appetite
- an independent consultant provided expert training for the Board on equality and diversity
- the Customer Services Committee received training on benchmarking and value for money; also on the customer experience programme developed in the year
- the Investment Committee received ongoing training from the treasury advisors on relevant housing market and funding market information

Report of the Board of management

- the newly appointed Board member received a full induction; and
- another Board member attended a conference on commercialism in the housing sector

Board appraisals were conducted in April 2016. The theme arising was that the Board was well led, operating effectively as a united team, and working well with the Executive.

An external consultant was commissioned to help to recruit new Board members in anticipation of retirements in 2016/17 and the merger with asra. This resulted in the appointment of a new Board member with the relevant skills and qualities ahead of the merger.

Subsequently Board members went through a full recruitment and selection procedure to establish the shadow Board for the proposed merged organisation. This included six Paragon Board members including the newly recruited Board member.

Board members were paid a fee for their services. The Nomination and Remuneration Committee had sole responsibility for recommending to the Board the structure and level of fees and it had taken advice from suitably qualified and experienced independent advisors on each occasion when fees have been reviewed. These reviews were always benchmarked against levels for comparable organisations and were designed to ensure that Paragon is able to recruit and retain high-calibre Board members.

There were six Board meetings during the year. The Board members and their attendance at those six meetings were as follows:-

Member	Attendance	Member	Attendance	Member	Attendance
John Cudd (Chair)	6/6	David Hunter	6/6	Paul Powici (resigned 31 March 2017)	5/6
Ebele Akojie (resigned 15 September 2016)	2/3	Dilip Kavi (CEO)	6/6	Gemma Saffhill	6/6
David Edwards	6/6	Ruth Mitchell (resigned 15 September 2016)	1/3	Curtis Juman (appointed 15 September 2016)	4/4
Richard Harris	6/6	Christine Pockson (resigned 15 September 2016)	3/3		

The Board met regularly to fulfil its stewardship role. Its main focus during 2016/17 was the merger with asra. This was completed on 13 April 2017 through the statutory amalgamation of Paragon Community Housing Limited, Leicester Housing Association Limited and asra Housing Association Limited.

Report of the Board of management

This included:

- establishing, evaluating and analysing the business case
- scoping, commissioning and scrutinising all necessary due diligence
- overseeing the legal process and necessary approvals

The Board also maintained diligent oversight of the existing business, ensuring that plans to achieve continuous improvement through customer journey mapping and embedding a can-do customer service culture were brought to fruition. This has resulted in consistent improvements in customer satisfaction during 2016/17. In addition the Board had continued to focus on:

- the impact of the summer 2015 Budget announcements and identification of mitigating actions and future strategy
- the impact of the result of the Brexit referendum
- reviewed and approved the Business plan, to ensure consistency with our overarching plan
- extensive stress-testing of the Financial plan
- approved the Budget and Annual operating plan
- approved the Financial statements for 2015/16
- received annual reports from the committees
- reviewed the Asset and liability register; and
- led on the Value for money strategy.

The Board also kept a close watching brief on the broader policy environment and was fully informed about the Office for National Statistics (ONS) decision to classify registered providers as Public Non-Financial Corporations. Any short to medium term impact of this was mitigated. Any longer term implications will be considered in due course, although it is anticipated that the recent government deregulation will lead the ONS to reclassify registered providers as private.

The Board had commissioned professional advisors for different business areas. The Board had delegated certain activities to its four Committees, and various decision-making and operating authorities to the Executive Management Team (EMT) in order to allow management to run the business within the approved parameters and established internal controls.

Paragon operated four committees which are sub-committees of the Board.

The **Audit and Risk Committee (ARC)** was the most important committee from a risk management and internal control perspective. The ARC met three or four times each year and comprised four members.

Paragon maintained a risk register, updated for each meeting of the ARC, which set out the main areas of risk identified and monitored by the Board and the effectiveness of the internal control mechanisms developed to mitigate such risk. A business assurance map was produced in conjunction with the internal auditors and presented to the ARC. This was reviewed annually.

Amongst other duties, the ARC was responsible for:

i. advising the Board on matters of internal control and risk management
ii. approving internal and external audit arrangements, including recommending the appointment of auditors, agreeing their terms of reference and monitoring their performance
iii. reviewing the outcome of internal and external audit activities
iv. reviewing with the external auditors the annual statutory Financial statements and recommending these for approval by the Board.

Report of the Board of management

The **Investment Committee** was constituted to:

i. review and recommend the overall Development strategy for approval
ii. approve associated policies
iii. approve new development and stock disposals, that fall within the approved Development strategy
iv. monitor and advise the Board on development performance
v. assess funding requirements and recommend funding
vi. approve the Treasury management strategy and policy and monitor their implementation.

The functions of the **Nomination and Remuneration Committee** were:

i. Board and committee membership
ii. Executive Management Team recruitment, appraisal and remuneration
iii. review of the Employee remuneration policy.

The role of the **Customer Services Committee** was to:

i. pursue improvements in the quality, consistency and timeliness of repairs and housing services to all customers
ii. steer absolute and relative comparisons of service costs in order to achieve value for money
iii. consider learning points from customers' complaints
iv. oversee initiatives that lead to higher customer satisfaction rates
v. promote the work of the Resident Council.

Membership of the four committees and member attendance at the meetings was as follows:

Audit and Risk Committee	**Attendance**	**Investment Committee**	**Attendance**
David Hunter (Chair)	3/3	David Hunter (Chair)	4/4
Paul Powici (resigned 31 March 2017)	2/3	David Edwards	2/4
Ebele Akojie (resigned 15 September 2016)	1/1	Gemma Saffhill	4/4
Christine Pockson (resigned 15 September 2016)	1/1	John Cudd	3/4
Curtis Juman (appointed 15 September 2016)	2/2	Richard Harris	4/4

Report of the Board of management

Nomination and Remuneration Committee	**Attendance**	**Customer Services Committee**	**Attendance**
David Edwards (Chair)	2/2	Richard Harris (Chair)	4/4
John Cudd	2/2	Ruth Mitchell	4/4
Christine Pockson (resigned 15 September 2016)	1/1	Sam Thompson	3/4
Paul Powici (resigned 31 March 2017)	2/2	Dave Hobbs	4/4

Board members' responsibilities

The Board of Paragon held responsibility up to the date of amalgamation of 13 April 2017. From this date onwards the Board of PA Housing held responsibility. Board members are detailed on page 3.

The Board members are responsible for preparing the Report of the Board and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law and social housing legislation require the Board members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these financial statements, the Board members are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2014 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Association will continue in business.

The Board members are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Association's transactions, disclose with reasonable accuracy at any time the financial position of the Group and Association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are also responsible for safeguarding the assets of the Group and Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Board of management

The Board is responsible for ensuring that the Report of the Board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2014.

Financial statements are published on the Group and Association's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group and Association's website is the responsibility of the Board members. The Board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Board's report on internal control

The Board has overall responsibility for maintaining a sound system of internal control and reviewing its effectiveness. The Board recognises that such a system can provide only reasonable and not absolute assurance against material mis-statements or loss.

The system of internal control was designed to manage risk and fraud and provide reasonable assurance that key business objectives and expected outcomes would be achieved. It also existed to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the company's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which was embedded within the normal management and governance arrangements and it was a continuous process.

The Board gained additional assurance on the effectiveness of internal controls from the ARC and this responsibility is reflected in its terms of reference. The process adopted by the Board in reviewing the effectiveness of the system of internal controls, together with some of the key elements of the control framework includes:

- **Risk management**
    - The responsibility for the identification, evaluation, monitoring and reporting of key risks between the Board, ARC, EMT and other employees was clearly defined in the Risk policy and strategy recommended by the ARC to the Board for approval.
    - There was a formal and ongoing process of management risk review in each area of Paragon's activities and this linked directly to the Corporate plan, Business plan and employee targets and work plans.
    - The ARC was responsible for changes to the Risk register and monitored the process for managing risk. EMT monitored key risks and reported to the ARC on existing and emerging risks. The Board took ownership of risk by monitoring the Risk register and receiving regular updates on specific risks. The Board could mandate ARC to amend the Risk register, but the ARC took formal responsibility for the version control of the register.

Report of the Board of management

- **Fraud management**
    - Governance regulations were in place and were approved by the Board. These detailed the actions to be taken on detected or attempted fraud or corruption and were reviewed annually.
    - The Whistle-blowing policy covered employees wishing to report an act of fraud or corruption and these reports were recorded in the Whistle-blowing register which was reviewed at each ARC meeting.
    - Further actions for dealing with fraud or corruption by Board members or employees were contained in the NHF Code of conduct 2012 for Board members and the Disciplinary policy and procedure respectively.
    - All instances of attempted or perpetrated fraud or corruption were reported to the ARC and recorded in the Fraud register which was reviewed at each meeting of the Committee. There was an Integrity and bribery policy which set out how employees should manage any conflicts of interest, hospitality and compliance with the Bribery Act 2010.
- **Information and financial reporting systems**
    - Financial reporting procedures included a long-term financial plan, detailed annual budgets, detailed treasury reports, value for money reporting and regular management accounts which were reviewed by the Board.
    - Key performance indicators and business objectives which were set as part of the performance management framework, were regularly reviewed by the Board to assess progress and outcomes.
- **Control environment and procedures**
    - The Board retained responsibility for a defined range of issues covering strategic, operational, financial, and compliance matters and new investment projects. The Board disseminated its requirements to employees through a framework of policies and procedures.

The ARC received the Annual review of the system of internal control from the internal auditors and took account of any changes needed to maintain the effectiveness of the management and control process for risk and fraud.

The Board confirmed that there is an ongoing process for identifying, evaluating and managing significant risks faced by Paragon and for preventing, detecting, investigating and insuring against fraud. This process had been in place throughout the year under review, up to the date of the Annual report, and was regularly reviewed by the Board.

Disclosure of information to auditors

At the date of making this report, each of the Board members, as set out on page 3, confirms the following:

- so far as each Board member is aware, there is no relevant information needed by Paragon's auditors in connection with preparing their report of which the auditors are unaware; and
- each Board member has taken all the steps that they ought to have taken as a Board member to make themselves aware of any information needed by the auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Board is not aware of any relevant information of which the auditors are unaware.

Report of the Board of management

Material concerns

The Board has identified no material control issues or problems during 2016/17. The HCA raised a query in relation to Paragon's decision to revalue its stock in 2013/14. Although it took Paragon longer than it would have wished to fully respond, the HCA was provided with a satisfactory response and additional steps were taken to provide assurance, which concluded with an internal audit that found substantial assurance with the Paragon rent setting process. As a result Paragon maintained a G1/V1 rating up to the point when it merged with asra.

Report of the Board of management

Operational review and financial highlights

Corporate objectives:

Paragon's headline objectives throughout the financial year were as follows:

1. We remain dedicated to improving customer satisfaction
2. We will be more effective and efficient, to provide better homes and services
3. We will grow to provide more homes and better services

Each of these objectives were split in to three goals and then further broken down into deliverable actions. Further detail is included within these financial statements and on our website.

The new PA Housing Board is working to develop a corporate plan in support of the key strategic aims which drove the amalgamation. These were:

- to preserve and continuously improve customer service standards
- to unlock capacity for growth, with the focus being on sub-market housing which meets the need of our core customer base; and
- to achieve critical mass in order to cope with external economic and political forces

Financial highlights

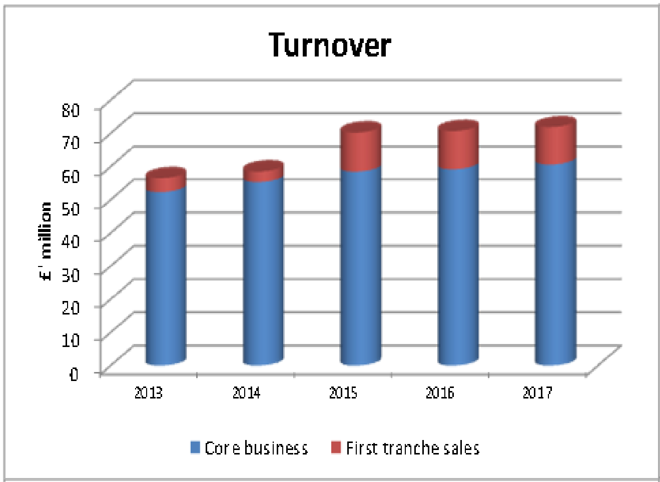
Paragon has delivered another strong financial performance to 31 March 2017. This performance is primarily derived from reductions achieved in operating costs, surpluses achieved on asset disposals and lower financing charges.

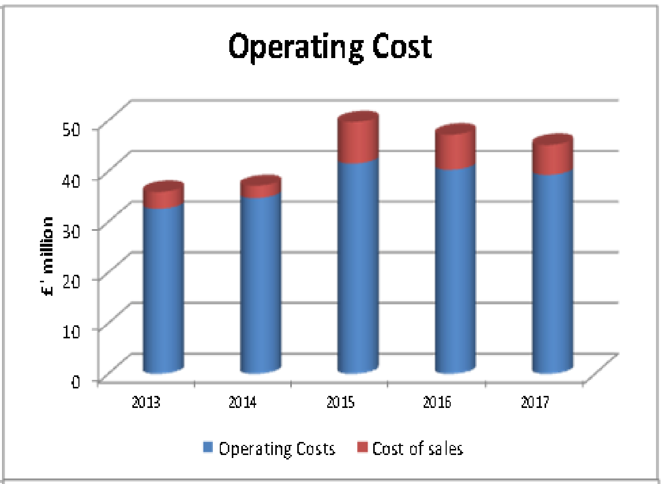
Turnover in our core social housing business (excluding all sales proceeds) has increased by approximately £1.4m against the previous year, with additional income from new build properties coming on stream more than offsetting the negative impact of the government rent reduction regime which came into force in April 2016.

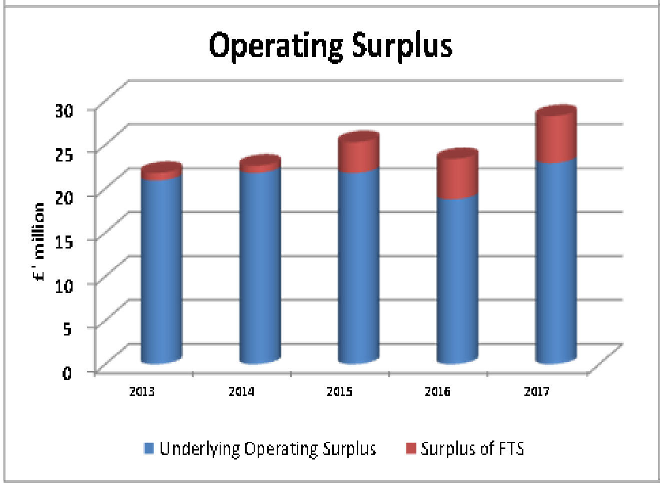
Operating costs include an impairment charge of £1.2m in respect of Burlington Road, a new development scheme which is close to completion, but where the build contract has been terminated due to issues with contractor performance. A new contract to complete the project is being procured, and additional costs will be incurred to finish the work.

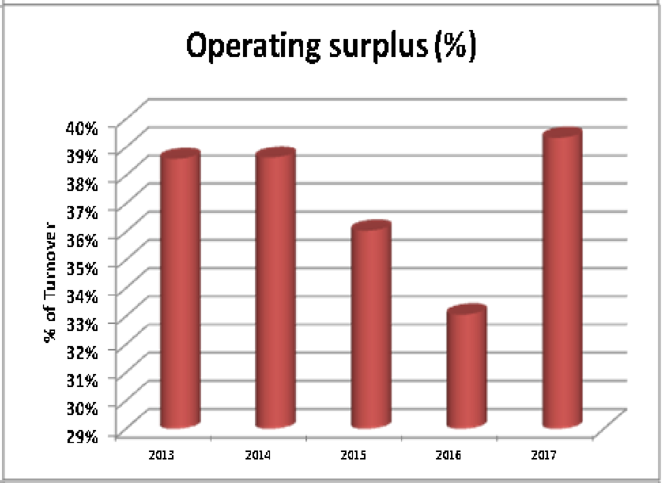
£' million	2013	2014	2015	2016	2017
Turnover					
Core business	52.3	55.3	58.5	59.2	60.6
First tranche sales	4.2	3.2	11.7	11.5	11.3
Cost of sales	(3.3)	(2.4)	(8.2)	(6.9)	(5.9)
Operating costs	(32.6)	(34.7)	(41.5)	(40.3)	(39.3)
Surplus/(deficit) on sale of fixed assets	1.2	1.2	4.8	(0.1)	1.6
Operating surplus	21.8	22.6	25.3	23.4	28.3
Operating surplus (%)	*38.6%*	*38.6%*	*36.0%*	*33.1%*	*39.3%*
Surplus/(deficit) on investment property disposals	-	-	-	0.8	(0.1)
Net interest charges	(10.4)	(9.3)	(14.6)	(8.4)	(8.0)
Revaluation of investment properties	-	-	0.2	0.7	0.5
Surplus before tax	11.4	13.3	10.9	16.5	20.7
Surplus before tax (%)	*20.2%*	*22.7%*	*15.5%*	*23.3%*	*28.8%*

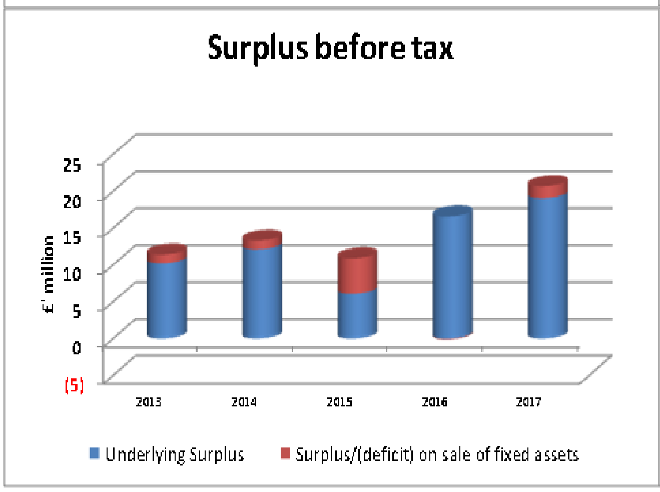
Report of the Board of management

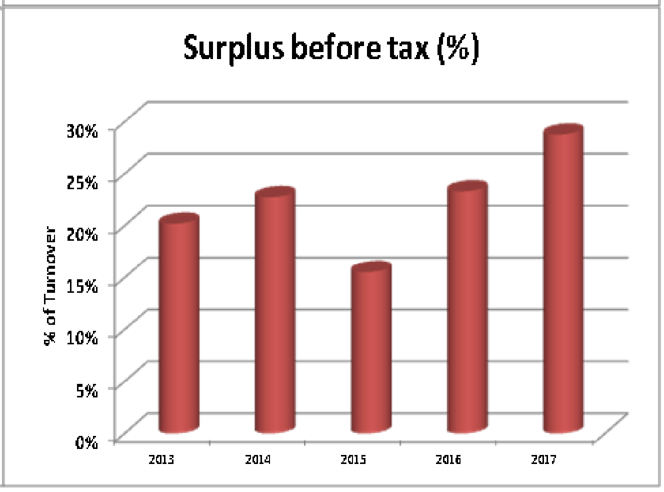












Statement of Financial Position

During the year to 31 March 2017 the total number of units managed or owned by Paragon decreased by a net 96 units, from 9,050 to 9,146.

Expenditure on new homes totalled £26.4m and as at 31 March 2017 the net book value of housing properties (including work in progress) had increased to £677.9m (2016 - £656.7m).

Cash and equivalents were £59.9m at 31 March 2017, down £8.0m on the previous year. This cash, along with the positive cash generated from ongoing operations during the year, was used to fund new developments and interest repayments, with no new loans being drawn during the year.

Report of the Board of management

Statement of Comprehensive Income

Turnover has increased by £1.2m to £71.8m; operating costs have reduced by £1.0m (2.4 per cent) to £39.3m. This continues our cost reduction trend of recent years. Turnover includes £11.3m from first tranche home ownership sales (2016 - £11.5m), at a sales margin above cost of 92 per cent (2016 – 66 per cent). In addition, the Group made a surplus of £1.6m from disposal of fixed assets during the year (2016 – deficit of £(0.1)m). The final care home held was sold in the prior year and as a result of the recycling of a large grant attached to the property, a deficit on disposal of fixed assets was incurred in that year.

The above results combine to produce an operating margin of 39 per cent (2016 – 33 per cent), and this result pushes Paragon towards the top performing housing associations in the country when measured against this metric.

Within the detail of lettings expenditure, routine maintenance costs have been held steady year on year as our contract with Fortem continued to deliver good value for Paragon and its residents. Rent losses from bad debts have increased by £0.4m year on year due to a change in our provisioning policy to reflect a more prudent assessment of doubtful debts. This is appropriate in light of the incremental effects of the government's welfare reform agenda, but our underlying rent collection and rent arrears management performance remains strong.

Net interest charges reduced by £0.6m during the year, with a higher level of interest capitalised, reflecting continued spend on our schemes under construction. Our weighted average interest rate on all debt reduced from 3.93 per cent in 2016 to 3.78 per cent this year.

Operating review

The 2016/17 financial year was dominated by work to develop and then deliver proposals for amalgamation with asra. This required considerable input at Board and Executive level to ensure that the needs of each organisation's customers would be best met through amalgamation, while at the same time meeting the requirements of our corporate stakeholders. The amalgamation was successfully completed on 13 April 2017.

Notwithstanding this work behind the scenes, Paragon continued its efforts to deliver against its strategic objectives and provide high quality services to its customers. Notable achievements included:

- Our focus on improving customer experience continued to be a priority, with training carried out to all frontline teams to find out what motivates them to come to work and what they think great customer service looks like. From these workshops we created the 'Paragon Person' that is now the bedrock of our customer experience and internal culture. We built a range of tools to support the Paragon Person transformation, and have developed a managers' empowerment programme so that those who lead our frontline teams are the champions of our new culture.
- Success came in quarter 3 when our customer satisfaction increased by 7% and 15 key service performance indicators increased by similar, if not better percentages. We have also seen a significant reduction in the number of complaints. Frontline colleagues have bought into the new culture and it is becoming who we are day to day, rather than who we aspire to be. There is a longer journey ahead and we want to take this approach into our new organisation and across the business.

Report of the Board of management

- The responsive repairs and voids service has performed well. Overall satisfaction with the repairs service in February 2017 reached 90%, with a rolling average of 86%. This is an 8% increase on the same period last year. Satisfaction with the quality of the repair was 96% and satisfaction with the service provided by the contractor was 93% and 88% of repairs were completed at the first visit. The completion of routine repairs has increased by 2.5% on the previous year with 91.5% of repairs completed within target. There are just 35 repairs (as at 16 May) past their target date for completion. For eight out of 12 months we achieved our target for the number of voids completed within time. The number of complaints received by repairs and maintenance was 58% lower than 2 years ago and 94% of complaints received a response within 10 working days.
- The gas servicing and gas repair service has also performed well. 100% of properties have a valid landlord gas safety record and gas servicing achieved 97% customer satisfaction.
- 2016/17 has been a positive year for the planned and major works services with the previous service improvements in terms of new structures, resources and contractor frameworks coming together to deliver significant volumes of work efficiently and effectively as possible. The external and internal painting programmes completed 100% of works and achieved 95% customer satisfaction. These works were delivered through a new contractor framework with two contractors.
- The volume of major works was less in 2016/17 and all kitchens, bathrooms and all but one of the roofs were completed to target. The window programme was 76.4% complete, with 81 out of 106 homes having new windows installed. Overall, 94% of major works were completed and customer satisfaction increased from 89% in 2015 to 97% in 2016.
- Our approach to asset management and stock investment is centred on the assessment of our stock condition. Our stock condition data is updated by our in house surveyor and also by the project teams following planned and investment works. We have good information on our properties, with 92% having been surveyed within the last 5 years. The remaining 8%, approximately 700 properties, will be surveyed by December 2017 and 100% of our properties will then have asset data which is robust and no more than 5 years old. This will feed into our financial business plans and improve the accuracy of our 30 year forecast.
- Income recovery and financial inclusion continued to be a key focus and are performing well. A new in-house arrears recovery monitoring and tracking system has been embedded this year, supporting an improvement in the arrears recovery approach. At the end of March 2017 net arrears (excluding housing benefit (HB) owing) and gross arrears (including HB owing) were lower than last year, and better than the targets for this year.
- This is set against an increasingly challenging environment due to the welfare reforms. The welfare benefits team has assisted 563 customers, collecting £0.5m in backdated housing benefit and a further £0.5m in other benefits. All new tenancies offered have an affordability check carried out to ensure residents have the means to afford their rent and running costs. This has ensured tenancies are sustainable.
- The housing service restructure is bedding in and there have been positive outcomes. The introduction of a new customer advice centre saw a significant increase in residents' ability to make contact with the right officer and is likely to have been a contributory factor in the overall increase in customer satisfaction. The new lettings service now sees coordinators taking entire ownership of the lettings process, making it more streamlined for customers and allowing improvements in our re-let times to continue.
- The average letting time for void properties reduced to 30 days as at 31 March 2016 against a target of 21 days. Overall performance has improved by 4.6 days on last year's performance. There were 12 new developments which were let within one day. Reducing void times in 2017/18 is a priority and we will be sharing experience and best practice across the new organisation and utilising any effective working practices, technology and tools.

Report of the Board of management

- Neighbourhood coordinators now spend 70% of their time in their designated neighbourhood and increased numbers of estate and property inspections have been completed. Supported by a tenancy solutions team with specialist knowledge, there has been a substantial increase in the number of vulnerable customers supported to sustain their tenancies, and a number of cases where enforcement action has seen a successful outcome to ongoing tenancy breaches.
- Performance with our estates services has improved, although customer satisfaction has not met our target. Satisfaction with the grounds maintenance contactor was 75% against a target of 80%. This is an increase in satisfaction of 6% on the previous year. Satisfaction with the cleaning service was 75% against a target of 90%.
- Resident scrutiny of services continued, with a focus on estate services. Service reviews were carried out on grounds maintenance, cleaning and financial inclusion. Actions from these inspections are monitored by the Customer Services Committee.

Capital programmes

Our new homes continue to achieve high standards of quality and customer satisfaction. Whilst we have benefitted from the continuation of rising house prices in our areas of operation, we also take care to develop new homes in localities where we know demand will be high and the product will be sustainable into the long term. Our capacity for future growth has been enhanced through the amalgamation with asra, and we have the ambition to play our part in meeting the national demand for additional homes – but without compromising our commitment to financial viability and stability.

The new homes we develop continue to delight our customers, with exceptional feedback on the quality and standard of finish. We pride ourselves on our design-led ethos and ability to deliver complex and technically demanding schemes which maximise the development potential of sites. We need these skills to ensure that we are competitive in areas where land values are high.

Changes to the wider business environment have not diminished our appetite for delivering more high quality homes, but we remain conscious of the risk to the property market post Brexit.

We have recognised the increasing cost of constructing new homes and are working with our supply chain to develop procurement options that will ensure we remain competitive despite increased cost pressures. We reviewed our Development strategy in 2015 and are seeing our approach bear fruit with an expansion in our operating areas and a broader range of developer partnerships. Whilst partnerships are key to what we do, we are looking at land banking and strategic land opportunities.

We continue to strengthen our development presence in London with 273 homes under contract at the year-end. Our work in Surrey remains an important part of our development programme and at the year-end we had 176 units on site, including a number of units for market rent. Growth in London and the South East is essential and we have progressed a number of opportunities that PA Housing will take forward from April 2017.

We have invested in our sales team to enable us to offer better services and deliver our growing shared ownership sales programme. This year saw 70 new shared ownership sales, with receipts of £11.3m. Given the need to generate cross-subsidy to support the development of affordable rented homes, the strength of our shared ownership sales programme is of particular significance. The year also saw a strong performance on shared ownership staircasing with £2.8m of receipts.

Right to Buy (RtB) activity slowed during the year with only 4 RtB completion in respect of the former Elmbridge stock.

We entered into contracts with the HCA and GLA in relation to the 2015-18 Affordable Homes Programmes, but have done so in a measured way that gives us significant control over risk and exposure. We initially contracted to deliver 302 homes with these agencies and have significantly exceeded this target and are on track to deliver all our contracted programme completions next year.

Report of the Board of management

Paragon submitted bids under the HCA and GLA 2016-21 programmes and will execute these new contracts early in the new financial year. We have maintained our relatively cautious approach and will look to advance these initial programmes through continuous market engagement.

Although the cost of raising new loan finance has been significantly reduced due to the bond, grant rates have declined drastically and we recognise the need to increase our ability to cross-subsidise the delivery of new rented housing. We continuously review the performance of our property assets and where these are not delivering the appropriate social or financial returns, we progress tenure change options, or disposal to create capacity for new investment elsewhere. We recognise that parameters used in the approval process for new developments need to be more commercially-based and we need to generate more cross-subsidy from market sales and market renting. The Investment Committee has been selective in its scheme approvals in relation to the affordable rent capital programmes.

Our development company, Paragon Development & Construction Services Limited, has played an important part in helping to deliver homes under the new GLA and HCA programmes, by significantly reducing development costs through supporting effective recovery of VAT on new developments.

Risk register

The following is an extract of the March 2017 Risk register together with the movement in the last year. The register was regularly reviewed and updated for both existing and new risks.

Separately, we undertook an annual risk assessment of the organisation against the Regulator's Sector Risk Profile. The results and actions arising from this were presented to the Board and shared with the Regulator.

Risk management

Paragon, in common with other housing associations, faced a variety of risks from a variety of sources. These risks included political risk, caused by changes in government policy, economic risk such as Brexit, and social change, such as increased numbers of elderly people.

The Board and ARC reviewed the Risk map and the mitigations below at each meeting.

Report of the Board of management

Paragon dynamic risk report

Risk was measured as a combination of likelihood and impact on strategy, operations, finances or stakeholder concerns. The likelihood and impact were combined to give an overall risk rating:

Major	Red	High risk - exposure which must have measures to mitigate risk and requires constant monitoring (by Board)
Moderate	Amber	Tolerable risk - exposure but must have periodic monitoring arrangements (by EMT)
Minor	Green	Acceptable risk - exposure but monitored
↑= increased risk ↔ = no change ↓= reduced risk/improved mitigation		

Risk – causes and outcomes	Mitigating actions	Residual risk	Change since 2016
Failure to deliver capital programmes Failure to deliver may lead to reputational damage and impact on the financial plan.	Arrangements for the completion of the final two schemes from the 2011-15 programme are in place. Paragon is committed to 302 units under the 2015-18 HCA and GLA programmes and has started 504, so it can meet all commitments with additional units available not just for these programmes, but also the 2016-21 programmes or other future programmes. Because of the impact of any failure to deliver, this will be monitored and reported routinely.	●	↔
Health and safety Failure to comply with health and safety requirements generally and particularly to deal with outstanding actions to address identified fire risks could lead to the safety of residents, contractors or employees being compromised. Paragon may also be exposed to reputational damage.	As a result of the investment in compliance and validated assurance, the Board considered this should be rated as green. All relevant matters are monitored by the Health and Safety Committee. In-house teams are responsible for Fire Risk Assessments (FRA), delivering programmes of work to deal with identified actions and water testing. Some, mainly low risk, FRA actions have been delayed. This significant issue is set out in the latest Mazars compliance review. The gas service is with PH Jones. This is reviewed by Internal Audit regularly. The most recent review found substantial assurance. Lifts are serviced in accordance with our policy and inspected annually by our insurers. The Asbestos register is 99% complete and all of the inspections required will be completed by the end of March.	●	↔

Report of the Board of management

Customer satisfaction Good customer satisfaction is a key goal. Satisfaction levels below target risk Paragon's reputation.	Customer satisfaction has improved in most areas and the trend is positive. Repairs and maintenance performance and customer satisfaction have progressively improved. February KPIs show 90% overall satisfaction with the Repairs service and 92% satisfaction with Gas repairs. Complaints have reduced but the satisfaction level is still below target. Satisfaction with the Housing management service is good in lettings and income recovery, but poor for important day-to-day services such as cleaning and grounds maintenance. Satisfaction with the Handyman service has been consistently excellent. Leaseholder satisfaction is improving as a result of recent action and is higher than many of our peers, but not good when benchmarked outside the sector. EMT is monitoring this closely as part of the delivery of the Corporate plan objectives.		↔
Business continuity A significant disaster impacting the office or infrastructure could lead to a breakdown of operational services and major disruption to customers and the business. Exposure to the effects of cyber-crime is a growing risk.	There is a Business continuity plan with responsibilities for EMT and managers. The IT Disaster recovery plan has been tested and found to perform satisfactorily. An alternative office location for disaster recovery is in place and a successful live disaster recovery test was undertaken in November 2015. Key members of staff worked from this office and were able to provide a core service to customers. At the beginning and end of the day, the out of hours' service ensured that emergencies were dealt with satisfactorily. The Mazars internal audit review reported to ARC in November 2016 found substantial assurance, with two housekeeping recommendations. These recommendations will be implemented by March 2017. The Head of ICT is providing a report on actions taken in relation to cyber-security.		↔

Report of the Board of management

Data quality Issues with data quality affected the production of some business intelligence information. This created inefficiencies which were impacting on customer services.	Data integrity is as an important sector-wide issue. Paragon recognised this in the context of the need to implement a number of significant projects and systems. The specialist Business Intelligence team oversees and drives the improvement of data integrity. Data Integrity has been reviewed as part of the annual internal audit plan and the latest review, reported in March 2016, found substantial assurance. The review scheduled for early 2017 was delayed in order to accommodate the Revaluation Validation.		↔
Political risk The risk arose from the change in the operating environment following the last General Election. The political climate has improved for housing since the change of Prime Minister and although the issues are manageable they still create a significant degree of uncertainty. 1% rent reduction 2016-19. Extension of the Right to Buy to all housing association tenants (vRtB). Further £12bn in welfare cuts and welfare reform.	Rent reduction Paragon has demonstrated that it can manage this and it is reflected in the financial plans. vRtB Full implementation now looks less likely although a further pilot programme may be undertaken. Welfare reform The impact has been mitigated through resource investment, financial plan adjustments and good communications. The lower benefit caps will affect approximately 150 residents. Affordability for single tenants under 35 will affect those who moved in after 1 April 2016 and are under 35 and single after April 2018. Universal Credit will be rolled out nationally by 2022; so far it affects very few residents. Further changes will be subject to focused planning and the impact of all of these will be monitored and further mitigations developed as necessary.		↔

Pay to Stay ONS decision to reclassify housing association borrowings as public debt. Brexit.	Pay to Stay This is now optional and not a requirement. ONS reclassification This will not affect Paragon in the short term. The Government intends that this is reversed through deregulatory measures that will be implemented in April but there is no timeframe for a further ONS review. Brexit Moody's changed the sector's outlook from stable to negative. Uncertainties may lead to a fall in house prices and a reduction in growth which could impact sales in the medium term. Further implications are emerging. An increase in the cost of imported raw materials a result of a fall in the value of the pound and a reduction in the supply of labour may affect construction. The Business plan is resilient and has been extensively stress tested against adverse changes in the economy, house prices and the financial markets. However, the issues relating to inflation and labour markets could disrupt the delivery of new homes.		
Recruitment and retention There have been recruitment and retention issues in a number of areas. These are generally in support services, technical and surveying although operational teams are also affected.	Actions continue to be taken to recruit and develop staff. EMT closely monitors this situation. The merger should resolve this issue in some areas.		↔

Merger implementation (previously Sector restructuring) Paragon and asra are amalgamating in order to achieve economies of scale, improve value for money and build development capacity. This has now had regulatory approval and is awaiting lenders' consent. A main risk will be not to disrupt 'business as usual' and to continue to implement other corporate objectives during integration. There is a specific risk of staff retention during the integration process, particularly in ICT.	The merger is about to go ahead so this risk is now rated as green. The risk going forward will be integration. There is a 'Go-Live' project group to ensure that all required actions are in place for when the merger is finalised. Lenders consent is still awaited. Staff in the back office teams have been notified of the proposal to relocate these functions to Leicester and that there will be a formal consultation exercise. If staff leave in the meantime they will be replaced by temporary resources where necessary.		↓

The Risk register reflects those key risks identified and monitored by the Board, ARC and EMT.

This Risk register was reviewed by the Paragon Board in March 2017 shortly before the formation of PA Housing. The PA Housing ARC has integrated this Risk register with the asra Housing Group Risk register and reviewed the approach to risk management to ensure that it is fit for purpose for the new larger entity.

The risks for PA Housing remain the same in the short term although as some of the political risks have become more of a known quantity they can be calibrated accordingly. For example, the uncertainty around 'pay to stay' has been reduced as the government confirmed that this remains optional rather than mandatory. Notwithstanding some relatively small positive changes, the overall political risk remains prominent because of the general election and the inherent uncertainty that this has created.

Stress testing and scenario analysis

As part of the annual business planning round, we tested the Business plan using the following:

- variable testing – flexing key variables based on historic movements
- stress testing – flexing each variable to establish the level at which it would 'break' the plan
- scenario testing – testing specific potential scenarios that involve a combination of variables such as a deflationary environment; and
- perfect storm – testing an extreme set of adverse variables

The results of these tests demonstrated that Paragon is equipped to be able to deal with all but the most severe economic and operational adverse conditions without major impact on its operations. However, we are aware that we must not be complacent and have identified mitigating actions that could be implemented in the event of an extreme adverse scenario.

Report of the Board of management

Mitigations

Despite Paragon's financial capacity and headroom, we regularly monitor a series of early warning triggers that could prompt the implementation of mitigating actions.

The nature of the event and its impact will determine the mitigating response, for example whether this is liquidity or performance. Mitigations include a reduced repairs programme – we have quantified the level of maintenance spend that could be deferred without breaching contracts or compromising our legal obligations. Other key mitigations include immediate reductions in non-core services, and the disposal of identified assets.

We maintain a separately identified pool of unencumbered and unrestricted properties that could be sold within a very short timeframe.

All of these mitigations have been planned with the financial savings modelled and timings prepared, supported by our Asset and liability register.

Grenfell Tower

Following the tragic fire at Grenfell Tower PA Housing has reviewed its immediate approach to fire safety in owned high rise blocks. This has included increasing the frequency of the inspection regime of the communal areas and introducing a zero tolerance approach to any items left in the communal areas. PA Housing has also carried out a review of the Fire Risk Assessment for each of its high rise blocks to ensure that any new risks are identified and then addressed.

We have also written to all residents in our high and low rise flats offering simple fire safety advice and offering to install smoke alarms free of charge if they are not already in place.

PA Housing has 4 blocks that are externally clad and though they all use different cladding and insulation materials to Grenfell Tower we are carrying out investigations to fully establish the materials used and their fire retardant qualities. We will then take appropriate further action as needed to ensure the safety of our residents.

As part of the formation of PA Housing a full review of all areas of compliance has already commenced which includes ensuring consistent policies, standards, procedures and monitoring of all compliance areas. Safety of customers is our priority and standards will be reviewed in light of the learning points from the Grenfell Tower.

PA Housing has sufficient financial resilience to meet these challenges and fund continued appropriate levels of investment in our properties. This will include ensuring that our new build properties meet all safety standards and do not compromise the safety of customers who will be living in them.

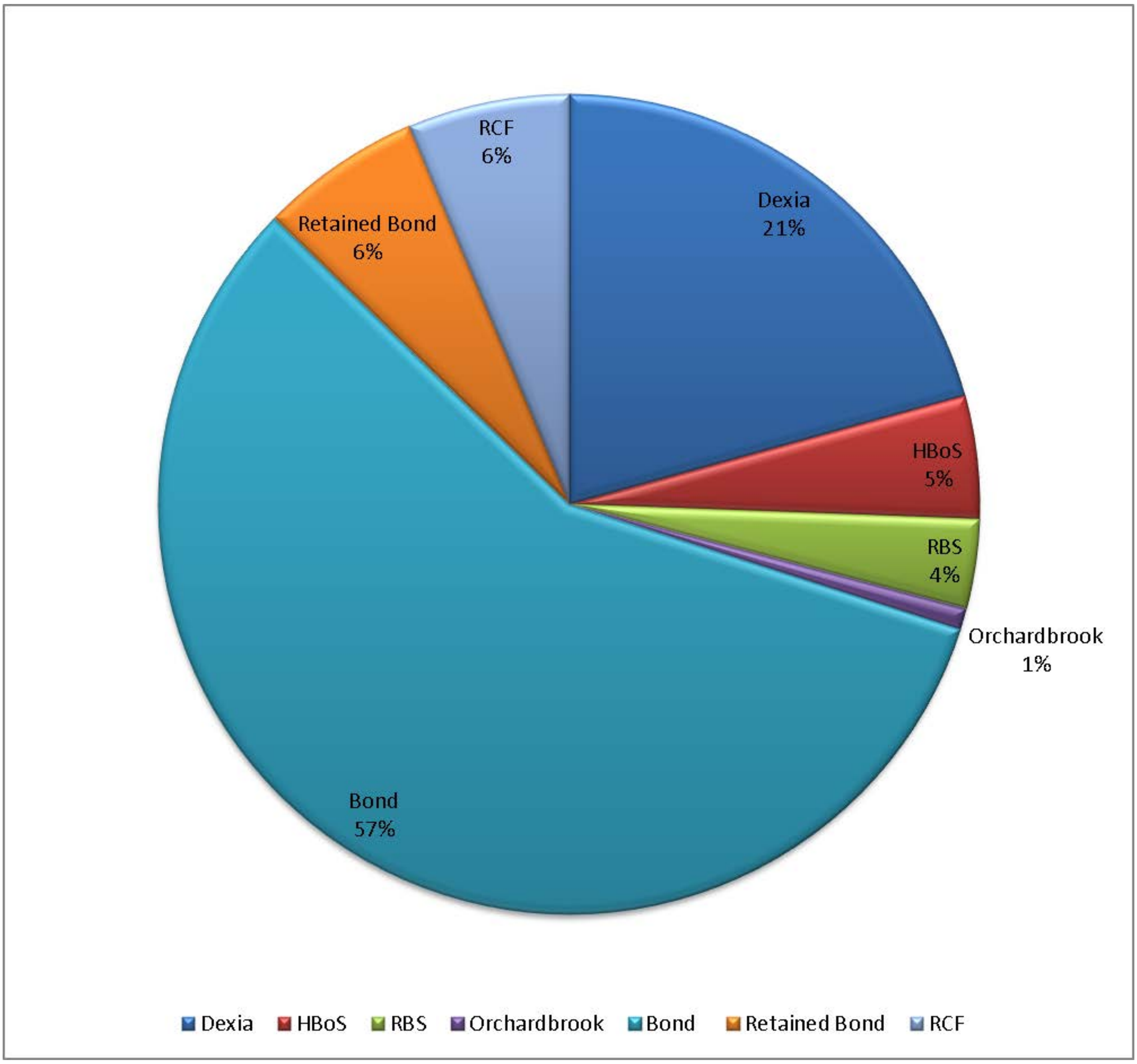
Report of the Board of management

Debt position and Treasury management policy

Following the bond issue and refinancing exercise in January 2015, there has been no further increase in borrowing. Term facilities are fully drawn and liquidity is maintained, with a mixture of cash and £25.0m Revolving credit facility (RCF); with a further £25.0m retained bond available for future drawdowns. £4.7m of capital loan repayments and a further £46.5m of amortising facilities will be repaid during the next five years (at transaction price).

All loan facilities are secured by Paragon property, with uncharged units available to securitise a further £140.0m of new facilities. Paragon does not have any financial instruments that require it to put aside cash or security to meet any shortfall in their value when compared to the open market price. 90% of loans were fixed at 31 March 2017, reducing to 89% by 2020.

The pie chart below shows the composition of total loan facilities by counterparty of which there is a £25.0m RCF facility available to be drawn down and a further £25.0m retained bond.



Report of the Board of management

We continued to update our Treasury management policy on at least an annual basis, reflecting changes within the organisation and the external environment and to reflect the latest guidance and best practice.

The policy is approved by the Board and addresses funding, the level of fixed rate debt, liquidity management, security, counterparty risk and covenant compliance.

Cash is invested in either bank deposits or money market funds with counterparties which match the requirements set out in the Treasury management policy. Cash invested at the 31 March 2017 was £54.0m.

As at 31 March 2017 we had three key bank funders: Dexia, Lloyds and RBS. All covenants were complied with during the year. The loan portfolio now totals (at transaction price) £392.5m and is fully secured, of which £50.0m remains undrawn (including £25.0m of retained bond funding).

	2017	**2016**
	£'m	**£'m**
Fixed	265.5	275.8
Cancellable	42.6	42.6
Variable	34.4	24.8
Total drawdown	342.5	343.2
Total facility	**392.5**	**393.2**

Our Business plan is fully funded and we have no expectation of raising additional funds in the next 12 months. We anticipate releasing the retained bond over the next 2-3 years, though this is subject to our development pipeline. The retained bond can be sold on the secondary markets at any point up to 21 January 2020.

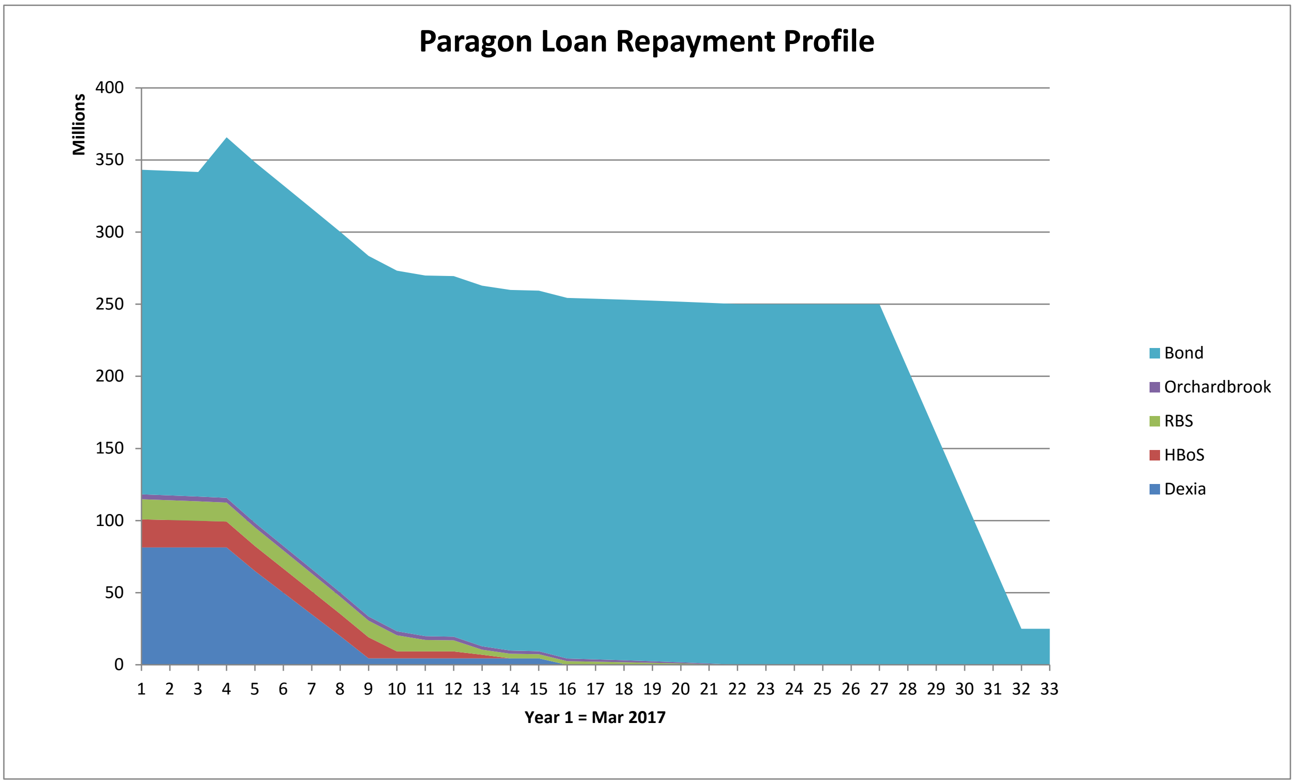
Of our total debt (at transaction price), £0.8m is repayable in 2018 and there is no significant refinancing risk with only 15% of the debt repayable during the next five years.

Our interest rate hedging policy means that we maintain a proportion of fixed rate and variable rate within limits specified in the Treasury management policy.

The Treasury management policy sets a target range for fixed rate debt of 75-90% +/-10%. As at 31 March 2017 our fixed element was 90%, which remains relatively steady over the next five years.

The vast majority of the fixed rate debt is as a result of the bond but we have also fixed £42.6m (12%) through embedded cancellable derivatives. We do not use stand-alone derivatives and were therefore not subject to any margin calls during the year. There is no intention to use stand-alone derivatives in the next twelve months.

Report of the Board of management



Credit rating

In December 2016 our credit rating was confirmed at A2 (negative) by Moody's Investor Services. The negative watch is in line with the rating for other registered providers and reflects the economic environment due to Brexit negotiations. Moody's has assigned an A2 negative rating to Paragon Asra Housing Limited, unchanged from the rating attributed to Paragon Community Housing Limited. The next rating review is due in the autumn of 2017.

Cash flows

Cash inflows and outflows during the year are shown in the Consolidated Statement of Cash Flows (page 46). The cash inflow from operating activities for the year to 31 March 2017 was £43.1m (2016 - £37.0m). The cash outflows from investing activities for the year was £36.8m (2016 - £64.1m) and £14.3m (2016 - £14.8m) for financing activities. Key drivers for these cash outflows included payments for construction works of £36.8m (2016 - £68.0m) and interest payments of £13.4m (2016 - £14.1m).

Current liquidity

The Group has cash of £59.9m (2016 - £67.9m) and additional available funds of £50.0m (2016 - £50.0m).

Report of the Board of management

Value for money

The second objective in our Corporate plan is to be a more effective and efficient organisation providing better homes and services. One of the main goals identified to deliver this is to 'achieve better value for money' (VfM). High importance is placed on this across the business, at both a strategic and operational level.

The four year rent reduction from 2016 has required us to reappraise our plans and address new challenges, including increasing our focus on VfM. One of the primary drivers of the merger is the need to deliver further VfM to achieve more for less in terms of both the building of much needed new affordable homes and the provision of services.

VfM is also a key area of attention for the Regulator, which requires all registered providers to produce an annual self-assessment of their performance against the HCA's VfM Standard. In June 2016 this standard was updated and the importance of the VfM self-assessment was reaffirmed.

PA Housing's VfM self-assessment can be found on our website https://asra.pahousing.co.uk/about-us/publications-policy-library/ and the HCA's VfM Standard can be found at www.gov.uk/government/organisations/homes-and-communities-agency

We believe that, to be a truly effective landlord, we need to consider VfM in everything we do, ranging from governance to the use of ICT systems to deliver cost-effective services. We compare and benchmark our performance with similar organisations to gain a better understanding of areas for improvement, both in terms of performance, customer satisfaction and costs of service delivery.

In identifying whether the organisation delivers VfM we traditionally look at:

I) how effective we have been in delivering outcomes;
II) efficiency in service delivery; and
III) economic factors

An effective landlord

We measure our effectiveness through a number of measures, the principal measures being:

- customer satisfaction
- numbers of people housed; and
- new homes completed

Customer service

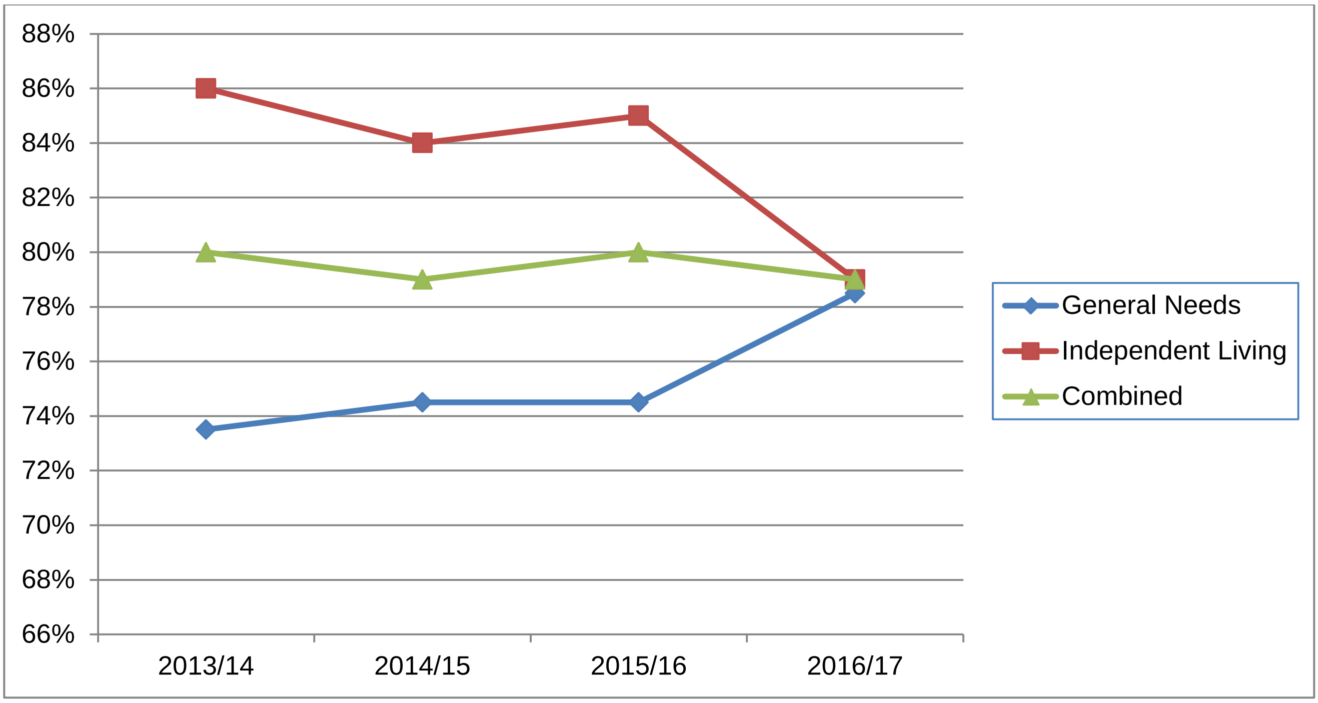
'Every customer matters' is the title of the Corporate plan, so improving and monitoring customer satisfaction is an important goal. The graph on the following page illustrates that overall satisfaction with our core service to general needs customers has shown a steady improvement since 2014 and reached 78% in 2016/17, 5% higher than in 2014. Top quartile performance in Paragon's HouseMark peer group is 85%.

Overall satisfaction for general needs and independent living (housing for older people) residents has reduced from 80% to 79%, mainly due to satisfaction of residents in independent living schemes reducing from 85.3% to 78.5%. The reasons are being investigated, but we believe these relate to grounds maintenance, cleaning services and repairs. Satisfaction with the support service provided by Paragon was at 83% of all residents, with only 6% dissatisfied.

Report of the Board of management

Paragon has monitored the satisfaction of different client groups. Satisfaction with the home ownership service and the overall customer experience with this service has been a priority. Satisfaction with the service is measured through Net Promoter Scores (NPS), which measure how likely it is a customer would recommend the service to a family member or friend. This is now significantly higher than at the start of the year, though there is still work to do. The service has been restructured, with a focus on improving communications with customers through the website and improving the management of service charges and the Section 20 process. Home owners' satisfaction with the repairs service is positive, with 86% overall satisfaction over the past twelve months.

Overall customer satisfaction trend 2013/14 to 2016/17



In 2016/17 Paragon built on the successful outcomes of its customer journey mapping work and developed the customer experience of its services. This was based on the development of a consistent set of values and the application of a 'Paragon Person' approach in the way we interact and communicate with customers. The satisfaction scores below show a steady improvement over the last three years in terms of VfM. Satisfaction with the repairs service has dipped a little in 2016/17, but this still represents top quartile performance in our peer group, at a median cost. Satisfaction with the service improved through the year with 90% satisfaction being reached for the first time in February 2017 and an overall satisfaction of 88% for the last three months of the year.

KPI	Paragon Performance 2016/17	Paragon Performance 2015/16	Paragon Performance 2014/15	Peer group value 2015/16
Satisfaction with repairs and maintenance	84%	86%	80%	76%
Satisfaction with neighbourhood	91%	87%	88%	84%
Satisfaction rent provides VfM	86%	82%	79%	82%
Satisfaction service charges provide VfM	75%	72%	71%	71%

Report of the Board of management

The table shows that satisfaction in the three other indicators has increased in 2016/17 and out-performs the 2015/16 median for Paragon's HouseMark peer group. The 2016/17 HouseMark comparisons are not available at the time of publication.

Number of people housed

Demand for Paragon properties across all client groups has remained strong in 2016/17. The table below provides information on lettings by type and category:

	Total	1st lets	General needs re-lets	Sheltered re-lets	Keyworker lets	Temporary accommodation lets	Other lets
No. of lets 16/17	499	48	264	109	6	57	15
Variance to lets 15/16	-119	-145	-18	+21	-7	+16	+3
% stock turnover 16/17	6.81%		4.29%	10.38%	4.87%	N/A	N/A
Variance to 16/17	-1.51%		-0.09%	+0.58	-5.70%		
			(GN stock total 6149)	(SH stock total 1050)	(KW stock total 123)		

The average time taken across all lettings increased from 24.8 to 29.7 days. This reflects the reduction in new homes developed for rent in 2016/17. These are usually let the day after handover. The re-let performance for minor works voids, which form the core of the lettings service, continued to improve to 32.2 days for 2016/17, a reduction of 2.4 days from 2015/16. This is a priority for improvement in 2017/18 and work has been done to identify the 25% of voids that fail to meet the lettings target and steps will be taken to address this. A disproportionate number of these properties are independent living properties for older people.

New homes completed

To be a truly effective landlord, we need to add to our housing stock, replacing any homes lost through the Right to Buy scheme and addressing the significant shortage of affordable homes in and around London.

In 2016/17, 124 new homes were completed. Over the past three years we have completed 631 new homes: 382 homes for rent and 249 shared ownership homes, and we have 514 new homes on site.

An efficient landlord

Rental income is regulated, and the Government requires a 1% reduction in rents for four years from 1 April 2016 for the vast majority of our homes. Therefore, improving efficiency in service delivery and rent collection is a high priority. We seek to maximise our income from rents and service charges. Paragon has a dedicated financial inclusion service that supports residents into training as well as offering welfare benefit advice to maximise residents' incomes. A particular focus has been working with households impacted by welfare reform changes and in particular the roll-out of Universal Credit over the coming twelve months.

Report of the Board of management

Last year we collected 99.6% of the rent due, a small increase from 99.4% the year before. After taking into account housing benefit direct (HBD) payments due from local authorities, net arrears were 1.34%, well below our peer group average and a reduction from 1.44% in 2015/16. Rents lost due to empty homes in management were just above target at 0.84%, a small increase from 0.77% in 2015/16. There were 45 empty homes at the end of March 2017 and the majority of these were in the normal lettings process.

Expenditure on the main operational areas remains a focus for seeking efficiencies. The trend over the past five years has been as follows:

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Management costs	9.9	11.5	12.3	12.7	11.0
Leaseholder service charges	5.4	4.8	5.7	4.4	4.6
Maintenance	5.9	6.1	6.7	8.2	8.3
Planned maintenance	4.0	3.9	7.1	6.7	6.6
Interest charges	10.8	9.5	14.7	8.9	8.2

Note: 2015/16 and 2016/17 numbers can be found in note 4 to the accounts. From 2015/16 onwards all maintenance related figures include the associated staffing costs.

The high management costs in 2015/16 included a charge of £1.6m for the restatement of the SHPS pension scheme liability. Pension arrangements were simplified in the prior year, with all employees migrated to a single provider on a defined contribution basis, to help to manage future pension liabilities.

The increase in maintenance costs from 2015/16 onwards is due to the reallocation of staffing costs to the correct service, where previously they were allocated to housing management costs. The higher level of planned maintenance costs over the past three years reflects the larger volumes of work to catch up on relatively lower volumes in earlier years.

An economic landlord

In considering VfM, we look at economic indicators, such as how the management cost per property is changing within the context of the services offered, customer satisfaction and in comparison with similar landlords.

The table below shows our self-assessment of performance against key indicators produced by HouseMark.

Operation	Paragon 2017	Paragon 2016
Operating margin *	37.1%	33.2%
Current net rent arrears (not including HBD owing)	1.34%	1.44%
Lost rent due to empty units	0.84%	0.77%

*****The operating margin is calculated excluding the surplus/(deficit) on disposals of fixed assets.

This shows that operating margins remain strong and above the peer group median of 33.1%. The net rent arrears figure is impressive against the peer group median of 2.34%. Lost rent due to empty units has marginally increased year on year, but demand for our propertries remains high and our processes to turnaround empty properties are operating well.

Report of the Board of management

Operation	Paragon 2015/16	Paragon 2014/15	HouseMark Peer Group 2015/16*
Housing management costs per unit	£531	£646	£499
Total responsive maintenance cost per unit-revenue	£898	£1,055	£875
Total planned maintenance costs per unit	£7,077	£5,369	£7,137

*Benchmark figures for 2017 will not be available until the autumn.

The benchmark figures above show that housing management costs per unit are slightly higher than our peers, largely due to the costs incurred operating in the London environment. Similarly, the benchmark costs per unit for responsive maintenance were at just above the median. The planned maintenance costs have increased significantly in 2016/17 to reflect the volumes of work carried out, but benchmark well against the peer group.

Paragon's peer group is made up of 30 organisations of a broadly similar size and operating in South/South East of England, and to an extent in London, though most of the organisations do not have a significant London operation.

Return on assets

It is important that Paragon protects the quality of its assets by keeping them well maintained and desirable for future customers, in order to maximise the return on our asset base. This will create capacity to build more affordable homes.

The table below sets out our gross yield for 2017.

Tenure	EUV £'m	MV-VP £'m	Rental income £'m	Gross yield 2017	Operating surplus £'m
General needs	437	1,860	35	1.9%	13
Affordable rent	113	361	9	2.5%	6
Shared ownership	55	196	4	1.8%	1
Supported housing & housing for older people	92	375	9	2.4%	2
Keyworker & other	12	27	1	4.8%	-
Social housing lettings	709	2,819	58	2.1%	22

Note: The EUV and MV-VP were from external valuations as at 31 March 2016.

Report of the Board of management

Gross yield achieved by assets is calculated using rental income over market value. The yield of 2.1% achieved by the social housing assets is in line with the sector and will be a key indicator as part of monitoring improvements to VfM.

The small market-rented portfolio's average yield of 5% is in line with yields being achieved in outer London, but as this portfolio grows, we will expect to see these assets making a higher return.

The reduction in rents over the next four years has been considered in the EUV valuation and has had no material impact on the valuation.

Operating margins for our social housing stock are improving and are better than the median for comparable associations, but we recognise the need to continue to improve margins.

The Report of the Board was approved by the Board on 21 July 2017 and signed on its behalf.

John Cudd
Board member

Independent auditor's report to the members of Paragon Community Housing Limited

We have audited the financial statements of Paragon Community Housing Limited for the year ended 31 March 2017 which comprise the consolidated and association Statement of Comprehensive Income, the consolidated and association Statement of Financial Position, the consolidated statement of reserves, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102, the financial reporting standard applicable to the UK and the Republic of Ireland.

This report is made solely to the association's members, as a body, in accordance with the Housing and Regeneration Act 2008 and Section 87 of the Co-operative and Community Benefit Societies Act 2014. 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.

Respective responsibilities of the Board and auditors

As explained more fully in the statement of Board member responsibilities, the Board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and parent association's affairs as at 31 March 2017 and of the Group's and 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 Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012.

Independent auditor's report to the members of Paragon Community Housing Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the parent association, or returns adequate for our audit have not been received from branches not visited by us; or
- a satisfactory system of control has not been maintained over transactions; or
- the parent association financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

BDO LLP

BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom

01/08/17.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated and Association Statement of Comprehensive Income for the year ended 31 March 2017

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Turnover	3	71,842	70,672	71,903	70,812
Cost of sales	3	(5,871)	(6,888)	(5,871)	(6,888)
Operating costs	3	(39,333)	(40,309)	(39,325)	(40,297)
Surplus/(deficit) on disposal of fixed assets	3,9	1,599	(136)	1,599	(136)
Operating surplus	3,10	28,237	23,339	28,306	23,491
Interest receivable and similar income	11	269	389	267	389
Interest and financing costs	12	(8,217)	(8,850)	(8,217)	(8,850)
(Deficit)/surplus on disposal of investment properties		(114)	849	(114)	849
Movement in fair value of investment properties	16	454	745	454	745
Gift aid		-	-	-	422
Surplus before taxation		20,629	16,472	20,696	17,046
Taxation on surplus	13	(4)	-	-	-
Surplus for the financial year		20,625	16,472	20,696	17,046
Actuarial (losses)/gains on defined benefit pension scheme	29	(847)	1,128	(847)	1,128
Total comprehensive income for the financial year		19,778	17,600	19,849	18,174

All amounts relate to continuing activities.

The notes on pages 47 to 86 form part of these financial statements.

Consolidated and Association Statement of Financial Position as at 31 March 2017

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Fixed assets					
Tangible fixed assets – housing properties	14	677,856	656,690	673,258	652,224
Tangible fixed assets – other	15	5,791	5,898	5,791	5,898
Investment properties	16	7,653	4,525	7,653	4,525
Investments – other	17	-	-	13	13
		691,300	667,113	686,715	662,660
Current assets					
Stocks	18	14,748	16,817	14,748	16,817
Debtors	19	3,264	5,212	8,984	4,445
Cash and cash equivalents		59,902	67,924	59,179	67,612
		77,914	89,953	82,911	88,874
Creditors: amounts falling due within one year	20	(20,686)	(28,058)	(20,686)	(22,185)
Net current assets		57,228	61,895	62,225	66,689
Total assets less current liabilities		748,528	729,008	748,940	729,349
Creditors: amounts falling due after more than one year	21	(375,454)	(377,139)	(375,454)	(377,139)
Provisions for liabilities	28	(616)	-	(616)	-
Net assets excluding pension liability		372,458	351,869	372,870	352,210
Pension liability	29	(1,517)	(706)	(1,517)	(706)
Net assets		370,941	351,163	371,353	351,504
Capital and reserves					
Called up share capital	30	-	-	-	-
Income and expenditure reserve		123,864	102,212	124,276	102,553
Revaluation reserve		247,077	248,951	247,077	248,951
		370,941	351,163	371,353	351,504

The financial statements were approved by the Board and authorised for issue on 21 July 2017.

John Cudd
Board member

Marion Hall
Company Secretary

Curtis Juman
Board member

The notes on pages 47 to 86 form part of these financial statements.

Consolidated Statement of Changes in Reserves for the year ended 31 March 2017

	Income and expenditure reserve	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1 April 2016	102,212	248,951	351,163
Surplus for the year	20,625	-	20,625
Actuarial losses on defined benefit pension scheme	(847)	-	(847)
Reserves transfers:			
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	935	(935)	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	939	(939)	-
Balance at 31 March 2017	123,864	247,077	370,941

Consolidated Statement of Changes in Reserves for the year ended 31 March 2016

	Income and expenditure reserve	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1 April 2015 as previously stated	84,603	251,164	335,767
Prior period adjustment	(2,152)	(52)	(2,204)
Balance at 1 April 2015 as restated	82,451	251,112	333,563
Surplus for the year	16,472	-	16,472
Actuarial gains on defined benefit pension scheme	1,128	-	1,128
Reserves transfers:			
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,423	(1,423)	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	738	(738)	-
Balance at 31 March 2016	102,212	248,951	351,163

Following a review of construction costs previously incurred, an adjustment has been made to the allocation of costs to phases of a scheme which adopted deemed cost as at 31 March 2014. The impact has been a reduction to opening reserves.

Association Statement of Changes in Reserves for the year ended 31 March 2017

	Income and expenditure reserve £'000	Revaluation reserve £'000	Total £'000
Balance at 1 April 2016	102,553	248,951	351,504
Surplus for the year	20,696	-	20,696
Actuarial losses on defined benefit pension scheme	(847)	-	(847)
Reserves transfers:			
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	935	(935)	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	939	(939)	-
Balance at 31 March 2017	124,276	247,077	371,353

Association Statement of Changes in Reserves for the year ended 31 March 2016

	Income and expenditure reserve £'000	Revaluation reserve £'000	Total £'000
Balance at 1 April 2015 as previously stated	84,370	251,164	335,534
Prior period adjustment	(2,152)	(52)	(2,204)
Balance at 1 April 2015 as restated	82,218	251,112	333,330
Surplus for the year	17,046	-	17,046
Actuarial gains on defined benefit pension scheme	1,128	-	1,128
Reserves transfers:			
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,423	(1,423)	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	738	(738)	-
Balance at 31 March 2016	102,553	248,951	351,504

Following a review of construction costs previously incurred, an adjustment has been made to the allocation of costs to phases of a scheme which adopted deemed cost as at 31 March 2014. The impact has been a reduction to opening reserves.

Consolidated Statement of Cash Flows
for the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Surplus for the financial year		20,625	16,472
Adjustments for:			
Depreciation of fixed assets - housing properties	4	4,985	5,919
Accelerated depreciation on replaced components	4	58	229
Depreciation of fixed assets – other	15	520	628
Amortised government grants	4	(317)	(54)
Interest payable and financing costs	12	8,217	8,850
Interest receivable and similar income	11	(269)	(389)
Movement in fair value of investment properties	16	(454)	(745)
Impairment charge/(reversal)	14	1,200	(138)
(Surplus)/deficit on sale of fixed assets - housing properties	9	(1,599)	136
Deficit/(surplus) on sale of investment properties		114	(849)
Proceeds from sale of fixed assets net of selling costs – housing properties	9	5,244	7,805
Decrease in trade and other debtors		2,086	1,513
Decrease/(increase) in stocks		2,069	(6,583)
(Decrease)/increase in trade and other creditors		(10)	4,233
Increase in provisions		616	-
Cash from operations		43,085	37,027
Taxation paid	13	-	-
Net cash generated from operating activities		43,085	37,027
Cash flows from investing activities			
Purchase of fixed assets – housing properties	14	(36,823)	(67,987)
Purchase of fixed assets – other	15	(413)	(586)
Proceeds from sale of fixed assets net of selling costs – investment properties		-	1,697
Grant received	22	200	2,413
Interest received	11	259	389
Net cash from investing activities		(36,777)	(64,074)
Cash flows from financing activities			
Interest paid	12	(13,441)	(14,090)
Other financing costs		(141)	(140)
Repayment of loans - bank	25	(748)	(613)
Net cash used in financing activities		(14,330)	(14,843)
Net decrease in cash and cash equivalents		(8,022)	(41,890)
Cash and cash equivalents at beginning of the year		67,924	109,814
Cash and cash equivalents at end of the year		59,902	67,924

The notes on pages 47 to 86 form part of these financial statements.

Notes forming part of the financial statements

1. Accounting policies

On 13 April 2017 Paragon Community Housing Limited amalgamated with asra Housing Association Limited and Leicester Housing Association Limited, to create Paragon Asra Housing Limited. Until that date the 'Association' was registered with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and was registered with the Homes and Communities Agency as a social housing provider. Paragon was a public benefit entity incorporated in the United Kingdom.

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice), which for Paragon Community Housing Limited includes the Co-operative and Community Benefit Societies Act 2014 (and related Group accounts regulations), FRS 102 'the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (September 2015), the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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

Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent company would be identical;
- no cash flow statement has been presented for the parent company.

The following principal accounting policies have been applied:

1.1 Basis of consolidation

The consolidated financial statements present the results of Paragon Community Housing Limited and its subsidiaries ('Group') as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. A list of subsidiary undertakings of the Association is included in note 17.

1.2 Business combinations

Business combinations in prior years used the merger accounting method, whereby the results and cash flows of all the combining entities were included in the financial statements of the newly formed entity from the beginning of the financial period in which the merger occurred (and in the comparative numbers). In the Statement of Financial Position, the assets and liabilities of the parties to the combination were not adjusted to fair value.

1.3 Going concern

Paragon's business activities, its current financial position and factors likely to affect its future developments are set out within the Strategic Report. Paragon has in place long-term borrowing facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the Group's day to day operations. Paragon has a long term business plan which shows it is able to service debt facilities whilst continuing to comply with lenders' covenants. On this basis, the Board has a reasonable expectation that Paragon has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Notes forming part of the financial statements

1. Accounting policies

1.4 Value Added Tax

Paragon charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by Paragon and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

Notes forming part of the financial statements

2. Judgments in applying accounting policies and key sources of estimation

In preparing these financial statements, key judgments have been made in respect of the following:

- Impairment
  Factors taken into consideration in reaching the decision whether there are indicators of impairment of Paragon's tangible assets were:
  - Evidence from the governance monitoring of schemes throughout the planning and construction stage, including supplier and contractor viability issues, site contamination and major enabling works.
  - Evidence of changes from financial monitoring of scheme performance from its inception (in terms of IRR, NPV analysis and comparison of spend to budget) until the economic benefits are realised to Paragon.
  - Evidence from the Asset Management team for completed schemes under management, including works required from stock condition surveys, identification of obsolescence and circumstances such as long term voids.
  - Changes in political and other macro-economic environment with direct or indirect impact on the asset and the expected future financial performance of the asset. This would include a change in government policy, a reduction in market value of a property where a resident has a right to acquire and a reduction in the demand for a property.

  Triggers for impairment have been identified for specific cash generating units and an impairment review has been performed and further detail is provided in note 14. The trigger of the one percent per annum social housing rent reduction until 2019/20 is not considered to be a new event for impairment purposes and a full impairment review was performed in the prior year.

- Recoverability of the cost of properties for sale
  The anticipated cost to complete on a development scheme is based on anticipated construction costs, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete the recoverability of the cost of properties for sale is then determined. This judgment is also based on the best estimate of sales value based on economic conditions within the area of development. The source of these calculations are taken from internal investment appraisals produced from the knowledge and experience of the Development team and reviewed and approved by the Investment Committee.

- Defined benefit pension obligation
  The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation have the ability to significantly influence the value of the liability recorded and the annual defined benefit expense. Underlying assumptions include the standard rates of inflation, mortality, discount rate and anticipated future salary and pension increases. A reduction of 0.5% to the 31 March 2017 discount rate applied would increase the defined benefit obligation by approximately 9% with a monetary increase of £1,282,000. An increase of 0.5% to the 31 March 2017 pension increase rate applied would increase the defined benefit obligation by approximately 9% with a monetary increase of £1,275,000.

- Allocation of costs for mixed tenure developments
  If cost is not identifiable to a specific tenure, an allocation of costs is made based on proportion of floor area.

- Allocation of shared ownership costs between current and fixed assets
  The allocation is calculated based on the estimated first tranche sales percentage from the schemes investment appraisal.

- Categorisation of fixed assets
  The categorisation of fixed assets as housing properties, investment properties and other fixed assets is based on the use of the asset.

- Basis of capitalisation for projects
  Costs capitalised include direct staff costs and associated costs of development. Indirect central costs incurred are capitalised and estimated based on the costs that would not have been incurred had there been no development. Decisions on whether to capitalise costs include, whether income will be generated or increased and if the life of the assets is extended.

Notes forming part of the financial statements

2. Judgments in applying accounting policies and key sources of estimation

Other key sources of estimation uncertainty are:

- Tangible fixed assets (see note 14 and 15)
  Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as information surrounding the condition of the asset, annual stock survey results, historic investment, resident feedback, comparative information such as Decent Homes Standards and future use of the asset are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

  For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components. During the year the useful economic lives of components were reassessed and amended (see note 14).

- Investment properties (see note 16)
  Investment properties are professionally valued annually using a yield methodology. This uses market rental values capitalised at a market capitalisation rate. There is an inevitable degree of judgment involved in that each property is unique and value can only ultimately be reliably tested in the market itself. Key inputs into the most recent valuations at 31 March 2017 were:

  - Rental arrears (see note 19)
  - Yields (6.5% for commercial properties and an average of 5% for market rented properties)
  - Location and condition of the property
  - Redevelopment opportunities

- Rental and other trade receivables (see note 19)
  The estimate for receivables relates to the recoverability of the balances outstanding at the reporting date. A review is performed on an individual debtor basis to consider whether each debt is recoverable. For rental related balances, experience shows that the longer a debt is outstanding the greater likelihood it is that the debt will not be recovered in full. A sliding scale of impairment of the carrying value of the debt is applied according to the relationship between the individual amount of the debt and the weekly charges for occupation of the home.

  - 0% - within 5 weeks worth of weekly charges
  - 10% - greater than 5 weeks but less than 10 weeks
  - 25% - greater than 10 weeks but less than 15 weeks
  - 50% - greater than 15 weeks but less than 20 weeks
  - 75% - greater than 20 weeks

  Experience shows that debt is less likely to be recovered from former residents than it is from current residents and therefore each former resident's debt is provided in full.

  Other debtors are provided on a case by case basis when evidence of impairment exists. When assessing impairment management consider factors including current credit rating of the debtor, the ageing profile of debtors and historic experience of cash collection and future expected losses.

- Apportionment of costs on a property basis for disposal of properties.
  The allocation of costs not assigned to a specific property is based on proportion of floor area of the property.

- Project feasibility
  Feasibility of a project is reviewed on a monthly basis with reference to hurdle tests (using net present value and profit margin calculations) at a tenure and location level.

- Variable forward interest rates
  The estimates for variable forward interest rates used for the amortised cost calculations of basic financial instruments are based on the current LIBOR rate.

Notes forming part of the financial statements

3. Turnover, cost of sales, operating costs and operating surplus

Policies

Turnover

Turnover is measured at the fair value of the consideration received or receivable. Paragon generates the following material income streams:

- Rental income receivable (after deducting lost rent from void properties available for letting)
  Rental income is recognised from the point when properties under development reach practical completion and are formally let. For schemes managed by agents, income is shown as rent receivable and management fees payable to agents are included in operating costs.

- Charges for support services
  Paragon receives supporting people grants from a number of London boroughs and county councils. The grants received in the period, as well as costs incurred by Paragon in the provision of support services, have been included in the Statement of Comprehensive Income. Any excess of cost over the grant received is borne by Paragon where it is not recoverable from tenants.

- Service charge income
  Paragon adopts both the variable and the fixed methods for calculating and charging service charges to its tenants and leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

- Management services
  Management fees receivable and reimbursed expenses are shown as income and included in management services. Costs of carrying out the management contracts and rechargeable expenses are included in operating costs.

- First tranche sales of low-cost home ownership housing properties developed for sale
  Income from first tranche sales is recognised at the point of legal completion of the sale.

- Proceeds from the sale of land and property
  Income from asset disposals is recognised at the point of legal completion of the sale.

Operating segments

There are publically traded securities within Paragon and therefore there is a requirement to disclose information about the Group operating segments under IFRS 8. Segmental information is disclosed in this note and as part of the analysis of housing properties in note 14. Information about income, expenditure and assets attributable to material operating segments is presented on the basis of the nature and function of housing assets held by the Group rather than by geographical location. As permitted by IFRS 8 this is appropriate on the basis of the similarity of the services provided, the nature of the risks associated, the type and class of customer and the nature of the regulatory environment across all of the geographical locations in which Paragon operates. The Board does not routinely receive segmental information disaggregated by geographical location or segmental information of income or costs below operating surplus.

Notes forming part of the financial statements

3. Turnover, cost of sales, operating costs and operating surplus

Group	2017 Turnover £'000	2017 Cost of sales £'000	2017 Operating costs £'000	2017 Surplus/(deficit) on disposal of assets £'000	2017 Operating surplus/ (deficit) £'000
Social housing lettings (note 4)	60,063	-	(38,118)	-	21,945
Other social housing activities					
Development services	-	-	-	-	-
Management services	94	-	(151)	-	(57)
First tranche low cost home ownership sales	11,272	(5,871)	-	-	5,401
Right to buy sales	-	-	-	(155)	(155)
Staircasing on low cost home ownership sales	-	-	-	962	962
	11,366	(5,871)	(151)	807	6,151
Non-social housing activities					
Market sales	-	-	-	792	792
Other	413	-	(1,064)	-	(651)
Total	71,842	(5,871)	(39,333)	1,599	28,237

Group	2016 Turnover £'000	2016 Cost of sales £'000	2016 Operating costs £'000	2016 Surplus/(deficit) on disposal of assets £'000	2016 Operating surplus/ (deficit) £'000
Social housing lettings (note 4)	58,722	-	(39,610)	-	19,112
Other social housing activities					
Development services	192	-	(96)	-	96
Management services	48	-	(175)	-	(127)
First tranche low cost home ownership sales	11,456	(6,888)	-	-	4,568
Right to buy sales	-	-	-	(333)	(333)
Staircasing on low cost home ownership sales	-	-	-	983	983
	11,696	(6,888)	(271)	650	5,187
Non-social housing activities					
Market sales	-	-	-	(786)	(786)
Other	254	-	(428)	-	(174)
Total	70,672	(6,888)	(40,309)	(136)	23,339

Income and expenditure streams for the prior year, have been represented for consistency with the current year. The total of each column has not changed.

Notes forming part of the financial statements

3. Turnover, cost of sales, operating costs and operating surplus

Association	2017 Turnover £'000	2017 Cost of sales £'000	2017 Operating costs £'000	2017 Surplus/(deficit) on disposal of assets £'000	2017 Operating surplus/ (deficit) £'000
Social housing lettings (note 4)	60,063	-	(38,118)	-	21,945
Other social housing activities					
Development services	-	-	-	-	-
Management services	155	-	(143)	-	12
First tranche low cost home ownership sales	11,272	(5,871)	-	-	5,401
Right to buy sales	-	-	-	(155)	(155)
Staircasing on low cost home ownership sales	-	-	-	962	962
	11,427	(5,871)	(143)	807	6,220
Non-social housing activities					
Market sales	-	-	-	792	792
Other	413	-	(1,064)	-	(651)
Total	71,903	(5,871)	(39,325)	1,599	28,306

Association	2016 Turnover £'000	2016 Cost of sales £'000	2016 Operating costs £'000	2016 Surplus/(deficit) on disposal of assets £'000	2016 Operating surplus/ (deficit) £'000
Social housing lettings (note 4)	58,722	-	(39,610)	-	19,112
Other social housing activities					
Development services	192	-	(96)	-	96
Management services	188	-	(163)	-	25
First tranche low cost home ownership sales	11,456	(6,888)	-	-	4,568
Right to buy sales	-	-	-	(333)	(333)
Staircasing on low cost home ownership sales	-	-	-	983	983
	11,836	(6,888)	(259)	650	5,339
Non-social housing activities					
Market sales	-	-	-	(786)	(786)
Other	254	-	(428)	-	(174)
Total	70,812	(6,888)	(40,297)	(136)	23,491

Income and expenditure streams for the prior year, have been represented for consistency with the current year. The total of each column has not changed.

Notes forming part of the financial statements

4. Income and expenditure from social housing lettings

Group and Association	General needs £'000	Affordable rent £'000	Shared ownership £'000	Supported housing and housing for older people £'000	Key worker and other £'000	Total 2017 £'000	Total 2016 £'000
Turnover from lettings							
Rents net of identifiable service charges	34,118	8,769	2,415	6,473	1,199	52,974	51,307
Charges for support services	-	-	-	331	-	331	294
Service charge income	1,431	1	1,043	2,151	107	4,733	4,329
Amortised government grants	16	180	119	2	-	317	54
Net rents receivable	35,565	8,950	3,577	8,957	1,306	58,355	55,984
Placement fees	-	-	-	-	-	-	831
Other income	76	-	815	703	114	1,708	1,907
Income from social housing lettings	35,641	8,950	4,392	9,660	1,420	60,063	58,722
Expenditure on lettings							
Management	(6,056)	(1,434)	(909)	(2,356)	(206)	(10,961)	(12,677)
Service charge costs	(2,119)	(180)	(766)	(1,426)	(143)	(4,634)	(4,361)
Care and support costs	-	-	-	(128)	-	(128)	(800)
Routine maintenance	(5,636)	(547)	(117)	(1,636)	(363)	(8,299)	(8,242)
Planned maintenance	(4,551)	(328)	(388)	(1,253)	(119)	(6,639)	(6,701)
Rent losses from bad debts	(285)	(128)	(95)	(63)	(58)	(629)	(186)
Depreciation on housing properties	(3,127)	(744)	(350)	(692)	(72)	(4,985)	(5,919)
Depreciation on replaced components	(55)	(2)	-	(1)	-	(58)	(229)
Depreciation on other fixed assets	(293)	(59)	(27)	(97)	(9)	(485)	(593)
Impairment	(695)	-	(505)	-	-	(1,200)	138
Other costs	(60)	(15)	(7)	(16)	(2)	(100)	(40)
Operating costs for social housing lettings	(22,877)	(3,437)	(3,164)	(7,668)	(972)	(38,118)	(39,610)
Operating surplus on social housing lettings	12,764	5,513	1,228	1,992	448	21,945	19,112
Rent losses from voids	768	79	-	232	98	1,177	1,152

Income and expenditure streams for the prior year, have been represented for consistency with the current year.

Notes forming part of the financial statements

5. Units of stock

Group and Association	2017 Number	2016 Number
General needs housing:		
- social	5,085	5,104
- affordable	883	811
Low cost home ownership	661	618
Supported housing	38	39
Keyworker accommodation	107	123
Housing for older people	1,038	1,050
Total social housing units	7,812	7,745
Temporary housing	26	36
Market rent	25	12
Leaseholder properties	950	1,060
Total owned	8,813	8,853
Accommodation managed for others	10	41
Total managed accommodation	8,823	8,894
Accommodation managed by others	227	236
Total owned and managed accommodation	9,050	9,130
Commercial units	3	13
Garages and parking spaces	1,562	1,556
Units under construction	446	540

Notes forming part of the financial statements

6. Employees

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Staff costs (including Executive Management Team) consist of:				
Wages and salaries	6,448	7,140	6,448	7,140
Social security costs	667	694	667	694
Cost of defined benefit scheme	-	150	-	150
Cost of defined contribution scheme	531	316	531	316
Pension deficit reduction charge	20	1,679	20	1,679
	7,666	9,979	7,666	9,979

The average number of employees (including Executive Management Team) expressed as full time equivalents (calculated based on a standard working week of 35 hours) during the year was as follows:

	Group 2017 Number	Group 2016 Number	Association 2017 Number	Association 2016 Number
Housing and administration	160	164	160	164
Development	12	12	12	12
Support and care	18	33	18	33
	190	209	190	209

The number of staff (including Executive Management Team) earning £60,000 or more during the year was as follows:

	Group 2017 No.	Group 2016 No.	Association 2017 No.	Association 2016 No.
£60,000 - £69,999	7	6	7	6
£70,000 - £79,999	-	-	-	-
£80,000 - £89,999	1	1	1	1
£90,000 - £99,999	-	-	-	-
£100,000 - £109,999	-	-	-	-
£110,000 - £119,999	-	3	-	3
£120,000 - £129,999	3	-	3	-
£130,000 - £139,999	-	1	-	1
£140,000 - £149,999	-	1	-	1
£150,000 - £159,999	1	-	1	-

Notes forming part of the financial statements

7. Directors' emoluments and expenses

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Executive Management Team's emoluments	540	683	540	683
Amounts payable to non-executive directors	77	85	77	85
Contributions to pension schemes	59	53	59	53
	676	821	676	821

The total amount payable to the Chief Executive, who was also the highest paid director, in respect of emoluments was £158,000 (2016 - £148,000). No pension contributions (2016 - £16,000) were made to his defined benefit scheme. As a member of the SHPS pension scheme, the pension entitlement of the Chief Executive is identical to those of other members in the scheme.

Five (2016 – five) of the Executive Management Team accrued benefits under Paragon's defined contribution scheme. Non-executive directors do not accrue any benefits under the pension scheme.

Amounts paid to third parties in respect of Executive Management Team services was £94,000 (2016 - £nil) during the year for the Group and Association.

8. Board members

Non-Executive Board member	Remuneration £	Member of: Audit & Risk Committee	Investment Committee	Nomination & Remuneration Committee	Customer Services Committee	Board
E Akojie	4,750	■				■
J Cudd	13,500		■	■		■
D Edwards	8,500		■	■		■
R Harris	8,500		■		■	■
D Hunter	8,500	■	■			■
C Juman	3,225	■				■
R Mitchell	4,290				■	■
C Pockson	4,750	■		■		■
P Powici	8,500	■		■		■
G Saffhill	7,210		■			■
	71,725					

Total expenses of £4,214 (2016 - £5,011) were reimbursed to non-executive Board members during the year.

On 13 April 2017 a new Board was formed for the amalgamated entity, Paragon Asra Housing Limited. The Board members are listed on page 3.

Notes forming part of the financial statements

9. Surplus on disposal of fixed assets

Group and Association	Shared ownership 2017 £'000	Other housing properties 2017 £'000	Total 2017 £'000	Total 2016 £'000
Disposal proceeds	2,803	2,441	5,244	7,973
Amounts payable to Elmbridge Borough Council under RtB sharing agreement	-	(1,002)	(1,002)	(1,656)
Cost of disposals	(1,573)	(536)	(2,109)	(3,931)
Selling costs	-	(31)	(31)	(168)
Grant recycled	(268)	(235)	(503)	(2,354)
	962	637	1,599	(136)

10. Operating surplus

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
This is arrived at after charging/(crediting):				
Depreciation - housing properties (note 14)	4,985	5,919	4,985	5,919
Depreciation - accelerated on replaced components (note 14)	58	229	58	229
Depreciation - other fixed assets (note 15)	520	628	520	628
Auditors' remuneration (excluding VAT):				
- in their capacity as auditors	53	67	44	59
- in respect of other audit related services	12	26	12	26
Operating lease charges for land and building	313	313	313	313
Impairment charge/(reversal) of housing properties (note 14)	1,200	(138)	1,200	(138)
Defined benefit pension cost	-	150	-	150
Defined contribution pension cost	531	316	531	316
Pension deficit reduction charge	20	1,679	20	1,679

11. Interest receivable and similar income

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Interest receivable and similar income	269	389	267	389

Notes forming part of the financial statements

12. Interest payable and financing costs

Policies

Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Loan issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Bank loans and overdrafts	1,911	1,962	1,911	1,962
Other loans	367	372	367	372
Other loans from Group undertakings	-	-	8,168	8,227
Bond interest	8,168	8,227	-	-
Recycled capital grant fund	25	20	25	20
Disposal proceeds fund	4	4	4	4
Other finance costs	396	310	396	310
Net interest on net defined benefit liability	24	58	24	58
	10,895	10,953	10,895	10,953
Interest capitalised on construction of housing properties (note 14)	(2,678)	(2,103)	(2,678)	(2,103)
	8,217	8,850	8,217	8,850

13. Taxation on surplus on ordinary activities

Policies

Current and deferred taxation

The tax expense for the period comprises current and deferred tax.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the country where the company's subsidiaries operate and generate taxable income.

Deferred balances are recognised in respect of all timing differences that have originated, but not reversed by the Statement of Financial Position date, except:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits
- any deferred tax balances are reversed, if and when all conditions for retaining associated tax allowances have been met; and
- where timing differences relate to interests in subsidiaries and joint venture and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

Notes forming part of the financial statements

13. Taxation on surplus on ordinary activities

Policies

Current and deferred taxation

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
UK corporation tax				
Current tax on surplus for the year	4	-	-	-
Taxation on surplus on ordinary activities	4	-	-	-

The tax assessed for the year differs to the standard rate of corporation tax in the UK applied to surplus before taxation.

The differences are explained below:

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Surplus on ordinary activities before tax	20,629	16,472	20,696	17,046
Current tax at 20% (2016 - 20%)	4,126	3,294	4,139	3,409
Effects of:				
Exemption for charitable activities	(4,120)	(3,294)	(4,139)	(3,409)
Utilisation of tax losses	(2)	-	-	-
Total current tax charge (see above)	4	-	-	-

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

Policies

Tangible fixed assets – housing properties

Housing properties constructed or acquired (including land) on the open market are stated at cost, less depreciation and impairment (where applicable).

The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing the development. Directly attributable costs of acquisition includes capitalised interest, calculated on a proportional basis, using finance costs on borrowing which has been drawn in order to finance the relevant construction or acquisition. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Expenditure on major refurbishment to properties is capitalised where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the net rental income, a reduction in future maintenance costs, or a subsequent extension in the life of the property. All other repair and replacement expenditure is charged to the Statement of Comprehensive Income.

Mixed developments are held within property plant and equipment (PPE) and accounted for at cost, less depreciation and impairment. Commercial elements of mixed developments are held as investment properties.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in PPE and held at cost, less any impairment, and are transferred to completed properties when ready for letting.

Deemed cost

From 1 April 2014, Paragon changed its accounting policy from recording housing properties at valuation to being recorded at historic cost. Paragon took the FRS 102 transition option to elect to measure items of PPE at fair value and use that fair value as the deemed cost of those assets at that date. For these items there is a revaluation reserve and any unamortised grant was released to reserves as this constitutes a revaluation that triggered the performance method of grant recognition to be used.

To determine the deemed cost at 31 March 2014, Paragon engaged independent valuation specialist Savills UK Limited to value housing properties on an EUV-SH basis.

Depreciation of housing property

Housing land and property is split between land, structure and other major components that are expected to require replacement over time.

Land is not depreciated on account of its indefinite useful economic life.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefit is expected to be consumed.

The cost of all other housing property and components is depreciated over the useful economic lives of the assets.

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

Policies

Depreciation of housing property (continued)

The costs of replacement or restoration of the components are capitalised and depreciated over the determined average useful economic life as follows:

Description	Useful economic life (years)
Structure	100
Windows	40
Central heating systems	15
Communal boilers	25
Kitchens	25
Bathrooms	37
Rewiring	30
Roofs	50
Enveloping works	50

During the year the useful economic life of components were assessed and amended. The overall impact for the year ended 31 March 2017 of this change in estimate was a decrease of £804,000 to the depreciation charge recognised in the Statement of Comprehensive Income. The overall impact in future years of the change in estimate is £nil, as the reassessment of useful economic lives would only impact the timing of the recognition of depreciation and not impact the overall depreciation charge over the life of the component.

Leasehold properties are depreciated over the length of the lease, except where the expected useful economic life of properties is shorter than the lease. In these instances the lease and building elements are depreciated separately over their expected useful economic lives.

Any difference between historic cost depreciation and depreciation calculated on deemed cost is transferred between the revaluation reserve and income and expenditure reserve.

Depreciation commences at the start of the first full year after the asset comes into economic use and a full year is depreciated in the year of disposal.

Shared ownership properties and staircasing

Under low-cost homeownership arrangements, Paragon disposes of a long lease on low-cost homeownership housing units for a share ranging between 25% and 50% of value. The buyer has the right to purchase further proportions, and up to 100%, based on the market valuation of the property at the time each purchase transaction is completed.

Low-cost homeownership properties 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 and related sales proceeds, included in turnover. The remaining element, 'staircasing element', is classed as PPE and included in completed housing property at cost less any provision for impairment. Sales of subsequent tranches are treated as a part disposal of PPE. Such staircasing sales may result in capital grant being deferred or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

Any impairment in the value of such properties is charged to the Statement of Comprehensive Income.

Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure, costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

Policies

Government grants

Grants received in relation to completed assets that are presented at deemed cost on 31 March 2014 have been accounted for using the performance model as required by Housing SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

Grant received from 1 April 2014 in relation to newly acquired or existing housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the Statement of Financial Position and released to the Statement of Comprehensive Income on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of housing property structure, at 100 years, has been selected.

Where Social Housing Grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund or disposal proceeds fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets, any unamortised grant remaining within creditors is released and recognised as income within the Statement of Comprehensive Income.

Grants relating to revenue are recognised in the Statement of Comprehensive Income over the same period as the expenditure to which they relate, once performance related conditions have been met.

Grants due from government organisations are included as current assets or liabilities.

Impairment of fixed assets

The housing property portfolio for Paragon is assessed for indicators of impairment at each Statement of Financial Position date. Where indicators are identified, a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. Paragon looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value, less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets, or cash generating units concerned, or the present value of future cash flows to be derived from them, appropriately adjusted to account for any restrictions on their use.

Paragon defines cash generating units as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to Group schemes into larger cash generating units. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded in the Statement of Comprehensive Income.

Reserves

The revaluation reserve is created from surpluses on asset revaluation on use of deemed cost at 31 March 2014.

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

Group	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation					
At 1 April 2016	551,638	38,578	62,856	28,991	682,063
Additions:					
- construction costs	90	19,728	171	6,449	26,438
- completed properties from other registered providers	4,176	-	-	-	4,176
- replacement components	2,536	-	-	-	2,536
Transfer (to)/from investment properties	-	(2,752)	-	-	(2,752)
Reclassification of properties	(1,288)	1,288	-	-	-
Completed schemes	10,856	(10,856)	8,604	(8,604)	-
Transfer (to)/from properties held for sale	(674)	(249)	(26)	-	(949)
Disposals:					
- stair-casing sales	-	-	(1,596)	-	(1,596)
- replaced components	(175)	-	-	-	(175)
- other	(562)	-	-	-	(562)
At 31 March 2017	566,597	45,737	70,009	26,836	709,179
Depreciation					
At 1 April 2016	(24,540)	-	(683)	-	(25,223)
Charge for the year	(4,635)	-	(350)	-	(4,985)
Transfer (to)/from properties held for sale	69	-	-	-	69
Eliminated on disposals:					
- stair-casing sales	-	-	23	-	23
- replaced components	117	-	-	-	117
- other	26	-	-	-	26
At 31 March 2017	(28,963)	-	(1,010)	-	(29,973)
Impairment					
At 1 April 2016	-	(150)	-	-	(150)
Charge for the year	-	(695)	-	(505)	(1,200)
At 31 March 2017	-	(845)	-	(505)	(1,350)
Net book value at 31 March 2017	537,634	44,892	68,999	26,331	677,856
Net book value at 31 March 2016	527,098	38,428	62,173	28,991	656,690

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

Association	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation					
At 1 April 2016	551,638	36,179	62,856	26,924	677,597
Additions:					
- construction costs	90	19,662	171	6,383	26,306
- completed properties from other registered providers	4,176	-	-	-	4,176
- replacement components	2,536	-	-	-	2,536
Transfer (to)/from investment properties	-	(2,752)	-	-	(2,752)
Reclassification of properties	(1,288)	1,288	-	-	-
Completed schemes	10,856	(10,856)	8,604	(8,604)	-
Transfer (to)/from properties held for sale	(674)	(249)	(26)	-	(949)
Disposals:					
- stair-casing sales	-	-	(1,596)	-	(1,596)
- replaced components	(175)	-	-	-	(175)
- other	(562)	-	-	-	(562)
At 31 March 2017	566,597	43,272	70,009	24,703	704,581
Depreciation					
At 1 April 2016	(24,540)	-	(683)	-	(25,223)
Charge for the year	(4,635)	-	(350)	-	(4,985)
Transfer (to)/from properties held for sale	69	-	-	-	69
Eliminated on disposals:					
- stair-casing sales	-	-	23	-	23
- replaced components	117	-	-	-	117
- other	26	-	-	-	26
At 31 March 2017	(28,963)	-	(1,010)	-	(29,973)
Impairment					
At 1 April 2016	-	(150)	-	-	(150)
Charge for the year	-	(695)	-	(505)	(1,200)
At 31 March 2017	-	(845)	-	(505)	(1,350)
Net book value at 31 March 2017	537,634	42,427	68,999	24,198	673,258
Net book value at 31 March 2016	527,098	36,029	62,173	26,924	652,224

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
The net book value of housing properties may be further analysed:				
Freehold	605,187	598,639	600,589	594,173
Long leasehold	72,669	58,051	72,669	58,051
	677,856	656,690	673,258	652,224
If housing property had been accounted for on a historic cost basis, the properties would have been measured as follows:				
Historic cost	600,377	572,247	595,779	567,781
Accumulated depreciation	(44,196)	(40,103)	(44,196)	(40,103)
Impairment	(1,350)	(150)	(1,350)	(150)
	554,831	531,994	550,233	527,528
Interest capitalisation:				
Interest capitalised in the year	2,678	2,103	2,678	2,103
Cumulative interest capitalised	18,638	15,960	18,638	15,960
Rate used for capitalisation	3.91%	4.07%	3.91%	4.07%
Work to properties:				
Improvements to existing properties capitalised	2,536	5,517	2,536	5,517
Major repairs expenditure included in the Statement of Comprehensive Income	6,639	6,701	6,639	6,701
	9,175	12,218	9,175	12,218
Total Social Housing grant received or receivable to date is as follows:				
Capital grant - Housing properties	179,953	175,167	179,953	175,167
Recycled capital grant fund	5,824	5,296	5,824	5,296
Disposal proceeds fund	903	899	903	899
Revenue grant - reserves	106	106	106	106
	186,786	181,468	186,786	181,468

Comparative figures on this page have been adjusted as a consequence of a detailed review of numbers and to ensure consistency in disclosures each year.

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

Impairment

An assessment of impairment is performed annually at 31 March. Paragon considers each scheme to represent a cash generating unit (CGU) when assessing for impairment in accordance with the requirements of FRS 102 and SORP 2014. This has been determined based on an assessment of how schemes are appraised for development purposes, how decisions are made about assets and how results are reported.

During the current year, Paragon has recognised an impairment loss of £1,200,000 (2016 - £nil) in respect of general needs and shared ownership housing stock under construction. The impairment recognised relates to one scheme where construction has been delayed due to issues with the contractor. A full impairment review was not performed or required as the indicators identified during the year related too a specific CGU. A full impairment review was performed in the prior year as a result of the one percent per annum social housing rent reduction until 2019/20, however no impairment was identified or recognised. See note 2 for details of judgments and key estimates as part of the impairment review.

In the prior year there was a reversal of £138,000 of impairment charges, as the amount previously recognised related to land on general needs schemes under construction. The value of the land had increased and therefore the impairment, previously recognised, was reversed.

Properties held for security

Paragon Community Housing Limited had property with a net book value of £410,934,000 pledged as security at 31 March 2017 (2016 - £412,466,000).

Valuation

On transition to FRS 102, Paragon Community Housing Limited took the option of carrying out a one-off valuation on its housing properties and using that amount as deemed cost. To determine the deemed cost at 31 March 2014 Paragon engaged Savills (UK) Limited to value housing properties on an Existing Use Value for Social Housing (EUV-SH) basis. Housing properties were subsequently measured at cost.

This valuation was undertaken by Savills affordable housing division, which is widely recognised as one of the leading teams of specialist valuers and property advisers in the social housing sector.

The valuation was carried out as a desktop exercise on a EUV-SH basis using discounted cashflows. The property portfolio was Grouped by a number of key parameters to determine the valuation including:

- Location
- Spread
- Usage categories
- Age
- Construction
- Property type
- Tenure type
- Rental streams less key deductions for expected maintenance and management costs

The resultant cash flow was calculated over 35 years with the net income in the final year capitalised into perpetuity with an inflation assumption of the Consumer Prices Index (CPI) plus 1% rent increase per annum with a discount rate of 5% to 5.75%.

Notes forming part of the financial statements

15. Tangible fixed assets - other

Policies

Tangible fixed assets – other

Other tangible fixed assets, other than investment properties, are stated at historic cost less accumulated depreciation and any accumulated impairment losses. Historic cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Paragon adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to Paragon. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Statement of Comprehensive Income during the period in which they are incurred.

Depreciation of other tangible fixed assets

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range is as follows:

Description	Economic useful life (years)
Freehold office premises	50
Leasehold office premises	Lease term
Plant and machinery	4-10
Fixtures and fittings	4
IT equipment	3
Motor vehicles	3

Depreciation commences at the start of the first full year after the asset comes into economic use and a full year is depreciated in the year of disposal.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Freehold office premises have been reclassified from housing properties to other fixed assets and opening balances have been restated. The asset category of Freehold office premises has been recorded at deemed cost, as Paragon took the FRS 102 transition option to elect to measure this class of PPE at fair value at 31 March 2014 and use that fair value as the deemed cost of those assets at that date. To determine the deemed cost at 31 March 2014, Paragon engaged independent valuation specialist Savills UK Limited.

Notes forming part of the financial statements

15. Tangible fixed assets – other

Group and Association	Freehold office premises £'000	Leasehold office premises £'000	IT equipment £'000	Motor vehicles £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost							
At 1 April 2016	4,977	561	1,677	148	512	467	8,342
Additions	-	58	134	-	39	182	413
Reclassification	-	-	-	-	(178)	178	-
Disposals	-	-	(240)	(8)	(4)	-	(252)
At 31 March 2017	4,977	619	1,571	140	369	827	8,503
Depreciation							
At 1 April 2016	(112)	(255)	(1,241)	(81)	(383)	(372)	(2,444)
Charge for year	(55)	(34)	(304)	(46)	(48)	(33)	(520)
Reclassification	-	-	-	-	143	(143)	-
Disposals	-	-	240	8	4	-	252
At 31 March 2017	(167)	(289)	(1,305)	(119)	(284)	(548)	(2,712)
Net book value							
At 31 March 2017	4,810	330	266	21	85	279	5,791
At 31 March 2016	4,865	306	436	67	129	95	5,898

Notes forming part of the financial statements

16. Investment properties

Policies

Investment properties

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. Subsequently, they are carried at fair value, determined annually by professionally qualified valuers, and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income.

Group and Association	Market rent £'000	Commercial £'000	Total £'000
At 1 April 2016	4,196	329	4,525
Transfer from housing properties	2,752	-	2,752
Additions	36	-	36
Disposals	-	(114)	(114)
Revaluation	224	230	454
At 31 March 2017	7,208	445	7,653

The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors' appraisal and valuation manual. In valuing investment properties, a discounted cash flow methodology was adopted. Details on the assumptions made and the key sources of estimation uncertainty are given in note 2.

The surplus on revaluation of investment property arising of £454,000 (2016 - £745,000) has been credited to the Statement of Comprehensive Income for the year.

If investment property had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Historic cost	3,557	769	3,557	769
Accumulated depreciation	(37)	(31)	(37)	(31)
	3,520	738	3,520	738

Notes forming part of the financial statements

17. Investments – other

Association	2017 £'000	2016 £'000
Cost		
At 1 April and 31 March	13	13

The following are the wholly owned subsidiary undertakings of the Association at the year end. All the undertakings are incorporated under Companies Act legislation and registered in England.

Subsidiary undertakings	Type of entity	Principal activity
Paragon Development & Construction Services Limited	Company limited by shares	Design and build services
Paragon Treasury Plc	Public limited company	Group borrowing vehicle

Franklands Park Limited is a joint venture in which Paragon holds a 50% interest and has a jointly controlled interest with Accent Housing Limited. The principal activity of the company is the management of the property development Franklands Drive. A share of the company's results has not been included in the Group figures on the grounds of materiality. Franklands Park Limited's latest published results for the year ended 31 March 2016 show a profit for the year of £nil and net assets of £251,000.

18. Properties for sale

Policies

Stock represents work in progress and completed for shared ownership properties and properties for outright sale. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche. Stock is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs. An assessment of whether there is any impairment is made at each reporting date. Where an impairment loss is identified, it is immediately recognised in the Statement of Comprehensive Income.

Group and Association	First tranche shared ownership properties	Outright market sale properties	Total	Total
	2017	2017	2017	2016
	£'000	£'000	£'000	£'000
Work in progress	13,657	-	13,657	15,545
Completed properties	219	872	1,091	1,272
	13,876	872	14,748	16,817

Notes forming part of the financial statements

19. Debtors

Policies

Debtors

Debtors with no stated interest rate, and receivable within one year, are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

Paragon estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair it reviews the age profile of the debt and the class of debt.

Concessionary loans

Concessionary loans are those loans made or received by Paragon that are made:

- to further its public benefit objectives
- at a rate of interest which is below the prevailing market rate of interest; and
- not repayable on demand.

These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment. Any associated grant is recognised as deferred income until the loan is redeemed.

Paragon has rent and service charge agreements that are considered to be concessionary loans. Paragon has made arrangements with individuals and households for arrears payments of rent and service charges. These arrangements are effectively loans granted at a nil interest rate.

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Due within one year:				
Rent and service charge arrears	3,156	3,305	3,156	3,305
Less: Provision for doubtful debts	(1,303)	(894)	(1,303)	(894)
	1,853	2,411	1,853	2,411
Amounts owed by Group undertakings	-	-	5,726	141
Other debtors	625	2,173	619	1,265
Prepayments and accrued income	786	628	786	628
	3,264	5,212	8,984	4,445

Notes forming part of the financial statements

20. Creditors: amounts falling due within one year

Policies

Creditors

Creditors with no stated interest rate and payable within one year are recorded at transaction price.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday entitlement which has accrued at the reporting date and is carried forward to future periods. This is measured at the undiscounted salary cost of future holiday entitlement accrued at the reporting date. An asset, calculated in a similar manner, is recognised to the extent that holiday entitlement accrued at the reporting date is exceeded by the holiday taken.

Leasehold sinking funds

Unexpended amounts collected from leaseholders for major repairs on leasehold schemes and any interest received are included in creditors.

	Group	Group	Association	Association
	2017 £'000	**2016 £'000**	**2017 £'000**	**2016 £'000**
Loans and borrowings (note 25)	3,450	3,787	3,450	3,787
Trade creditors	1,525	792	1,525	792
Rent and service charges received in advance	2,189	2,019	2,189	2,019
Amounts owed to Group undertakings	-	-	1,871	2,206
Taxation and social security	179	139	179	139
Other creditors	511	8,109	511	2,236
Deferred capital grant (note 22)	122	54	122	54
Recycled capital grant fund (note 23)	3,118	509	3,118	509
Disposal proceeds fund (note 24)	735	222	735	222
Accruals and deferred income	8,134	11,731	6,263	9,525
Pension backfunding liability (note 27)	723	696	723	696
	20,686	28,058	20,686	22,185

Comparative figures have been amended to ensure all the amounts owed to Group undertakings are separately disclosed.

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

	Group	Group	Association	Association
	2017 £'000	**2016 £'000**	**2017 £'000**	**2016 £'000**
Loans and borrowings (note 25)	350,501	353,939	350,501	353,939
Deferred capital grant (note 22)	13,977	9,073	13,977	9,073
Recycled capital grant fund (note 23)	2,706	4,787	2,706	4,787
Disposal proceeds fund (note 24)	168	677	168	677
Sinking fund balances	2,688	2,799	2,688	2,799
Pension backfunding liability (note 27)	5,072	5,526	5,072	5,526
Other creditors	342	338	342	338
	375,454	377,139	375,454	377,139

Notes forming part of the financial statements

22. Deferred capital grant

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
At 1 April	9,127	6,719	9,127	6,719
Grants received during the year	2,277	1,961	2,277	1,961
Grants transferred from stock acquisition	3,012	-	3,012	-
Transfers to the recycled capital grant fund	-	501	-	501
Released to income during the year (note 4)	(317)	(54)	(317)	(54)
At 31 March	14,099	9,127	14,099	9,127

Deferred capital grants are government grants received from the HCA and local authorities.

23. Recycled capital grant fund

Policies

Recycled capital grant fund

On the occurrence of certain relevant events, primarily the sale of dwellings, the HCA and GLA can direct the Association to recycle capital grants or to make repayments of the recoverable amount. Paragon adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the HCA and GLA with interest. Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated will not be used within one year is disclosed in the Statement of Financial Position under ‘creditors due after more than one year’. The remainder is disclosed under ‘creditors due within one year’.

Group and Association Funds pertaining to activities within areas covered by	HCA 2017 £'000	GLA 2017 £'000	HCA 2016 £'000	GLA 2016 £'000
At 1 April	344	4,952	126	3,464
Inputs to fund:				
- Grants recycled	76	427	217	1,970
- Interest accrued	2	23	1	19
Recycling of grant:				
- New build	-	-	-	(501)
At 31 March	422	5,402	344	4,952
Amounts 3 years or older where repayment may be required	49	462	-	-

Withdrawals from the recycled capital grant fund were used for the purchase and development of new housing schemes for letting and for approved works to existing properties.

Notes forming part of the financial statements

24. Disposal proceeds fund

Policies

Disposal proceeds fund

Receipts from right to acquire (RTA) sales are required to be retained in a ring fenced fund which can only be used for providing replacement housing. The sales receipts less eligible expenses are credited to the disposal proceeds fund. Any sales receipts less eligible expenses held within the disposal proceeds fund, which it is anticipated will not be used within one year is disclosed in the Statement of Financial Position under ‘creditors due after more than one year’. The remainder is disclosed under ‘creditors due within one year’.

Group and Association **Funds pertaining to activities within areas covered by:**	**HCA 2017 £'000**	**GLA 2017 £'000**	**HCA 2016 £'000**	**GLA 2016 £'000**
At 1 April	899	-	728	-
Inputs to fund:				
- Proceeds recycled	-	-	167	-
- Interest accrued	4	-	4	-
At 31 March	903	-	899	-
Amounts 3 years or older where repayment may be required	223	-	-	-

Notes forming part of the financial statements

25. Loans and borrowings

Policies

Loans and short term deposits

All loans and short term deposits held by Paragon meet the criteria to be classified as basic financial instruments as set out in accordance with FRS 102. These instruments are initially recorded at the transaction price, less any transaction costs (historic cost) and subsequently measured at amortised cost, using the effective interest rate method so that the amount recognised is at a constant on the carrying amount. If the adjustment is not material the financial instruments are stated on the Statement of Financial Position at historic cost. Loans that are payable or receivable within one year are not discounted.

Maturity of debt:

Bank loans	**Group 2017 £'000**	**Group 2016 £'000**	**Association 2017 £'000**	**Association 2016 £'000**
In more than one year but not more than two years	3,057	3,400	3,057	3,400
In more than two years but not more than five years	54,197	39,714	54,197	39,714
In more than five years	67,410	84,948	67,410	84,948
Total (note 21)	124,664	128,062	124,664	128,062
In one year or less, or on demand (note 20)	3,400	3,742	3,400	3,742
	128,064	131,804	128,064	131,804

Other loans	**Group 2017 £'000**	**Group 2016 £'000**	**Association 2017 £'000**	**Association 2016 £'000**
In more than one year but not more than two years	56	50	56	50
In more than two years but not more than five years	208	188	208	188
In more than five years	3,050	3,127	225,573	225,639
Total (note 21)	3,314	3,365	225,837	225,877
In one year or less, or on demand (note 20)	50	45	50	45
	3,364	3,410	225,887	225,922

Bonds	**Group 2017 £'000**	**Group 2016 £'000**	**Association 2017 £'000**	**Association 2016 £'000**
In more than five years	222,523	222,512	-	-
Total (note 21)	222,523	222,512	-	-

	Group 2017 £'000	**Group 2016 £'000**	**Association 2017 £'000**	**Association 2016 £'000**
Total loans and borrowings	353,951	357,726	353,951	357,726

Notes forming part of the financial statements

25. Loans and borrowings

Paragon has total committed loan facilities of £392,474,300 (at transaction price) raised through the debt and capital markets, together with loans provided by various banks. At 31 March 2017, £342,474,300 was drawn down. Loans are secured by specific charges on Paragon's housing properties. The loans bear interest rates ranging from 3.6% to 10.8% or are at variable rates calculated at a margin above the London Inter Bank Offer Rate. At 31 March 2017 Paragon had undrawn loan facilities of £25,000,000 (2016 - £25,000,000), plus a retained bond of £25,000,000 (2016 - £25,000,000). Of the total loan facilities of £392,474,300, £308,164,000 was at fixed rates at 31 March 2017. The weighted average interest cost for the year on Paragon borrowings was 3.78% (2016 – 3.93%).

26. Financial instruments

Policies

Cash and cash equivalents

Cash and cash equivalents in Paragon's Statement of Financial Position consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

The Group's and Association's financial instruments may be analysed as follows:

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Financial assets:				
Financial assets measured at cost less impairment				
- Trade receivables	1,853	2,411	1,853	2,411
- Other financial assets	625	2,173	6,345	1,406
- Cash and cash equivalents	59,902	67,924	59,179	67,612
Total financial assets	62,380	72,508	67,377	71,429
Financial liabilities:				
Financial liabilities measured at amortised cost				
- Loans payable	(353,951)	(357,726)	(353,951)	(357,726)
Financial liabilities measured at cost less impairment				
- Trade creditors	(1,525)	(792)	(1,525)	(792)
- Other financial liabilities	(11,856)	(23,116)	(11,856)	(17,243)
Total financial liabilities	(367,332)	(381,634)	(367,332)	(375,761)

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Financial assets comprise cash and cash equivalents, tenant debtors, amounts owed by Group undertakings and other debtors. Financial liabilities comprise bank loans, trade creditors, accruals, amounts owed to Group undertakings, sinking fund balances, taxation and social security and other creditors.

Notes forming part of the financial statements

26. Financial instruments

Financial assets and liabilities measured at amortised cost are the bank loans. All other financial instruments are measured at transactional value.

Paragon's objectives, policies and processes for managing capital are included in the Report of the Board of management (see pages 31 to 33).

Risks arising on financial instruments

The main risk arising from Paragon's financial instruments are credit risk, liquidity risk, interest rate risk and market risk.

Credit risk

Credit risk is managed by the Treasury team in accordance with the Board approved Treasury management policy. Paragon considers the security of principal sums invested to rank above seeking the highest possible return on the investment. Repayment of interest and capital to Lenders is made on a punctual basis. Paragon monitors available resources on a regular basis, through a review of its business plan. It is considered that Paragon has sufficient resources to cover these repayments and therefore the risk of being unable to meet its obligations to the lenders is considered to be low.

The housing loans are secured by specific charges on housing properties and are repayable at varying rates of interest.

Liquidity risk

Liquidity risk is managed by the Treasury team in accordance with the Board approved Treasury management policy. Paragon has a policy to maintain sufficient cash to cover the next three months net cash requirement and sufficient liquidity to cover the next 18 months net liquidity requirement.

The maturity profile of the debt has been established to reflect the long term nature of Paragon's assets and to reduce risk by staggering the repayment of the principal of the loan.

At the year end 84.9% of Paragon's borrowings were due to mature in more than five years.

To date all payments have been made on time.

Interest rate risk

Paragon finances its operations through a mixture of retained reserves, government grant, other public subsidies to support development activities and loan borrowings.

Interest rate risk is managed by the Treasury team in accordance with the Board approved Treasury management policy.

Paragon's interest rate strategy is reviewed annually and focused on achieving the prescribed balance between fixed and variable debt at an acceptable level of risk and cost.

Covenant compliance and sensitivity analysis of interest rates are monitored on a regular basis.

Market risk

Paragon's treasury management function is responsible for developing and implementing an appropriate financial strategy to ensure it has the required level of liquidity to fund the capital investment programme and day to day activities of the business.

Close monitoring of financial covenants against the business plan to assess risk scenarios is completed on a regular basis.

Disaggregation of the Statement of Financial Position

Given the nature of Paragon's operations the key assets are housing properties and stocks. These assets are connected to the loans and borrowings, as they are secured against these financial liabilities (see note 25).

Notes forming part of the financial statements

27. Pension backfunding liability

Policies

Pension backfunding liability

The company has recognised pension backfunding liabilities in relation to agreed future contributions towards the defined benefit pension schemes. The liabilities have been measured at the best estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of the time value of money is material the amount expected to be required to settle the obligation is recognised at the present value using a discount rate. The unwinding of the discount is recognised as finance cost in the Statement of Comprehensive Income in the period it arises.

Paragon participates in two funded multi-employer defined benefit schemes, the Social Housing Pension Scheme (SHPS) and the Surrey County Council Pension Fund (SCCPF). Paragon has recognised liabilities relating to any agreement to fund any defined benefit scheme deficits as detailed below:

Group and Association	**SHPS deficit contribution**	**SCCPF deficit contribution**	**Total**
	£'000	**£'000**	**£'000**
At 1 April 2016	5,287	935	6,222
Charged to the Statement of Comprehensive Income			
- Remeasurement (note a)	121	20	141
Unwinding of discount	102	33	135
Contribution paid	(618)	(85)	(703)
At 31 March 2017	4,892	903	5,795

Note a - Remeasurement of the liability is made if the discount rate and/or the schedule of future contributions changes.

The discount rate used in calculating the SHPS pension deficit contribution liability changed from 2.06% from 31 March 2016 to 1.45% at 31 March 2017 and as a result the liability increased by £121,000. The future contributions payments schedule has remained unchanged at 31 March 2017 from 31 March 2016.

The discount rate used in calculating the SCCPF pension deficit contribution liability remained unchanged at 3.69% from 31 March 2016 to 31 March 2017. The future contributions payments schedule has increased from 31 March 2016 to 31 March 2017 and as a result the liability increased by £20,000.

Social Housing Pension Scheme (SHPS)

The SHPS is 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 Paragon 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.

Notes forming part of the financial statements

27. Pension backfunding liability

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 with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123,000,000, liabilities of £4,446,000,000 and a deficit of £1,323,000,000. To eliminate this funding shortfall, the trustees and the participating employers have agreed that the additional contributions will be paid, in combination from all employers, to the scheme as follows:

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 £2,062,000,000, liabilities of £3,097,000,000 and a deficit of £1,035,000,000. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 and 3 contributions.

Where the scheme is in deficit and where Paragon has agreed to a deficit funding arrangement, it 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.

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

Surrey County Council Pension Fund (SCCPF)

Under the terms of the transfer agreement with Elmbridge Borough Council (EBC), Paragon makes additional payments each year as its contribution to the past service deficit as at 31 March 1998.

The additional payments are £86,000 in respect of former and current employees, payable until March 2030.

These additional payments are adjusted annually on 1 April in line with the amount specified in the Pensions Increase (Review) Order. By making these payments to EBC the Council accepts responsibility for meeting Paragon's payments due to the Pension Fund in respect of that past service deficit.

As the scheme is in deficit and as Paragon has agreed to a payment to EBC to contribute to funding the deficit Paragon 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. The discount rate applied is the effective interest rate for Paragon's bond.

Notes forming part of the financial statements

28. Provisions for liabilities

Policies

Onerous lease provision

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision has been made for the present value of the obligations under the lease.

Group and Association	Onerous contract £'000
At 1 April 2016	-
Charged to the Statement of Comprehensive Income	
- Additions	616
At 31 March 2017	616

29. Pensions

Policies

Pension costs

Paragon participates in a defined contribution scheme. From 31 October 2015, all employees were migrated to a single provider on a defined contribution basis and ceasing any accruals in the defined benefit scheme. Contributions to Paragon's defined contribution pension scheme are charged to the Statement of Comprehensive Income in the year in which they become payable.

For the SHPS, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The income and expenditure charge represents the employer contribution payable to the scheme for the year. For the SCCPF, the difference between the fair value of the assets held in Paragon's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method is recognised in the Statement of Financial Position as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that Paragon is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Defined contribution pension scheme

The assets of the scheme are held separately from those of the Association in an independently administered fund. The pension charge represents contributions payable by Paragon to the fund and amounted to £531,000 (2016 - £316,000). Contributions totalling £130,000 (2016 - £71,000) were payable to the fund at the year end and are included in creditors.

Defined benefit pension scheme

The Surrey County Council Pension Fund is a multi-employer scheme administered by Surrey County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme. The most recent comprehensive actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 March 2017. Paragon's contribution to the LGPS was £60,000 (2016 - £104,000).

Notes forming part of the financial statements

29. Pensions

	2017 £'000	2016 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	11,905	13,134
Current service cost	-	64
Interest cost on defined benefit obligations	411	416
Actuarial losses/(gains)		
- Changes in financial assumptions	2,793	(1,149)
- Changes in demographics assumptions	(175)	-
- Other experience	(402)	(218)
Benefits paid	(333)	(355)
Plan participants' contributions	-	13
At the end of the year	14,199	11,905

Reconciliation of fair value of plan assets		
At the beginning of the year	11,199	11,318
Interest income on plan assets	387	358
Actuarial gains/(losses)		
- Return on assets excluding amounts included in net interest	1,369	(239)
Plan participants' contributions	-	13
Employer contributions	60	104
Benefits paid	(333)	(355)
At the end of the year	12,682	11,199

Composition of plan assets		
Equities	10,526	8,399
Bonds	888	1,792
Property	761	784
Cash	507	224
Total plan assets	12,682	11,199
Equities	83%	75%
Bonds	7%	16%
Property	6%	7%
Cash	4%	2%

Principal actuarial assumptions used at the reporting date

Discount rate	2.5%	3.5%
Salary increase rate	2.8%	3.7%
Pension increase rate	2.5%	2.2%
Mortality rates	Males	Females
Current Pensioners	22.5 years	24.6 years
Future Pensioners *	24.5 years	26.9 years

* Figures assume members aged 45 as at the last formal valuation date.

Notes forming part of the financial statements

29. Pensions

	2017 £'000	2016 £'000
Amounts recognised in the Statement of Financial Position		
Fair value of plan assets	12,682	11,199
Present value of plan liabilities	(14,199)	(11,905)
Net pension scheme liability	(1,517)	(706)

Amounts recognised in the Statement of Comprehensive Income		
Current service cost	-	64
Interest cost on defined benefit obligations	411	416
Interest income on plan assets	(387)	(358)
	24	122

Analysis of actuarial (loss)/gain recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	1,369	(239)
Changes in assumptions underlying the present value of the scheme liabilities	(2,618)	1,149
Other experience relating to scheme liabilities	402	218
	(847)	1,128

For the SHPS, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The income and expenditure charge represents the employer contribution payable to the scheme for the year. Information on the SHPS is given in note 27.

30. Share capital

Association	**2017 Number**	**2016 Number**
Shares of £1 each issued and fully paid:		
At 1 April	15	31
Shares issued in the year	1	15
Shares cancelled in the year	(6)	(31)
At 31 March	10	15

The share capital of the Association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that share is cancelled and the amount paid thereon becomes the property of the Association. Therefore, all shareholdings relate to non-equity interests.

Notes forming part of the financial statements

31. Contingent liabilities

Policies

Contingent liabilities

A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation exists which could lead to an outflow of resources, or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation, or when a sufficiently reliable estimate of the amount cannot be made.

A contingent liability exists on grant repayment which is dependent on the disposal of related property.

The Association has securitised bond borrowings of its subsidiary, Paragon Treasury Plc. At the reporting date the liabilities covered by these securities totalled £250,000,000 (2016 - £250,000,000).

Paragon receives grant from the Homes and Communities Agency and from the Greater London Authority, which is used to fund the acquisition and development of housing properties and their components. At the year end, the value of grant received in respect of these properties that had not been disposed of was £186,680,000 (2016 - £181,362,000).

32. Operating lease commitments

Policies

Leased assets: lessee

All leases held by Paragon are classified as operating leases. Their annual rentals are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Paragon has not entered into any lease reverse premiums or similar incentives within the operating lease agreements.

Comparative figures have been adjusted as a consequence of a detailed review of numbers and to ensure consistency in disclosures in each year.

The Group and the Association had minimum lease payments under non-cancellable operating leases as set out below:

Amounts payable as lessee	**Group 2017 £'000**	**Group 2016 £'000**	**Association 2017 £'000**	**Association 2016 £'000**
Not later than 1 year	313	313	313	313
Later than 1 year and not later than 5 years	1,251	1,251	1,251	1,251
Later than 5 years	1,720	2,032	1,720	2,032
Total	3,284	3,596	3,284	3,596

The amounts disclosed as receivable as lessor include the rental lease arrangements of the shared ownership properties held.

Amounts receivable as lessor	**Group 2017 £'000**	**Group 2016 £'000**	**Association 2017 £'000**	**Association 2016 £'000**
Not later than 1 year	3,300	2,839	3,300	2,839
Later than 1 year and not later than 5 years	12,693	10,988	12,693	10,988
Later than 5 years	93,072	96,557	93,072	96,557
Total	109,065	110,384	109,065	110,384

Notes forming part of the financial statements

33. Capital commitments

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Commitments contracted but not provided for:				
Construction	45,656	58,356	45,656	58,356
Commitments approved by the Board but not contracted for:				
Construction	36,497	13,233	36,497	13,233
	82,153	71,589	82,153	71,589

Capital commitments for the Group and Association will be funded as follows:

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Social housing grant	7,701	4,098	7,701	4,098
Cash from operations	31,332	25,067	31,332	25,067
Sales of properties	43,120	42,424	43,120	42,424
	82,153	71,589	82,153	71,589

Notes forming part of the financial statements

34. Related party disclosures

Other related parties

Key management personnel are considered to be the Executive Management Team and the non-executive Directors. All transactions with these parties have been disclosed within Note 7.

Board members' remuneration has been disclosed within Note 8.

Provision of management and other services

The Association acted as a Corporate Trustee to Quintus Housing Trust until 31 October 2016. Trusteeship was handed over to SPEAR Housing Association on 1 November 2016 for all properties, with the exception of six units where Paragon continued as the managing agent until purchase of these units was completed on 30 March 2017.

Transactions with non-regulated entities

Paragon Community Housing Limited provides management and administration services to Paragon Development and Construction Limited (PDCSL). The most significant element is staff as PDCSL does not have its own employees. Costs are apportioned on the basis of time spent.

The total management and administration costs apportioned in the period were £61,000 (2016 - £141,000) and the amount owing at the year end from PDCSL was £61,000 (2016 - £141,000).

Sales from PDCSL to Paragon Community Housing Limited totalled £2,409,000 (2016 - £3,768,000) for the year and the amount owing at the year end to PDCSL was £297,000 (2016 - £642,000).

Paragon Treasury Plc has secured funding through the capital markets and on-lends these funds to Paragon Community Housing Limited. All intra-group transactions have taken place in the normal course of business.

The total interest recharged in the year to Paragon Community Housing Limited was £8,168,000 (2016 - £8,227,000). The total of all other costs recharged in the year to Paragon Community Housing Limited was £33,000 (2016 - £43,000). The amount owing to Paragon Treasury Plc at the year end was £224,094,000 (2016 - £224,074,000).

35. Post balance sheet event

On 13 April 2017, Paragon Community Housing Limited, asra Housing Association Limited and Leicester Housing Association Limited amalgamated to create Paragon Asra Housing Limited.

The rationale for the above amalgamation is to create capacity to build additional homes and extract efficiencies to further improve services. The combined asset base provides economies of scale and critical mass to withstand the continuing political and economic challenges.

Moody's has assigned an A2 negative rating to Paragon Asra Housing Limited, unchanged from the rating attributed to Paragon Community Housing Limited.

asra Housing Group Limited

Consolidated Financial Statements

Year ended 31 March 2017

Contents

Board and Directors

Members of the Board

Group Chairman	Aman Dalvi OBE	
Other Members	Anne Turner	
	Wayne Morris	
	Steve Amos	
	Chris Cheshire	Appointed 1 May 2016
	Katherine Lyons	Appointed 1 May 2016
	David Edwards	Appointed 13 April 2017
	David Hunter	Appointed 13 April 2017
	Curtis Juman	Appointed 13 April 2017
	Gemma Saffhill	Appointed 13 April 2017
	John Cudd	Appointed 13 April 2017 and Retired 14 September 2017
	Richard Harris	Appointed 13 April 2017 and Retired 14 September 2017
	Jaffer Kapasi OBE	Resigned 31 March 2017
	Ponniah Rasanesan	Resigned 31 March 2017
	Stephen Duck	Resigned 31 May 2016
	Aniekan Umoren	Resigned 31 March 2017
Group Chief Executive	Dilip Kavi	From 13 April 2017
	Matt Cooney	until 13 April 2017
Chief Operating Officer and Deputy Chief Executive	Matt Cooney	From 13 April 2017
Group Company Secretary	Matt Cooney	Appointed 1 April 2016 Resigned 13 April 2017
	Marion Hall	Appointed 13 April 2017
Registered Office	Unit G.02.01, The Leathermarket 11/13 Weston Street London, Se1 3ER	
Auditors	KPMG LLP One Snowhill Snowhill Queensway Birmingham B4 6GH	
Solicitors	Devonshires 30 Finsbury Circus London EC2M 7DT	

asra Housing Group's Operating and Financial Review

Chairman's statement

On 13 April 2017 we completed our amalgamation with Paragon Community Housing Limited, to form PA Housing. This ushers in an exciting period of opportunity and change for both organisations. The newly merged entity owns and manages over 23,000 homes in London, Surrey and the Midlands; and it sees the bringing together of two housing associations with shared aims and ambitions. We want to deliver great services to our residents, to play our part in building communities to be proud of, and to contribute to the acute need for new affordable housing across our area of operations.

The creation of PA Housing is the culmination of 18 months of hard work, led by our executive team and involving a number of agencies and advisors. I am grateful for the efforts of everyone who helped to make this happen, and I firmly believe that we have the potential to achieve great things in the years ahead. In the short term though, there is much to do in order to harmonise our systems, processes and ways of working in order to unlock the benefits which amalgamation will bring. We intend to make this happen at pace whilst at the same time delivering change in a controlled and measured way, and the PA Housing Board will be closely monitoring progress against the agreed integration plan to ensure that key success measures are achieved.

Turning to the national picture, changes to the political landscape in the immediate aftermath of last year's vote to leave the European Union have in turn led to a change in the relationship between the UK government and the housing association sector. The government has an expectation that our sector will rise to the challenges presented by a severe shortage of affordable housing in most areas of the country, and is prepared to forge constructive relationships with our sector to promote delivery of new homes across a range of tenures. We recognise that we have a crucial role to play in using our leverage to help increase the supply of new homes. PA Housing is a bedrock of financial strength, and we have worked with our lenders and investors to put in place the credit lines we need to deliver a sizeable programme of growth over the next few years, in line with government ambitions.

Our growth targets build on the experience we already have of delivering new shared ownership and outright sale properties, and they establish a significant ongoing programme of sales activity in order to provide surpluses to compensate for the reductions to our rental income through to 2020. This plan gives us exposure to housing market risks and so we continue to robustly stress test and sensitise our development programme at both a macro and individual scheme level to ensure that these risks are fully understood and properly controlled.

We also remain firmly committed to rented housing at the core of our organisation. Many of our current and future residents either are not able to or have no desire to buy and so access to safe and secure housing at a genuinely affordable rent is essential. Our growth plans therefore include an ongoing commitment to developing new rented housing to serve the needs of the communities we work within. This is in accordance with our founding objectives, and it remains as important today as it ever has been.

There are further strands of government policy which will continue to influence our work. These include a range of welfare reform initiatives which are incrementally affecting our residents' ability to meet their rent payment obligations alongside other household commitments; the proposed roll out of voluntary Right to Buy which will introduce additional volatility to management of our assets; and more broadly the as yet unknown social and economic impacts of whatever final Brexit deal is agreed with the European Union.

Good financial performance will remain critical to our mission, giving us the capacity we need to deliver high quality services to both existing and new customers. To this end, we continue to explore ways in which our services can be delivered more efficiently without detriment to their quality. 2016-17 saw a major breakthrough in this respect, with the launch of the 'My asra' portal. This enables our customers to access a range of services, from setting up a direct debit to ordering a repair, with just a few simple taps on their tablet or mobile device. We are one of the first housing associations in the sector to offer fully integrated services in this way, and by the end of the financial year over 2,700 of our customers had signed up to the portal. This has enabled us to reduce our costs of service delivery, while at the same time our customers benefit from enhanced speed and convenience when it comes to accessing our services.

Chairman's statement – continued

Although we now tackle future challenges as PA Housing, it is appropriate for me to end by briefly reflecting on the rich history of asra Housing Group. Over the years asra delivered much needed services to a diverse range of customers, and created a heritage which remains woven into the fabric of the new organisation. In particular, Asra Greater London Housing Association and Asra Midlands Housing Association were at the forefront of tackling the disadvantage faced by black and minority ethnic communities in accessing good quality housing, and Leicester Housing Association set new standards for its work in regenerating urban areas. Staff, Board members and partners past and present can all be very proud of the part they have played in the asra story. This will live on through the work of PA Housing, and I want to thank everyone who has contributed to asra's many great achievements throughout the past 52 years.

Finally, I would also like to record my gratitude for the work performed by my fellow Board members, our Chief Executive Dilip Kavi and his team in delivering the amalgamation between asra and Paragon. This was a major project achieved within a challenging timescale, and it leaves us extremely well placed to continue meeting the needs of our customers.

Aman Dalvi
Chairman
14 September 2017

Strategic Report

Business overview

On 13 April 2017 asra Housing Group and its subsidiaries ('asra') completed an amalgamation with Paragon Community Housing Group and its subsidiaries ('Paragon') to form a new registered housing provider called Paragon Asra Housing Limited. The new organisation trades under the name PA Housing. Accordingly, this Operating and Financial Review looks back at asra's results, performance and activities during the 2016-17 financial year and looks forward at PA Housing's planned activities in the 2017-18 financial year and beyond.

PA Housing is a diverse organisation: in the backgrounds of our customers and our staff; our physical locations; and in the wide range of services that we offer. This is something we are proud of and we believe it enables us to adapt to our ever-changing operating environment, and to make noticeable improvements to our customers' lives.

asra experienced significant business growth over the years, with roots in both London and the Midlands and a heritage which saw the organisation specialise in provision of housing services to people from a range of cultures and backgrounds. Today, PA Housing works across a number of local authority areas in London, the Midlands and Surrey. We own and manage over 23,000 properties to rent or lease, including a growing portfolio of low-cost home ownership products. We deliver an active new development programme and the creation of PA Housing will allow us to renew focus on development opportunities in the Midlands alongside our established growth pipeline in London and Surrey. We will consider business opportunities in varied locations, the key being that they are viable both operationally and financially. We also continue to invest in our existing estates and communities in order to improve both the quality of life of our residents and the long-term performance potential of our asset base.

Group activities

PA Housing consists of a parent registered provider, Paragon Asra Housing Limited, and seven subsidiaries, as follows:

- Paragon Development and Construction Services Limited
- Asra Construction Services Limited
- Paragon Treasury Plc
- Asra Housing Group Limited
- Sandy Hill Woolwich Limited (Dormant)
- Newlight (Properties) Limited (Dormant)
- Franklands Park Limited

Paragon Asra Housing Limited is the main asset-holding entity of the Group, including all the Group's housing properties held for rent and lease, and is the only HCA registered provider in the Group. Paragon Development and Construction Services Limited and Asra Construction Services Limited provide property construction services to the parent company. Paragon Treasury Plc has accessed bond finance from the capital markets and on-lent the proceeds to the parent company. Asra Housing Group Limited is the former parent company of asra, and is not currently trading. Finally, Franklands Park Limited is a 50 per cent owned joint venture with Accent Group Limited established to manage the Franklands Park estate where both organisations own properties.

Strategic Report

Objectives and Strategy for Achieving those Objectives

Our vision

Our Board has established the following long term vision for PA Housing:

"To become a widely recognized social enterprise with a reputation for providing quality homes and services"

Our goals

The asra and Paragon Boards committed to the creation of PA Housing in order to deliver against three headline aims, which will support achievement of the above vision:

1. Preservation of and ongoing improvements to customer service standards
2. Unlocking capacity for growth, in support of regional and national house building targets
3. Achieving critical mass to withstand external economic and political forces which will influence our operations and the circumstances of our customers

PA Housing's new Board is working to formulate a corporate plan which will set out how we intend to progress the above aims, alongside other key business performance priorities. The corporate plan will build on the following components in support of the above headline aims:

Customer service standards

- Integration of systems and processes to support consistent delivery of high quality services to customers
- Progression of asra's digital offering to customers, giving them access to genuine self-service options at a time and place of their choosing
- Continued tenancy sustainment support to customers who are affected by welfare reform and other financial pressures
- Review of repairs and maintenance services on our estates, in order to establish business-wide solutions which meet customer expectations at a competitive price
- Ongoing investment in our housing assets, in line with identified need and business affordability
- Sustaining customer satisfaction at a level which compares to the best in our sector

Capacity for growth

- Delivery against a target tenure mix of 50 per cent social rented, 40 per cent shared ownership, 10 per cent outright sale
- Pursuit of estate regeneration opportunities which strike an appropriate risk / reward balance and which offer genuine benefits to existing communities
- Active management of our loans and treasury portfolio to ensure sufficient liquidity for growth and preservation of long-term financial strength
- Developing organisational efficiency through internal structures and systems

Critical mass

- Establishing governance arrangements which align with best practice and stakeholder expectations
- Utilising PA Housing's position in the market place to extract strong value for money outcomes from our supplier base
- Fostering positive relationships with our local authority partners, through which we play our part in meeting local needs
- Working with others through partnership and collaboration to enhance our service offering and improve the lives of those living in PA Housing homes

Strategic Report

These priorities summarise the work we will carry out in response to the significant changes and challenges thrust upon the housing association sector. We can expect these challenges to continue with housing close to the top of the 2017 general election agenda and the longer-term impacts of the United Kingdom's decision to exit the European Union unknown. The current government has a clear ambition to continue reducing the welfare benefits bill, increase housing supply and promote home ownership. It expects all housing associations to play their part in delivery of these aims. We intend to respond positively to relevant policy developments, and we believe we are well placed to meet government expectations given our financial strength and organisational capacity. At the same time, we absolutely want to continue to serve the more vulnerable members of our communities who need to access secure and affordable rented homes. This lies at the heart of our business, and it reflects the historic ethos of both Paragon and asra. We do not expect the demand for rented accommodation to reduce within our area of operations, and so we remain fully committed to provision of new housing for rent as a core component of our growth plans.

The financial strength of PA Housing is the foundation that enables us to meet our objectives. As a newly formed organisation we are committed to driving up efficiency, delivering cost effectiveness through procurement and contract management, and integrating a strongly commercial approach to all our work. We'll be building on a solid base at Paragon and asra which already gives the business a firm financial footing.

Our Business Model

Customers

Our aim is to deliver a great customer experience to all customers all the time. We recognise that this may not necessarily mean that we offer a 'gold plated' service to customers and indeed the financial constraints we must work within will make this difficult to achieve. The key aspiration is to deliver services which are consistent, reliable and to a standard which meets expectations and makes customers feel valued. We will measure and learn from the customer experience in an ongoing, informative and non-intrusive basis.

We want customers to tell us that they: receive a good service; are happy with their homes and the neighbourhoods in which they live; feel listened to and that we value and act upon their opinions; are getting value for money from the services they receive; and are satisfied with PA Housing as their landlord. Customer satisfaction is a critical measure of our success.

To achieve this we will:

- Understand customer needs and aspirations and adjust our service offering to meet those needs
- Enable and empower our customers to utilise self-service options through transactional services being delivered more efficiently, freeing up financial and organisational capacity for the more complex services which some customers and localities will require
- Explore opportunities to empower customers to take greater personal responsibility for their homes and lives
- Treat customers as individuals and have people-centred locally delivered services, targeted at those who need it most
- Respond to the opportunities and challenges posed by our digital society
- Invest in homes and neighbourhoods, where this will have the greatest impact

Partnerships

We recognise that there are often disjointed and insufficient services for those living in our homes. Improving the lives of those who live in our homes and communities requires the action of many organisations working across sectors effectively and collaboratively together.

Through partnership working, we aim to add real value to the whole household, the community and neighbourhood. We will continue to ensure our tenants have stability in their homes whilst raising aspirations, challenging the norm and helping those most disadvantaged. A household can experience many changes and so too can their housing requirements. Offering the right tools at the right time will ensure we become the lifelong housing provider of choice, fulfilling whole family needs.

Strategic Report

We will continue to balance our commercial approach with our social mission, and ensure that our core charitable objectives continue to underpin everything that we do.

To achieve this we will:
- Develop key operational partnerships with others to add value to the people in our communities
- Utilise access to grants and funds to enable delivery of non core complementary activities
- Work to promote tenure flexibility and give our customers the opportunity to transition through different life phases with PA Housing

Efficiency

We know our operational systems need to be strong if we are to enable our people to give their very best. Our data needs to support delegated decision making. While we have masses of data, our employees will need ready access to it if they are to operate effectively with customers. Our processes and systems must support innovation, improvement and decision making. We are focused on streamlining our systems to improve decision making and encourage flexibility.

Achieving value for money ('VFM') is fundamental to any successful business. Our VFM focus will lead to improved outcomes for customers and stakeholders, by allowing more investment in areas that provide a greater benefit. Any inefficiency would mean that we build fewer homes than we would like to. As a result of the amalgamation between Paragon and asra we will make efficiency gains of at least £3m per annum by 2019-20, and we will continue to challenge ourselves to deliver best value and keep our costs competitive. For every £10,000 of recurring savings we make year-on-year we can develop one new home.

To achieve this we will:
- Review the efficiency of our corporate and Group structure and develop delivery models which best support our future plans, while making the most tax-efficient use of resources
- Continue to develop our IT infrastructure in support of efficient service delivery
- Continue to manage business overheads through effective procurement and efficient use of office accommodation (including promotion of mobile working)
- Undertake continuous review of our internal processes in order to minimise waste and free up capacity

Growth

Growing our business to increase both financial resilience and future resources to deliver more homes for more people is central to our strategy. Increasing the number of homes is fundamentally important to our long-term financial health as we seek to enhance our operating efficiency.

We recognise that we will need to adopt a land-led approach to development on larger sites; this may entail taking on an element of land bank risk within a defined risk appetite. We will also consider partnership working on large scale estate regeneration projects, but only where such projects will deliver both a sustainable community and a strong financial return.

We recognise that there will be a continued focus on rationalisation of housing associations. There are over 1,500 different providers in England - the government sees this as inefficient and is expecting more merger activity. In time, this may bring further opportunities for us.

To achieve this we will:
- Acquire and develop more homes for more people
- Look at opportunities for merger, acquisition, and joint ventures (but not actively seek such opportunities until the Paragon-asra amalgamation is fully bedded in)
- Explore opportunities for partnership working with housing associations and other agencies in order to drive operating efficiency
- Increase the return on investment from our housing stock

Strategic Report

A detailed operational plan will be drafted to set out the specific projects which will be delivered in order to progress our corporate plan priorities. Culturally, we will promote and exhibit the three values which are most fundamental to how we go about our business. These are the core values we most care about and they help us to understand what behaviours and attitudes will need to be exhibited as we move PA Housing forward against the set strategy:

Do the right thing	Delivering every day on our promises to our customers in a clear and consistent manner; working collaboratively to solve problems and issues
There when you need us	Providing proportionate and appropriate support to customers, colleagues and stakeholders
We never give up	Seeking to make the best use of our resources to maximise impact in the communities we work within; looking at new service delivery models to unlock capacity and meet customer needs

Strategic Report

Performance throughout the financial year and position at the end of the financial year

During the financial year, asra measured performance through a suite of key indicators. Performance targets were set at the start of the year with reference to the performance improvement priorities agreed by our leadership team of senior managers.

At intervals through the year, the Board considered our operational performance results and commented on areas of interest or potential concern. Results against our key corporate operational performance targets are shown below, with additional comments made by exception where targets have not been achieved:

Indicator	2015-16 result*	2016-17 result	2016-17 target	Comments
Overall customer satisfaction	86%	83%	85%	Outside target, declining trend: some pressure on results was expected while we implemented our digital transformation project. Improvements are expected as this beds in during 2017-18
Satisfaction with complaint resolution	91%	92%	92%	In line with target, improving trend
Satisfaction with repairs service	91%	91%	90%	Better than target, stable trend
Anti-social behaviour cases closed within 60 days	74%	43%	55%	Outside target, declining trend: we are reviewing our ASB policy and incident recording systems to identify areas for improvement
First time fix rate for customer queries	91%	95%	95%	In line with target, improving trend
New homes completed	201	85	250	Outside target, declining trend: two large schemes were delayed and had not completed by the end of the year
Rent to shared ownership conversions	n/a	12	50	Outside target: resident take up has been slower than anticipated, and new marketing methods are being put in place
Rent collection rate	100.0%	99.7%	101.0%	Outside target, declining trend: impacted by a decline in prepayments, underlying rent arrears management performance has been strong (see below)
Rent arrears	3.7%	3.4%	4.0%	Better than target, improving trend: arrears were reduced by £200k in the year and the year end position represents asra's best performance on record
Empty homes percentage	0.73%	0.66%	0.40%	Outside target, improving trend: 39 of the 94 empty properties at year end were at Kings Mill, where short term 'hotel' lets produce wide fluctuations in empty property numbers from week to week
Average re-let time	33 days	32 days	32 days	In line with target, improving trend
Routine repairs completed on time	97.9%	93.8%	97.2%	Outside target, declining trend: we experienced a build up of overdue orders in London mid-year, and worked with our contractor to improve performance in the latter part of the year
Repairs appointments kept	95.0%	97.3%	95.0%	Better than target, improving trend
Gas safety certificates in place	99.92%	99.92%	100.0%	8 properties out of date at year end, legal processes were ongoing to obtain access to all and compliance has since been achieved

*2015-16 results displayed as 'n/a' are where no data was recorded during the year

Strategic Report

To support the new PA Housing corporate strategy, we are reviewing and refreshing our suite of key performance indicators. Some changes will be made to ensure that we track what matters in order to provide assurance that strategic objectives are being progressed. New indicators to measure the following key aspects of our operational performance will be added to the corporate KPI suite:

- Amalgamation savings achieved
- Profit margins on homes built for sale

The Board will monitor these alongside our financial 'golden rules' which are designed to preserve financial resilience into the long term:

Operating margin	Minimum 35 per cent with aspiration to achieve 40 per cent by year 5 post-amalgamation
Free cash	Minimum £10m
Interest cover	Minimum 150 per cent versus tightest lender covenant 110 per cent
Gearing	Maximum 55 per cent versus tightest lender covenant 65 per cent (historic cost basis)
Funding mix	Minimum 50 per cent of drawn debt hedged
Cash availability	Sufficient cash and liquid resources (defined as fully secured and available loans plus overdrafts) to cover at least the next 18 months' forecast net cash requirement excluding sales proceeds
Social Housing Grant	No reliance on SHG within financial forecasts
Sales	Maximum exposure on committed schemes 25 per cent of turnover
Sales	Average margin on outright sales 30 per cent

Our resources and services – in the year and looking forward

Our finances

Both asra's and Paragon's financial performance results for 2016-17 represent a robust and stable position, and the PA Housing business plan is predicated on further improvements to financial strength through unlocking of operating efficiencies and growth capacity. The asra group net surplus before taxation and excluding fluctuations in the fair value of hedged financial instruments and pension deficit accounting adjustments has reduced to £13.4m (2016: £14.3m excluding triennial pension charge of £3.7m). Rental income decreased by £138k (0.15 per cent) year on year, with the 1.0 per cent rent reduction imposed by government (applicable to most of our rented stock) largely offset by net additions to the stock of properties available for letting and increases to rents for stock not affected by the rent reduction regime. Operating costs excluding property sales costs, triennial pension adjustments, depreciation and impairment reduced by £3.9m (9.2 per cent), primarily as a result of the new staff structure with fewer posts introduced at the start of the financial year in response to the government's rent reduction regime.

The approved PA Housing budget for 2017-18 reflects the significant transitional work needed to bring Paragon and asra together into a single business. This will entail one-off project costs to harmonise systems and processes, but the budget also captures expected delivery of early cost savings as we embark on the road to the minimum target of £3.0m of recurring efficiency savings within the first three years post-amalgamation. It exhibits our commitment to preserving a strong financial position, with key metrics falling out of the budget indicating that, if it is achieved, our operating margin, free cash generation and interest cover will all comfortably outperform both sector-wide and peer group average benchmarks.

We remained healthily cash-generative throughout 2016-17, on the back of successful property sales transactions and strong operating cash flows. The cash held and generated by the business was sufficient to fund the majority of the net £26.7m expended on new property development during the year (2016: £36.5m). Net debt (drawn loans less cash and cash equivalents held by the Group) reduced by £14.8m through the year. Towards the end of the year, surplus cash was used to pay down revolving credit facilities in order to maximise the efficiency of our treasury operations. As at 31 March 2017 the business held £26.9m in cash and cash equivalents. These cash reserves, coupled with Paragon's similarly sizeable cash balances and significant secured undrawn loan facilities, give PA Housing ample capacity to fund planned development activity for the next two to three years.

Strategic Report

Our approach to Value For Money ("VFM") includes strong focus on 'free cash' as a key component of financial strength. Free cash is a measure of the ability of the core business to generate positive cash after taking into account core operating activity, net interest costs and capital expenditure on existing assets. The measure excludes all new development and sales activity, depreciation, impairment and other significant accounting adjustments, and in effect it represents the internal subsidy for future growth being generated by the existing business. Work to drive ongoing improvements to free cash will enhance our capacity to meet the future needs of our costumer base, and will therefore ensure that each pound of external funding is stretched further for investment in new homes.

asra had an established budgetary control system and key 2016-17 budget targets were met. The year saw the introduction of some improvements to our financial control framework, geared towards facilitating tighter cost management behaviour, helping managers to target priority areas for cost savings and ensuring prompt investigation and rectification of overspend issues. The profile of the finance team within the business has been raised in recognition of the critical role that VFM plays across all of our business operations, and this work will continue as PA Housing gets off the ground.

We have also worked to increase the sophistication of our stock investment reporting and controls, including the introduction of more granular analysis tools to assess return on assets and rank the future income earning potential of our properties. This is helping to drive service delivery and stock investment / divestment decisions to ensure that our financial capacity is utilised to best effect in order to meet customer needs and strategic priorities.

During the year we refreshed our approach to procurement, with a view to developing good quality standards and frameworks in order to extract better value for money from our suppliers.

Our people

Whilst we can reflect with pride on our past achievements, our Board has recognised that we must continue to adapt to our operating environment. Customer expectations and external political, technological and economic factors will shape our services in many differing ways. The past two years have seen massive changes to our sector, and we expect this to continue. It would be naive to assume that the business will settle into a steady state for a prolonged period – and indeed if that were the case, it would be a warning sign that we may be failing to respond to a changing external environment. We remain committed to continually reviewing our structures and processes to ensure they are configured in the right way.

This philosophy was a major driving factor in asra's decision to seek a merger partner, culminating in the amalgamation with Paragon which completed in April 2017. Bringing together the two businesses enables us to create capacity by consolidating operational teams. This will unlock significant savings, both by reducing overall numbers of employees and by basing most of our office support functions in Leicester, a less costly area to recruit and retain staff compared to Paragon's office base in Surrey. This is necessary work but we recognise that there is a human cost and we have been supporting our staff through this change process. The Board appreciates the professionalism shown by staff as we work through this difficult transitional period.

The object of these changes is not simply to cut costs. The new structures we are putting in place will improve accountability and will ensure that our office-based services are best placed to support business performance and development. We are undertaking a comprehensive programme of process reviews to identify the most efficient and effective ways of delivering our service – this will combine best practice from within Paragon and asra with external knowledge of what works well.

These changes will strengthen our business operations and introduce a new staffing mix with the skills and attitudes needed to secure our long term success. The creation of PA Housing brings with it cultural change. Focus on business performance, VFM and the quality of our customer services will be paramount, and a strong approach to people leadership will be an integral part of our success. We will engage with our staff to offer appropriate training and support, we will work to establish strong internal communication channels and we will seek and learn from staff feedback.

Business infrastructure

asra has a long track record of investment in information technology infrastructure, and this strength was a major factor in the Paragon Board's decision to proceed with amalgamation. 2016-17 saw the next phase of this being delivered, with the launch of our digital transformation programme which reshapes how our customers interact with us. Through a portal which is available on any PC, smart phone or tablet device, customers can now carry out a variety of transactions at a time and place which suits them without the need to talk to a member of staff. The most critical aspect of this is the ability for customers to book a repair job directly onto our repairs contractors' work scheduling systems. This functionality went live towards the end of the financial year and we expect it to significantly reduce the volume of call traffic into our customer contact centre in the year ahead.

Around 3,000 of our customers are already registered users of the digital portal, and we expect this to continue rising in the year ahead.

Budget has been set aside in 2017-18 to continue PA Housing's investment in technology which will advance both operating efficiency and customer experience. This will include an upgrade to our telephony systems and a new customer management system.

We do also recognise that a significant proportion of our customer base has limited access to digital communication channels, and/or lacks the confidence to interact with service providers in this way. The digital strategy will therefore include consideration of the best options for addressing this in order to maximise access, thus promoting efficiency for both PA Housing and its customers and driving down standard transaction costs. In turn, this should release capacity for face to face customer contact on the issues which really matter. We certainly have no intention of developing a generic and impersonal service delivery model, and we recognise the importance of genuine personal service to enhance customer perceptions.

Our services

Work to integrate our services as PA Housing has commenced. This programme will take up to three years to complete in all areas of the business, but high priority areas are already being progressed and the transfer of office based support functions into our Leicester office is underway. Our new senior management team will work collaboratively to engineer positive change to working practices, but the components of our existing core service offering will be preserved and strengthened. This will include ongoing focus on tenancy sustainment, a review of our repairs service delivery models, continued investment in our stock and work to ensure our property letting processes are slick and responsive to customer needs.

We have identified a need to develop our service offering to home owners, and more broadly we want to maintain strong customer satisfaction results as a key indicator of our service quality. A high proportion of our residents pay a service charge for additional services provided to our estates. We have introduced improvements to our service charge accounting and information provision but there is more to do to ensure that the charges levied offer the best possible value for money to residents.

The safety of our customers remains paramount and during the year ahead we will work to further develop our already rigorous property health and safety compliance framework. This will include increased investment in key compliance areas including asbestos and fire safety, and improved processes for monitoring compliance risk and implementing preventative measures.

In 2016-17 we improved our rent collection performance, giving residents who do pay on time assurance that those who don't will be managed appropriately and ending the year with a record low rent arrears percentage. These improvements are crucial in protecting our income streams in the face of the welfare reform agenda. It was particularly pleasing that the year saw real improvements to the tenancy sustainment rates for new customers moving into our homes. We have invested in specialist in-house support as well as increased our partnering with other agencies to achieve this.

Strategic Report

Building new homes

The national shortage of affordable housing stock, against a backdrop of low grant subsidy availability and increasing risks to revenue income streams, presents a challenge to all housing providers. During 2016-17 asra's focus was on building out the pipeline of development projects in London which had been assembled in previous years. This included some complex schemes where contractor and infrastructure challenges have led to additional costs to bring the schemes to completion – reflected in impairment charges which have been included in our 2016-17 financial statements.

The amalgamation with Paragon has enabled us to unlock financial capacity and liquidity for further growth. This will see a scaling up of PA Housing's growth ambitions, with a target annual programme of up to 500 new homes. There is still strong demand for genuinely affordable rented accommodation in many of our localities and our development aspirations recognise this. We intend to develop on a mixed tenure basis, utilising the surpluses made from outright and shared ownership property sales to support provision of new rented homes in the communities which need them. The assumed tenure mix for our future development programme is 50 per cent social rented, 40 per cent shared ownership and only 10 per cent outright sale. The new organisation also has increased geographic flexibility, and viable opportunities in our core Midlands operating localities will be pursued alongside those in London and Surrey. This will provide a degree of risk mitigation given the relative volatility of the London market.

The loan facilities which we have procured alongside the establishment of PA Housing, combined with our existing cash resources, give us ample capacity to fund planned growth for the next two to three years. However we will retain positive relations with both our portfolio of current lenders and investors and potential new lending counterparties in order to ensure that the next phase of development financing can be undertaken from a position of choice. We also need to be prepared to act on unexpected opportunities coming our way which may entail large scale investment. We are already involved in one major estate regeneration project, One Woolwich in London, and we are aware of similar plans being formulated by some of our key local authority partners.

Both Paragon and asra have an established track record in the shared ownership market and the 2016-17 programme again exhibited strong performance. asra's average margin above cost on first tranche sales completed during the year was 49 per cent. Our growing shared ownership portfolio creates a latent asset for the business in the form of long term capital appreciation, which will be crystallised in the future when residents exercise their right to purchase additional tranches of their homes. In the year ahead we will perform some analysis to evaluate the extent of this potential capital return, although our financial plans place no reliance on it and current staircasing volumes are modest.

In recent years asra has established a development portfolio which places minimal reliance on Homes and Communities Agency grant funding, and we expect this trend to continue as PA Housing. Relationships with local house builders have enabled Paragon in particular to take advantage of Section 106 planning opportunities on mixed tenure sites. These schemes both reduce unit costs and minimise the build period risk, and this is a model we will continue to pursue in the short term while such schemes remain available. However, we know that we will also need to augment this activity with larger scale land-led development opportunities if we are to achieve our target development volumes. Our financial plans assume minimal grant subsidy on all future development, so any significant grant we do secure will be a bonus which further enhances growth capacity.

Mixed tenure development clearly builds housing market risk into the business. Our financial planning and stress-testing on both an individual scheme and business-wide basis factors this in, and schemes are not approved unless a feasible exit or mitigation strategy in the event of market downturn is in place.

Supporting our communities

Welfare reform is undoubtedly changing the circumstances of many of our customers. Our priority is to work with customers to make sure they can sustain their tenancies, including paying their rent. When this becomes difficult we work proactively with other agencies to offer access to support and guidance. Eviction is only ever undertaken when all other avenues have been exhausted but it is not an option we shy away from – we have an obligation to protect our income stream for furtherance of our business objectives.

Our furniture packs service has given new tenants a helping hand with furnishing their homes. During the year nearly 30 per cent of all new tenants were assisted through this scheme. The year also saw the conclusion of our successful Big Lottery funded Moneywise project, having helped a number of our tenants with financial management skills and increasing their access to relevant benefits to assist with their financial obligations. We achieved nearly £1.9m in recurring additional income for tenants and £0.3m in one-off lump sum benefits payments in the year. Our investment in these services will continue, with the positive outcome for our tenants and our business alike significantly outweighing the cost of service provision.

The year ahead will see extension of our employment opportunities work with partner agencies, already active in London, into the Midlands. We also intend to establish digital skills training for customers – this will help them with many facets of day to day life but will also directly link to our new digital services offering, with a view to increasing take-up.

Strategic Report

Principal risks and uncertainties

Effective and appropriate risk evaluation and control is integral to the formulation and delivery of our business strategy. The asra Board and Executive Team maintained its programme of risk review through the year, and as PA Housing we have already undertaken a review of our risk management approach to further strengthen this crucial element of our internal controls framework. The Board and its Committees will focus on relevant strategic risks, and operational risk maps will be maintained by our Heads of Service and their teams. This work will drill strong risk awareness down into operational teams, providing assurance that our staff are thinking about what could impede successful delivery of targets and what can be done to manage these risks.

Our Audit and Risk Committee performs a detailed risk management scrutiny function on behalf of the Board, and as part of its work the Committee will carry out 'deep dives' into identified key areas of our corporate risk register to better understand risk drivers and mitigating actions in place.

The PA Housing Board has assessed the seven most significant risks currently facing the business, and these are shown in the table below. These are reviewed by the Board on at least a quarterly basis.

Risk area	Consequence	Mitigation	Control measures
Merger – failure to deliver savings	Growth capacity impeded; regulatory relationship impacted	Close monitoring of progress towards targets; identify and delivery additional saving opportunities; proactive procurement of PA Housing contracts	Reporting to Board and Committee Procurement programme Budgetary control
Property health and safety – non-compliance with statutory obligations	Risk to life and limb; poor reputation; non-compliance with regulatory standards	External validation and quality assurance; clear lines of accountability; robust reporting; strong compliance procedures	Performance management Board reporting Internal audit
Growth – adverse property sales results	Financial loss and unviable schemes; impact on capacity	Prudent scheme appraisal; exit strategies in place; multi-locational portfolio; strong marketing of schemes	Investment appraisal Performance management Financial planning
Procurement – inadequate contract and supplier management	Overpaying for goods and services; failure to achieve VFM	Properly managed contracts register and procurement programme; staff training and support; involvement of residents in customer-facing services	Performance management Staff appraisal Budgetary control VFM reporting
Strategy – inability to develop a cohesive strategic plan	Lack of business direction; haphazard and inappropriate decisions; inadequate financial capacity and resilience	Early Board work to develop PA Housing plan building on principles agreed through amalgamation; 'golden thread' cascade through the business; financial planning and stress-testing regime	Board oversight Performance management Financial planning
Environment – adverse impacts from political and economic uncertainty	Threat to investment capacity and long term viability; inability to service customer needs; sector reputational damage	Resilience built into financial planning; proactive customer engagement on relevant policy issues; focus on core business delivery; regular risk appetite review and environmental scanning	Risk management framework Financial planning Board oversight
ICT – issues with data security and integrity	Imperfect decision making; sub-standard customer services; regulatory compliance issues	Systems integration and interfacing projects; analytical review culture; ongoing IT infrastructure investment; data security software and controls; disaster recovery protocols	System controls IT systems audit People culture

The external environment

The UK general election in June 2017 introduced further political uncertainty. A conservative minority government has been established but the sustainablility of this arrangement is unclear. However, since the change in leadership following the 2016 EU referendum, government has realigned its relationship with the housing association sector and has recognised the critical role the sector can play in addressing the national housing shortage. We hope and expect that the positive rhetoric will be backed with real policy initiatives which allow us to leverage our capacity and expertise to best effect, so that we can deliver a good volume of affordable new homes alongside maintaining high quality services to our existing residents.

Longer term, the agreement to define how the UK will exit from the European Union and the subsequent reshaping of our economy will have as yet unknown ramifications for the country. This is a key risk area and it has potential to influence our business in many ways and for many years, feeding into a number of the risks already identified on our risk register. These risks link closely to the work we do to stress-test our financial plans against a range of adverse scenarios. Our Board will continue to maintain a close watching brief as elements of the 'Brexit' scenario crystallise.

Grenfell Tower

Following the tragic fire at Grenfell Tower PA Housing has reviewed its immediate approach to fire safety in owned high rise blocks. This has included increasing the frequency of the inspection regime of communal areas and introducing a zero tolerance approach to any items left in those areas. PA Housing has also carried out a review of the fire risk assessment process for each of its high rise blocks to ensure that any new risks are identified and then addressed.

We have also written to all residents in our high and low rise flats to provide simple fire safety advice and offering to install smoke alarms free of charge if they are not already in place.

PA Housing has 4 blocks that are externally clad although they all use different cladding and insulation materials to Grenfell Tower. Initial Investigations have now taken place and we await the outcome of further tests on some of the materials present. We have, however, already taken appropriate further actions at a number of these blocks to ensure the safety of our residents.

As part of the formation of PA Housing a full review of all areas of compliance has already commenced which includes ensuring consistent policies, standards, procedures and monitoring of all compliance areas. Safety of customers is our priority and standards will be reviewed in light of the learning points from the Grenfell Tower.

PA Housing has sufficient financial resilience to meet these challenges and fund continued appropriate levels of investment in our properties. This will include ensuring that our new build properties meet all safety standards and do not compromise the safety of customers who will be living in them.

Value for money

For PA Housing, value for money is about working to achieve the best possible balance between cost and customer or business benefit.

The following information is a high level summary of our 2017 Value for Money Statement, the full version of which is available for viewing on our website from the link shown below. The Statement demonstrates how we use VFM to support our broader corporate strategy, and it includes benchmarking analysis to illustrate our performance over time relative to a selected group of peer organisations.
https://asra.pahousing.co.uk/about-us/publications-policy-library/

Strategic Report

The 2016-17 financial year was dominated by work to progress the amalgamation between asra and Paragon Community Housing to create PA Housing. Both Boards' decision to proceed with amalgamation included specific consideration of the value for money enhancements which will be delivered through the bringing together of two complementary organisations. We expect to achieve recurring cost savings of at least £3m per annum, and this will create capacity for an enlarged growth programme in order for PA Housing to play its part in the national drive for new housing supply.

The amalgamation is also expected to deliver processing efficiencies and scope to further enhance customer service standards. It has been supported by a renegotiation of our loan facilities to provide ample liquidity for future growth at competitive rates.

The financial year also saw a number of other important decisions and strands of work to support asra's ongoing approach to value for money ('VFM'). This included the following highlights:

- Progressing stock disposal options in order to advance operating efficiency
- Implementation of digital transformation for customers, to improve customer experience and reduce processing costs
- Decisions made on new approaches to procurement and benchmarking, in order to modernize how we operate in both areas
- Implementation of changes to our staffing structure in response to the challenges brought by the government's rent reduction policy, generating operating cost savings of £3m
- Improvements to new development scheme delivery methods and cost control
- Work with our residents to improve tenancy sustainment and increase household income in support of rent payment
- Reprocurement exercises and cost reduction measures in our repairs and maintenance operations, driving net savings of nearly £2m per annum
- Rationalisation of care operations to exit loss-making contracts in Nottingham and Leicester
- Changes to our property sales function, reducing external agency fees and bringing more work in-house
- Further development of our approach to performance analysis of and insight into our housing assets, driving informed and appropriate asset management decisions

PA Housing is developing a new Value for Money Strategy, and this will contain a number of specific actions designed to further embed and enhance our approach to VFM delivery. We are fully conversant with and supportive of the evolving regulatory approach to VFM, and we will ensure that our VFM reporting reflects standard requirements and includes appropriate benchmarking activity to inform assessments of how we are performing.

Strategic Report

GROUP FINANCIAL PERFORMANCE HIGHLIGHTS: FIVE YEAR SUMMARY

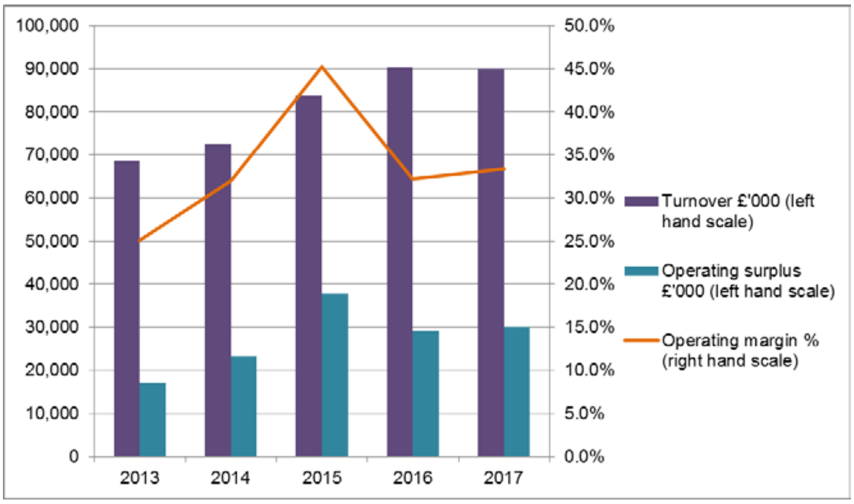
	2017	**2016**	**2015 restated**	**2014 UK GAAP**	**2013 UK GAAP**
	£m	£m	£m	£m	£m
Group statement of comprehensive income					
Turnover	90,049	90,187	83,759	72,439	68,454
Operating surplus	30,065	29,066	37,893	23,183	17,174
Net interest payable	16,703	18,370	16,947	17,090	15,948
Net surplus/(deficit)	5,163	11,894	(198)	6,680	2,864
Net surplus/(deficit) excluding property sales	(458)	6,984	(11,923)	5,259	(985)
Group statement of financial position					
Property fixed assets net of depreciation and impairment	950,696	960,176	937,862	905,671	873,610
Capital grants	438,620	443,306	447,768	498,967	484,195
Net current assets	8,080	24,943	50,273	20,827	4,554
Long-term creditors	897,506	930,290	936,833	362,910	334,750
Reserves	62,094	53,876	50,018	60,403	53,723
Statistics					
Operating margin %	33.4	32.2	45.2	32.0	25.0
Net surplus %	5.7	13.2	(0.2)	9.2	4.2
Gearing % (loans versus housing assets)	42	43	45	40	39
Loan debt to turnover ratio	4.4:1	4.6:1	5:1	5:1	4.9:1
Loan debt per owned rented / shared ownership property £k	30.6	32.1	32.7	29.3	27.2
Accommodation owned & managed					
Rented	12,364	12,329	12,234	11,951	11,844
Shared ownership	590	600	536	528	522
Managed units	1,589	1,214	1,148	1,002	1,023
Total stock	**14,543**	**14,143**	**13,918**	**13,481**	**13,389**

Note: FRS 102 was adopted from the restated 2015 financial statements.

Strategic Report

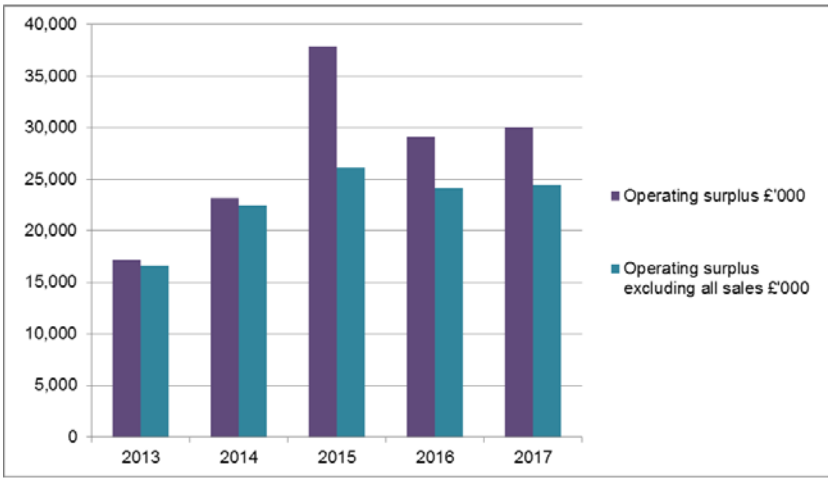
Summary

STABLE RESULTS AND STRONG MARGINS



asra's reported results for 2016-17 evidence continued strong financial performance. Operating margin increased in the year to 33.4 per cent (2016: 32.2 per cent), largely as a result of reduced management costs following a major staff restructure, and the margins being achieved remain above sector averages. The work carried out during the year to drive cost efficiency on the back of the government's rent reduction regime has delivered a strong financial foundation from which PA Housing can move forward. Our business remains focused on affordable rented housing and so it has only limited insulation from the effects of rent reduction, although our shared ownership portfolio continues to steadily grow. The amalgamation with Paragon provides a further opportunity to engineer operating cost efficiencies and we expect to continue to report strong financial results relative to sector averages in future years. Our Board remains committed to strong financial management as the bedrock which support our strategic aims and objectives.

SALES ACTIVITY HOLDS STEADY IN THE YEAR, AND THIS REMAINS PROFITABLE



Income

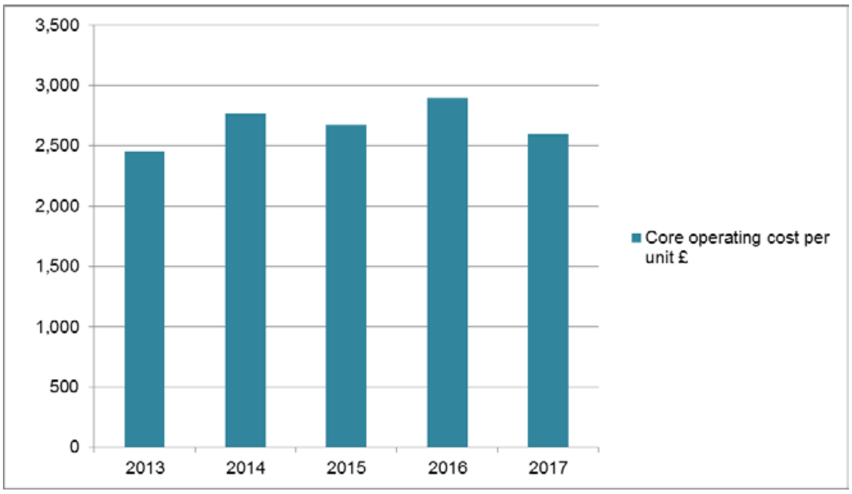
Group turnover has reduced by £138k in 2016-17 when compared to the prior year. Social and affordable rents were reduced by 1.0 per cent in April 2016, but market and shared ownership rents were increased in line with market conditions and lease provisions respectively. In addition, new development schemes coming on stream during the year boosted rental income.

2016-17 saw a similar level of activity in the housing for sale market compared to the previous year, with turnover in each year at £7.5m. However, the sales margin over cost improved from 38 per cent in 2016 to 49 per cent in 2017 on the back of a buoyant London sales market. These results comfortably exceeded the financial targets set at project appraisal stage, and an ongoing portfolio of both shared ownership and outright sale properties will continue to be a key component of PA Housing's mixed tenure development plans.

Rent and service charge losses due to empty properties have reduced from 1.50 per cent in 2015-16 to 1.26 per cent in 2016-17, evidencing ongoing improvements in this area on the back of re-let process changes and tenancy sustainment effort. Rent and service charge arrears remained a key area of business focus through the year. We continued to refine our systems and processes in response to the welfare reform agenda, and these measures helped to preserve our strong performance levels. Rents and service charges receivable held as debtor balances reduced during the year, underlying current tenant rent arrears reported a significant reduction and results were better than the targets we had set at the start of the year.

Costs

REDUCING UNIT COSTS, WITH SCOPE TO FURTHER IMPROVE COST EFFICIENCY

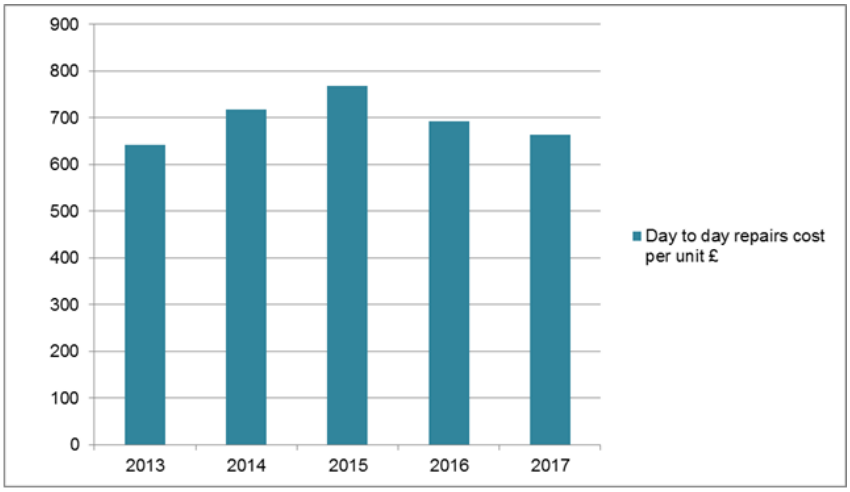


Note: The above costs exclude pension deficit movements, depreciation and impairment as non-cash items, and exclude relatively volatile costs of property sales so that the true trend in core operating costs can be observed.

At the start of the year we implemented some changes to our staffing structure in response to the government's rent reduction regime. This reduced our operating costs by over £2.5m. Overall unit costs reduced by £299 (10.3 per cent) compared to 2016, even though one-off costs of £0.9m relating to merger legal and due diligence work were incurred.

Work is underway to harmonise the former Paragon and asra team structures into single, cohesive PA Housing teams. This is being done on a phased basis and the initial focus is on our office support functions which will primarily be based in Leicester going forward. This work will deliver a significant chunk of the overall target £3m cost savings to be delivered in our first three years post-amalgamation, and it will contribute to strengthened financial results in future years.

FOCUS ON MAINTENANCE COSTS AS PA HOUSING

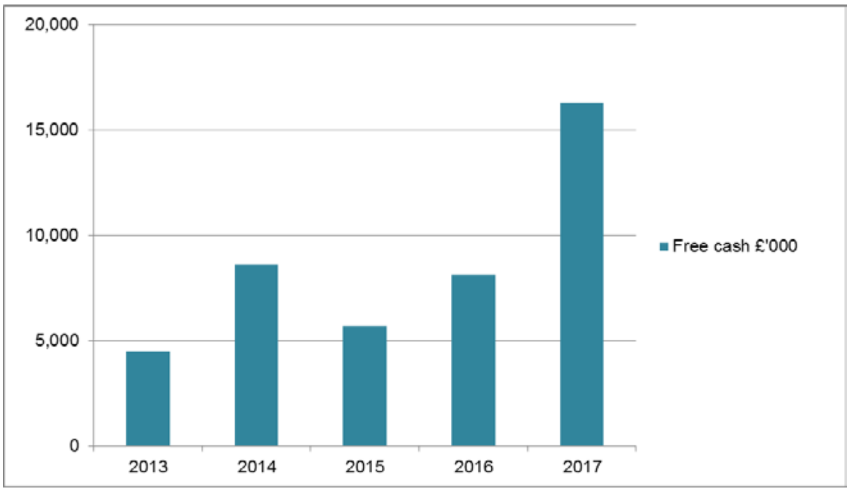


Our day to day repair costs reduced from £692 per unit in 2015-16 to £664 per unit in 2016-17, a 4.0 per cent reduction. These costs have fluctuated in recent years and the contractor market in and around London remains relatively volatile. Achieving the optimum balance of cost efficiency and service quality will be a key focus for PA Housing, reflecting the fact that the day to day repairs service remains the most important aspect of our service offering for most customers. We will explore different service delivery model options and select a method which suits both us and our customers.

Including capital expenditure, £10.7m was spent during the year on planned maintenance and major works to our properties (2016: £11.1m). This work is informed by a granular assessment of our stock condition and investment needs, and during the year we also further strengthened our controls in relation to resident health and safety workstreams with additional investment allocated for asbestos management and fire safety works. On the whole, these results evidence a culture of improving financial and operational discipline across the business, which promotes avoidance of unnecessary cost and rapid response to areas of concern.

Operating performance

SIGNIFICANT CASH BEING GENERATED BY THE CORE BUSINESS



Free cash is a measure of the ability of business operations to generate positive cash after taking into account the core operating activities of the Group, net interest costs and capital expenditure on existing assets. The measure excludes all new development and sales activity, depreciation and impairment and other material non-cash accounting adjustments relating to pensions, social housing grants and interest rate hedging activities.

Strategic Report

Our Board recognises that free cash is a critical measure of both current business health and future financial capacity. The free cash we generate effectively represents the money that can be put aside to help fund future investment in both new and existing stock, alongside any external finance. It is paramount that free cash flow will always be strongly positive so that there is no reliance on either external finance or historic reserves to fund core operations. Our focus on value for money will sustain this key business performance measure going forward, even in the face of imposed reductions to our social housing income streams.

Statement of Financial Position

The Group Statement of Financial Position saw a net reduction of £55.6m in tangible fixed assets through the year. This includes a transfer of £10.8m from fixed assets to current assets, relating to a portfolio of 144 social housing properties which will be disposed of in 2017-18 in line with our active asset management strategy. Our new development pipeline was curtailed during the period between February 2015 and March 2016 when treasury and liquidity issues caused a regulatory downgrade and this had a knock on effect on the scale of our new development program during 2016-17. We have moved well beyond that situation now, and the launch of PA Housing gives us ample financial and organisational capacity to build up a development programme of significant scale. Development costs in the year were funded through a combination of core business cash generation, working capital, sales and disposals proceeds, grant funding, and limited draw down from existing loan facilities in order to fund growth.

asra held a high cash and liquid investments balance of £26.9m at year end. Drawn loan debt decreased by a net £18.6 million through the year, with surplus cash used to pay down revolving credit facilities in order to reduce loan interest costs. We have negotiated refreshed loan facilities with our lenders to ensure that PA Housing has the liquidity needed to fund growth plans for the foreseeable future, and we completed on these new facilities in May 2017.

Future financial performance

Our financial results over the past few years exhibit a strong and consistent trend, after taking into some accounting volatilities caused by changes to accounting standards. The work undertaken over the past 18 months to prepare for the launch of PA Housing has included securing new loan finance for future growth, putting tools in place to improved understanding of our asset performance, renewing our focus on value for money and procurement, ramping up our management accounting and decision support functions, and restructuring our staff base. Alongside similar work carried out by Paragon, this will ensure that PA Housing's financial story can build momentum into the future. We want to ensure that we can make decisions about customer services delivery and asset investment from a position of choice and strength. We expect that this strategy will be tested by further external threats and shocks, as has been the case in recent years, but we intend to maintain financial rigour and a viable long term plan which demonstrates intent to deliver stronger performance than most of our peers and competitors.

This financial plan aligns with our new corporate strategy, which emphasises the need for ongoing operational efficiency to underpin service delivery. The ambition for future years is therefore to remain on a path of continuous financial improvement. This will include consideration of both organic efficiency opportunities and more radical collaborative working options. Commercial strength is fundamental to the achievement of our broader business objectives and delivery of healthy surpluses is vital to our success. Increased financial capacity leads to increased investment options – we need to evidence to our customers and stakeholders how financial strength has a direct and positive influence on our social value and particularly in the current environment, our ability to meet the demand for new housing provision.

Achievement of our goals is dependent on sound financial management at all levels of the business. We have made a good start at asra with raising the profile of financial management within our business, and we have ambition to continue ratcheting up this work as PA Housing so that finance becomes an enabler of business transformation. We believe that it's right and natural for financial awareness and responsibility to be at the heart of all our daily actions and activities.

Treasury management

Introduction

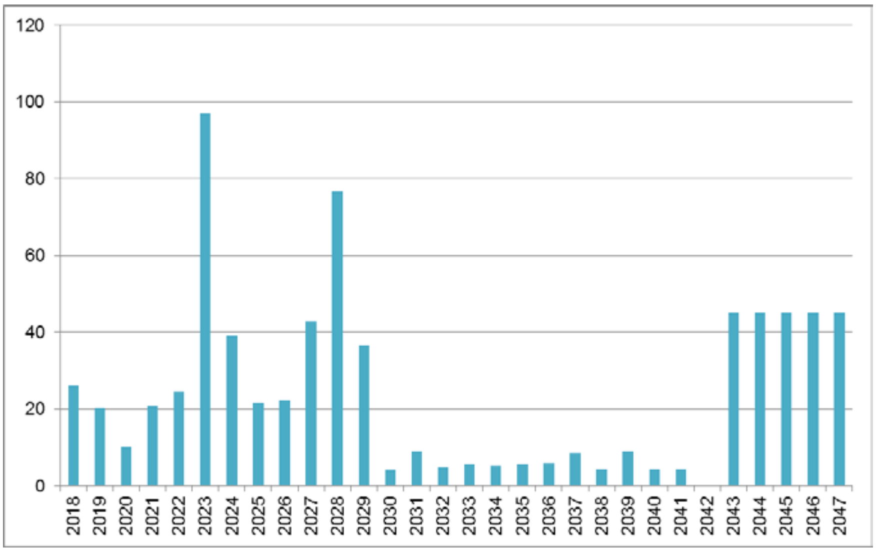
PA Housing operates a treasury function within its core Finance team, with responsibility for the management of liquidity, interest rate risk and counterparty risks. These activities are governed by a treasury policy and strategy which are approved each year by the Board. The policy is based on industry good practice standards and was constructed with the assistance of expert external advice.

PA Housing adopts a risk-based approach to liquidity and interest rate management. The overriding objective is the avoidance of unacceptable risk. Surplus cash is invested with approved banks and counterparties in line with the Treasury Management Policy (ensuring the preservation of capital rather than maximising returns). The business is funded from a number of sources including long-term loans, a bond issue, retained earnings and grant primarily provided by government agencies. All funding is in sterling, hence there is no currency exchange exposure.

Loans and credit structure

PA Housing is the parent company of the Group and the main borrowing vehicle for bank debt. Bond issuance is arranged by our subsidiary company Paragon Treasury Plc and on-lent to PA Housing. In the year ended 31 March 2017 and in relation to asra Housing Group, loan finance was in place within both asra Housing Association and Leicester Housing Association. The Group held no bond issuance. As at 31 March 2017 the Group had committed facilities of £439m (2016: £453m). Drawn loans as at 31 March 2017 totalled £398m (2016: £417m). Loan facilities were sourced from the banking sector and from 'club bond' lending intermediaries THFC and Orchardbrook. Borrowings were structured to minimise refinancing risk where possible, and the refinancing work performed during the year in preparation for the amalgamation with Paragon has significantly reduced our exposures in this respect.

PA HOUSING DEBT PORTFOLIO MATURITY LADDER (amounts repayable per annum £m)



Strategic Report

Treasury management - continued

Interest rate management

PA Housing, like asra before it, has a risk-averse attitude to interest rate movements, and our treasury strategy requires at least 50 per cent of drawn funds to be held on fixed or hedged rates of interest. As at 31 March 2017, 76 per cent of asra's drawn monies were held on this basis (2016: 79 per cent), comprising a combination of standard fixed rate debt embedded within loan facility agreements, free-standing derivative swaps into fixed rates, and RPI-linked debt. asra's mark to market exposure on free-standing derivatives as at 31 March 2017 was £83.4m (2016: £79.2m). This exposure is covered by a combination of property and cash security, with excess security in place to cover adverse market movements. On 26 May 2017 asra cancelled £40m nominal of free-standing derivatives, reducing the mark to market exposure as at that date by c.£25m. The Treasury Management Policy requires the business to hold a prudent level of excess security at all times. Interest and related expense on our loans was £18.2m during the year (2016: £20.6m). The weighted average cost of funds as at 31 March 2017 was 4.32 per cent (2016: 4.97 per cent).

During the year the Group pursued the option of novating a swap transaction in LHA to AHA. A single Lloyds trade with a notional amount of £10m and a fixed rate of 3.85% was novated from LHA to AHA on 31st August 2016.

Covenant compliance

asra's primary loan facility financial covenants were based on interest cover and gearing ratios. Covenants were monitored throughout the year, reported to the Investment Committee on a quarterly basis and annually to the finance providers. Covenants were met as at the Statement of Financial Position date and we expect this to continue to be the case going forward as PA Housing.

Liquidity and cash flow

Surplus funds from operations are used to avoid the drawing of additional loans for the purposes of funding new development activity. During the year asra had access to a £90m revolving credit facility, from which £49m was drawn at the end of the year. Future surplus funds may be used to repay revolving debt for re-use if cash flow forecasts indicate that this is a sensible course of action. Any additional cash balances are placed on short-term deposit on a portfolio basis to minimise counterparty risk. PA Housing will only deposit monies with institutions which comply with stringent Treasury Management Policy parameters, based on credit rating agency assessments of financial strength. The combination of internal cash generated by the business and available loan facilities are sufficient to fund PA Housing's anticipated development programme for at least the next two financial years.

Assessment of the effectiveness of internal control

The Group Board has overall responsibility for establishing and maintaining the system of internal control. As with all systems of internal control, it is designed to manage rather than eliminate all risk of failure to achieve business objectives and can therefore provide reasonable and not absolute assurance against material misstatement or loss. The system of internal control is subject to continuing review and development.

The Group Board delegates responsibility for the annual review of the effectiveness of the system of internal control to the Audit and Risk Committee. The Committee met four times during the course of the year. Assurance over the control environment was obtained from the following main sources:

(a) Risk management framework.
(b) Internal audit service.
(c) Financial and performance monitoring and management systems.
(d) Senior management certification of controls.
(e) Policy framework covering all major aspects of the operation of the business.
(f) Human Resource policies and performance management system.

The Audit and Risk Committee formally reviews the system of internal controls on an annual basis. The Committee is mandated to have oversight of the system and considers internal controls at each meeting. The formal review comprises of:

(a) Annual report of the Group Internal Audit Manager.
(b) Analysis of the senior management assessment of internal control.
(c) Statement of review of internal controls by the Executive Team and presented to the Committee by the Group Chief Executive.

The Audit and Risk Committee document their review in an annual report which is presented to the Group Board.

Conclusion

The Group Board, through the Audit and Risk Committee, has reviewed the effectiveness of the Group's risk management, internal control and governance processes throughout the year ended 31 March 2017 and up to the date of approval of the annual report and accounts. The Group Board confirms that no significant weaknesses in internal controls have been identified up to the date of signing the annual report and accounts that would result in material losses, contingencies or uncertainties, and require disclosure in the financial statements.

Statement of Board member's responsibilities

The Board is responsible for preparing the Board and Strategic Reports and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the association and of the income and expenditure of the Group and the association for that period.

In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Group is governed by a common board comprising eight Non-Executive Directors, who are members of both LHA and AHA as well as the parent Board, and the Chief Executive. Each Director is selected for the skills and knowledge they offer relative to the strategic priorities of the Group. The Board also delegates authority to four specialist committees, Risk & Audit, Governance & Remuneration, Customer Services and Investment. Roles, responsibilities and accountabilities are established in Standing Orders, a document owned by the board.

The Group certifies compliance with the Governance and Financial Viability Standard issued by the HCA.

Table 3 shows the attendance record of the Board and Committee members at Board and Committee meetings during the year.

Table 3 Board Member Attendance

Name	Board	Risk & Audit Committee	Investment Committee	Customer Service Committee	Governance & Remuneration Committee
Board Members:					
Aman Dalvi	7 of 7				
Stephen Duck	1 of 1	1 of 1	1 of 1		1 of 1
Jaffer Kapasi	6 of 7			3 of 4	3 of 5
Ponniah Rasanesan	4 of 7	3 of 5	6 of 7		
Anne Turner	7 of 7	5 of 5	7 of 7		
Steve Amos	7 of 7	5 of 5	6 of 7		
Wayne Morris	7 of 7			3 of 4	5 of 5
Aniekan Umoren	4 of 7			2 of 4	3 of 5
Chris Cheshire	7 of 7		3 of 4		
Katherine Lyons	7 of 7				3 of 3
Committee members:					
Paul Periton		3 of 5			
Matt Cooney	7 of 7	5 of 5	7 of 7	4 of 4	5 of 5

Non-executive members received the following remuneration for the year:

Table 4 Board Member Remuneration

Board members received the following pay in:	**2016-17 £**	2015-16 £
	Remuneration	
Aman Dalvi	21,129	21,307
Stephen Duck	1,858	12,208
Jaffer Kapasi	11,526	11,332
Ponniah Rasanesan	9,086	11,656
Anne Turner	11,970	9,582
Steve Amos	11,704	9,966
Aniekan Umoren	8,774	9,026
Wayne Morris	13,033	12,019
Chris Cheshire	8,043	-
Katherine Lyons	8,348	-
TOTAL	**105,471**	**97,096**

asra Housing Group's Report of the Board of Management - continued

With effect from 1 April 2015 Board members have received the following remuneration: £20,890 per Group Chairman, £13,995 per Deputy (vacant), £11,331 per Chair of Committees and £8,774 per ordinary member per annum.

Only Group Board non-executive Directors receive remuneration.

Disclosure of information to Auditors

The Directors who held office at the date of approval of this statement confirm, so far as they are each aware, there is no relevant audit information of which the Group's independent auditors are unaware; and each Director has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group's independent auditors are aware of that information.

Approved by the board and signed on its behalf by:

Anne Turner
Board Member
14 September 2017

Independent auditor's report to asra Housing Group Limited

We have audited the financial statements of asra Housing Group for the year ended 31 March 2017 set out on pages 33 to 74. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 28, the association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and the association as at 31 March 2017 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Independent auditor's report to asra Housing Group Limited - continued

Matters on which we are required to report by exception

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

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

SBrown

Sarah Brown
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

18 September 2017

Consolidated Statement of Comprehensive Income for the year ended 31 March 2017

	Note	2017	2016 restated
		£'000	£'000
Turnover	2	90,049	90,187
Less: Operating Expenditure	2	(64,543)	(59,730)
Less: Operating costs pension deficit		-	(3,654)
Gain on disposal of property, plant and equipment	7	1,943	2,019
Movement in fair value of investment properties	13	1,065	244
Negative goodwill - gift	33	1,551	-
Operating Surplus	2	30,065	29,066
Interest receivable		154	256
Interest and financing costs	10	(16,857)	(18,626)
Movement in fair value of financial instruments	23	(8,055)	1,294
Surplus before tax		5,307	11,990
Taxation	11	(144)	(96)
Surplus for the year		5,163	11,894
Change in fair value of hedged financial instruments	23	3,055	(8,036)
Total comprehensive income for the year		8,218	3,858

The turnover and operating surplus for the current year all relate to continuing activities.

Consolidated Statement of Financial Position as at 31 March 2017

	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Fixed Assets					
Intangible assets and goodwill	30	(13,930)		(14,591)	
Tangible fixed assets – housing properties	12	950,696		960,176	
Other tangible fixed assets	12	4,559		4,839	
Investment properties	13	9,637		8,274	
Investments	14	558		525	
			951,520		959,223
Current Assets					
Stock	15	26,510		13,376	
Trade and other debtors	16	2,970		3,654	
Investments	17	6,165		14,720	
Cash and cash equivalents		26,915		30,692	
		62,560		62,442	
Less: Creditors: amounts falling due within one year	18	(54,480)		(37,499)	
Net current assets			8,080		24,943
Total assets less current liabilities			959,600		984,166
Creditors: amounts falling due after more than one year	19		(897,506)		(930,290)
Total net assets			62,094		53,876
Reserves					
Income and expenditure reserve			89,604		84,353
Called up share capital	26		-		-
Cash Flow Hedge reserve	29		(27,697)		(30,752)
Revaluation reserve			110		110
Restricted reserve	29		77		165
			62,094		53,876

The financial statements on pages 33 to 74 were approved by the Board on 14 September 2017 and signed on its behalf by:

Aman Dalvi
Chairman

Anne Turner
Board Member

Marion Hall
Company Secretary

Statement of Changes in Reserves as at 31 March 2017

	Cash Flow Hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Income and exp. reserve £'000	Total £'000
At 1 April 2016	(30,752)	110	165	84,353	53,876
Movement in the year	3,055	-	-	5,163	8,218
Transfer of restricted expenditure to income and expenditure reserve	-	-	(88)	88	-
Balance at 31 March 2017	(27,697)	110	77	89,604	62,094

Consolidated Statement of Cash Flow for the year ended 31 March 2017

	Note	**2017**	2016
		£'000	£'000
Net cash generated from operating activities	31	47,003	34,489
Cash flow from investing activities			
Tax paid	11	(96)	(176)
Purchase of tangible fixed assets		(30,679)	(38,443)
Proceeds from sale of tangible fixed assets		6,726	8,849
Grants received	20	1,545	1,663
Grants repaid	24,25	(26)	(1,507)
Interest received		154	256
Cash flow from financing activities			
Interest paid		(18,385)	(20,632)
New secured loans		-	-
Repayments of borrowings		(18,574)	(3,824)
Withdrawal from deposits		8,555	3,520
Net change in cash and cash equivalents		(3,777)	(15,805)
Cash and cash equivalents at beginning of the year		30,692	46,497
Cash and cash equivalents at end of year		26,915	30,692

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements for the year ended 31 March 2017

1 Basis of accounting

The Financial Statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and the Statements 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 asra Housing Group is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102. Details of the transition to FRS102 are shown in Note 33.

1.1 Accounting Convention

The Financial Statements are prepared under the historical cost convention.

1.2 Going Concern

The Group's activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to credit, liquidity and cash flow risk are described in the Strategic Report.

On 13 April 2017 Asra Housing Association and Leicester Housing Association amalgamated with Asra Housing Association and Paragon Community Housing Limited into a newly formed community benefit society Paragon Asra Housing Limited. The rationale for the above amalgamation is to create capacity to build additional homes and extract efficiencies to further improve services. The combined asset base provides economies of scale and critical mass to withstand the continuing political and economic challenges. Moody's has assigned A2 negative rating, unchanged from the previous year, to Paragon Asra Housing Limited.

The Group is now amalgamated into Paragon Asra Housing Limited and as such has a well developed business plan and risk management strategy. The Board has assessed the plans based on latest available information, and after making enquiries, reviewing budgets and forecasts and examining major areas which could give rise to significant financial exposure, the Directors are satisfied that no material or significant exposures exist other than as reflected in these Financial Statements and that whilst noting the risks and uncertainties in the current environment asra Housing Group Limited (now amalgamated into Paragon Asra Housing Limited) has adequate resources to continue its operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing accounts.

1.3 Key estimates and judgements

The key estimates and judgements used in preparing these Financial Statements are the estimated value of completed properties, the recoverability of rent arrears, the impairment of housing properties, the fair value of investment properties, the value of schemes in the course of development, the fair value of financial instruments and the assumption of going concern.

1.4 Basis of consolidation

The Group is required by the Co-operative and Community Benefit Societies Act 2014 to prepare group accounts. The Group accounts comprise those of asra Housing Group Limited together with its subsidiaries, in accordance with the requirements of FRS102. The Association itself had no turnover, operating costs or other income or expenditure and had no assets or liabilities other than investment in subsidiaries. All notes are the consolidated Group position.

Notes to the Financial Statements for the year ended 31 March 2017

1.5 Turnover

Turnover is net of voids and VAT and includes:

- Rents and service charges
- Residential charges
- Revenue grants
- Supporting People income receivable
- Management Fees
- Call Centre income
- Amortisation of Social Housing Grant

Charges for services provided and Supporting People income are recognised as income when asra has provided the service concerned. Grants made as contributions to revenue expenditure are credited to income in the period in which the related expenditure is incurred.

Turnover has been analysed in accordance with the requirements of Homes and Communities Agency – The Accounting Direction for Social Housing in England from April 2015 (see note 2).

1.6 Interest Payable

Interest is capitalised on borrowing to finance developments to the extent that it accrues in respect of the period of development if it represents either:

a) interest on borrowings specifically financing the development programme after deduction of interest on social housing grant in advance; or
b) interest on borrowings of asra as a whole after deduction of interest on social housing grant in advance to the extent that they can be deemed to be financing the development programme.

Other interest payable is charged to the Statement of Comprehensive Income in the period.

1.7 Pensions

The Group participates in the defined contribution schemes of the Social Housing Pension Scheme.

The Group participated until 31 December 2013 in a pension scheme providing benefits based on career average pay. The assets of the scheme are held separately from those of the Group. The Group is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by paragraphs 28.13 and 28.13A of FRS 102 accounts for the scheme as if it were a defined contribution scheme.

A contractual agreement is in place between the Group and SHPS to fund the deficit. The liability for contributions payable that arise from the agreement (to the extent that they relate to the deficit) is recognised as a liability in the Statement of Financial Position in the year in which they become payable 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.

Contributions payable to the Group stakeholder's pension scheme are charged to the income and expenditure account in the period to which they relate.

1.8 Taxation

The charge for taxation is based on surpluses arising on certain activities which are liable to tax. The Group accounts for deferred tax in line with the requirements of FRS102. A deferred tax asset is only recognised on the basis of available evidence where it is more likely than not that there will be taxable profits in the future, against which a deferred tax asset will be offset.

1.9 VAT

Certain members of the Group are VAT registered but a large proportion of the income (rents) is exempt for VAT purposes and this therefore gives rise to a partial exemption calculation. Expenditure is therefore shown inclusive of VAT and the input VAT recovered is included in turnover.

1.10 Supported housing schemes

In respect of supported housing schemes owned by the Group where the managing agents suffer the risks and have control of benefits, the income and expenditure and related current assets and liabilities are not included in the financial statements.

1.11 Housing properties and depreciation

General needs properties, sheltered housing and shared ownership properties are stated at cost less depreciation.

Cost for housing properties includes the cost of acquiring land and buildings, construction costs including internal equipment and fittings, directly attributable development administration costs, cost of capital employed during the development period and expenditure incurred in respect of improvements to and extension of existing properties to the extent that it enhances the economic benefit derived from the assets.

Directly attributable development administration costs are the labour costs of the Group's own employees arising directly from the construction or acquisition of the property, and the incremental costs that would have been avoided, only if the property had not been constructed or acquired.

Expenditure on repairs to properties and equipment arising through normal wear and tear is charged to the Statement of Comprehensive Income in the year in which it occurs.

Properties developed for sale

Shared ownership properties are split between fixed and current assets, with the element relating to the expected first tranche sale being treated as a current asset along with completed properties for outright sale. Current asset properties are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour costs and other direct overheads. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal.

Any surplus made on the sale of the first tranche or on the entirety of an outright sale property is treated as turnover in the Statement of Comprehensive Income in accordance with the treatment proposed in the SORP 2014. Second and subsequent tranche surpluses or deficits are included within operating surplus as gain on disposal of property, plant and equipment.

1.11 Housing properties and depreciation- continued

The Group separately identifies the major components which comprise its housing properties, and charges depreciation to write down the cost of each component to its estimated residual value, on a straight line basis, over its estimated useful economic life.

The major components of its housing properties and their useful economic lives are as follows:

Building structure	60 – 125 years
Roofs	50 years
Kitchens	20 years
Bathrooms	30 years
Windows and doors	35 years
Heating and boilers	15 years

During the year the useful economic life of components were assessed and amended. The overall impact for the year ended 31 March 2017 was an increase of £2,582k to the depreciation charge recognised in the Statement of Comprehensive Income. The overall impact in future years of the change in estimate is nil, as the reassessment of useful economic lives would only impact the timing of the recognition of depreciation and not impact the overall depreciation charge over the life of the component. In addition during the year properties with costs against only land and structure on the fixed asset register were split fully into components. This increased the depreciation charge as more cost is now allocated to components and these have lower useful economic lives than structure.

Freehold land and assets in the course of construction are not depreciated.

Social Housing Grant and other capital grants are included in creditors and amortised in line with the life of the structure.

Depreciation has been provided to write down the cost of housing buildings, less capital grants received, to their estimated residual value, over the useful economic life of the buildings in equal annual instalments.

The useful economic life of a property has been deemed to commence at:
- the completion of major refurbishment work after purchase; or
- completion of building work for new build properties; or
- date of purchase if no major refurbishment works take place

Impairment reviews are carried out annually where properties have an economic life in excess of 50 years, and provision made against the carrying value where appropriate.

1.12 Investment properties

Properties that are held to earn commercial/market rate rentals or for capital appreciation, or both, are treated as investment properties and accounted for in accordance with Section 16 of FRS102. Investment properties include market rent, student let and commercial properties. Investment properties are accounted for at fair value and are professionally valued at each reporting date.

1.13 Basic financial instruments

Rental debtors (tenant arrears) and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

1.14 Government and other grants

Government grants are recognised using the accrual model and are classed as either 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 expense 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.

Grants relating to assets are recognised in income on a systematic basis over the expected 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.

1.15 Recycled Capital Grant Fund

The Group has the option to recycle social housing grant, which would otherwise be repayable, for re-use on new developments. If unused within a three year period, it will be repayable to the either the Homes and Communities Agency or Greater London Authority (for London grant) with interest. Any unused recycled capital grant held within the fund, which is older than two years is disclosed in the balance sheet under ‘creditors due within one year’. The remainder is disclosed under ‘creditors due after more than one year’.

1.16 Finance issue costs

Arrangement fees (and other up front direct transaction costs), for both fixed and floating facilities, are calculated at facility level (which reflects the reality of the arrangement) and are apportioned evenly across all interest periods, effectively meaning that transaction costs are amortised on a straight line basis over the life of the loan.

For the purposes of transition to FRS102 at 1st April 2014, the Group has adjusted the carrying value in the opening balance sheet (1st April 2014) for each fixed and floating rate loan to the nominal debt amount less the unamortised fees under UK GAAP for that loan. FRS102 paragraph 11.20 requires that the unamortised fee balance is netted off against the loan liability.

1.17 Hedges

Interest rate swaps relate to fixing variable rate interest and are therefore designated as cash flow hedges.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable transaction, which could affect profit or loss. They are measured at fair value at each reporting date. Gains and losses on cash flow hedges which are highly effective are recognised in other comprehensive income and accumulated in the cash flow hedge reserve.
Any ineffective portion of a gain or loss on cash flow hedges is recognised in surplus or deficit.

In order to apply hedge accounting, an economic relationship must exist between the hedged item and the hedging instrument. The Group must formally designate and document the hedging relationship at inception so that the risk being hedged, the hedged item, the hedging instrument and the risk management objective for undertaking the hedge are clearly identified. It is also required to determine and document the causes of hedge ineffectiveness.

In a cash flow hedge, if the hedged future cash flows are no longer expected to occur, the amount that has been accumulated in the cash flow hedge reserve is reclassified from the cash flow hedge reserve to surplus or deficit immediately.

All of the Group's stand-alone swaps satisfy the above criteria and the Group has chosen to test the effectiveness of its hedges annually. For ineffective hedges the movement in fair value has been recognised in the surplus or deficit.

1.18 Other tangible fixed assets

Other freehold properties:
Office buildings are depreciated down to their residual value over 50 years.

Other fixed assets:
Depreciation is charged on a straight line basis over the expected useful lives of other assets at the following annual rates:-

Furniture, fixtures and fittings	10% & 20%
Motor vehicles	20%
Computer and office equipment	20% to 33.3%

1.19 Investments

Investments are stated at fair value.

1.20 Reserves

Although under their Rules the Registered Providers do not trade for profit, the Board plans the Group's financial affairs so that each year income exceeds expenditure. This policy ensures that the Group has a margin of safety to manage unexpected expenditure or shortfalls in income. The annual surplus also enables the Group to meet its commitments to providers of private finance and continue to raise further private finance.

The Board regularly reviews the Group's finances to determine the minimum amount of reserves required for day to day management of the group and to provide for the future. Any amounts over and above this minimum are invested in the provision of social housing.

1.21 Restricted reserves

The restricted reserves are reserves to be spent for the sheltered tenants benefit.

1.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event. It is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

1.23 Impairment

An assessment of whether indicators of impairment exist is carried out at each reporting date. If such an indicator exists an impairment assessment is carried out and the recoverable amount of the asset or cash generating unit is assessed. Any impairment in an income generating unit is recognised by a charge to the Statement of Comprehensive Income. The following indicators of impairment are considered;

- government rent regime changes e.g. the 1 per cent rent reduction announced in Summer 2015;
- a change in government policy, regulation or legislation which has a material detrimental effect on the development programme or scheme;
- an issue that was not identified as part of planning for a development which results in a material increase in development costs. e.g. contractor performance failure;
- a change in demand for a property that is considered irreversible;
- market value declining significantly more than would be expected in those circumstances where assets are intended or expected to be sold or where the occupant has the right to purchase under shared ownership arrangements;
- obsolescence of a property, or part of a property. e.g. regeneration or demolition planned.

Where an indicator of impairment exists an impairment assessment is carried out as follows:

- the level at which an impairment is to be assessed is determined i.e. the asset or cash generating unit;
- the recoverable amount is estimated;
- the carrying amount is calculated;
- the carrying amount is compared to the recoverable amount to see if an impairment loss has occurred.

An impairment loss occurs when the carrying amount of an asset or cash generating unit exceeds its recoverable amount.

Notes to the Financial Statements for the year ended 31 March 2017

1.24 Stocks

Stocks are stated at the lower of cost and net realisable value.

1.25 Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

1.26 Negative Goodwill on fair value exchanges

Negative goodwill, being the excess of fair value of the underlying separable net assets over the fair value of the consideration, is shown as part of intangible fixed assets.

An amount equal to the fair value of the non-monetary assets acquired is being released to the income and expenditure account commensurately with the recovery of the non-monetary assets acquired, whether through depreciation or sale.

1.27 Goodwill and Negative Goodwill on non-exchange transactions

For non-exchange transactions (acquisitions in the social housing sector that are in substance a gift of one business to another), the fair value of the gifted recognised assets and liabilities is recognised as a gain or loss in the income and expenditure account in the year of transaction.

Notes to the Financial Statements for the year ended 31 March 2017

2 Particulars of turnover, operating costs and operating surplus

Analysis of turnover

	2017 £'000				
	Turnover	Operating costs	Surplus on assets	Negative Goodwill Gift	Operating surplus/ (deficit)
Social Housing Lettings (Note 3)	76,714	(55,957)	-	-	20,757
Outright property sales	1,212	(695)	-	-	517
First tranche shared ownership sales	6,315	(3,154)	-	-	3,161
Development costs written off	-	(417)	-	-	(417)
Managed services	1,535	(1,028)	-	-	507
Goodwill Amortisation	661	-	-	-	661
Other	2,305	(1,330)	-	-	975
Market Rented	1,307	(590)	-	-	717
Impairment	-	(1,372)	-	-	(1,372)
Gain on disposal of property, plant and equipment	-	-	1,943	-	1,943
Movement in fair value of investment properties	-	-	1,065	-	1,065
Negative goodwill - gift	-	-	-	1,551	1,551
	90,049	(64,543)	3,008	1,551	30,065

Analysis of turnover

	2016 £'000			
	Turnover	Operating costs	Surplus On assets	Operating surplus/ (deficit)
Social housing lettings (note 3)	75,980	(54,045)	-	21,935
Current asset property sales	7,514	(4,623)	-	2,891
Development costs written off	-	(252)	-	(252)
Managed services	1,369	(1,034)	-	335
Goodwill Amortisation	911	-	-	911
Other	3,135	(1,503)	-	1,632
Market Rented	1,278	(1,177)	-	101
Impairment	-	(750)	-	(750)
Gain on disposal of property, plant and equipment	-	-	2,019	2,019
Movement in fair value of investment properties	-	-	244	244
	90,187	(63,384)	2,263	29,066

Total development administration costs capitalised were £1,885k (2016: £1,111k).

Notes to the Financial Statements for the year ended 31 March 2017

3 Particulars of income and expenditure from lettings

	2017 £'000					2016 £'000
	General needs	**Supported Housing**	**Shared Ownership**	**Housing for Older people**	**Total**	Total
Income from lettings activities						
Rents receivable	55,794	50	2,007	7,016	64,867	64,316
Supporting People	3	-	-	50	53	188
Service charges receivable	3,394	2	349	2,842	6,587	6,345
Net rents receivable	59,191	52	2,356	9,908	71,507	70,849
Amortisation of Social Housing Grant	4,136	11	129	728	5,004	4,902
Revenue grants from agencies	-	-	-	-	-	33
Miscellaneous income from lettings	5	198	-	-	203	196
Total income from lettings activities	63,332	261	2,485	10,636	76,714	75,980
Expenditure on lettings activities						
Services	4,364	21	216	2,108	6,709	6,355
Management	13,637	18	648	1,782	16,085	19,958
Pension effect of triennial actuarial valuation	-	-	-	-	-	3,654
Day to day repairs	8,545	7	78	651	9,281	9,393
Planned maintenance	2,571	4	4	366	2,945	3,345
Major repairs and stock re-investment	266	-	-	82	348	66
Rent losses from bad debts	828	16	6	66	916	176
Depreciation of housing properties	14,830	19	373	2,625	17,847	11,097
Write off of components	1,490	-	-	336	1,826	1
Total expenditure on lettings activities	46,531	85	1,325	8,016	55,957	54,045
Operating surplus from lettings activities	16,801	176	1,160	2,620	20,757	21,935
Void Losses	781	-	10	162	953	1,061

Notes to the Financial Statements for the year ended 31 March 2017

4 Intra group transactions between regulated and non-regulated entities

asra Construction Services Limited (ACSL) provides design and build development services to LHA and to AHA. It is not a registered provider and is therefore classified by the HCA as a non-regulated entity.

Service Level and Framework Agreements are in place between LHA, AHA and ACSL. Development services are provided to ACSL by both AHA and LHA. Finance services are provided by LHA. These are recharged by AHA and/or LHA at cost with an appropriate transfer pricing mark-up applied.

ACSL recharges AHA or LHA with design and build costs for development services carried out. ACSL has no employees.

Aggregate costs recharged for the year ended 31 March 2017 are as follows:

	2017			2016		
	ACSL £'000	**AHA £'000**	**LHA £'000**	ACSL £'000	AHA £'000	LHA £'000
ACSL recharges	-	21,096	-	-	25,578	2,701
AHA development recharge	275	-	-	279	-	-
LHA development recharge	-	-	-	-	-	-
AHA finance recharge	181	-	-	-	-	-
LHA finance recharge	69	-	-	38	-	-

Notes to the Financial Statements for the year ended 31 March 2017

5 Units of accommodation

	2017 Number	2016 Number
Social Housing Properties		
General needs housing	8,616	8,770
Affordable rent	997	857
Intermediate rent	319	333
Supported housing	144	145
Shared ownership	590	600
Housing for older people	1,372	1,306
Total owned	12,038	12,011
Managed on behalf of others	1,589	1,214
Total managed social housing	13,627	13,225
General needs housing	246	246
Supported housing	304	310
Total social owned but managed by others	550	556
Non-social housing		
Key workers	226	226
Student accommodation	20	20
Market rent	109	105
Total managed non-social housing	355	351
Non-social owned but managed by others	11	11
All Accommodation		
Owned and managed	12,393	12,362
Managed	1,589	1,214
Total managed	13,982	13,576
Total owned but managed by others	561	567
Total stock	14,543	14,143
Homes under construction	369	382
Garages	374	374

6 Surplus on ordinary activities before taxation

	2017	2016
	£'000	£'000
Surplus on ordinary activities before taxation is after charging/(crediting):		
Depreciation of housing properties and write off of replaced components	19,673	11,561
Depreciation of other tangible owned fixed assets	764	1,160
Amortisation of social housing grant	(5,004)	(4,902)
Impairment of properties	1,372	750
Operating lease payments	368	381
Auditor's remuneration:		
In their capacity as auditors	77	96
In respect of other services	80	22

The auditors' non-audit work in 2017 included assistance with an HMRC construction industry scheme tax enquiry and tax due diligence assistance regarding the amalgamation with Paragon.

7 Sale of Properties

	Voluntary sales	**Shared ownership conversion**	**Shared ownership subsequent tranches**	**Right to acquire sales**	**Total 2017**	Total 2016
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000
Proceeds of sale	2,576	1,500	2,035	615	6,726	8,585
Less: costs of sale	(1,660)	(1,109)	(1,399)	(615)	(4,783)	(6,427)
Abated Loss	-	-	-	-	-	(139)
Net surplus on disposal	916	391	636	-	1,943	2,019

Notes to the Financial Statements for the year ended 31 March 2017

8 Directors and senior staff emoluments

The directors are defined as the Chief Executive and the Directorate Team.

Directors (including former directors)	**2017** **£'000**	2016 £'000
Emoluments – Executive Directors	785	734
Emoluments – Non-Executive directors	102	93
Compensation payable to past directors in respect of loss of office	43	47
The emoluments of directors disclosed above (excluding pension contributions, but including benefits in kind) include amounts paid to:		
The highest paid director	154	153

The highest paid director refers to Matt Cooney, Group Chief Executive. The amount includes basic salary of £146,702 (2016: £146,702) and a car allowance. The Group Chief Executive is an ordinary member of the pension scheme as set out in note 28.

The Non-Executive Directors were remunerated as follows:

From 1 April 2015: £20,890 per Group Chairman, £13,995 per Deputy, £11,331 per Chair of Committees and £8,774 per ordinary member per annum.

Only Group Board Non-Executive Directors receive remuneration, named individual remuneration and expenditure reimbursement details in compliance with Provision D11 of the 2015 NHF code can be found in the Operating & Financial Review.

Notes to the Financial Statements for the year ended 31 March 2017

Directors and senior staff emoluments - continued

Staff emoluments (includes redundancy payments)	**2017 number**	2016 number
Full time equivalent number of staff (including directors) whose remuneration payable (including compensation for loss of office, benefits in kind and pension contributions) was between:		
£60,000 - £70,000	4	10
£70,001 to £80,000	5	5
£80,001 to £90,000	2	3
£90,001 to £100,000	2	3
£100,001 to £110,000	-	4
£110,001 to £120,000	2	1
£120,001 to £130,000	-	2
£130,001 to £140,000	-	-
£140,001 to £150,000	-	-
£150,001 to £160,000	-	-
£160,000 to £170,000	1	2
Total	16	30

Included above due to redundancy	1	18

9 Staff Costs

	2017	2016
	£'000	£'000
Staff costs including directors:		
Wages and salaries	10,676	13,436
Social security costs	995	1,161
Other pension costs	498	844
Triennial actuarial valuation effect	-	3,654
	12,169	19,095

Average number of full time equivalent persons (including the directors) employed during the year:	**Number**	Number
Development and Assets	85	87
Housing, Lettings and Care	186	236
Central Services	88	91
Total employees	359	414

10 Interest payable and similar charges

	2017	2016
	£'000	£'000
Housing loans interest	11,870	13,463
Housing loan fees	183	1,360
Pension unwinding cost	556	31
Interest rate swap obligation	6,137	5,809
RCGF and DPF interest	4	2
	18,750	20,665
Less: Capitalised	(1,893)	(2,039)
	16,857	18,626

Interest rates charged on housing loans varied between 0.59% and 12.02%

Interest is capitalised on properties under construction using the weighted average interest rate for the whole facility (drawn and swaps) of 4.32%.

Notes to the Financial Statements for the year ended 31 March 2017

11 Taxation

	2017	2016
	£'000	£'000
Analysis of charge in year		
Current tax:		
UK corporation tax on surplus for year	144	96
Total current tax (see below)	144	96
Total tax charge	144	96

Factors affecting the tax charge for the year		
Surplus before taxation	5,307	11,990
Tax charge at 20% (2016: 20%)	1,061	2,398
Exempt charitable income	(917)	(2,302)
Current tax charge for the year (see above)	144	96

Notes to the Financial Statements for the year ended 31 March 2017

12 Tangible Fixed Assets – Housing Properties

	Housing properties held for letting £'000	Housing properties in the course of construction £'000	Completed shared ownership housing properties £'000	Shared ownership in the course of construction £'000	Total £'000
COST					
At 1 April 2016 (restated)	932,584	41,450	46,110	4,497	1,024,641
Additions	9,255	17,435	408	4,981	32,079
Transfer to current assets	(14,015)	-	(2,964)	(129)	(17,108)
Transfer to investment property	(298)	-	-	-	(298)
Reclassification - cost	(2,735)	-	2,735	-	-
Disposals	(1,977)	-	(2,492)	-	(4,469)
Components write off	(2,713)	-	-	-	(2,713)
Schemes completed	14,527	(14,527)	3,167	(3,167)	-
At 31 March 2017	934,628	44,358	46,964	6,182	1,032,132
DEPRECIATION					
At 1 April 2016 (restated)	59,991	-	1,738	-	61,729
Charge for the period	17,358	-	373	-	17,731
Fair value adjustment re. acquisition	116	-	-	-	116
Transfer to current assets	(897)	-	-	-	(897)
Eliminated on disposal	(201)	-	(111)	-	(312)
Components write off	(887)	-	-	-	(887)
At 31 March 2017	75,480	-	2,000	-	77,480
IMPAIRMENT					
At 1 April 2016	1,986	375	-	375	2,736
Charge for the year	-	1,034	-	338	1,372
Eliminated on disposals	(152)	-	-	-	(152)
At 31 March 2017	1,834	1,409	-	713	3,956
NET BOOK VALUE					
At 31 March 2017	857,314	42,949	44,964	5,469	950,696
At 31 March 2016	870,607	41,075	44,372	4,122	960,176

	2017 £'000	2016 £'000
Housing properties comprise:		
Freeholds	879,284	866,661
Long leaseholds	61,610	87,257
Short leasehold	9,802	6,258
	950,696	960,176

An adjustment of £2,130k has been made to the opening cost and depreciation of housing properties held for letting relating to historic accounting for disposals. Net Book Value is not affected.
An adjustment of £970k has been made to the opening cost and depreciation of housing properties held for letting relating to historic accounting for component write offs. Net Book Value is not affected. In past years the net book value was taken out of cost this adjustment takes out the gross cost and gross depreciation.

Notes to the Financial Statements for the year ended 31 March 2017

Tangible Fixed Assets – Housing Properties continued

asra Housing Association Limited and Leicester Housing Association Limited commission asra Construction Services Limited (ACSL) to undertake design and build development services. The profit generated by ACSL on these additions to fixed assets is eliminated on consolidation.

Total works to existing properties are disclosed in the financial statements as:

	2017 £'000	2016 £'000
Capital works	7,419	7,646
Planned maintenance	2,945	3,345
Major repairs	348	66
	10,712	11,057

Freehold buildings with a carrying value of £712m (2016: £609m) have been pledged to secure borrowings of the Group. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Finance leases

The Group had no assets held under such leases at either year end. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and the leases often contain the option to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Impairment

The Group considers each scheme to represent separate cash generating units when assessing for impairment in accordance with the requirements of FRS102 and SORP 2014.

During the current year, the Group has recognised an impairment cost of £1,372k in respect of two development schemes (2016 - £750k cost in respect of a development scheme and £152k impairment from 2014-15 was released as it was no longer necessary).

Notes to the Financial Statements for the year ended 31 March 2017

Tangible Fixed Assets continued - other

	Freehold offices £'000	Furniture fixtures and fittings £'000	Computers and office equipment £'000	Motor vehicles £'000	Total £'000
COST					
At 1 April 2016	5,013	1,095	1,785	215	8,108
Additions	-	150	220	123	493
Write-offs	-	(26)	-	-	(26)
At 31 March 2017	5,013	1,219	2,005	338	8,575
DEPRECIATION					
At April 2016	1,001	805	1,336	127	3,269
Charge for year	104	254	337	69	764
Write-offs	-	(17)	-	-	(17)
At 31 March 2017	1,105	1,042	1,673	196	4,016
NET BOOK VALUE					
At 31 March 2017	3,908	177	332	142	4,559
At 31 March 2016	4,012	290	449	88	4,839

13 Investment properties

	Market Rent £'000	Commercial £'000	Total £'000
At 1 April 2016	7,003	1,271	8,274
Additions	298	-	298
Disposals	-	-	-
Revaluations	765	300	1,065
At 31 March 2017	8,066	1,571	9,637

Commercial properties were professionally valued by Jones Lang LaSalle, chartered surveyors, an independent valuer, to fair value at 31March 2017 and 31 March 2015.

Student accommodation and market rent properties, which are all freehold or long leasehold, were valued to fair value at 31 March 2017 and 2016 based on a valuation undertaken by Savills (UK) Limited, RICS Registered Valuers, an independent valuer with recent experience in the location and class of the investment property being valued. The method of determining fair value was Market Value Subject to Tenancies (MV-STT) using the discounted cash flow of the rental stream and significant assumptions applied were as follows:

- Based on market evidence from numerous sources;
- The property is not subject to any unusual or onerous restrictions;
- The building(s) is/are structurally sound.

Student accommodation is leasehold and was valued at £nil as at 31st March 2017 (2016: £nil).

Notes to the Financial Statements for the year ended 31 March 2017

14 Fixed Asset Investments

	2017	2016
	£'000	£'000
Other loans	558	525
	558	525

The above investments have been provided as a mortgage to an NHS Trust as part of joint partnership arrangements. They are measured at fair value with the future cash receipts discounted to net present value.

15 Stock

	2017	2016
	£'000	£'000
Consumable stocks	27	1
Housing stock for sale	11,242	73
Social rented completed units	-	673
Social rented under construction	1,263	1,190
Shared ownership completed units	129	2,317
Shared ownership under construction	5,823	4,562
Commercial completed units	-	22
Commercial under construction	1,617	1,998
Outright sales completed units	2,238	-
Outright sales under construction	4,031	2,313
Market rent completed units	-	87
Market rent under construction	140	140
	26,510	13,376

Properties developed for sale include capitalised interest of £1,640k (2016 - £1,146k). Housing stock for sale comprises 8 properties sold at auction in May and 144 units in various locations being marketed for sale in lots to other Registered Providers as part of a stock rationalisation programme.

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Notes to the Financial Statements for the year ended 31 March 2017

16 Trade and other debtors due within one year

	2017	2016
	£'000	£'000
Rental debtors	3,909	4,562
Less: provision for bad debts	(1,779)	(2,039)
	2,130	2,523
Other debtors	588	574
Prepayments and accrued income	252	557
	2,970	3,654

The recoverable amount of debtors and other trade receivables is equivalent to the cash amount

17 Current Asset Investments

GROUP AND ASSOCIATION	**2017 £000**	2016 £000
Collateral	6,165	14,720
	6,165	14,720

At 31 March 2017, at the request of the counterparties, cash collateral of £6,165k (2016: £14,720k) has been lodged with Lloyds, Santander and The Royal Bank of Scotland to secure mark to market (MTM) positions with swap counterparties. This collateral is included within current asset investments in the Statement of Financial Position.

18 Creditors (amount falling due within one year)

	2017 **£'000**	2016 £'000
Housing loans (note 19)	27,171	12,548
Trade creditors	2,424	1,847
Corporation tax	144	87
Other taxation & social security costs	338	571
Accruals and deferred income	17,495	15,892
Recycled capital grant fund (note 24)	433	320
Disposal proceeds fund (note 25)	67	12
Pension deficit contributions	1,345	1,294
Deferred capital grant (note 20)	5,063	4,902
Onerous contract	-	26
	54,480	37,499

The average time taken to pay creditors is 35 days.

19 Creditors (amount falling due after more than one year)

	2017 **£'000**	2016 £'000
Housing loans	371,128	404,326
Issue costs	(2,402)	(2,450)
Loan premium	77	93
Pension deficit contributions	8,897	9,686
Recycled capital grant fund (note 24)	2,460	1,450
Disposal proceeds fund (note 25)	1,180	778
Onerous contract	-	394
Deferred capital grant (note 20)	433,557	438,404
Derivatives financial instruments	82,609	77,609
	897,506	930,290
Housing loan amounts repayable by instalments:		
Repayable within one year	27,171	12,548
Repayable between one to two years	8,923	45,909
Repayable between two to five years	62,904	43,334
Repayable after five years	299,301	315,083
	398,299	416,874
Add: Loan premium	77	93
Less: Issue costs	(2,402)	(2,450)
	395,974	414,517

Notes to the Financial Statements for the year ended 31 March 2017

20 Deferred Capital Grant

	2017 **£'000**	2016 £'000
At 1st April	443,306	447,768
Grants received during the year	1,545	1,663
Grants recycled to the RCGF and DPF (notes 24 and 25)	(1,602)	(1,223)
Grants directly written back to RCGF	375	-
Released to income during the year	(5,004)	(4,902)
At 31st March	438,620	443,306
The original total value of the grant	501,907	502,417
Amount recognised in the Statement of Comprehensive Income	64,115	59,111
Due within one year	5,063	4,902
Due after one year	433,557	438,404

21 Provisions

	Onerous contract £'000	**Total £'000**
Balance at 31 March 2016	420	420
Provisions used during the year	-	-
Provision released during the year as no longer onerous	(420)	(420)
Balance at 31 March 2017	-	-

The obligation under the contract was recognised and measured as a provision for onerous contracts within creditors. During 2016-17 the contract has moved into surplus and is no longer considered onerous so the provision has been released.

22 Financial Instruments

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

	2017 £'000	2016 £'000
Financial Assets		
Measured at fair value through the Statement of Comprehensive Income:		
Cash and cash equivalents	26,915	30,692
Measured at discounted amount receivable:		
-Fixed asset investments (note 14)	558	525
Measured at undiscounted amount receivable:		
-Rent arrears and other debtors (note 16)	2,970	3,654
Total	30,443	34,871

	2017 £'000	2016 £'000
Financial Liabilities		
Measured at fair value and designated in a hedging relationship	82,609	77,608
Financial liabilities measured at fair value at amortised cost	834,517	857,729
Financial liabilities measured at fair value through the Statement of Comprehensive Income	34,378	31,793
Total	951,504	967,130

22 Financial Instruments – continued

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

	2017 £'000	2016 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	154	256
Total interest expense for financial liabilities at amortised cost	(16,857)	(18,626)
Fair value gains and losses		
On financial assets (including listed investments) measured at fair value through the Statement of Comprehensive Income	(5,000)	(6,742)

23 Derivative Financial Instruments

	Current		Non-current	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Liabilities				
Interest rate swaps	-	-	27,697	30,752
Non-hedged instruments carried at fair value				
Interest rate swaps	-	-	54,911	46,856
	-	-	82,608	77,608

Interest rate swaps are valued at present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

23 Derivative Financial Instruments – continued

Interest Rate Swap Contracts

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at 31 March:

Interest rate swap contracts designated as hedges of variable interest rate risk recognised financial liabilities

	Average contract fixed interest rate		Notional principal value		Fair value	
	2017	2016	**2017**	2016	**2017**	2016
Effective hedges	**%**	%	**£'000**	£'000	**£'000**	£'000
Outstanding receive floating rate pay fixed contracts						
0 - 1 years	-	-	-	-	-	-
1 - 5 years	-	-	-	-	-	-
Over 5 years	4.16	4.41	200,000	150,000	27,697	30,752
At 31 March	4.16	4.41	200,000	150,000	27,697	30,752
Not effective						
Outstanding receive floating rate pay fixed contracts						
0 - 1 years	-	-	-	-	-	-
1 - 5 years	-	-	-	-		-
Over 5 years	-	-	-	-	54,911	46,856
At 31 March	-	-	-	-	54,911	46,856
Total Hedges	4.16	4.41	200,000	150,000	82,608	77,608

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable rate interest rate risk of the Group's floating rate borrowings in accordance with FRS102 with varying degrees of effectiveness. The hedged cash flows are expected to occur and to affect surplus or deficit over the period to maturity of the interest rate swaps.

Gains of £3,055k (2016:£8,036k) were recognised in other comprehensive income representing the effective component of the swap. The ineffective components of £8,055k loss (2016: gain of £1,294k) representing the excess of the fair value of hedging instruments over the change in the fair value of expected cashflows were recognised in surplus or deficit. £27,697k (2016: £30,752k) was reclassified to surplus or deficit for the year.

During the year the Group pursued the option of novating a swap transaction in LHA to AHA. A single Lloyds trade with a notional amount of £10m and a fixed rate of 3.85% was novated from LHA to AHA on 31st August 2016.

23 Derivative Financial Instruments – continued

As at 31 March 2017 the Group had twelve cash flow hedges. The hedge relationships meet each condition for hedge accounting, which are consistent with the entity's risk management objectives for undertaking hedges.

The Group considers that an economic relationship exists between the hedging instrument (interest rate swap) and the hedged item (floating rate loan) in that the values of the hedged item and hedging instrument are expected to typically move in opposite directions in response to movements in the same risk, the hedged risk, over the life of the hedge.

The objective of the hedge is to mitigate the changes in the future cash flows stemming from the floating rate interest payments related to the floating rate loan entered into by the group.

In accordance with chapter 12 of FRS 102, hedge accounting has been applied to the following swap contracts:

	2017	2016
AHA	**£'000**	£'000
Lloyds £50m 1.413% 12th October 2020	1,379	1,066
Santander £10m 4.84% 25th June 2026	3,350	3,384
Lloyds £10m 4.70% 5th October 2032	4,793	4,622
Lloyds £20m 4.79% 4th January 2036	11,440	10,903
Lloyds £15m 4.44% 13th May 2038	8,455	7,965
Santander £10m 4.32% 4th July 2038	5,451	5,118
Lloyds £10m 3.85% 13 November 2049	6,516	-
	41,384	33,058

	2017	2016
LHA	**£'000**	£'000
Lloyds £20m 4.48% 26th February 2032	8,663	8,327
Lloyds £15m 4.39% 5th November 2037	8,151	7,680
Lloyds £15m 4.44% 13th May 2038	8,455	7,965
Lloyds £15m 4.37% 26 February 2041	9,169	8,561
Lloyds £10m 3.85% 13 November 2049	-	5,885
RBS £10m 3.90% 04 October 2050	6,786	6,133
	41,224	44,551

The hedged items have a variable interest rate risk associated with the LIBOR linked bank loan. The credit risk associated with the counterparty to the swap is considered to be low. Credit risk is reflected in the credit valuation adjustment amount to the risk free fair value of the derivative instrument. We cancelled three swaps with Lloyds on the 26th of May 2017. They had a notional value of £15m at a fixed rate of 4.37%, £15m at a fixed rate of 4.437% and £10m at a fixed rate of 3.85%.

Notes to the Financial Statements for the year ended 31 March 2017

24 Recycled Capital Grant Fund

	2017	2016
	£'000	£'000
Opening balance	1,770	776
Inputs to reserve		
Grants recycled	1,133	998
Interest accrued	4	-
Recycling of grant:		
New build	-	-
Cash repaid on expiry of three year investment period	(14)	(4)
Closing balance	2,893	1,770

	2017	2016
	£'000	£'000
Payable within one year	433	320
Payable greater than one year	2,460	1,450
	2,893	1,770

The regulator may require repayment of amounts 3 years or older of £433k (2016: £320k)

25 Disposal Proceeds Fund

	2017	2016
	£'000	£'000
Opening balance	790	2,066
Inputs to reserve:		
Grants recycled - Greater London Authority	469	225
Grants recycled – outside GLA	-	2
Interest accrued	-	-
Recycling of grant:		
New build	-	-
Cash repaid on expiry of three year investment period	(12)	(1,503)
Closing balance	1,247	790

	2017	2016
	£'000	£'000
Payable within one year	67	12
Payable greater than one year	1,180	778
	1,247	790

The regulator may require repayment of amounts 3 years or older of £67k (2016: £12k).

26 Called up share capital

	2017 **£**	2016 £
Allotted, issued and fully paid:		
At 1 April	8	4
Issued during the year	2	4
Cancelled during the year	(3)	-
At 31 March	7	8

The shares of the Association, each of £1.00 nominal value, carry no rights to a dividend or provision for redemption or a distribution on winding up. The members are entitled to a vote at annual and special meetings of the Association.

27 Operating lease obligations

At 31 March 2017 the Group was committed to non-cancellable operating lease minimum future payments for each of the following periods:

	Land and buildings		**Other**	
	2017 **£'000**	2016 £'000	**2017** **£'000**	2016 £'000
Operating leases which expire:				
Less than 1 year	380	369	-	7
Within 1 to 5 years	680	886	-	-
After 5 years	1,978	2,140	-	-
	3,038	3,395	-	7

28 Pension obligations

Defined Contribution

Defined Contribution Scheme - 1
All colleagues eligible to join

The Group participates in the defined contribution scheme of the Social Housing Pension Scheme ("SHPS" or "the Scheme"). Members have the choice of paying contributions of between 4% and 6% of salary with the employer (LHA or ASRA) matching these contributions. Members can pay more than 6% if they wish but the maximum employer contribution rate is 6%. This benefit structure is for all new starters and current colleagues who wish to join the scheme.

Defined Contribution Scheme - 2
Closed Scheme to new entrants from 31 December 2013.

Members that switched over from the CARE 1/60th section on 1 Jan 2014 have the choice of paying contributions of between 4% and 6% of salary with the employer matching these contributions, plus the employer paying an additional 4%. Members can pay more than 6% if they wish but the maximum employer contribution rate is 10%.

Accordingly, the contribution rates payable (as a % of salary) will be as set out in the table below.

Member Contribution	Employer Contribution	Total Contribution of Salary to be invested.
4%	8%	12%
5%	9%	14%
6%	10%	16%

Defined Contribution Scheme - 3
Auto Enrolment Scheme.

All eligible jobholders have been auto enrolled with effect from 1 May 2014. Initially members contribute 1% of pensionable salary and the employer (LHA or ASRA) also contributes 1% of pensionable salary.

Based on current legislation, the contributions are then expected to be increased over a phased period as follows:

- From 1 October 2017 – 2.5% from the employer and 2.5% from the employee.
- From 1 October 2018 – 4% from the employer and 4% from the employee.

Defined Benefit

Until 31 December 2013, LHA and AHA participated in the Social Housing Pension Defined Benefit Scheme ("SHPS" or "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.

28 Pension obligations – continued

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 with an effective date of 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:

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 £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the company 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.

Notes to the Financial Statements for the year ended 31 March 2017

28 Pension obligations – continued

Present value of provision

	2017 £'000	2016 £'000
Present value of provision	10,242	10,980

Reconciliation of opening and closing provisions

	2017 £'000	2016 £'000
Provision at start of year	10,980	8,242
Unwinding of the discount factor (interest expense)	201	198
Deficit contributions paid	(1,294)	(947)
Remeasurements – effect of triennial actuarial valuation	-	3,654
Remeasurements – impact of any change in discount factor	355	(167)
	10,242	10,980

Income and expenditure impact

	2017 £'000	2016 £'000
Interest expense	201	198
Remeasurements – impact of any change in discount factor	355	(167)
Remeasurements – amendments to the contribution schedule	-	3,654
Costs recognised in the income and expenditure account	556	3,685

Assumptions

	2017 % per annum	2016 % per annum
Rate of discount	1.69	2.45

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.

29 Reserves

The cash flow hedge reserve represents the hedged cash flows that are expected to affect surplus or deficit over the period to maturity of the interest rate swaps.

£88k of the restricted reserve was grant received from the Big Lottery Fund. This funding was held in a designated bank account as a requirement of the grant conditions. If the grant was not spent according to the agreement then it had to be repaid to The Big Lottery and was therefore also included as a creditor. This grant has now all been spent according to the grant conditions and there is no further liability.

The remaining restricted reserves are reserves to be spent for the sheltered tenants benefit.

30 Negative Goodwill

	Negative goodwill £'000
At 1 April 2016	14,591
Amortisation of goodwill	(661)
At 31 March 2017	13,930

Negative goodwill arose when the fair value of assets arising from the acquisition of a business was in excess of the fair value of the consideration given. An amount equal to the fair value of the non-monetary assets acquired is being released to the profit and loss account commensurately with the recovery of the non-monetary assets acquired, whether through depreciation or sale.

Notes to the Financial Statements for the year ended 31 March 2017

31 Consolidated cash flow statement

	Note	**2017 £’000**	2016 £’000
Cash Flow from operating activities			
Surplus for the year		5,163	11,894
Adjustments for non-cash items:			
Net impairment	12	1,220	750
Depreciation of tangible fixed assets		18,716	11,688
Amortisation of intangible assets	30	(661)	(911)
Decrease/(increase) in stock		1,892	(1,419)
Decrease in trade and other debtors		684	730
Increase/(decrease) in trade and other creditors		1,616	(787)
Pension costs less contributions payable	28	556	2,706
Carrying amount of tangible fixed asset disposals		7,182	6,398
Movement in fair value of assets and liabilities		6,990	(1,538)
Negative goodwill gift	33	(1,551)	-
Movement in provisions	21	(420)	-
Corporation tax	11	144	96
Adjustments for investing or financing activities:			
Proceeds from the sale of tangible fixed assets		(6,726)	(8,586)
Government grants utilised in the year	20	(5,004)	(4,902)
Interest payable		16,857	18,626
Interest received		(154)	(256)
Transfer of Engagement	33	499	-
		47,003	34,489

32 Capital Commitments

	2017 **£'000**	2016 £'000
Expenditure contracted for but not provided in the financial statements	20,735	74,297
Expenditure authorised by Board but not contracted for	17,365	35,193
	38,100	109,490

The Group successfully completed its 2011-15 Affordable Homes Programmes with both the Greater London Authority (GLA) in London and the Homes & Communities Agency (HCA) in the Midlands. The Group secured a fresh Social Housing Grant (SHG) allocation to deliver a similar sized Development programme over the current four year period from April 2015 through to March 2019, the majority of which will be in London with SHG funding from the GLA.
Loan facilities have been arranged to deliver the anticipated programme. The Group has £41m of undrawn loan facilities at 31 March 2017.
The Business Plan also demonstrates the Group's ability to service its debts, secure loans and repay long term loans as they fall due.

33 Transfer of Camberwell Housing Society

On 27 October 2016 Camberwell Housing Society, a registered charitable housing association transferred into asra Housing Association Limited. Camberwell consisted of 67 homes in Peckham Rye, London. 51 of the flats are long leasehold from Southwark Council with 14 years remaining and a different block of 16 flats are freehold. The results from the date transfer of have been included in the operating surplus.

This transfer of engagements has been accounted for as a gift under the public entity section of FRS 102 (paragraph PBE34.78) with the appropriate fair value adjustments being made to the assets and liabilities acquired and the excess of the fair value of the assets received over the liabilities assumed being recognised as a gain in the statement of comprehensive income. This gain represents the gift of the value of one entity to another. Housing assets were valued at existing use valuation – social housing (EUV-SH). We have illustrated below the financial impact on the Group financial statements:

	Book value before acquisition £'000	**Fair value adjustment £'000**	**Fair value at acquisition £'000**
Acquired:			
Housing assets	102	1,025	1,127
Cash	499	-	499
Other fixed assets	5	(5)	-
Other net current liabilities	-	(75)	(75)
Total acquired	606	945	1,551
Consideration given:			
Total consideration given	nil	nil	nil
Gift received			1,551

34 The subsidiary companies

The Association had until April 13th 2017 subsidiary companies (held at nil value) as follows:

Leicester Housing Association Limited	-	Charitable Community Benefit Society
asra Housing Association Limited	-	Charitable Community Benefit Society

The subsidiaries had subsidiary companies (held at nominal value) as follows:

Newlight Properties Limited	-	Limited by shares	-	Dormant, 100 ordinary shares at £1
Sandy Hill (Woolwich) Limited	-	Limited by shares	-	Dormant, 1 ordinary share at £1
asra Construction Services Limited	-	Limited by shares	-	1 Ordinary share at £1

These accounts consolidate the results of the above subsidiaries.

35 Post balance sheet events

On the 13 April 2017, Asra Housing Association Association amalgamated with Leicester Housing Association and Paragon Community Housing Limited to create Paragon Asra Housing Limited

The rationale for the above amalgamation is to create capacity to build additional homes and extract efficiencies to further improve services. The combined asset base provides economies of scale and critical mass to withstand the continuing political and economic challenges.

Moody's has assigned A2 negative rating, unchanged from the previous year, to PA Housing Limited.

36 Legislative provisions

asra Housing Group Limited is now de-registered with the HCA	Registration number
Community Benefit Society	30442R
Homes and Communities Agency	Was L4523

From 13 April 2017 – Leicester Housing Association and Asra Housing Association amalgamated with Paragon Community Housing into:

Paragon Asra Housing Limited	**Registration number**
Community Benefit Society	7536
Homes and Communities Agency	4849

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Paragon Asra Housing Limited is a charitable Community Benefit Society registered under the Co-operative and Community Benefit Societies Act 2014.
Registered Office: Unit G.02.01, The Leathermarket, 11/13 Weston Street, London, SE1 3ER.

Community Benefit Societies
No. 7536. Homes and Communities Agency No. 4849.