Financial Statements
for the year ended
31 March 2018

Paragon Asra
PA Housing

Paragon Asra Housing Limited
Community Benefit Society Registration Number 7536
Homes and Communities Agency Registration Number 4849

2017/18 Highlights

Turnover
£165m

Housing assets
£1.6bn

Absolute relet time:
29.8 Days

Calls answered per day:
1,280

Overall arrears:
3.56%

Routine repairs completed on time:
92.7%

Interest cover
168%

23,505
Homes owned and/ or managed

Drawn debt
£689m

40%
Operating margin including asset sales

Over 7,000 customers registered for online services

Emergency repairs completed on time:
99.5%

Free cash generated from operations
£20m

Gearing
41%

Debt per owned property
£32,597

Void loss on core social homes:
0.91%

Contents

Board and Directors

Members of the Board

Group Chairman	Aman Dalvi OBE
Other Members	Anne Turner Christopher Cheshire Curtis Juman David Edwards David Hunter Dilip Kavi Gemma Saffhill Katherine Lyons Stephen Amos Wayne Morris John Cudd (retired 14 September 2017) Richard Harris (retired 5 October 2017)

Executive Team

Chief Executive	Dilip Kavi
Chief Operating Officer	Matt Cooney
Finance Director	Simon Hatchman
Executive Director of Business Development and Sales	Chris Whelan
Executive Director of Governance and Company Secretary	Marion Hall
Executive Director of Operations (South East and London)	Ian Watts
Executive Director of Operations (Midlands and London)	Patrick Taylor
Registered Office	3rd Floor Pentagon House 52-54 Southwark St London,SE1
Auditors	KPMG LLP 1 Snow Hill Snow Hill Queensway Birmingham B4 6GH
Solicitors	Devonshires 30 Finsbury Circus London EC2M 7DT

Paragon Asra Housing Limited Operating and Financial Review

Chairman's statement

Welcome to this first Annual Report and Financial Statements for PA Housing, following our formation in April 2017.

It has been a busy and successful year for our new organisation. All of our staff and Board members have worked extremely hard to deliver against the exciting plans we put in place at the point of amalgamation. While there is still a great deal to be done, this first year has seen the establishment of solid foundations and I am very grateful to all of our people for the contributions they have made.

I was particularly pleased to receive confirmation in April 2018 from the Regulator of Social Housing that PA had achieved the highest possible regulatory ratings for governance and financial viability, following an In Depth Assessment visit. This is an important milestone for us, and it gives assurance to our customers and stakeholders that we are managing the business effectively. The regulatory visit was rigorous and challenging but also fair and stimulating, and it has helped us to identify areas where we can further improve our ways of working.

Reflecting on all else that has happened during the year, there are a number of highlights to mention. Work to fully integrate our business following amalgamation has progressed in line with plans. Most office support functions have been restructured and now operate out of our Leicester office; we have completed a major project to harmonise staff terms and conditions; and our big IT systems integration projects are on track. We have already exceeded our original target to deliver at least £3m of recurring savings from our operating cost base, but we want and expect to deliver more savings in the year ahead.

Our operational performance has remained strong in most areas. We are able to collect our rent and let our properties efficiently, and we continue to achieve good things with our residents in important areas such as dealing with the implications of welfare reform and tackling anti-social behaviour. We do want to further improve our customer satisfaction ratings, and we recognise that the quality of our repairs service is a critical component of this. During the year some elements of this service were not as good as they need to be, and we are working proactively with our main repairs contractors to address this and put in place improved working arrangements.

We continue to prioritise financial resilience as a central pillar of our business, so that we can always shape our strategy and make investment decisions from a position of strength and choice. Our Financial Statements present an excellent set of results for our first year of operations, with surplus ahead of budget, strong cash generation, comfortable achievement of lender requirements and ample capacity for future growth. We rigorously stress test our financial plans to make sure that key risks and adverse scenarios can be adequately responded to in an uncertain world.

Looking into the broader operating environment, the tragic events at Grenfell Tower last June dominated the year and will prove to be a watershed moment for housing provision in this country. The terrible loss of life has quite rightly renewed focus on how well we as housing providers look after our homes and communities. The PA Board has ensured that our financial plans include significant investment in our existing housing stock so that we can keep on achieving very high health and safety standards.

More generally, the operating climate for housing associations continues to be positively influenced by the growing political consensus that we have a pivotal role to play in meeting the national need for increased housing provision. Our own growth plans will see us deliver over 5,500 new homes over the next decade, and we remain fully committed to maximising our provision of genuinely affordable rented properties within this total. During the year just ended we have been reshaping our development team in preparation for this growth phase, and the year ahead will see us start to seek out larger scale development opportunities which fit with our strategy and risk appetite.

Operating and Financial Review - continued

Chairman's statement – continued

To conclude on a personal note, I am coming towards the end of my tenure as Chairman and I will be leaving PA Housing in September 2018. Hattie Llewelyn-Davies has been appointed to succeed me, and I know she will find the role both challenging and rewarding. I have massively enjoyed my time as Chairman of PA and before that asra; I will greatly miss being involved in the governance of the organisation but I will continue to follow PA's progress with great interest. I would like to thank my fellow Board members, Dilip and his executive team, and all of PA's staff for the support they have given me over the years. Together we have achieved great things, and I know there is so much more still to come.

Aman Dalvi
Chairman
20 September 2018

Operating and Financial Review - continued

Chief Executive's statement

We were delighted to hear in April 2018 that PA Housing had achieved the top regulatory ratings for governance and financial viability, just 12 months after the new business was formed. These ratings confirm that we fully meet the regulator's requirements in relation to our governance arrangements, and we have the financial capacity to deal with a range of adverse scenarios. We now need to make sure that we continue to meet these high standards.

The regulator's assessment took into account some important strands of work which we have delivered during our first year:

- Creation of a new Corporate Plan which sets out our business strategy and how we intend to achieve it
- Work to establish a rigorous governance framework, incorporating measures to identify and manage key business risks
- Development of a long-term financial business plan which is underpinned by robust stress-testing and consideration of possible mitigating actions
- Broader work on our financial capacity and resilience in order to ensure that our lenders and investors continue to have good confidence in our business model
- Establishment of a new Value For Money Strategy which aims to ensure that we deliver both cost efficiency and service quality going forward

Away from the core focus of our regulatory assessment, our first year has also seen a number of other achievements as we lay the foundations for PA's future:

- We have worked to improve our housing services - this was recognised by success in a number of national awards events, and was supported by the work of our resident scrutiny team
- We have achieved high repairs service standards in most of our operational areas, and taken positive action to address service concerns elsewhere
- We have utilised our financial strength to make decisions on investment of additional money in our homes, including the acceleration of important resident health and safety work programmes
- We have continued to deliver an active growth programme, and we are gearing up to increase this in the years ahead
- Our financial performance in the first year of operations was better than budgeted, illustrating the strong cost control culture we have put in place
- We have harmonised most of our office support functions which now operate out of Leicester, and more generally we have standardised terms and conditions for PA staff to ensure that a fair and consistent offer is made to our employees
- Our business-wide project to integrate all core systems and processes is on track and on budget

These excellent results and outcomes allow me to reflect on a successful year, and I truly appreciate the hard work all of our staff have put in to make this happen. However, the work continues and we are very focussed on what needs to be done to achieve excellence in our customer service standards, supported by a robust business infrastructure. This is only the start of our journey.

I conclude by placing on record my thanks to our outgoing Chairman, Aman Dalvi, for his strong leadership and stewardship through our first year of operations. Aman has worked incredibly hard to make sure PA Housing is built on very sound foundations, and the governance framework he has helped us establish will stand us in good stead as we face future challenges.

Dilip Kavi
Chief Executive
20 September 2018

Operating and Financial Review - continued

Strategic Report

Business overview

Paragon Asra Housing Limited ('PA') came into being on 13 April 2017, following the amalgamation of Paragon Community Housing Limited, asra Housing Association Limited and Leicester Housing Association Limited. We own and manage nearly 24,000 homes across more than 70 local authority areas, with our core operational areas being London, Surrey and the East Midlands.

PA is a registered provider of social housing and is a Community Benefit Society. It is the main asset holding entity, including all housing properties held for rent and lease. PA has seven subsidiary companies, as follows:

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

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 PA. Asra Housing Group Limited is the former parent company of asra, and is not currently trading. 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.

The subsidiary companies outlined above have been set up for specific purposes, but overall our legal group structure and entity governance arrangements are not complex. PA exists to deliver high quality services to people who cannot access housing on the open market. We utilise our financial strength to maximise investment in both existing and new housing assets, taking into account the need to balance ambition and prudence. We are run by an experienced Board of management and executive management team, who work collaboratively within a robust governance framework to ensure delivery of identified objectives.

PA's first year: highlights and achievements

Our first year of operations has seen good progress in a number of areas. Inevitably, amalgamation between two previously separate businesses results in significant internal focus as work is carried out to create a harmonised and properly functioning new entity with its own identity. However, we have also continued to respond to the changing external environment and ensured that the things that matter to our customers remain at the top of our priority list.

Broadly speaking, our work during the 2017/18 financial year was concentrated across the three streams of customer services, business integration and business health. The table below summarises our main achievements in each of these areas.

CUSTOMER SERVICES
• Significant additional planned maintenance investment put in place, to accelerate property improvement programmes and to ensure the highest standards of resident health and safety compliance • Development Strategy to deliver 5,700 new homes over the next 10 years approved, including re-establishment of a development programme in the Midlands, and work in progress to recruit an expanded delivery team • Continued focus on a high quality repairs service for residents - good service standards maintained in the Midlands and South East, and active steps taken to rectify service shortfalls in London • Achievement of strong rent collection and letting results, thus maximising income for reinvestment in services • Expansion of digital services in order to increase resident choice • Targeted housing management services for customers in greatest need, including work to address anti-social behaviour and significant successes with tenancy sustainment initiatives

BUSINESS INTEGRATION

- Creation of the PA Corporate Plan and associated work on our values and culture, with a supporting programme of new PA strategies and policies for Board approval
- Relocation of most office support functions to Leicester, thus reducing staff recruitment / retention costs
- Process reviews for all core customer facing tasks in order to design the most efficient and effective ways of working
- Integration of our IT systems in line with the programme agreed at amalgamation
- Establishment of harmonised terms and conditions for PA staff, along with enhanced employee benefits and learning & development packages
- Overhaul of office facilities in support of new working arrangements, including transfer of London office staff to a more suitable office base

BUSINESS HEALTH

- Achievement of V1-G1 status following In Depth Assessment by the Regulator of Social Housing
- Establishment of PA's financial golden rules to underpin our ongoing attitude to and appetite for financial risk
- Development of a robust long term financial planning framework including thorough stress-testing analysis
- Creation of a new risk management framework which defines, guides and formalises our approach to business risk throughout the organisation
- Review of Board governance arrangements, including expert external assessment, to ensure fit with business need
- Work on value for money and procurement in line with approved strategies, to enhance efficiency of operations and quality of services in a number of areas

Our strategy, vision and values

In September 2017 we released our new Corporate Plan. This covers a five year time horizon out to 2022, and it was put together following extensive consultation with our residents, staff and stakeholders. The full Plan is available from our website:

https://pahousing.co.uk/our-publications-library/?_ga=2.259450249.2082832777.1525088447-1203633451.1525088447

The Plan sets out three headline strategic objectives which are supported by measurable goals and a detailed action plan for ongoing monitoring. The table below sets out these objectives and goals:

OBJECTIVE 1: We will continue to focus on customer services to improve customer satisfaction

GOAL 1: To provide a consistent and high standard of customer service
GOAL 2: To provide safe and pleasant homes and neighbourhoods where people have pride in their homes and surroundings
GOAL 3: To raise our profile nationally and at a local level

OBJECTIVE 2: We will harmonise our culture and structures and improve our effectiveness

GOAL 1: To create a new PA Housing culture
GOAL 2: To recruit and retain good quality staff
GOAL 3: To make sure our processes are efficient, effective and accurate

OBJECTIVE 3: We will grow to provide more homes and will rationalise our stock holdings

GOAL 1: To deliver our value for money strategy so that we build at least 500 homes a year
GOAL 2: To rationalise our assets in order to create more new homes and provide better services
GOAL 3: To ensure high service levels to all tenures and at all stages in the customer life cycle

Operating and Financial Review - continued

Strategic Report - continued

The above objectives are aligned with our corporate vision, which is:

To become widely recognised as a social enterprise with a reputation for providing quality homes and services – within the next five years

Finally, we have developed our values which underpin everything we do and how we do it:

Always do the right thing	There when you need us	We never give up
• We offer the best quality service that we can • We are dedicated to our people • We are honest, open and responsible • We challenge ourselves to be the best • We always look for best value	• We always offer solutions • We listen and take action • We deliver on our promises • You can count on us • We treat people as we would want to be treated	• We are ambitious • We are unashamedly bold • We work together to make a difference • We welcome innovation • We show courage in our pursuit of growth • We create a culture that people want to be part of

Our first year has gone well but we appreciate that there is still much more that needs to be done. We intend to be relentless in pursuit of our goals, while at the same time making sure that we retain sufficient agility to respond to a changing operating environment.

Business risks

Effective and appropriate risk evaluation and control remains integral to the formulation and delivery of our strategy. The Board and Executive Team maintained its programme of risk review through the year, and this work took place in line with a new risk management framework which we established at the start of PA's life. The Board and its Committees focus on relevant strategic risks, and operational risk maps are maintained by our Heads of Service and their teams. A formal reporting hierarchy brings these two aspects of our risk management activity together. All of our business activities are framed by a defined risk appetite which considers PA's position against a range of relevant factors. This risk appetite statement helps the Board to assess the appropriateness of key business decisions, and members periodically review the appetite definitions to ensure ongoing fit with our broader strategy, the external environment, and the status / maturity of our operations.

All this work drills 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. It ensures that risk management really matters to people as a live business topic which influences our day to day activities.

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 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. The top seven risks form the basis of our financial business plan stress test scenarios, where we examine our ability to withstand significant adverse movements from planned performance levels. We have also identified what mitigating actions we could take to reduce the impact of a risk scenario once it starts to crystallise, so that financial viability can be preserved into the long term.

Operating and Financial Review - continued

Strategic Report - continued

Risk area	Consequence	Mitigation	Control measures
Merger – failure to achieve full integration and deliver savings	Growth capacity impeded; business performance compromised; regulatory relationship impacted	Close monitoring of progress towards integration project targets; tracking of savings achieved and in pipeline; proactive procurement of contracts and management of suppliers	Reporting to Board and Committee Procurement programme Budgetary control External validation
Property health and safety – non-compliance with statutory obligations	Risk to life and limb; poor reputation; non-compliance with regulatory standards; loss of customer confidence	External validation and quality assurance; clear lines of accountability; robust reporting; strong compliance procedures; budget provision	Performance management Board reporting Internal audit Financial planning
Growth – adverse property sales results	Financial loss and unviable schemes; impact on capacity; increased financial vulnerability	Prudent scheme appraisal; exit strategies in place; multi-locational portfolio; strong marketing of schemes; liquidity management	Investment appraisal Performance management Financial planning
ICT – security failures and cyber risk	Frontline services compromised; data integrity issues; reduced productivity; rectification / prevention costs	Up to date software controls regime; business continuity planning; appropriate policies in place; daily monitoring; GDPR project	System reporting Internal audit Staff training
Asset management – deteriorating condition of estates	Reduced demand; poor reputation; financial strength compromised; reduced community cohesion	Budget provision; active asset management incorporating disposals programme; asset management strategy	Reporting to Board Operational KPIs Financial planning
Universal Credit – adverse impacts on tenants and business results	Escalating rent arrears and vacant property rates; additional costs to address the issues	Tenancy sustainment services; proactive asset management; appropriate rent arrears management; stakeholder partnering; investment in staff resources	Financial planning Performance management Reporting to Board
Environment – adverse political / economic / regulatory climate	Declining operational and financial performance; leakage of assets; tightened loans market	Environmental scanning; stakeholder relationships; prudent approach to liquidity; avoid reliance on capital subsidy	Reporting to Board Network management Financial planning

The UK general election in June 2017 introduced further political uncertainty. A Conservative minority government remains in power but is faced with the considerable challenge of delivering Britain's orderly exit from the European Union. This may lead to further socio-economic turbulence in the years ahead. However, there is now widespread political consensus that housing associations have a critical role to play in responding to the national need for new affordable housing. The return to an annual rent increase formula of CPI plus one per cent from 2020 is welcome news which aids our financial planning and hence enables more robust investment decisions to be made. There is the prospect of some increase in capital subsidies from government in order to support an expanded sector growth programme with renewed focus on social rent accommodation, although at this stage there is little detail behind the headlines.

Our Board has affirmed PA's growth ambitions by approving a planned development programme which will see more than 5,500 homes being built over the next 10 years. We remain very committed to the provision of homes for those who cannot access housing (either for rent or sale) on the open market. Whilst our future plans place some reliance on outright sales in order to produce cross-subsidy, this will be small scale and closely managed. We therefore expect our exposure to the volatilities of the housing market to be relatively limited.

More broadly, the Board will continue to closely monitor our risk environment and look for signs that identified or new risks are starting to emerge and crystallise. If this happens, we have mitigation plans to implement and we are starting from a position of good financial resilience which should help us steer a steady course through any choppy waters.

Operating and Financial Review - continued

Strategic Report - continued

Business performance

Throughout the financial year, PA's operational performance was measured 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. Since this was the first year of PA operations, there is no year on year trend data to report.

Indicator	2017/18 target	2017/18 result	Comments
Void rent loss (core social homes)	1.40%	0.91%	Consistent performance levels achieved throughout the year
Average relet days	30.4	29.8	Overall performance good but some issues with repair contractors and local authority nomination processes to be addressed
Rent arrears	3.96%	3.56%	Year on year performance remained solid; good success in some regions with positive impact of tenancy sustainment work and reduced eviction volumes
Routine repairs within target	97.6%	92.7%	Results affected by deterioration in performance for London region – work ongoing to rectify this and improvements now being delivered
Emergency repairs within target	99.4%	99.5%	Overall performance good but some deterioration late in the year which is being addressed
Gas safety compliance	100%	99.97%	6 cases outstanding as at 31 March, all of which had injunction proceedings ongoing
Fire risk assessment compliance	100%	100%	
Complaints to Ombudsman	n/a	23	Zero complaints upheld by the Ombudsman during the year
Enforcement notices	n/a	15	5 cases in progress as at the end of the year, other cases have been resolved
The above table does not include overall customer satisfaction data. During the year different satisfaction collection methods were in place across our regions, a legacy of the pre-amalgamation ways of working. This has been rectified in the new financial year. For the record, our Midlands and London region reported an average of 89 per cent satisfaction during the year whereas our South East region reported 76 per cent.			

Business growth

In the build up to the creation of PA Housing we worked hard to ensure that a significant number of development opportunities were progressed. This will enable us to deliver a strong programme of completions over the first two years following amalgamation, a central plank of the Board's strategic aspirations as articulated in our corporate plan. The success of this approach is such that in the 2017/2018 financial year we delivered 364 homes comprising 239 rented and 125 shared ownership homes across London and the South East. Total capital spend on development amounted to £65.3m. Sales activity was also strong with 114 shared ownership sales delivering receipts of £15.2m and a further 8 market sales completions with revenues of £3.6m. Staircasing in respect of historic shared ownership developments was also very strong with receipts of £6.0m.

Operating and Financial Review - continued

Strategic Report - continued

Our most significant development project in the year was the One Woolwich Partnership with Lovell and the London Borough of Greenwich, which delivered 121 completions in the first phase of what will ultimately total 525 affordable homes. Our developer partnerships also contributed significantly to our growth through projects with Taylor Wimpey, Berkeley Homes, Cala Homes and Bellway Homes. We also started work on our Radnor redevelopment in East Molesey, Surrey which will deliver 50 homes for affordable rent and shared ownership.

Historically we have had some issues with two projects that experienced delay relating to contractor insolvency. These projects are now back on site with newly appointed contactors. The Burlington Road scheme will now complete in June 2019, with the Crown Street scheme due for completion in July 2020.

Looking to the future we will continue our delivery of high quality homes across London and the south east, and in accordance with the Board strategy we will seek to re-establish a development presence in the East Midlands. At the end of the year we had 653 units under construction across 24 sites, with plans in place to deliver a further 350 starts in 2018/19. To support this enhanced delivery we already acquired land and property to deliver a further 263 starts. All development activity is closely monitored to ensure that committed expenditure remains in line with our confirmed lines of liquidity, and future cash flows are scenario tested to consider adverse movements on forecast sales income.

Value for money ('VFM')

Our VFM Strategy

During the year our Board approved a new VFM Strategy. This defines VFM as follows:

Achieving the best possible balance between cost and customer or business outcome

The Strategy identifies six headline VFM targets which set out the strands of activity we are undertaking to deliver good VFM outcomes:

VFM target 1	Deliver the £3m recurring operating cost efficiency savings targeted at amalgamation
VFM target 2	Develop VFM decision support avenues and tools
VFM target 3	Promote business practices which take VFM good practice principles into account at all times
VFM target 4	Strengthen customer and stakeholder involvement in and awareness of our VFM activities
VFM target 5	Progress operating model options and opportunities which can enhance VFM for the business
VFM target 6	Develop analysis of the social impact delivered by our services and partnership working

Target 1 above has already been achieved, but we will continue work to unlock further savings as a result of the amalgamation to form PA. The other targets incorporate both hard and soft measures which combine to create an environment in which VFM really matters. We understand that we operate in a world which has competing (and at times directly conflicting) demands for output. Our customers quite rightly expect the highest standards of customer service, and they want to live in safe and comfortable homes which meet their lifestyle needs. Many of our corporate stakeholders need assurance that we are financially resilient, we have a firm handle on our main risks and we operate within a robust governance framework. And nationally, there is an expectation both from government and the wider public that our sector makes a strong contribution to the need for more affordable housing.

Operating and Financial Review - continued

Strategic Report - continued

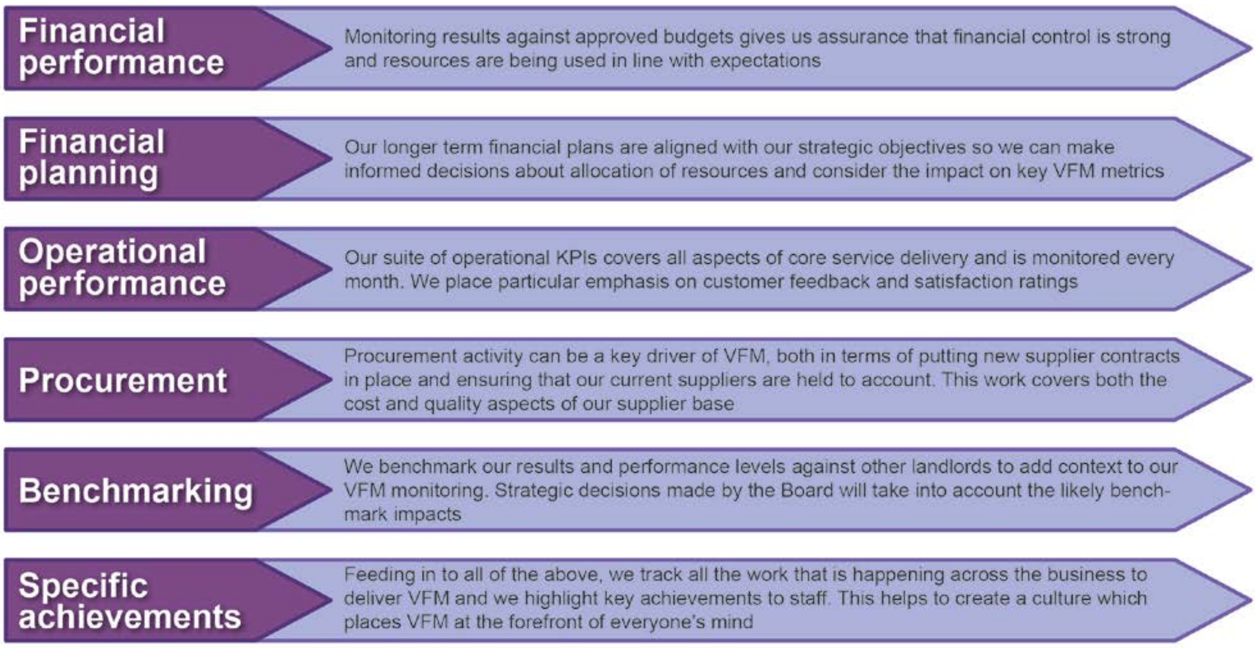
When setting the broader business strategy as articulated in the Corporate Plan, our Board has to take these different views and needs into account. Over time, priorities and resources will vary and so decisions on resource allocation will similarly change. During 2017/18 the work of the Board illustrated this approach in a number of ways:

- Approval of a new development strategy with increased growth aspirations
- Allocation of additional budget to expand our stock investment programmes (incorporating resident health and safety activities alongside other planned maintenance work streams)
- Progression of plans to rationalise our stock through disposal of some peripheral properties
- Approval of a set of golden rules which define the limits of our financial capacity and risk appetite

Throughout these decisions, VFM implications were actively considered by our Board. There was recognition that compromises sometimes have to be made – for example increasing stock investment budgets and disposing of some properties will both in the short term result in a deterioration of our cost per unit metrics. However, our Board is comfortable that these are the right decisions to make taking into account the overall VFM position we are trying to reach for customers. This approach ensures that VFM acts as a cross-cutting business theme in support of our Corporate Plan.

How we measure and monitor VFM

There is no simple way of measuring how 'good' we are at delivering VFM. A number of views and aspects must be taken into account, and our Board must be confident that in the round, we are on the right trajectory and achieving VFM improvements in line with expectations. Accordingly, we have a matrix approach to measurement and monitoring of VFM, and the key components of this are summarised below:



This suite of information and evidence allows us to assess how we are achieving VFM against the three aspects of economy, efficiency and effectiveness:

Economy	Minimising the cost of resources used while having regard to quality
Efficiency	The relationship between the output from goods or services and the resources to provide them
Effectiveness	The extent to which objectives are achieved and the relationship between intended and actual outputs

The above definitions align with those used by the Regulator of Social Housing within its Value For Money Code of Practice publication.

Strategic Report - continued

Who is responsible for VFM

We try to make VFM matter for everyone who works at PA Housing, and this is enshrined within our VFM Strategy and action plan. The key lines of accountability and delivery have been established as follows:

Overall responsibility for achieving VFM	The Board
VFM scrutiny function	Audit & Risk Committee
Accountable officer for delivery of VFM Strategy	Finance Director
Operational responsibility for delivery of VFM Strategy	Leadership Team of senior managers
Business-wide VFM champion	Head of Finance
Ongoing contribution to VFM agenda	All staff
Review of VFM activities and outcomes	Involved residents working alongside PA staff

Our VFM performance: Key metrics

We have participated in the ‘Sector Scorecard’ pilot which was aimed at establishing a common set of headline VFM metrics for use throughout the sector. The Regulator of Social Housing has adopted some elements of this work in its own updated approach to regulation of VFM.

The table below summarises our performance against the Sector Scorecard metrics for the 2017/18 (actual results) and 2018/19 (approved budget / targets) financial years. Because this was the first year of PA Housing operations, no year on year historic performance trend data is available. This will be included in our future VFM reporting so that our direction of travel can be assessed. Underneath the table, we have summarised our position and expectations in respect of each metric.

Metric	Peer group median 16/17	National median 16/17	PA actual 17/18	PA target 18/19
Reinvestment as % of asset base	n/a	n/a	4.7%	7.0%
New supply as % of current stock (social homes)	1.5%	1.1%	1.7%	1.6%
Gearing	45%	42%	41%	40%
Interest cover (EBITDA-MRI basis)	220%	228%	168%	160%
Social housing cost per unit	£3,129	£3,306	£4,001	£4,100
Operating margin – overall	34%	30%	35%	32%
Operating margin – social housing	35%	32%	36%	34%
Return on capital employed	4.2%	4.0%	3.9%	3.5%
Customer satisfaction	84%	87%	81%	85%
Occupancy	99.4%	99.5%	99.8%	99.5%
Responsive to planned maintenance ratio	0.68	0.68	0.67	0.51
Rent collected	99.6%	99.7%	100.4%	101.0%
Overheads as % of turnover	10.0%	12.3%	13.3%	11.5%

The first eight metrics in the table are those which are examined by the Regulator of Social Housing as part of its approach to regulation of VFM.
Peer group data relates to all Sector Scorecard participants with between 20,000 and 30,000 units in management.
No benchmark data is available for reinvestment as % of asset base.
EBITDA-MRI stands for earnings before interest, tax, depreciation and amortisation; major repairs included. It is a common way of measuring ability to service debt in our sector.

Strategic Report - continued

Reinvestment as % of asset base
This metric assesses the extent to which we are investing in both new and existing housing assets – the latter element focussing on capital spend to improve our homes through installation of new components such as kitchens and windows. Our Board has approved expansion plans in respect of both new build and existing stock investment, and so we expect to report relatively high results over the next few years. For new build in particular, this will be contingent on the pace at which we can gear up on delivery.

New supply as % of current stock
This metric looks at the rate at which we build new homes and thus play our part in increasing housing supply nationally. In 2017/18 we completed 369 new social homes, and in 2018/19 we plan to deliver 343 new social homes (1.6 per cent growth rate). There were only three non-social home completions in 2017/18, and there are none planned for 2018/19. More broadly, our Board has approved plans to build more than 5,500 homes across the next 10 years and we expect 95 per cent of this growth to comprise new social housing provision (both rented and shared ownership). This is a key component of our corporate strategy.

Gearing
This metric assesses what proportion of our asset base is offset by debt. Sensible borrowing is an essential component of our growth plans, and higher debt is not necessarily a bad thing if it is sustainable. We expect our gearing ratio to increase steadily over the next few years because we want to build more homes. However, our levels of gearing will remain comfortably within the limits set by our funders and we will continue to regularly stress-test our ability to withstand adverse risk scenarios as gearing rises.

Interest cover (EBITDA-MRI basis)
This metric measures our ability to pay interest on our debt, from the money we generate out of ongoing business operations. Our position here is and will remain very comfortable, even though our Board has approved plans to increase investment in our homes to ensure that high standards are maintained. Longer term, we expect that this investment will generate some payback through lower ongoing repair costs. Our reported 2017/18 result was influenced by one-off accounting adjustments which added £3.3m to the interest bill. Without these, interest cover would have been at 185 per cent for the year.

Social housing cost per unit
This metric looks at how much we are spending, on average, to deliver all services to our social homes. It includes our capital investment spend on existing assets. Accordingly, we expect to report relatively high costs in the short term following our decision to significantly increase investment in this area. Our Board made this decision in the full knowledge that our reported unit costs would deteriorate as a result, but their view is that on balance, this will offer the best value for money outcome given the beneficial impact it will have on living standards for many of our residents. Longer term, this investment will have a beneficial impact on the value of our stock and so will further strengthen our growth capacity. Our financial business plan projects improving cost per unit performance on the back of growth delivery, reflecting the fact that elements of our cost base are fixed and will be spread across an increasing number of properties in management.

Operating margin – overall
This metric is an indicator of our financial efficiency. It takes into account all operating activity, with the exception of sales of existing housing assets. Our 2017/18 result is better than benchmark but we do expect performance to decline slightly in 2018/19, taking into account the additional planned maintenance and health and safety compliance budgets we have set. This is therefore an active VFM decision we have made.

Operating margin – social housing
This metric focuses in on the margins we are making from our core social housing lettings activity. The comments made above in relation to our overall operating margin equally apply here.

Return on capital employed
This metric assesses the efficiency of our investment of capital resources. Our performance here was slightly below benchmark median for 2017/18 and is projected to fall further in 2018/19, again reflecting Board decisions around additional stock investment requirements. We expect to target improvements against this metric once the approved cycle of higher investment has been completed.

Customer satisfaction
This metric tells us what our customers think of our services overall, and is therefore absolutely critical as part of our assessment of whether we are delivering good VFM. During our first year of operations post-amalgamation, we ran with two different legacy methods for collecting satisfaction data. Accordingly, our 2017/18 result in the table above should be taken as a guide. From the start of 2018/19 we have established an integrated approach for collection of this feedback, and we are targeting an average satisfaction rate of 85 per cent by the end of the year. This would place us slightly above the current peer group median result.

Occupancy
This metric tells us how quickly we can let our properties. The vast majority of our stock is located within areas of buoyant demand, and so we would expect to report strong results in this area. Our result for 2017/18 was 99.8 per cent. For 2018/19 we have targeted steady performance at 99.5 per cent, which would place us slightly above the peer group median benchmark. Longer term, our programme of increased stock investment coupled with disposal of some of our more marginal assets will help us to sustain high performance in this area.

Responsive to planned maintenance ratio
This metric looks at how we allocate our repairs and maintenance expenditure between planned and reactive activities. Generally speaking a lower result is considered better because this indicates a greater proportion of spend on planned investment activities. However, it is susceptible to shifts in the investment cycle and indeed for PA Housing, we expect to report particularly low results over the next few years due to the increased planned maintenance budgets we have allocated.

Rent collected
This metric considers the effectiveness of our rent collection service. This is the lifeblood of the organisation since it represents our largest single source of turnover and so underpins our ongoing cash flow. We achieved 100.4 per cent in 2017/18 and we are targeting further improvements in 2018/19 – this indicates that we expect to make inroads into our historic rent arrears balances and achieve success in ensuring as many of our residents as possible pay on time.

Overheads as % of turnover
This metric gives a view of how efficient our overhead cost base is. During this first year of PA operations we have incurred significant transitional costs relating to our staffing structures and our IT systems integration work. This increased overheads to a level which was 13.3 per cent of turnover. Some integration work and costs will continue in 2018/19, but equally the effects of savings achieved to date will start to feed into our results. Accordingly, we are targeting a reduction in this ratio to 11.5 per cent of turnover in 2018/19, and longer term our Board has set further efficiency targets which should see our performance challenge sector medians.

Summary
These results show that for seven of the 12 Sector Scorecard metrics where benchmarking data is available, PA Housing performed in line with or better than our peer group benchmark for the 2017/18 financial year. In 2018/19, our budgets and targets project that this outperformance will decline marginally to six out of 12.

The key theme influencing our results is the strategic path our Board has set with regard to asset investment, encompassing both our existing homes and new build activity. In some cases, this will mean that our relative performance will be degraded for a period of time. However, our Board has considered the VFM implications of this and decided that the additional investment cost will be outweighed by the better long term outcomes we expect to deliver, both for the business and for our customers.

Operating and Financial Review - continued

Strategic Report – continued

Our VFM performance: Return on assets

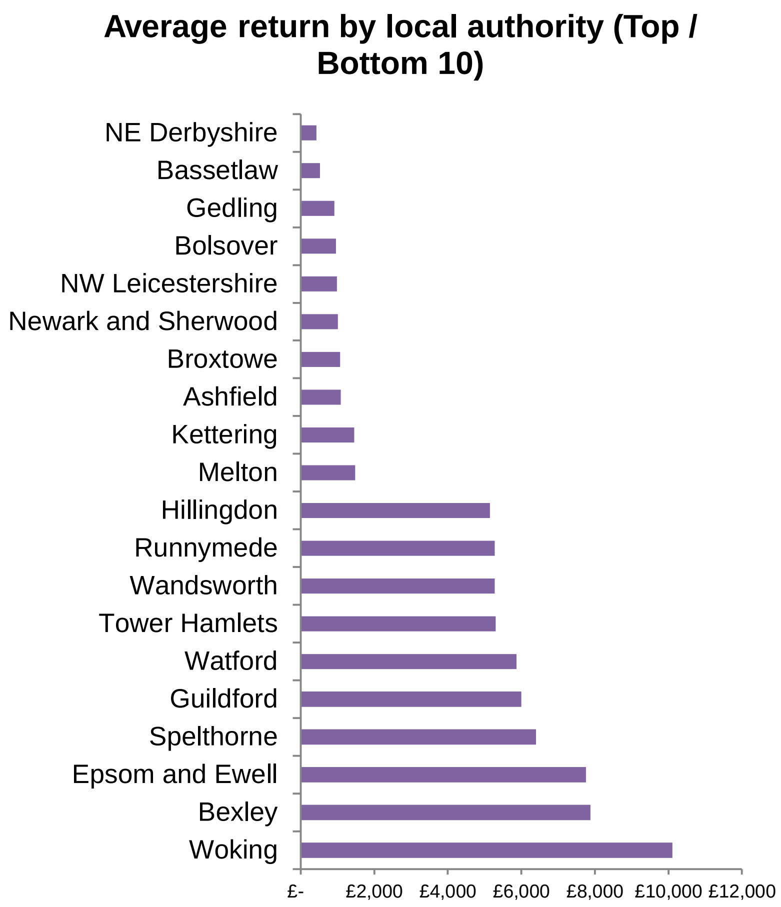
Return on assets analysis is an integral component of our VFM toolkit. We use it to understand the absolute and relative performance levels returned by our asset base, using residual income per home across the next five forecast years as the headline output. The residual income calculation takes into account rent and any other property related income, less operating costs (voids, bad debts, housing management, repairs and maintenance), and is based on a combination of historic performance trends analysis and future investment forecasts.

From this work we can compare our assets in a number of ways – for example based on geography, property size, tenure type or age. We can use the data we collect to drill down into particular areas where we see trends emerging, such as higher responsive repairs costs in certain localities, and consider whether we may need to reshape our service provision in response.

This analysis also supports our strategic decision making, particularly in respect of major stock investment / divestment considerations. This has been evidenced during 2017/18 through the financial planning work we undertook to create capacity for an enlarged stock investment programme, alongside an ongoing process to dispose of stock which lies on the geographic fringes of our operations and / or has a high cost to serve.

Average return per property: By local authority area

The graph shows the average return per property across our ten worst and best performing local authority areas (a number of middle-ranking local authorities have been excluded). The overall trend exhibits a wide disparity in performance between regions, with London and the South (where rent levels are significantly higher) performing much better than the Midlands. There has been an improvement in results from 2016/17 particularly in respect of the worst performing areas, a number of which were showing negative returns. Action has been taken in assessing schemes in these areas as part of our active asset management strategy, resulting in disposal of some poorly performing assets in a number of these areas.

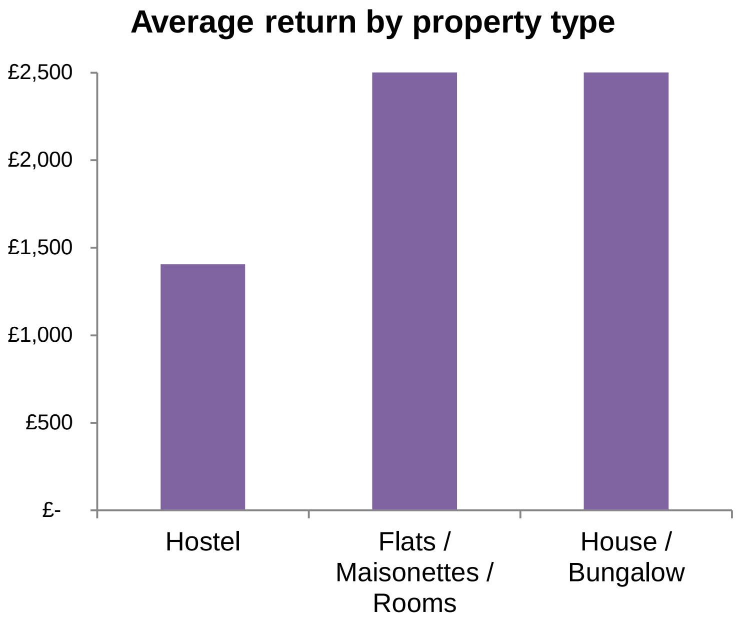


Operating and Financial Review - continued

Strategic Report – continued

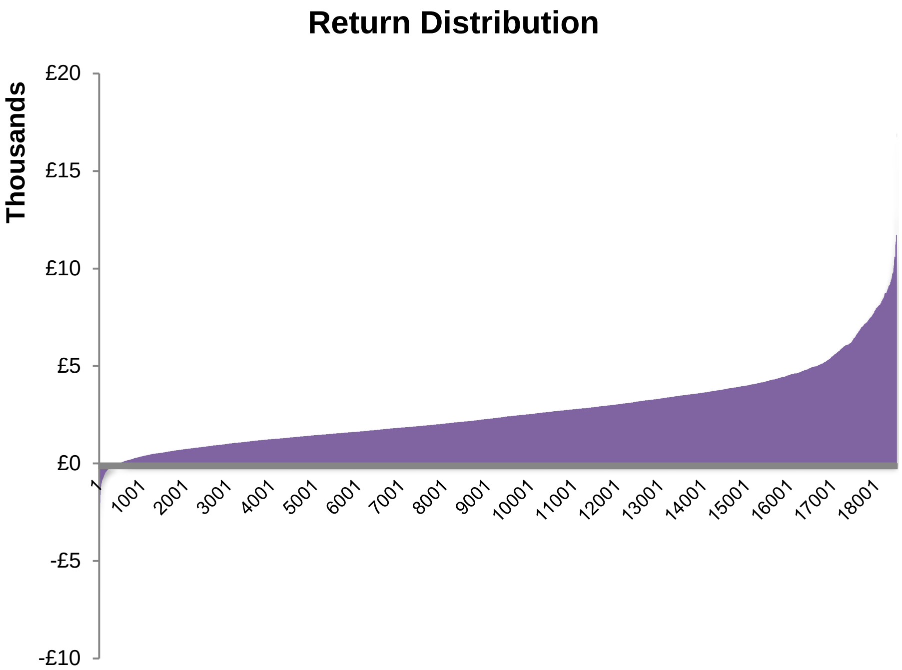
<u>Average return per property: By property type</u>

The graphs shows the average returns achieved by each main property type. Flats and maisonettes marginally outperform houses and bungalows due to the lower repair and maintenance costs incurred per unit. There has been an improvement on returns across all three categories in comparison to 2016/17.



<u>Average return per property: Return distribution</u>

The graph ranks all of our properties in order of the financial return generated, from lowest to highest. The returns show an marked improvement on the number of properties showing a negative return from 1,678 in 2016/17 to 459 in 2017/18; this is a direct result of a strategy to review these under performing properties to either improve the returns or dispose of properties where improvements cannot be achieved.

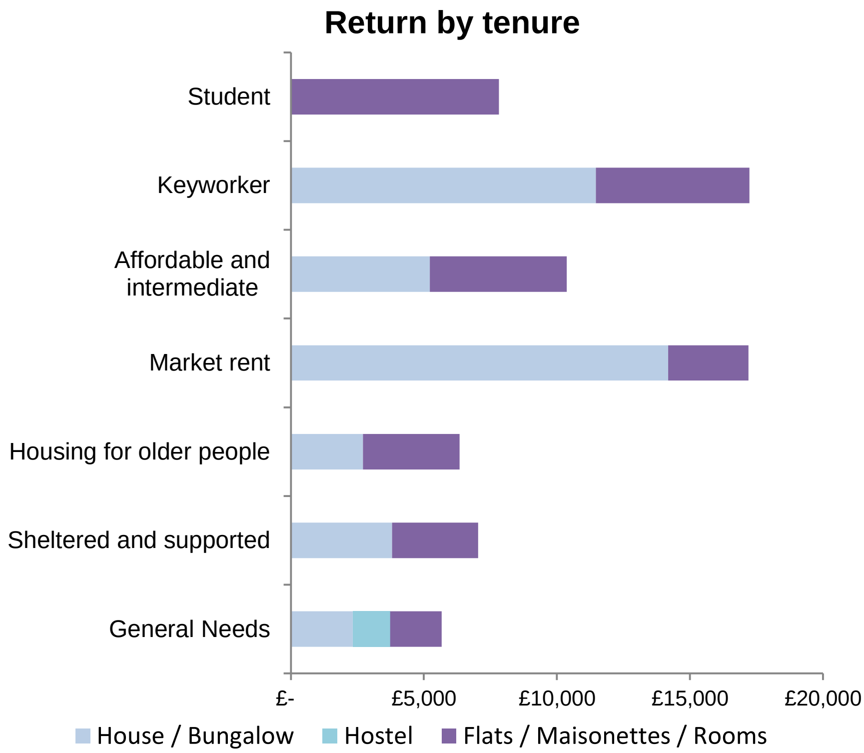


Operating and Financial Review - continued

Strategic Report – continued

Average return per property: By tenure

The graph shows the average return by property type for each tenure. Market rented properties are the most profitable tenure, due to the higher rental values in comparison to our social rented stock.



Benchmarking activities

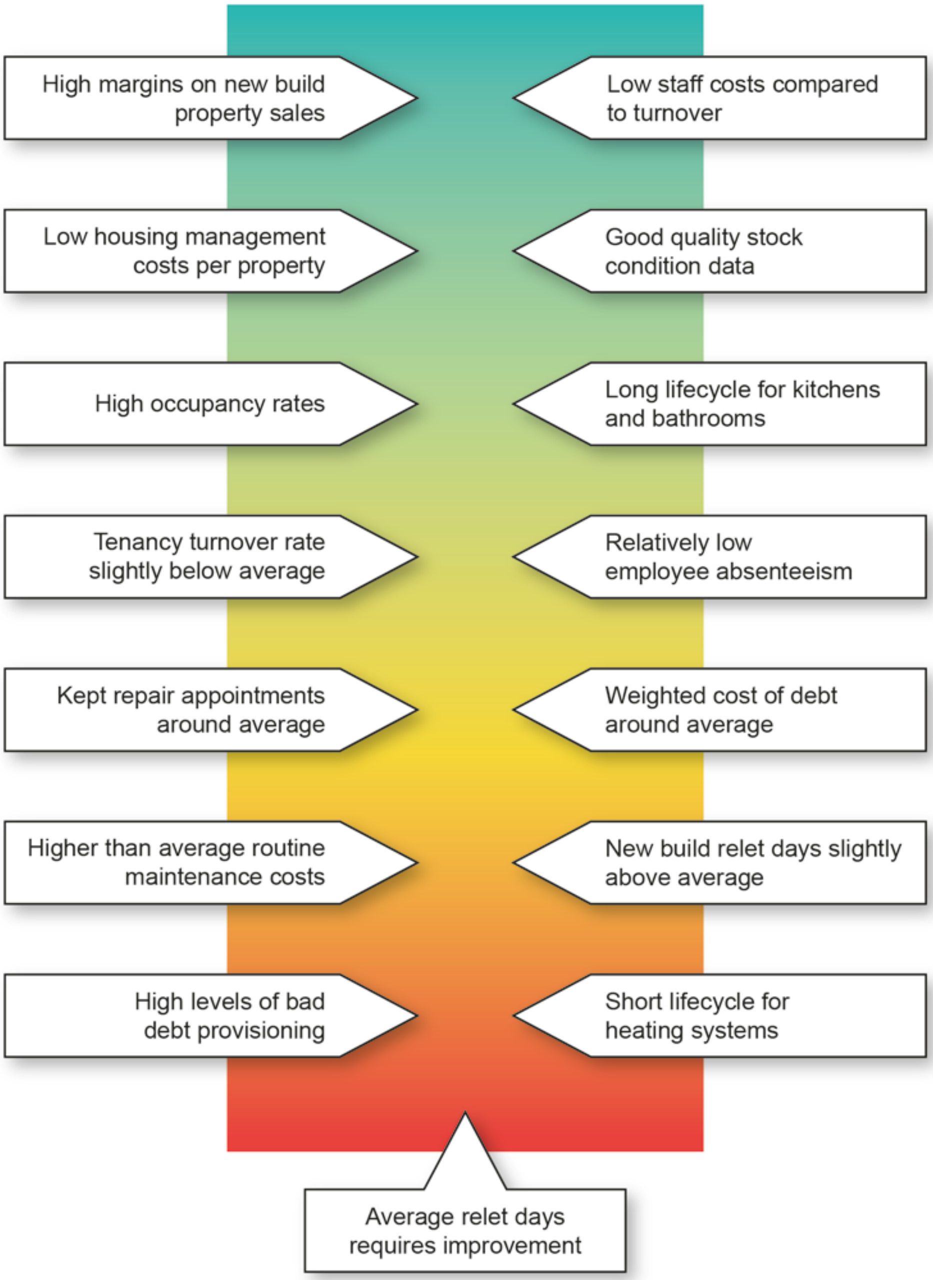
In addition to the Sector Scorecard benchmarking work highlighted earlier in this report, we are members of the Vantage Performance Improvement Club. This comprises some 30 housing association members from around the country, who collectively own and manage more than 500,000 homes. This club was shaped by its members, with the following key aims:

- Strategic in outlook, bringing together like minded senior people from across the sector
- Sharing strategic and relevant operational performance information
- Aiming to achieve genuine performance improvement
- Providing peer learning and access to experts
- Delivering and exceeding regulatory requirements
- Taking the pain out of traditional benchmarking

Club membership includes access to a benchmarking database which covers a wide range of historic and forward looking information. This includes both 'member only' benchmarking and broader 'global accounts' benchmarking based on the published financial statements of all registered providers with more than 1,000 homes in management.

We use this information to supplement the headline metrics provided by the Sector Scorecard exercise. It is particularly useful for drilling down into elements of our operational detail, thus providing pointers as to areas of good performance or issues which are worthy of further investigation. The graphic below gives a flavour of the insights these benchmarking tools give us.

Strategic Report – continued



More generally, the Vantage Performance Improvement Club gives us the opportunity to participate in qualitative discussion on business issues against a rolling agenda which is shaped by members. Examples of recent discussion topics include digital transformation, repairs service delivery models, and diversification into non-core activities. These workshops feed into our own thinking on how to deliver services in pursuit of optimum VFM, giving us a chance to sense-check our thoughts and learn from other experiences.

Operating and Financial Review - continued

Strategic Report- continued

Other VFM highlights

The year has seen a number of other VFM activities and achievements, which have delivered a combination of hard cash savings and softer service quality enhancements. Important examples include:

- Sustained improvements to occupancy rates and average relet times in the Midlands, boosting turnover by c.£100k per annum
- More than £3m of additional income for residents and the business secured through the work of our tenancy sustainment team
- Reductions to eviction rates while at the same time reducing rent arrears, saving an estimated £135k on eviction related legal and other costs
- Recognition in national awards schemes for work on various customer services initiatives including tackling anti-social behaviour, community involvement, tenancy sustainment, digital inclusion and customer experience management
- Leverage of corporate relationships to facilitate free training events for staff in support of improvements to our income collection services
- Decision made to discontinue our furnished tenancies service in the Midlands following a VFM review
- Board approval of a new £100k hardship fund to promote further tenancy sustainment initiatives
- Significant progress on work to improve the energy efficiency of our homes, with £600k of grant funding secured to subsidise this work
- Targeted maintenance projects at 20 hot spot locations experiencing high volumes of responsive repairs, in order to reduce future ongoing costs
- Investment in new IT software to improve our service charge calculation processes and enhance presentation of service charge information to residents
- Employment support programmes offered to residents, including advice services to job seekers and those running their own small businesses
- Commencement of a project to review underused garage sites in the South East region, with appropriate investment / divestment decisions to either improve occupancy or eliminate cost
- Introduction of a new policy for repair appointments missed by residents, in order to improve efficiency of the repairs operation
- Steady increase in customers who are signed up to our digital services offering, reaching nearly 5,000 registered users by the end of the year

Operating and Financial Review - continued

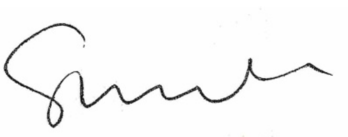
Finance Director's report

Introduction

The first year of financial operations is always critical for a new organisation. It sets the tone for what is to follow in terms of discipline, adherence to plan and resilience. From this perspective, I am pleased to report that 2017/18 was highly successful.

We started the year by completing on a major refinancing exercise in support of our amalgamation. This unlocked over £200m of liquidity lines, which gives us ample capacity to deliver our growth ambitions for the first phase of our five year corporate planning horizon. During the year we exceeded our budget targets for the year and met all our financial golden rules; we set a challenging budget for 2018/19 which aligned with our strategic goals; and we introduced a rigorous approach to long term financial planning with associated stress-testing of potential adverse scenarios. Underpinning all this, we worked to embed our Finance team operations in Leicester alongside the introduction of integrated systems and processes for the new business.

This report provides an overview of financial performance in our first year of operations, highlighting key results and items of interest. I have worked in the social housing sector for more than 20 years, and I strongly believe that robust financial health is a crucial enabler of all the services that housing associations offer. In this respect, we have established very solid financial foundations in our first year and this gives PA Housing the capacity it needs to deliver against its Corporate Plan objectives in the years ahead.



Simon Hatchman
Finance Director
20 September 2018

Our financial golden rules

Our Board has agreed a set of golden rules which underpin our approach to financial management. Through our long term financial planning work, we ensure that these rules are harmonised with our broader corporate objectives so that in effect, they comprise the building blocks of our financial strategy. This approach helps us to preserve financial resilience into the long term.

The graphic below sets out our nine financial golden rules, and summarises how we performed against them in 2017/18. Figures are shown on a Group basis. All golden rule targets were met.

Operating and Financial Review - continued

Finance Director's report - continued

RULE	TARGET	RESULT
Operating margin	At least 35 per cent	40 per cent
Free cash	At least £10m	£20m
Interest cover	At least 150 per cent	168 per cent
Gearing	No more than 55 per cent	39 per cent
Hedged debt	At least 50 per cent	81 per cent
Liquidity	At least 18 months	24 months
Social housing grant	No reliance in financial planning	Zero new SHG assumed in approved business plan
Property sales turnover	No more than 25 per cent of total turnover	11 per cent
Outright sales margin	At least 30 per cent	38 per cent

Notes

Free cash is a measure of the ability of the existing core business to generate cash. It excludes development and sales activity and major accounting adjustments. It includes capital spend on existing assets and loan interest costs.

Interest cover and gearing calculations are based on our most restrictive loan covenants.

Operating and Financial Review - continued

Finance Director's report - continued

Summary results 2017/18

Given that 2017/18 was PA Housing's first year of trading, there is no year-on-year trend data to report. However, for comparison purposes the table below shows our key financial results for the year against the equivalent combined results achieved by Paragon Community Housing Limited and asra Housing Group Limited in 2016/17. All results reflect group-wide performance.

	PA Housing 2018	**Paragon / asra 2017**
Group statement of comprehensive income	£m	£m
Turnover	164.7	163.4
Operating surplus	65.1	57.2
Net interest payable	33.4	26.6
Net surplus	32.9	26.6
Net surplus excluding property sales	17.2	14.4
Group statement of financial position	£m	£m
Property fixed assets net of depreciation and impairment	1,636.9	1,624.0
Capital grants	443.1	452.3
Net current assets	15.9	69.9
Long-term creditors	1,181.3	1,257.3
Reserves	487.7	448.8
Statistics		
Operating margin %	40%	35%
Net surplus %	20%	16%
Gearing % (debt versus housing assets)	39%	43%
Debt to turnover ratio	4.3:1	4.6:1
Debt per owned rented / shared ownership property £	£32,597	£35,700
Accommodation owned and managed	No.	No.
Rented	19,860	19,159
Shared ownership	1,345	1,100
Managed units	2,300	3,709
Total stock	23,505	23,968

Financial performance highlights

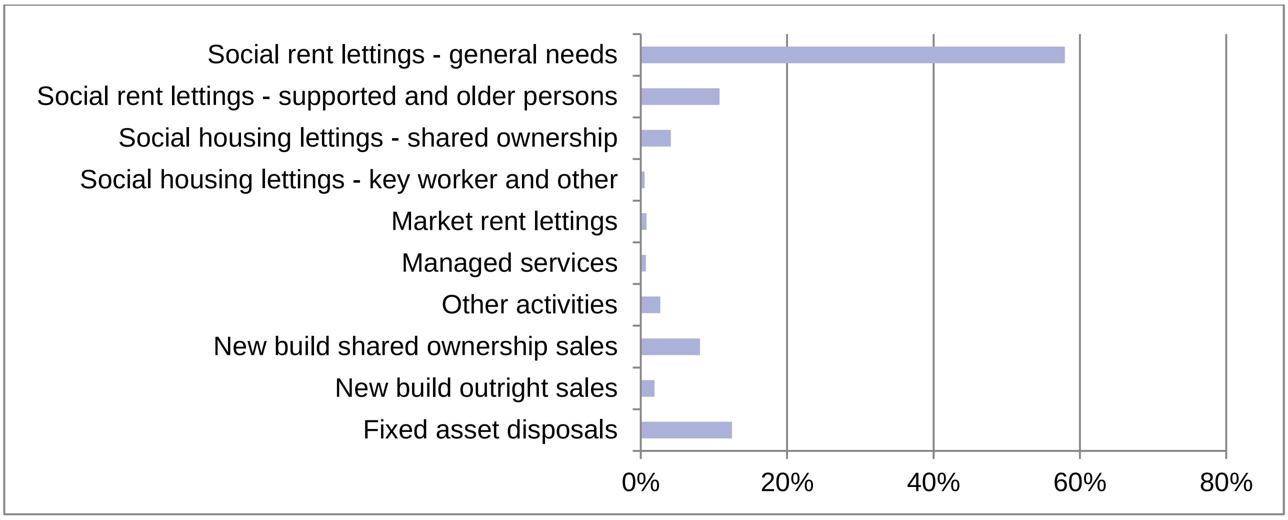
Operating results

Results for PA's first year of operations were ahead of budget overall, and have continued the trend of solid financial performance exhibited by both predecessor organisations in recent years. We are positioned as a housing association which has a core business focus on traditional social housing activities, and we have not significantly entered into other markets:

Operating and Financial Review - continued

Finance Director's report - continued

Sources of income (turnover plus proceeds from fixed asset disposals)

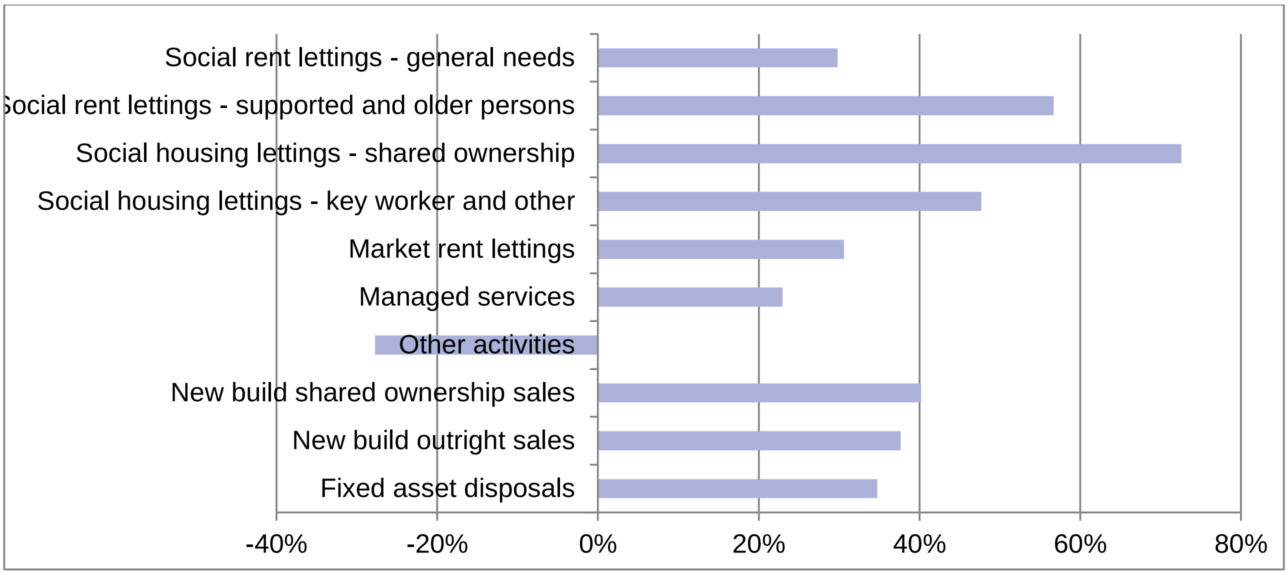


73 per cent of total income in the year was derived from core social housing letting activities. 22 per cent was from property sales (including proceeds from fixed asset disposals), meaning that only 5 per cent of income came from other non-core activities. Of the sales income, only £3.6m (2 per cent of total income) came from outright sales on the private market. The Board has adopted a growth strategy which may see some modest activity increases within this market going forward, but we have controls in place to ensure that exposures will at all times remain within acceptable risk limits. Our new build shared ownership sales are, and will remain, at more significant levels, but the shared ownership market has very different fundamentals to outright sale activity. We believe that the product has resilience to withstand the cyclical extremes of the private sales market.

Total turnover for the year was £164.7m, from which an operating surplus of £65.1m (40 per cent operating margin) was generated. This performance compares to a sector average operating margin of 34 per cent including fixed asset disposals, as measured by the Regulator of Social Housing's Global Accounts 2017 publication. This indicates that we have established a relatively efficient service delivery baseline, from which our Board can make informed choices about investment priorities going forward.

Within this overall position, segmental analysis reveals some variances in operating margin performance:

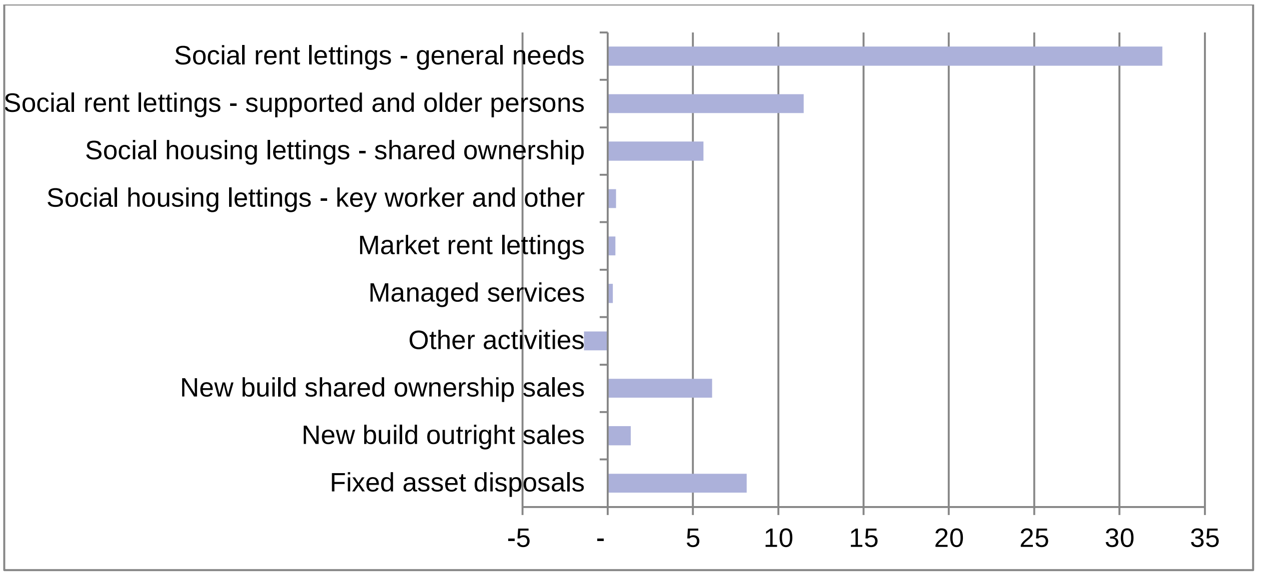
Operating margin % by business segment



Note: 'Other activities' comprises income of £5.0m and costs of £6.4m. Costs includes £1.7m relating to PA Housing's business integration project following amalgamation in 2017, with no associated income.

Finance Director's report - continued

Operating surplus / (deficit) £m by business segment

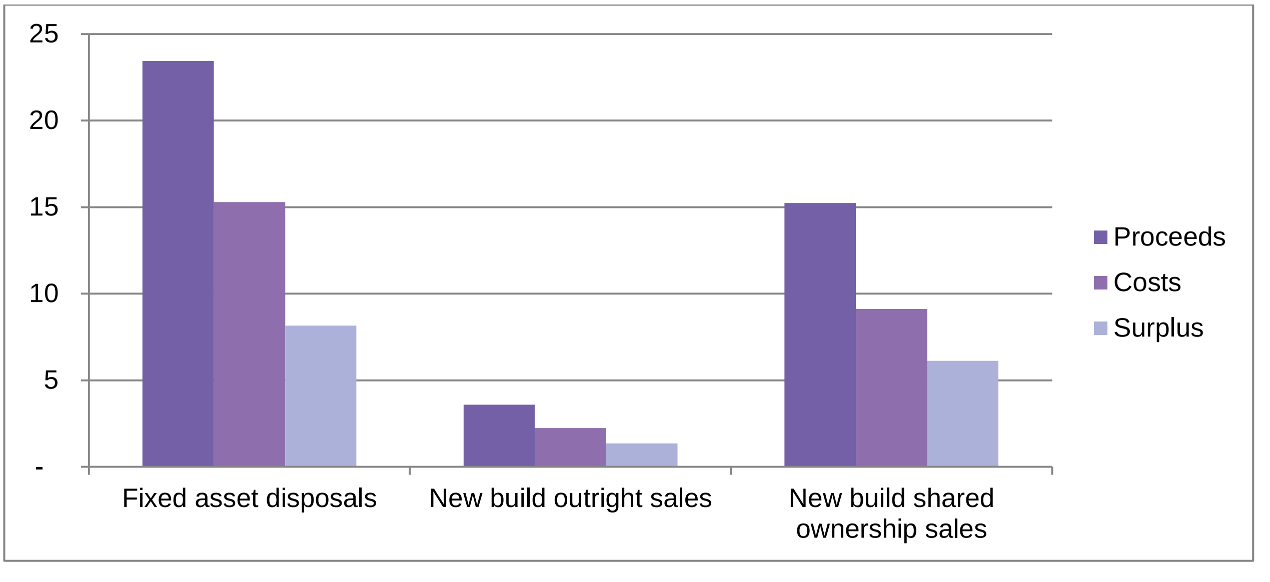


Shared ownership and supported / older persons lettings activities are our most profitable business streams. Our growth plans include significant new shared ownership provision, so maintenance of margin levels in this area while the segment grows will generate capacity for reinvestment in other core business activities.

General needs social rent lettings generated a margin during the year of 30 per cent. In the short to medium term our Board has elected to increase investment into services for this customer group, in order to promote tenancy sustainment and raise satisfaction levels. We are not therefore targeting significant margin improvements for this segment in the foreseeable future.

Our sales activities generated broadly consistent margins of at or close to 40 per cent:

Property sales activities £m



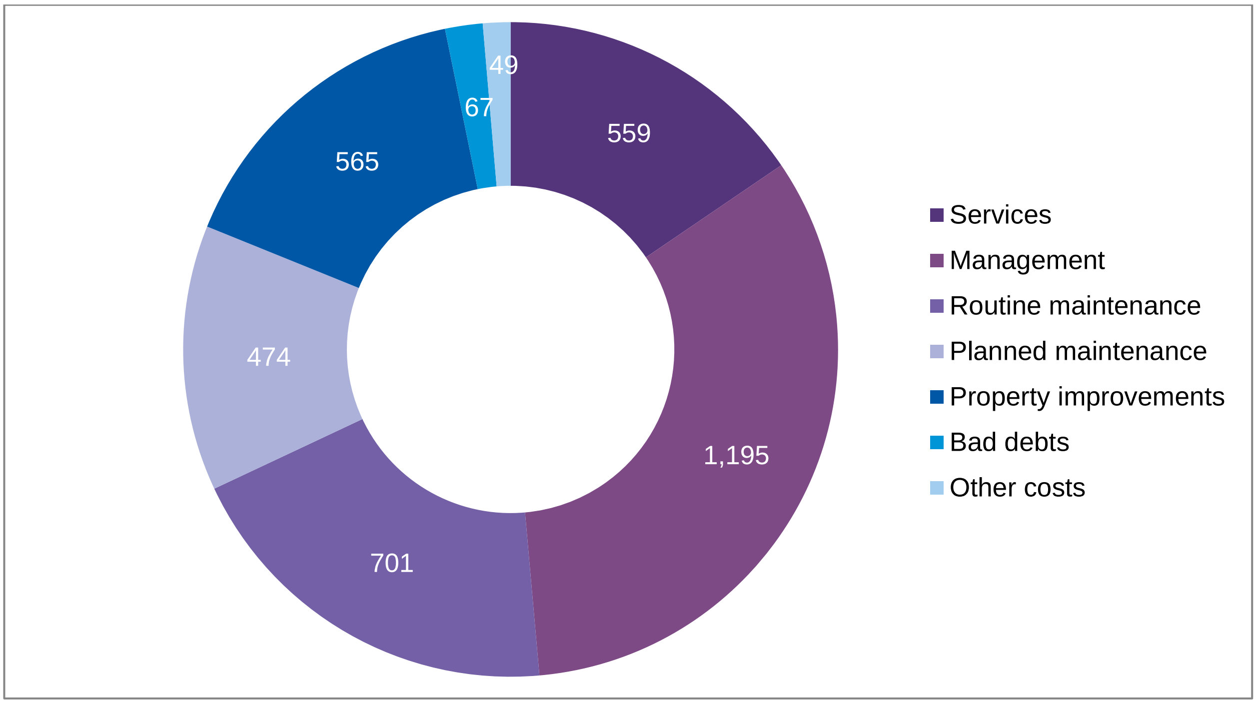
For new build sales in particular this represented very strong and significantly above target returns, boosted by the rising property markets in our core sales localities of South London and Surrey. Current indications are that these markets are levelling off although demand remains relatively buoyant. We therefore expect to see some reduction in reported sales margins in future years, although we will continue to proceed only with schemes which align with our target sales returns, and exit strategies will be in place to respond to any significant adverse market movements. Sales activities form a key component of our financial business plan stress testing work, and through this we have developed a range of monitoring tools and potential mitigating actions to track and address a market downturn scenario.

Operating and Financial Review - continued

Finance Director's report - continued

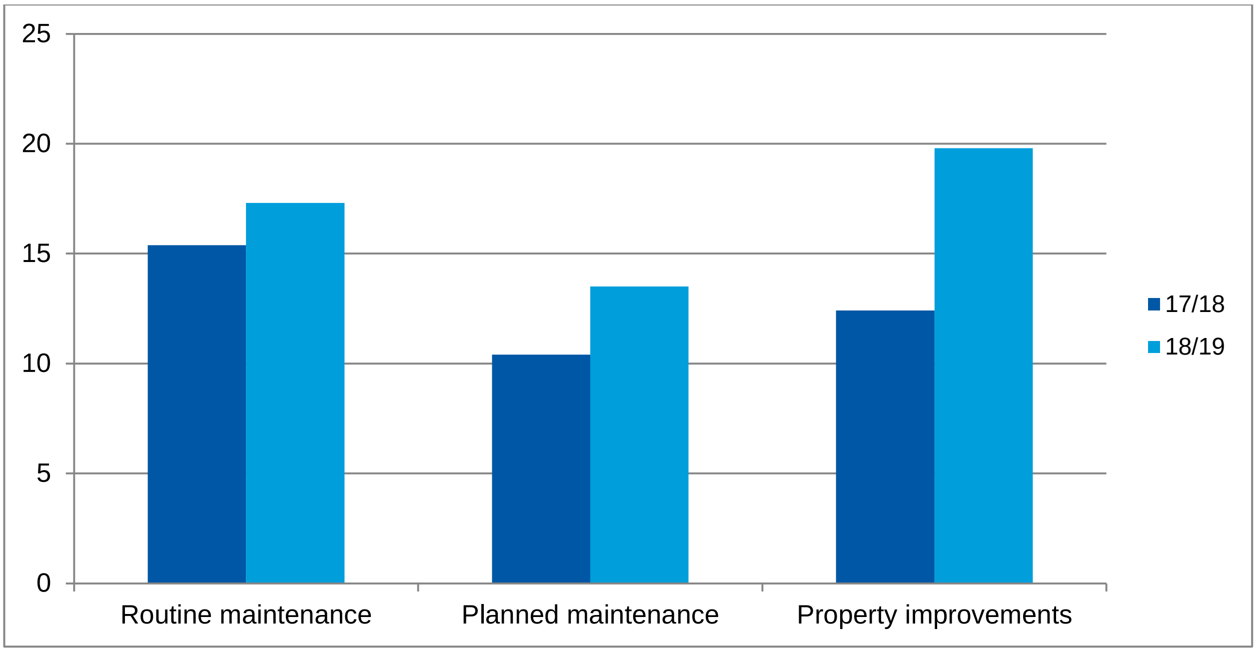
Core social housing service delivery costs, including capital investment in our homes, totalled £79.3m for the year. On a per unit basis, this equated to £3,611:

Composition of core social housing delivery costs per unit



40 per cent of all repairs and maintenance expenditure was incurred on routine / responsive maintenance. Following the Board's decision to increase planned maintenance investment in our stock, this proportion will reduce in future years. Our approved 2018/19 budget will deliver an expenditure ratio of 34 per cent routine / responsive maintenance to 66 per cent planned maintenance and property improvements.

Maintenance spend by category £m, 17/18 results vs 18/19 approved budget



Management costs totalled £26.2m for the year, exhibiting a reduction of £1.3m (5 per cent) versus the prior year equivalent figure derived from the accounts of PA's predecessor organisations. This evidences the progress made in year one of PA's operations to introduce management cost efficiencies.

Operating and Financial Review - continued

Finance Director's report - continued

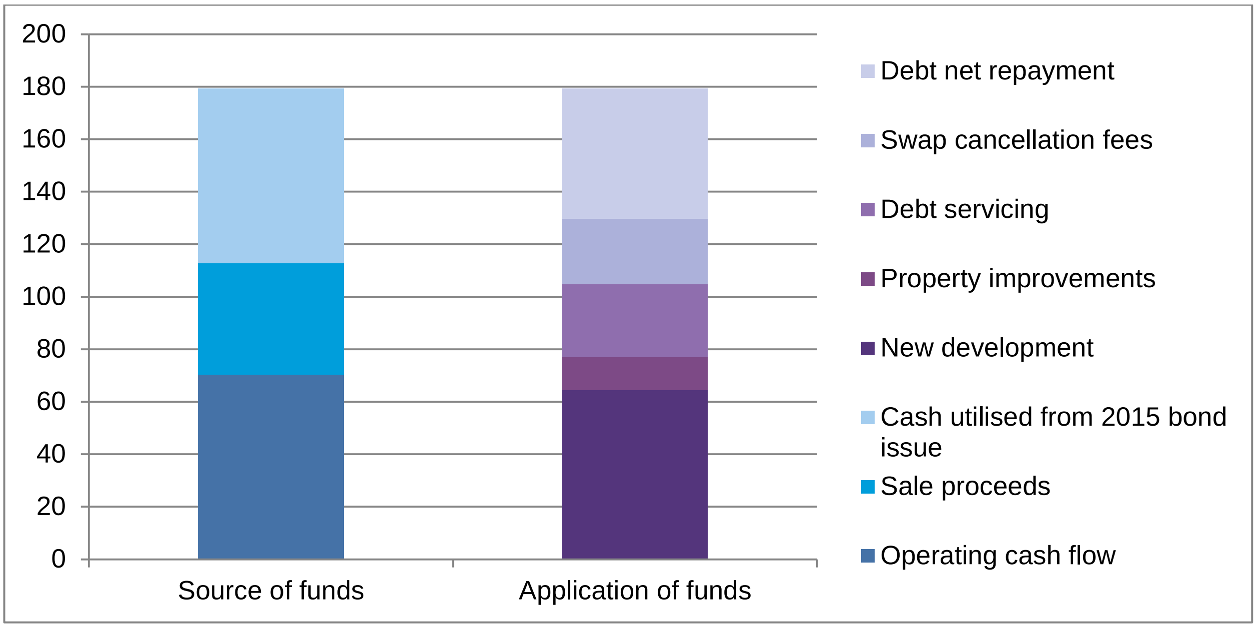
Similarly, rents and service charges lost through vacant properties was reduced by £0.3m (15 per cent) during the year when compared to the predecessor organisations' prior year accounts. This reflects a combination of general buoyant demand in our areas of operations and work to improve letting processes. We are targeting further improvements at our small pockets of stock where demand is more limited – this primarily relates to a small number of older persons schemes and some stock in the northern fringes of our operations. We are also working with local authority partners to streamline wherever possible the nominations and choice based lettings processes which they operate.

Rent losses from bad debts reported a modest £0.1m (5 per cent) reduction against the prior year comparatives, although this was influenced by harmonisation of our bad debts provisioning policy following amalgamation. The underlying rent arrears position is stable and well managed, but we are well aware of the future threat posed by the rollout of Universal Credit and we are developing plans to defend our cash flows against this risk.

Source and application of funds

During the year funds of £179m were utilised to grow the business, invest in our existing assets, and service and repay debt:

Source and application of funds 2017/18



£64.5m was expended on new development opportunities while at the same time we were able to reduce loan debt by £49.5m. This illustrates the strong cash generation fundamentals enjoyed by our core business, augmented in the year by utilisation of the large cash reserves held at inception of PA Housing. The debt paid down was a combination of scheduled term loan repayments, and repayment of revolving credit facilities which are available for redrawing at a later date. As at the end of the 2017/18 financial year PA had access to £165m undrawn and fully secured revolving credit facilities, £25m fully secured retained bond issuance, and £2m unsecured overdraft facilities. Our Treasury Policy defines the acceptable liquidity parameters for the business to operate within, and we have developed scenario based medium term cash flow forecasting to assess both the likely timing of future financing need and the scale of risk exposures.

Operating and Financial Review - continued

Finance Director's report - continued

Financial outlook

Our Board has identified financial strength and resilience as the essential bedrock from which our corporate plans can be delivered. We have developed a long term financial business plan which reflects this stance, with strong metrics projected and robust stress testing performed. This approach allows informed investment decisions to be made from a position of choice while the operating environment remains relatively stable, and appropriate mitigating actions to be taken in order to preserve viability when conditions turn more adverse. Our formal risk management framework links into our financial management framework in a number of ways, and we have good awareness of how our identified key business risks could manifest themselves financially.

As such, we fully expect to steer a steady financial course and report consistent, strong results going forward. These results will reflect the Board's strategic decisions (for example the decision to increase planned maintenance investment levels over the next three years), but we currently have confidence that our solid financial fundamentals will be maintained.

We have a strong and attractive asset base – for customers and investors alike – and this leaves us well placed to attract further funds for growth at the right time. However, we currently hold ample liquidity to fund the first phase of the growth strategy our Board has set.

These headlines are supported by a disciplined approach to financial management within the business. Although a newly formed organisation we are developing a culture of strong financial control, and we have established a new Finance team with a remit to deliver full decision support services to the business. We aim to create an environment where financial responsibility is recognised by and matters to all PA Housing staff, and to establish a reputation for financial strength with our corporate stakeholders. This does not conflict in any way with our social aims – in fact it is an essential component of our desire to deliver excellent services to our customers.

Treasury management

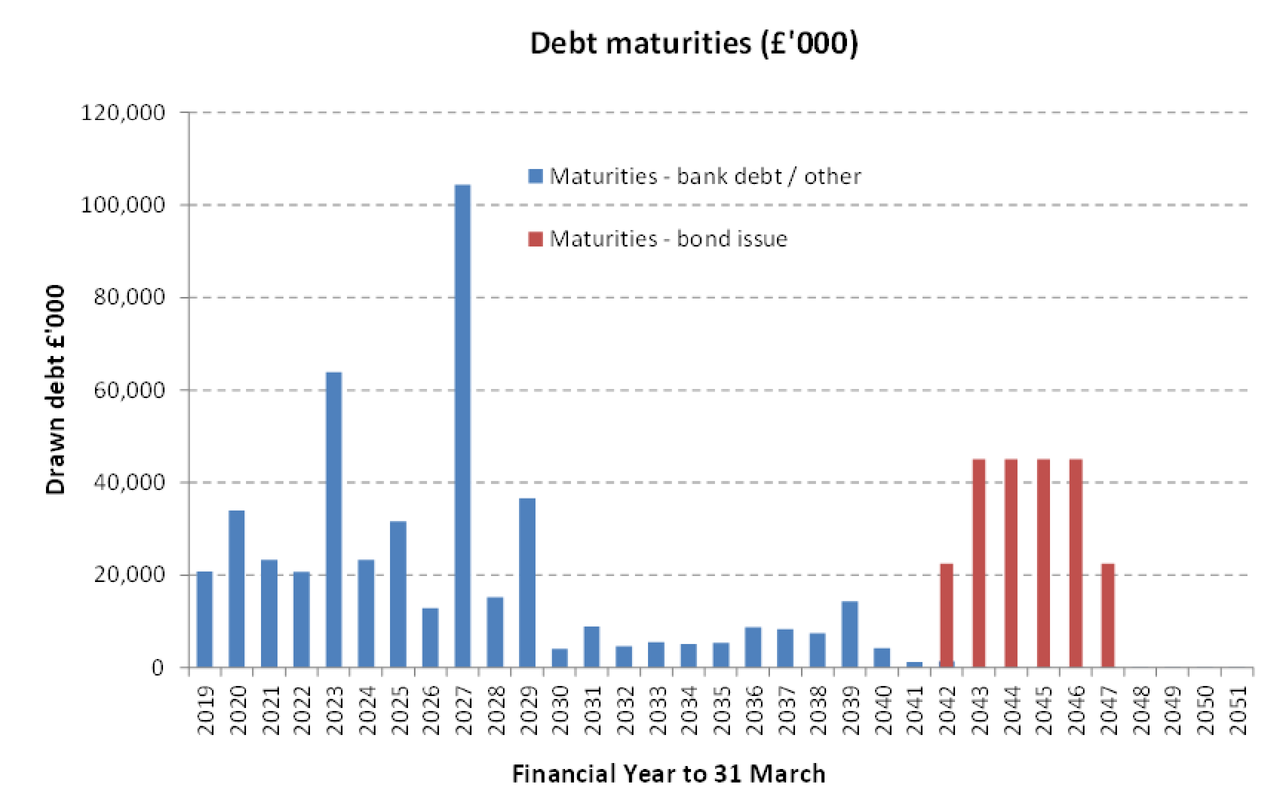
PA Housing operates a centralised treasury function, with responsibility for the management of liquidity, interest rate risk and counterparty risk. These activities are governed by a treasury policy and strategy which are approved each year by the Board. The policy is based on industry good practice standards and was fully reviewed by expert external consultants.

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 treasury policy, with the focus being the preservation of capital rather than maximisation of returns. The business is funded from a number of sources including bank loans, a bond issue, retained earnings and grant primarily provided by government agencies. All funding is in sterling, and there is no foreign currency exposure.

Funding structure

PA Housing is the parent company of the Group and the main borrowing vehicle for bank debt. The Group's debt facilities also include a bond issue arranged by our wholly owned subsidiary Paragon Treasury Plc and on-lent to PA Housing. The Group refinanced its bank facilities in May 2017 to support the needs of the enlarged business, and as at 31 March 2018 committed debt facilities of £881m (2017: £807m) were in place, of which £691m was drawn (2017: £741m). Debt facilities were sourced from a range of commercial banks and from 'club bond' lending intermediaries THFC and Orchardbrook, in addition to the capital markets. Following the refinancing exercise the Group's debt portfolio is well structured to minimise refinancing risk: as at 31 March 2018 the weighted average maturity of committed debt facilities was 14.7 years, with 62% drawn in the form of bank finance and 38% in the form of capital markets and 'club bond' issuance.

Finance Director's report - continued



Interest rate risk management

PA Housing adopts a risk-averse attitude to interest rate movements, and our treasury policy requires at least 50 per cent of drawn funds to be held at fixed or hedged rates of interest. As at 31 March 2018, 81 per cent of the Group's drawn monies were held on this basis (2017: 76 per cent), primarily comprising a combination of standard fixed rate debt embedded within loan facility agreements, and free-standing interest rate swaps to convert floating rate exposure into fixed rates. The mark to market exposure on interest rate swaps as at 31 March 2018 was £52.1m (2017: £83.4m). This exposure was covered by a combination of property and cash security, with the aggregate position deliberately over-covered to provide a protective buffer against adverse market movements. On 26 May 2017 the Group cancelled £40m notional of interest rate swaps, reducing the mark to market exposure as at that date by c.£25m. Interest and related expense on our loans was £36.4m during the year (2017: £31.8m restated). The weighted average cost of funds as at 31 March 2018 was 4.28 per cent (2017: 4.32 per cent).

Covenant compliance

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

Liquidity and cash management

The Group utilises its surplus funds from operations to fund new development activity. Additionally, following the refinancing exercise in May 2017 PA Housing has access to £214.5m of committed revolving credit facilities, from which £49.5m was drawn at the end of the year. The Group aims to manage its use of revolving credit facilities so as to maintain minimum liquid cash balances in line with its golden rules; where additional levels of cash balances from time to time arise above these requirements, funds are placed on short-term deposit in accordance with treasury policy. Our treasury policy sets maximum levels of acceptable exposure to investment counterparties based on certain minimum credit rating thresholds being met. The combination of internal cash generated by the business and available committed undrawn loan facilities are sufficient to fund PA Housing's anticipated development programme for at least the next two financial years.

Paragon Asra Housing Limited Report of the Board of Management

Principal activities

The principal activity of the Group is the management and development of affordable housing. The Group operates in London, Surrey and the Midlands.

Amalgamation

Paragon Asra Housing Limited ('PA Housing') came into being on 13 April 2017, following the amalgamation of Paragon Community Housing Limited, asra Housing Association Limited and Leicester Housing Association Limited.

Board members

PA Housing is governed by a Board of eleven including the Chief Executive. The Board is committed to the highest standards of governance and is responsible for setting the strategic direction and overseeing financial management of the business. Each Board member is selected for the skills and knowledge they offer relative to the strategic priorities of PA Housing. Other members of the Executive Management Team attend meetings of the Board but are not members.

All Board members and Executive Management Team members who held office through the year are detailed on page 3. Each Board member holds one fully paid up share of £1 except the Chief Executive, who is not a shareholder. There are five shareholders who were not Board members.

The Board is collectively responsible for ensuring the success of PA Housing and its compliance with all legal and regulatory obligations. It is responsible for setting PA Housing's values and objectives, ensuring that high standards of integrity and probity are maintained and for the management oversight of PA Housing and its constituent parts. The Board reviews its combined strengths and weaknesses on a regular basis and Board members are selected in order to provide the best possible range of relevant skills and experience.

There is a training programme for Board members designed to inform them of changes to the operating environment, technical issues and government policy. During the year, industry experts provided training sessions on a wide range of relevant topics, including governance standards, property health and safety compliance issues, strategic options for new development, and loan security valuation issues.

All newly appointed Board members receive a full induction programme. Board and Committee appraisals and effectiveness assessments are regularly performed, focussing on both individual and collective performance. This work includes input from external governance experts, and action points for further improvement are agreed.

Board members are paid a fee for their services. The Governance and Remuneration Committee has sole responsibility for recommending to the Board the structure and level of fees and it takes advice from suitably qualified and experienced independent advisors as required when undertaking reviews of the fees structure. These reviews are benchmarked against levels for comparable organisations and are designed to ensure that PA Housing is able to recruit and retain high-calibre Board members.

PA Housing has insurance to indemnify Board members and officers against liability when acting on behalf of PA Housing.

The Board maintains diligent oversight of the business, ensuring that a clear strategy is set and work to deliver against the approved strategy is being delivered in line with expectations. During the first year of PA Housing's operations the Board focussed on a number of key strategic issues including:

- governance and risk management arrangements for the new organisation
- business integration, encompassing IT systems, business processes and staffing implications
- setting the new Corporate Plan
- financial strategy as codified in the long term financial business plan, and associated stress-testing
- reviewing the asset and liability register
- defining a new growth strategy
- considering options for strategic divestment of some housing stock
- receiving reports and recommendations on strategic matters from the committees

Report of the Board of Management - continued

Committees

The Board delegates authority to five specialist committees, Audit and Risk, Governance and Remuneration, Customer Services, Development and Assets, and Treasury. A Task and Finish Group has also been established to oversee the delivery of the integration project; whilst not a permanent committee it has certain delegated authorities. Roles, responsibilities and accountabilities are established in the PA Housing Standing Orders, a document owned by the board.

The **Audit and Risk Committee (ARC)** is the most important committee from a risk management and internal control perspective. ARC meets at least three times each year and currently comprises of four members.

PA Housing maintains a risk register, updated for each ARC meeting, which sets 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. The broader business approach to risk management is set out in the approved Risk Management Framework, and key aspects of this are also monitored by ARC.

Other duties which ARC is responsible for include:

- advising the Board on general matters of internal control and risk management
- approving internal and external audit arrangements, including recommending the appointment of auditors, agreeing their terms of reference and monitoring their performance
- reviewing the outcome of internal and external audit activities
- reviewing with the external auditors the annual statutory Financial statements and recommending these for approval by the Board.
- reviewing the policies and associated activities for integrity and bribery, fraud and whistleblowing
- reviewing measures in place within the business for cyber security and disaster recovery

The role of the **Development and Assets Committee** is to:

- monitor performance of PA's assets and ensure they meet regulatory and legislative standards
- review asset investment requirements and monitor delivery of the asset management strategy
- agree the development strategy and approve schemes proposed within it
- agree and monitor targets relating to new development, sales and asset management
- approve bids for public funding of development activities, and monitor performance against successful bids

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

- oversee service delivery to customers and pursue service improvements where need is identified
- develop and monitor a customer service strategy and action plan
- promote and monitor customer engagement
- ensure that customers are able to comment on and influence the services they receive
- act as the primary point of contact for the Scrutiny Panel and Residents' Council
- ensure that customer access to services evolves in line with development of the IT strategy
- benchmark service performance levels internally and externally in order to direct value for money improvements
- monitor customer compliments and complaints, and consider learning points arising
- ensure compliance with all legislative and regulatory requirements in respect of customer service delivery, and promote best practice in relation to those standards

The role of the **Governance and Remuneration Committee** is to:

- oversee corporate governance throughout PA Housing
- assist the Board in its strategic oversight of human resources and organisational development
- develop remuneration policies for PA Housing
- oversee key recruitment and employment related activities for the Chief Executive and other members of the Executive Management Team
- review and monitor PA's strategic approach to equality and diversity
- advise the Board on engagement and relationships with stakeholders
- recommend to the Board the remuneration and employment policies for Board and Committee members

The role of the **Treasury Committee** is to:

- oversee the formation and content of the treasury management policy and strategy
- ensure sufficient liquidity to meet current and projected activity
- ensure compliance with all lending covenants
- review on behalf of the Board all documentation for proposed new lending facilities
- agree PA's financial golden rules
- monitor investor relations
- assess and monitor investments in accordance with the Investment Policy

The **Integration Task and Finish Group** was set up at inception of PA Housing to:

- ensure that the integration programme is completed within the agreed timetable and budget, and delivers the benefits described in the business case for merger
- monitor IT resources in support of the integration programme

Health and Safety

The Board is conscious of its responsibilities on all matters relating to UK health, safety and welfare legislation. The Chief Executive has overall responsibility for ensuring that policy is developed and implemented and that resources are allocated so that full legislative compliance is achieved. It is also the responsibility of management and employees alike to implement the policy together through their collective and individual work plans. PA Housing aims to operate a 'Best Practice' approach in order to maintain a safe environment for all residents and staff.

Regulatory Compliance

Corporate governance

The Board is committed to ensuring that it has effective governance arrangements that deliver its aims and objectives for customers in an effective, transparent and accountable manner. The National Housing Federation (NHF) 2015 Code of Governance has been adopted by the Board as a formal framework to underpin its governance arrangements. This particular code of governance was selected as it is bespoke to the housing sector and it is a widely recognised example of best practice. Compliance with this code ensures the Paragon Asra Housing Limited will:

- Adhere to all relevant laws.
- Ensure that its constitutional documents are, and remain, fit for purpose.
- Be accountable to residents and relevant stakeholders.
- Safeguard taxpayers' interests and the reputation of the housing sector.
- Have an effective risk management and internal controls assurance framework.

The Board is satisfied that its arrangements are clear and effective, and that the organisation is fully compliant with its chosen code of governance.

Financial statements and accounting policies

PA Housing applies the Statement of Recommended Practice (SORP 2014) for Registered Social Housing Providers and is in compliance with the Accounting Direction for Private Registered Providers of Social Housing 2015. A summary of the principal accounting policies is set out in the notes to the financial statements.

Statement of compliance

The Board certifies compliance with the Governance and Financial Viability Standard issued by the Regulator of Social Housing. This includes adhering to all relevant laws.

Environment

PA Housing is committed to doing business in a sustainable way. Our new build estates include measures to promote environmental sustainability wherever it is feasible to do so, while our Asset Management Strategy sets out the work we are doing to improve the energy-efficiency of our homes. Operationally, our staff work with our customers to raise awareness of fuel poverty issues and we provide support with finding solutions.

Internal control

The PA Housing 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.

Annual Review of the effectiveness of the System of Internal Control

The Board delegates responsibility for the annual review of the effectiveness of the system of internal control to the Audit & Risk Committee (ARC). ARC take account of any changes needed to maintain the effectiveness of the management and control process for risk and fraud. ARC met four times during the course of the year. Assurance over the control environment was obtained from the following main sources:

Risk Management

An effective risk management framework sits at the heart of the system of internal control. The Board confirms that the process for identifying, evaluating and managing the significant risks faced by the organisation is ongoing, the process has been in place throughout the year and up to the date of approval of the annual report and accounts and is regularly reviewed by the Board.

The Audit & Risk Committee receives risk management reports at each meeting and approves the risk register on behalf of the Board. Risk Management reports include the top strategic risks, operating environment analysis, a risk trigger report and a risk assurance report. Board sub-Committees receive risk management reports tailored to their specific business requirements.

The Moody's credit rating process in support of PA's public bond issue also takes into account the strength of our governance and risk management arrangements. During the year Moody's assigned an A3 stable rating.

Internal Audit Service

The prime responsibility of the internal audit service is to provide the Board with assurance on the adequacy and effectiveness of the internal control system, including risk management and governance. Internal audit also plays a valuable role in helping management to improve systems of internal control and so to reduce the potential effects of any significant risks faced. Internal Audit is delivered by the in-house team with an element of external support. The Internal Auditors have direct access to the Audit & Risk Committee and meet with the Committee and Committee Chair privately.

ARC reviews the findings arising from all Internal Audit Reports and is provided with progress reports on the implementation of all agreed recommendations for improvement to the point of conclusion.

The Head of Risk Management provides an annual report and overall assurance opinion on the system of internal control based on the Internal Audit work performed during the year and management response to that work. The 2017-18 Internal Audit annual report identified no material concerns.

Report of the Board of Management - continued

Fraud Management

There is an established code for Integrity & Bribery and PA Housing operates a zero tolerance approach to any instances of fraud or corruption. There is an Anti-Fraud Policy in place covering prevention, detection and reporting of fraud and the recovery of assets. A Fraud Response Plan is also maintained along with a register of identified incidents. There were no material issues identified during the year.

The Anti-Fraud Policy includes publication of an externally hosted confidential whistleblowing hotline service that colleagues can use to report any concerns of an act of fraud of corruption. There were no material issues reported during the year.

ARC reviews the fraud and loss register and reflects the information contained within it in its assessment of the control environment.

Information and Financial Reporting Systems

Financial reporting procedures include a long-term financial plan, detailed annual budgets, detailed treasury reports, value for money reporting and regular management accounts which are reviewed by the Board.

Any issues raised in the external audit management letter issued at conclusion of the annual audit are dealt with to the satisfaction of both the external auditors and ARC with progress tracked to the point of conclusion.

Key performance indicators and business objectives set as part of the performance management framework are regularly reviewed by the Board to assess progress and outcomes.

Director and Leadership Self Assessment and Certification

The Executive Management Team provide assurance that internal controls and risk management are operating effectively in their directorate through completion of an annual assurance statement and self assessment against a range of internal controls. The Leadership Team undertakes an annual year end self assessment and certification of the key control environment on a departmental basis.

Control Environment and Procedures

Governance arrangements are subject to continuing review and development to ensure they remain fit for purpose. Board & sub-Committee membership is reviewed annually in line with the membership policy terms. Compliance with the chosen code of governance and the Regulatory Framework is reviewed annually. An external governance review was completed during the year ahead of in-depth assessment.

The Board retains responsibility for a defined range of issues covering strategic, operational, financial, and compliance matters and new investment projects. The Board disseminates its requirements to employees through a framework of policies and procedures.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by PA Housing 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 is regularly reviewed by the Board.

Report of the Board of Management - continued

Table 1 Board Member Attendance

Attendance records of the non-executive Board and Committee members at meetings during the year are shown below. For retired members, the record shows attendance versus the maximum number of meetings each member could have attended before retirement.

	Board	Audit & Risk Committee	Develop-ment & Assets Committee	Governance & Remuner-ation Committee	Customer Service Committee	Treasury Committee
Board Members						
Aman Dalvi	5 of 6					
Anne Turner	6 of 6	4 of 4			3 of 4	4 of 4
Christopher Cheshire	6 of 6		4 of 4		2 of 4	
Curtis Juman	6 of 6	4 of 4		1 of 1		4 of 4
David Edwards	6 of 6		3 of 4	4 of 4		
David Hunter	6 of 6		4 of 4			3 of 4
Gemma Saffhill	3 of 6		3 of 4			
Katherine Lyons	6 of 6	4 of 4		4 of 4		
Stephen Amos	5 of 6	4 of 4				4 of 4
Wayne Morris	5 of 6			4 of 4	3 of 4	
Committee Members						
Chikaire Exeru – resident					3 of 4	
Kim Francis – resident					4 of 4	
Joan Swift – resident					2 of 4	
Ruth Mitchell					4 of 4	
Sam Thompson – resident					2 of 4	
Stephen Cooper					2 of 4	
John Cudd (retired 14/09/2017)	3 of 3		2 of 2	2 of 2		
Richard Harris (retired 5/10/17)	1 of 3		2 of 2		3 of 3	
David Hobbs – resident (retired)					1 of 1	

Table 2 Board Member Remuneration

Non-executive members received the following remuneration, including expenses, for the year:

	2017-18 **£**	**2016-17** **£**
Current		
Aman Dalvi	23,790	21,129
David Edwards	17,177	8,500
David Hunter	14,149	8,810
Gemma Saffhill	13,750	7,210
Anne Turner	13,557	11,970
Wayne Morris	13,466	13,033
Stephen Amos	13,427	11,704
Christopher Cheshire	13,000	8,043
Curtis Juman	11,827	3,225
Katherine Lyons	11,424	8,348
Resigned in year		
Richard Harris	8,838	9,077
John Cudd	7,177	15,634
Cost of Paragon / asra Board members not appointed at amalgamation	-	50,513
	161,582	**177,196**

At amalgamation, 12 Board members were appointed. Immediately prior to amalgamation, Paragon and asra had in place a combined Board membership of 18. With effect from 13 April 2017 Board members have received the following remuneration: £23,500 per Chairman, £15,500 per Deputy, £13,000 per Chair of Committees and £11,000 per ordinary member per annum.

Report of the Board of Management - continued

Statement of Board members' responsibilities

The Board is responsible for preparing the Board's Report 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, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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
- assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

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. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Approved by the board and signed on its behalf by:

Marion Hall

Marion Hall
Company Secretary
20 September 2018

Independent auditor’s report to Paragon Asra Housing Limited

Opinion

We have audited the financial statements of Paragon Asra Housing Limited (“the association”) for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves, Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the group and the association as at 31 March 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The association’s Board is responsible for the other information, which comprises the Operating and Financial Review, and Report of the Board of Management. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required 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.

We have nothing to report in these respects.

Independent auditor's report to Paragon Asra Housing Limited - continued

Board's responsibilities

As more fully explained in their statement set out on page 37, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at:
www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

SBrown

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

25 September 2018

Statement of Comprehensive Income

	Note	Group 2018 £'000	Group Combined 2017 £'000	Association 2018 £'000	Association Combined 2017 £'000
Turnover	2	164,666	163,404	164,962	163,464
Less: Cost of sales	2	(11,340)	(10,138)	(11,340)	(10,138)
Less: Operating costs	2	(96,389)	(101,123)	(96,359)	(100,973)
Surplus on disposal of housing fixed assets	6	8,146	3,542	8,146	3,542
Negative goodwill - gift		-	1,551	-	1,551
Operating Surplus	2	65,083	57,236	65,409	57,446
Surplus on sale of other fixed assets		108	-	108	-
Interest receivable	10	109	423	109	421
Interest and financing costs	11	(33,515)	(27,277)	(33,515)	(27,277)
Deficit on disposal of investment properties		-	(114)	-	(114)
Movement in fair value of financial instruments	28	554	(5,000)	554	(5,000)
Movement in fair value of investment properties	16	920	1,519	920	1,519
Gift aid receivable		-	-	821	713
Surplus before tax		33,259	26,787	34,406	27,708
Taxation	12	(393)	(148)	(294)	(144)
Surplus for the year		32,866	26,639	34,112	27,564
Movement in fair value of hedged financial instruments	28	5,737	3,055	5,737	3,055
Actuarial gain / (loss) on defined benefit pension schemes	35	350	(847)	350	(847)
Total comprehensive income for the year		38,953	28,847	40,199	29,772

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

Statement of Financial Position

	Note	Group 2018 £'000	Group Combined 2017 £'000	Association 2018 £'000	Association Combined 2017 £'000
Fixed Assets					
Intangible assets and goodwill	13	(13,245)	(13,930)	(13,245)	(13,930)
Tangible fixed assets – housing properties	14	1,636,876	1,624,005	1,639,849	1,626,166
Tangible fixed assets – other	15	10,171	10,350	10,171	10,350
Investment properties	16	20,420	17,297	20,420	17,297
Investments	17	510	558	510	558
Investment in subsidiaries	18	-	-	13	13
		1,654,732	1,638,280	1,657,718	1,640,454
Current Assets					
Stock	19	45,517	45,432	40,953	38,488
Debtors	20	11,592	9,843	16,658	15,487
Current asset investments	21	3,814	6,165	3,814	6,165
Cash and cash equivalents		22,636	86,817	21,523	85,799
		83,559	148,257	82,948	145,939
Less: Creditors: amounts falling due within one year	22	(67,612)	(78,336)	(67,042)	(76,496)
Net current assets		15,947	69,921	15,906	69,443
Total assets less current liabilities		1,670,679	1,708,201	1,673,624	1,709,897
Creditors: amounts falling due after more than one year	23	(1,181,322)	(1,257,280)	(1,181,322)	(1,257,277)
Provision for liabilities	34	(508)	(616)	(508)	(616)
Net assets excluding pension liability		488,849	450,305	491,794	452,004
Pension liability	35	(1,107)	(1,517)	(1,107)	(1,517)
Total net assets		487,742	448,788	490,687	450,487
Capital and Reserves					
Called up share capital	33	-	-	-	-
Income and expenditure reserve		264,841	229,221	267,786	230,920
Cash Flow Hedge reserve		(21,960)	(27,697)	(21,960)	(27,697)
Revaluation reserve		244,783	247,187	244,783	247,187
Restricted reserve		78	77	78	77
		487,742	448,788	490,687	450,487

The financial statements on pages 40 to 90 were approved by the Board on 20 September 2018 and signed on its behalf by:

Aman Dalvi
Chairman

Anne Turner
Board Member

Marion Hall
Company Secretary

Consolidated Statement of Changes in Reserves

Group	Income and exp. reserve £'000	Cash Flow Hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2017	229,221	(27,697)	247,187	77	448,788
Surplus for the year	32,866	-	-	-	32,866
Transfer of restricted expenditure to income and expenditure reserve	-	-	-	1	1
Change in fair value of hedged financial instruments	-	5,737	-	-	5,737
Actuarial gain on defined benefit pension scheme	350	-	-	-	350
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,226	-	(1,226)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	1,178	-	(1,178)	-	-
At 31 March 2018	264,841	(21,960)	244,783	78	487,742

Group	Income and exp. reserve £'000	Cash Flow Hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2016 (restated)	201,467	(30,752)	249,061	165	419,941
Surplus for the year	26,639	-	-	-	26,639
Transfer of restricted expenditure to income and expenditure reserve	88	-	-	(88)	-
Change in fair value of hedged financial instruments	-	3,055	-	-	3,055
Actuarial (loss) on defined benefit pension scheme	(847)	-	-	-	(847)
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)	-	-
At 31 March 2017	229,221	(27,697)	247,187	77	448,788

Restatement of Income and expenditure reserves relates to a prior period adjustment of loan balances (note 27).

Association Statement of Changes in Reserves

Association	Income and exp. reserve £'000	Cash Flow Hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2017	230,920	(27,697)	247,187	77	450,487
Surplus for the year	34,112	-	-	-	34,112
Transfer of restricted expenditure to income and expenditure reserve	-	-	-	1	1
Change in fair value of hedged financial instruments	-	5,737	-	-	5,737
Actuarial gain on defined benefit pension scheme	350	-	-	-	350
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,226	-	(1,226)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	1,178	-	(1,178)	-	-
At 31 March 2018	267,786	(21,960)	244,783	78	490,687

Association	Income and exp. reserve £'000	Cash Flow Hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2016 (restated)	202,241	(30,752)	249,061	165	420,715
Surplus for the year	27,564	-	-	-	27,564
Transfer of restricted expenditure to income and expenditure reserve	88	-	-	(88)	-
Change in fair value of hedged financial instruments	-	3,055	-	-	3,055
Actuarial (loss) on defined benefit pension scheme	(847)	-	-	-	(847)
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)	-	-
At 31 March 2017	230,920	(27,697)	247,187	77	450,487

Restatement of Income and expenditure reserves relates to a prior period adjustment of loan balances (note 27).

Consolidated Statement of Cash Flow

	Note	2018 £'000	2017 Combined £'000
Net cash generated from operating activities	30	61,486	91,074
Cash flow from investing activities			
Interest received		109	423
Grants received		817	1,719
Purchase of tangible fixed assets		(42,060)	(61,286)
Purchase of other fixed assets		(896)	(908)
Sale of other fixed assets		95	-
		19,551	31,022
Cash flow from financing activities			
Taxation paid		(148)	(87)
Interest paid		(36,395)	(31,825)
Other financing cost paid		(214)	(141)
Current asset investments released		2,400	8,555
Financing			
Housing loans and bond finance received	31	45,000	15,000
Housing loans repaid	31	(94,375)	(34,323)
Net change in cash and cash equivalents		(64,181)	(11,799)
Cash and cash equivalents at beginning of the year		86,817	98,616
Cash and cash equivalents at end of year		22,636	86,817

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

Notes to the Financial Statements for the year ended 31 March 2018

1 Accounting Policies

1.1 Basis of Accounting

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.

The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council (September 2015) 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. Paragon Asra Housing Limited is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102. Paragon Asra Housing Limited is incorporated in the United Kingdom and registered with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and the Homes and Communities Agency as a social housing provider.

The following principal accounting policies have been applied:

1.2 Accounting Convention

The financial statements have been prepared under the historical cost convention, except for the modification to fair value for certain financial instruments and housing properties and the annual valuation of commercial and market rent properties as specified within these accounting policies.

The financial statements are prepared under the merger accounting rules detailed in Section 19 of FRS 102 for the combination of Paragon Community Housing Limited, asra Housing Association Limited and Leicester Housing Association Limited. Accounting policies have been aligned where they were different between the Associations and these are outlined in note 40.

The results for 2017 are a combined position for Paragon Community Housing Limited and asra Housing Association Limited

The financial statements are presented in pounds sterling and reported in £'000s.

<u>Parent company disclosure exemptions</u>

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.

1.3 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 starting on page 7.

The rationale for the creation of PA Housing was to generate 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 A3 stable rating to Paragon Asra Housing Limited.

Paragon Asra Housing Limited 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 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 these accounts.

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 Paragon Asra Housing Limited together with its subsidiaries, in accordance with the requirements of FRS 102. Intercompany transactions and balances between Group companies are therefore eliminated in full. A list of subsidiary undertakings of the Association is included in note 39.

Notes to the Financial Statements - continued

1.5 Turnover

Turnover is measured at the fair value of the consideration received or receivable and excludes VAT (where applicable).

Paragon Asra Housing Limited 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.

Supporting People

Paragon Asra Housing Limited receives Supporting People grants from a number of London boroughs and county councils. The grants received in the period, as well as costs incurred 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 Asra Housing Limited where it is not recoverable from tenants.

Service charges receivable

Paragon Asra Housing Limited 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.

Managed 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 land and property disposals is recognised at the point of legal completion of the sale.

<u>Operating segments</u>

There are publically traded securities across all of the geographical locations Paragon Asra Housing Limited operates within and therefore there is a requirement to disclose information about the Group operating segments under IFRS 8. Segmental information is disclosed in note 3 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 where Paragon Asra Housing Limited operates. The Board does not routinely receive segmental information disaggregated by geographical location or segmental information of income or costs below operating surplus.

1.6 Pensions

<u>Defined contribution pension scheme</u>

The Association participates in the defined contribution scheme of the Social Housing Pension Scheme. The assets of the scheme are held separately from those of the Association in an independently administered fund. Contributions to the defined contribution pension scheme are charged to the Statement of Comprehensive Income in the year in which they become payable.

Notes to the Financial Statements - continued

<u>Defined benefit pension scheme</u>

The Association has previously participated in two defined benefit pension schemes which are now closed to new members. The disclosure in the accounts follows the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes.

Local Government Pension Scheme (LGPS)

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, a defined benefit scheme.

The assets of the scheme are held separately from those of the Association. The difference between the fair value of the assets held in the 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 the association is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Under the terms of the transfer agreement with Elmbridge Borough Council, PA Housing makes additional payments each year as its contribution to the past service deficit at 31 March 1998. These are recognised as a liability on the Statement of Financial Position at the net present value of future payments. The unwinding of the discount is recognised as finance cost in the Statement of Comprehensive Income in the period it arises.

Social Housing Pension Scheme (SHPS)

The Association participated until 31 October 2015 in SHPS providing benefits based on career average pay. The assets of the scheme are held separately from those of the Association. The Association is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. Therefore, contributions payable by the employer to the scheme are charged to the Statement of Comprehensive Income in the year in which they become payable. Contributions payable in respect of the past service deficit are recognised as a liability on the Statement of Financial Position at the net present value of future payments. The unwinding of the discount is recognised as finance cost in the Statement of Comprehensive Income in the period it arises.

1.7 Interest Payable

Interest payable is 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.

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 Paragon Asra Housing Limited 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 it relates to.

1.8 Taxation

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

The charge for taxation is based on surpluses arising on certain activities which are liable to 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. All taxation charges are in line with UK tax legislation.

1.8 Taxation - continued

Deferred tax 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.

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.

1.9 Value added tax (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 within expenditure and is credited to the Statement of Comprehensive Income.

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 these financial statements.

1.11 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 Statement of Comprehensive Income commensurately with the recovery of the non-monetary assets acquired, whether through depreciation or sale.

1.12 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 Statement of Comprehensive Income in the year of transaction.

1.13 Housing properties and depreciation

General needs properties, sheltered housing and shared ownership properties are stated at cost or deemed cost valuation 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 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 arising through normal wear and tear to properties is charged to the Statement of Comprehensive Income in the year in which it occurs.

1.13 Housing properties and depreciation - continued

Deemed cost

From 1 April 2014, Paragon Community Housing Group as a predecessor organisation to Paragon Asra Housing Limited changed its accounting policy from recording housing properties at valuation or cost, to being recorded at historic cost. Paragon Asra Housing Limited took the FRS 102 transition option to elect to measure certain items of property, plant and equipment (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 Community Housing Group 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.

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

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 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. Components are depreciated from the year following replacement.

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

Building structure	60 -125 years
Roofs	50 years
Kitchens	20-25 years
Bathrooms	30-37 years
Windows and doors	30-40 years
Heating and boilers	15-25 years
Rewiring	30 years
Enveloping works	50 years

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.

Shared ownership properties and staircasing

Under low-cost homeownership arrangements, Paragon Asra Housing Limited disposes of a long lease on low-cost homeownership housing units for a share ranging between 25% and 75% 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.

1.13 Housing properties and depreciation - continued

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.

1.14 Impairment

An assessment of whether indicators of impairment exist is carried out at each reporting date. If such an indicator exists as defined in FRS 102.27 ‘Impairment of Assets’, an impairment assessment is carried out to determine if an impairment is required. Any impairment in an income generating unit is recognised by a charge to the Statement of Comprehensive Income.

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

1.15 Other tangible fixed assets

Other tangible fixed assets, other than investment properties, are stated at historic cost or deemed cost valuation less accumulated depreciation and any accumulated impairment losses. 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 Asra Housing Limited 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. 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:

Freehold office premises	10 - 50 years
Leasehold office premises	10- 25 years
Plant and machinery	2 - 4 years
Fixtures and fittings	2 - 25 years
IT equipment	3 - 4 years
Motor vehicles	3 - 5 years

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.

The asset category of freehold office premises has certain assets recorded at deemed cost, as Paragon Asra Housing Limited 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, Savills UK Limited were engaged as independent valuation specialists.

Notes to the Financial Statements - continued

1.16 Investment properties

Properties that are held to earn commercial/market rate rentals or for capital appreciation, or both, and not held for social benefit are treated as investment properties and accounted for in accordance with Section 16 of FRS 102. Investment properties include market rent and commercial properties. Investment properties are accounted for at fair value and are professionally valued at each reporting date 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 for Investment properties under construction as they are stated at cost. Changes in fair value are recognised in the Statement of Comprehensive Income.

1.17 Investments

Investments are stated at fair value.

1.18 Stock

Stock represents work in progress and completed shared ownership properties and properties for outright 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. 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.

1.19 Basic financial instruments

Debtors

Rent and service charge debtors (tenant and leaseholder 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. Paragon Asra Housing Limited 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. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in operating costs.

Creditors

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.

A holiday pay accrual 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.

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

Loans and short term deposits

All loans and short term deposits held by Paragon Asra Housing Limited 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.

Notes to the Financial Statements - continued

1.19 Basic financial instruments - continued

Cash and cash equivalents

Cash and cash equivalents in the 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.

1.20 Government and other grants

Grants received in relation to completed assets that were presented at deemed cost on 31 March 2014 have been accounted for using the performance model as required by the 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 and those housing properties remaining at historic cost are accounted for using the accrual model as 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 100-125 years, has been selected. 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.

Where Social Housing Grant 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.

All other 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 received from non-government sources are recognised as revenue using the performance model.

1.21 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 Statement of Financial Position under 'creditors due within one year'. The remainder is disclosed under 'creditors due after more than one year'.

1.22 Disposal Proceeds Fund

Receipts from Right to Acquire sales are retained in a ring fenced fund which can only be used for providing replacement housing. Following changes to statutory provisions made by the Housing and Planning Act 2016 and associated regulations, from 7 April 2017, no new net proceeds of disposals will be recognised in the fund. The balance held in the fund that is not anticipated to 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'.

1.23 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. FRS 102 paragraph 11.20 requires that the unamortised fee balance is netted off against the loan liability.

Notes to the Financial Statements - continued

1.24 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.

1.25 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.

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.

1.26 Reserves

Income and expenditure reserve

Although under their Rules 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.

Cash Flow Hedge reserve

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.

Revaluation reserve

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

Restricted reserve

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

1.27 Leases

Operating lease rentals are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Notes to the Financial Statements - continued

1.28 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.

1.29 Key estimates and judgments

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

Impairment

Factors taken into consideration in reaching the decision as to whether there are indicators of impairment of 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.
- 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 as at 31 March 2016.

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 is taken from internal investment appraisals produced from the knowledge and experience of the Development team and reviewed and approved by the Development and Assets 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.

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.

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.

Notes to the Financial Statements - continued

1.29 Key estimates and judgments - continued

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.

Depreciation

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.

Investment properties

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 2018 were:

- Rental arrears
- Yields
- Location and condition of the property
- Redevelopment opportunities

Rental and other trade receivables

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.

Other Debtors

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.

Notes to the Financial Statements - continued

2 Turnover, cost of sales, operating costs and operating surplus

Group 2018	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Surplus on assets £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	138,052	-	(87,949)	-	50,103
Other social housing activities					
First tranche shared ownership sales	15,231	(9,108)	-	-	6,123
Managed services	1,337	-	(1,030)	-	307
Charges for support services	403	-	(171)	-	232
Goodwill amortisation	685	-	-	-	685
Other	2,900	-	(5,552)	-	(2,652)
Surplus on disposal of housing fixed assets	-	-	-	8,146	8,146
	158,608	(9,108)	(94,702)	8,146	62,944
Non-social housing activities					
Outright property sales	3,580	(2,232)	-	-	1,348
Market rented	1,457	-	(1,011)	-	446
Impairment	-	-	(240)	-	(240)
Other	1,021	-	(436)	-	585
	6,058	(2,232)	(1,687)	-	2,139
Total	164,666	(11,340)	(96,389)	8,146	65,083

2 Turnover, cost of sales, operating costs and operating surplus - continued

Group 2017	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Surplus on assets £'000	Negative goodwill gift £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	136,853	-	(95,460)	-	-	41,393
Other social housing activities						
First tranche shared ownership sales	17,587	(9,443)	-	-	-	8,144
Managed services	1,690	-	(1,171)	-	-	519
Charges for support services	384	-	(128)	-	-	256
Goodwill amortisation	661	-	-	-	-	661
Other	3,297	-	(880)	-	-	2,417
Negative goodwill gift	-	-	-	-	1,551	1,551
Surplus on disposal of housing fixed assets	-	-	-	2,750	-	2,750
	160,472	(9,443)	(97,639)	2,750	1,551	57,691
Non-social housing activities						
Outright property sales	1,212	(695)	-	-	-	517
Market rented	1,307	-	(590)	-	-	717
Impairment	-	-	(1,372)	-	-	(1,372)
Other	413	-	(1,522)	-	-	(1,109)
Surplus on disposal of investment properties	-	-	-	792	-	792
	2,932	(695)	(3,484)	792	-	(455)
Total	163,404	(10,138)	(101,123)	3,542	1,551	57,236

Notes to the Financial Statements - continued

2 Turnover, cost of sales, operating costs and operating surplus - continued

Association 2018	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Surplus on assets £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	138,052	-	(87,949)	-	50,103
Other social housing activities					
First tranche shared ownership sales	15,231	(9,108)	-	-	6,123
Managed services	1,337	-	(1,030)	-	307
Charges for support services	403	-	(171)	-	232
Goodwill amortisation	685	-	-	-	685
Other	3,196	-	(5,524)	-	(2,328)
Surplus on disposal of housing fixed assets	-	-	-	8,146	8,146
	158,904	(9,108)	(94,674)	8,146	63,268
Non-social housing activities					
Outright property sales	3,580	(2,232)	-	-	1,348
Market rented	1,457	-	(1,011)	-	446
Impairment	-	-	(240)	-	(240)
Other	1,021	-	(434)	-	587
	6,058	(2,232)	(1,685)	-	2,141
Total	164,962	(11,340)	(96,359)	8,146	65,409

Notes to the Financial Statements - continued

2 Turnover, cost of sales, operating costs and operating surplus - continued

Association 2017	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Surplus on assets £'000	Negative goodwill gift £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	136,853	-	(95,460)	-	-	41,393
Other social housing activities						
First tranche shared ownership sales	17,587	(9,443)	-	-	-	8,144
Managed services	1,690	-	(1,171)	-	-	519
Charges for support services	384	-	(128)	-	-	256
Goodwill amortisation	661	-	-	-	-	661
Other	3,357	-	(730)	-	-	2,627
Negative goodwill gift	-	-	-	-	1,551	1,551
Surplus on disposal of housing fixed assets	-	-	-	2,750	-	2,750
	160,532	(9,443)	(97,489)	2,750	1,551	57,901
Non-social housing activities						
Outright property sales	1,212	(695)	-	-	-	517
Market rented	1,307	-	(590)	-	-	717
Impairment	-	-	(1,372)	-	-	(1,372)
Other	413	-	(1,522)	-	-	(1,109)
Surplus on disposal of investment properties	-	-	-	792	-	792
	2,932	(695)	(3,484)	792	-	(455)
Total	163,464	(10,138)	(100,973)	3,542	1,551	57,446

Notes to the Financial Statements - continued

3 Income and expenditure from lettings

Group and Association	General needs	Supported housing & housing for older people	Shared ownership	Key worker and other	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Income from social housing lettings activities						
Rents receivable net of identifiable service charges	100,059	14,740	5,678	882	121,359	119,978
Service charges receivable	4,899	4,643	1,896	71	11,509	11,554
Amortisation of social housing grant	4,065	891	160	68	5,184	5,321
	109,023	20,274	7,734	1,021	138,052	136,853
Expenditure on social housing lettings activities						
Services	7,170	3,532	1,512	60	12,274	11,343
Management	25,850	174	211	8	26,243	27,531
Routine Maintenance	13,427	1,751	130	75	15,383	17,580
Planned maintenance	9,353	969	60	17	10,399	9,932
Rent losses from bad debts	1,450	6	1	13	1,470	1,545
Depreciation of housing properties	16,376	2,103	781	331	19,591	22,832
Impairment (reversal)	333	0	(575)	0	(242)	1,200
Write off of components	1,476	248	0	30	1,754	1,884
Other costs	1,077	0	0	0	1,077	1,613
Total expenditure on social housing lettings activities	76,512	8,783	2,120	534	87,949	95,460
Operating surplus from social housing lettings activities	32,511	11,491	5,614	487	50,103	41,393
Rent losses from voids	1,428	317	43	32	1,820	2,130

Notes to the Financial Statements - continued

4 Units of stock

Group and Association	2018 Number	2017 Number
Social housing properties		
General needs housing	13,448	13,682
Affordable rent	2,214	1,932
Intermediate rent	437	442
Supported housing	110	59
Shared ownership	1,345	1,100
Housing for older people	2,425	2,425
Key workers	224	226
Temporary housing	37	26
Total owned	20,240	19,892
Leaseholder properties	1,201	1,322
Managed on behalf of others	1,099	1,599
Total managed social housing	22,540	22,813
General needs housing	234	246
Supported housing	552	531
Total social owned but managed by others	786	777
Non-social housing		
Student accommodation	20	20
Market rent	137	134
Commercial rent	11	11
Total managed non-social housing	168	165
Non-social owned but managed by others	11	11
All accommodation		
Owned and managed	20,408	20,259
Managed	2,300	2,921
Total managed	22,708	23,180
Total owned but managed by others	797	788
Total stock	23,505	23,968
Homes under construction	765	815
Garages	1,909	1,936

Notes to the Financial Statements - continued

5 Operating surplus on ordinary activities before taxation

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Operating surplus on ordinary activities before taxation is after charging/(crediting):				
Depreciation: housing properties (note 3)	19,591	22,832	19,591	22,832
Write off of replaced components (note 3)	1,754	1,884	1,754	1,884
Depreciation of other tangible owned fixed assets (note 15)	875	1,284	875	1,284
Amortisation of social housing grant (note 2 & 3)	(5,184)	(5,321)	(5,184)	(5,321)
Impairment of properties (note 2 & 3)	2	2,572	2	2,572
Operating lease payments	379	368	379	368
Auditor's remuneration:				
In their capacity as auditors	85	130	64	114
In respect of other services	9	92	9	70

6 Surplus on disposal of housing fixed assets

Group and Association	Voluntary sales £'000	Shared ownership conversion £'000	Shared ownership subsequent tranches £'000	Right to acquire sales £'000	Right to buy sales £'000	Sales to other register providers £'000	Total 2018 £'000	Total 2017 £'000
Proceeds of sale	7,814	658	5,994	1,045	297	7,635	23,443	11,970
Less: cost of sale	(3,229)	(713)	(3,304)	(728)	(67)	(6,229)	(14,270)	(6,891)
Right to buy clawbacks	-	-	-	-	(252)	-	(252)	(1,002)
Selling costs	(64)	(3)	(34)	(2)	-	-	(103)	(32)
Grant recycled	(145)	-	(37)	(43)	-	(447)	(672)	(503)
	4,376	(58)	2,619	272	(22)	959	8,146	3,542

Notes to the Financial Statements - continued

7 Directors and senior staff emoluments

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

Group and Association Directors (including former directors)	**2018** **£'000**	**2017** **£'000**
Emoluments – Executive Directors	1,083	1,271
Emoluments – Non-Executive directors	161	179
Compensation payable to past directors in respect of loss of office	141	43
Contributions to pension schemes	85	113
The emoluments of directors disclosed above (excluding pension contributions, but including benefits in kind) include amounts paid to:		
The highest paid director	185	188

The highest paid director refers to Dilip Kavi, Chief Executive. The amount includes basic salary of £160,000 (2017: £160,000) and a car allowance. The Chief Executive is an ordinary member of the pension scheme as set out in note 35.

The Non-Executive Directors were remunerated as follows:

From 13 April 2017: £23,500 per Chairman, £15,500 per deputy, £13,000 per Chair of committees and £11,000 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.

Group and Association Staff emoluments (includes redundancy payments)	**2018** **number**	**2017** **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	12	11
£70,001 to £80,000	8	8
£80,001 to £90,000	2	2
£90,001 to £100,000	1	2
£100,001 to £110,000	3	1
£110,001 to £120,000	-	2
£120,001 to £130,000	-	-
£130,001 to £140,000	3	2
£140,001 to £150,000	1	1
£150,001 to £160,000	1	-
£160,001 to £170,000	1	1
£170,001 to £180,000	-	1
£180,001 to £190,000	1	-
Total	33	31
Included above due to redundancy	11	1

Notes to the Financial Statements - continued

8 Employee information

Group and Association	2018 £'000	2017 £'000
Staff costs including directors:		
Wages and salaries	17,721	16,853
Social security costs	1,685	1,662
Costs of defined contribution scheme	851	1,029
Pension deficit reduction charge	2,182	2,057
	22,439	21,601

Average number of full time equivalent persons (including the directors) employed during the year:	**Number**	**Number**
Development and Assets	98	97
Housing, Lettings and Care	264	266
Central Services	176	186
Total employees	**538**	**549**

As part of the amalgamation process, 24 posts were removed from the establishment during the year. The average number of full time equivalent persons employed is calculated by comparing the contracted hours to a standard working week on a monthly basis.

9 Board and committee members

	Remuneration £	Member of: Board	Audit & Risk Committee	Development & Assets Committee	Governance & Remuneration Committee	Customer Services Committee	Treasury Committee
Non-Executive Board members							
A Dalvi	23,500	■					
A Turner	13,000	■	■			■	■
S Amos	13,000	■	■				■
W Morris	13,000	■			■	■	
C Cheshire	13,000	■		■		■	
K Lyons	11,000	■	■		■		
D Edwards	16,250	■		■	■		
D Hunter	13,750	■		■			■
C Juman	11,583	■	■		■		■
G Saffhill	13,750	■		■			
J Cudd (retired)	6,667	■					
R Harris (retired)	8,333	■					
Customer Service Committee Members only							
R Mitchell	2,167					■	
S Cooper	1,167					■	
S Thompson (resident)	500					■	
J Swift (resident)	500					■	
C Exeru (resident)						■	
K Francis (resident)						■	
D Hobbs (resident, retired)	250					■	
	161,417						

Total expenses of £4,847 (2017: £8,070) 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 to the Financial Statements - continued

10 Interest receivable and similar income

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Interest receivable and similar income	109	423	109	421

11 Interest payable and financing costs

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Housing loans interest	20,634	15,984	20,634	15,984
Amortisation of debt issue fees	2,205	183	2,205	183
Pension unwinding cost	-	691	-	691
Interest rate swap obligation	5,448	6,137	5,448	6,137
Net interest on net defined benefit liability	132	24	132	24
Other loans and finance costs	114	628	114	628
Bond interest	8,208	8,168	-	-
Other loans from Group undertakings	-	-	8,208	8,168
RCGF Interest	34	29	34	29
DPF Interest	8	4	8	4
	36,783	31,848	36,783	29,645
Less: Capitalised	(3,268)	(4,571)	(3,268)	(4,571)
	33,515	27,277	33,515	27,277

Interest rates charged on housing loans varied between 0.6% and 10.8% including lending margins.

Interest is capitalised on properties under construction using the weighted average interest rate for the debt portfolio as a whole (and after the effect of interest rate derivatives) of 4.3%.

Amortisation of debt issue fees includes £2.0m of debt issue fees written off following the Group's refinancing of its committed bank facilities in May 2017.

The reported charge of £33.5m includes £3.3m of non-cash accounting adjustments under FRS 102 as a result of derecognising and re-incepting bank loans upon the group's refinancing in May 2017.

12 Taxation

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Analysis of charge in year				
Current tax:				
UK corporation tax on surplus for year	393	148	294	144
Total current tax (see below)	393	148	294	144
Total tax charge	393	148	294	144
Factors affecting the tax charge for the year				
Surplus before taxation	33,259	26,787	34,406	27,708
Tax charge at 20% (2017: 20%)	6,652	5,357	6,881	5,542
Exempt charitable income	(6,259)	(5,207)	(6,587)	(5,398)
Utilisation of tax losses	-	(2)	-	-
	393	148	294	144

13 Intangible assets and goodwill

Group and Association	Negative goodwill £'000
At 1 April 2017	13,930
Amortisation of goodwill	(685)
At 31 March 2018	13,245

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.

14 Tangible fixed assets – housing properties

Group	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 or valuation					
At 1 April 2017	1,498,595	87,037	119,259	31,487	1,736,378
Additions	3,819	23,968	7,902	29,562	65,251
Transfer to/from current assets/stock	(23,018)	-	-	(13,942)	(36,960)
Transfer to investment property	1,787	(4,008)	-	-	(2,221)
Reclassification - cost	(1,585)	-	1,585	-	-
Disposals	(3,006)	-	(4,177)	-	(7,183)
Component replacement	12,413	-	-	-	12,413
Components write off	(3,126)	-	-	-	(3,126)
Write offs	(8)	-	(60)	-	(68)
Schemes completed	25,866	(25,866)	16,009	(16,009)	-
At 31 March 2018	1,511,737	81,131	140,518	31,098	1,764,484
Depreciation					
At 1 April 2017	104,252	-	3,153	-	107,405
Charge for the period	18,810	-	781	-	19,591
Reclassification -depreciation	(98)	-	98	-	-
Transfer to current assets	(2,276)	-	-	-	(2,276)
Transfer to current assets	(18)	-	-	-	(18)
Eliminated on disposal	(233)	-	(163)	-	(396)
Components write off	(1,371)	-	-	-	(1,371)
Write offs	6		(22)	-	(16)
At 31 March 2018	119,072	-	3,847	-	122,919
Impairment					
At 1 April 2017	1,834	1,916	-	1,218	4,968
Charge for the year	-	835	-	-	835
Write back	-	(845)	-	(269)	(1,114)
At 31 March 2018	1,834	1,906	-	949	4,689
Net book value					
At 31 March 2018	1,390,831	79,225	136,671	30,149	1,636,876
At 31 March 2017	1,392,509	85,121	116,106	30,269	1,624,005

14 Tangible fixed assets – housing properties – continued

Association	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 or valuation					
At 1 April 2017	1,499,532	87,037	119,259	31,487	1,737,315
Additions	3,819	24,374	7,902	29,967	66,062
Transfer to / from current assets/stock	(23,018)	-	-	(13,942)	(36,960)
Transfer to investment property	1,787	(4,008)	-	-	(2,221)
Reclassification - cost	(1,585)	-	1,585	-	-
Disposals	(3,006)	-	(4,177)	-	(7,183)
Component replacement	12,413	-	-	-	12,413
Components write off	(3,126)	-	-	-	(3,126)
Write offs	(8)	-	(60)	-	(68)
Schemes completed	25,866	(25,866)	16,009	(16,009)	-
At 31 March 2018	1,512,674	81,537	140,518	31,503	1,766,232
Depreciation					
At 1 April 2017	103,028	-	3,153	-	106,181
Charge for the period	18,810	-	781	-	19,591
Reclassification -depreciation	(98)	-	98	-	-
Transfer to current assets	(2,276)	-	-	-	(2,276)
Transfer to current assets	(18)	-	-	-	(18)
Eliminated on disposal	(233)	-	(163)	-	(396)
Components write off	(1,371)	-	-	-	(1,371)
Write offs	6	-	(22)	-	(16)
At 31 March 2018	117,847	-	3,847	-	121,694
Impairment					
At 1 April 2017	1,834	1,916	-	1,218	4,968
Charge for the year	-	835	-	-	835
Write back	-	(845)	-	(269)	(1,114)
At 31 March 2018	1,834	1,906	-	949	4,689
Net book value					
At 31 March 2018	1,392,993	79,631	136,671	30,554	1,639,849
At 31 March 2017	1,394,670	85,121	116,106	30,269	1,626,166

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
The net book value of housing properties may be further analysed:				
Freehold	1,462,890	1,465,863	1,457,113	1,459,274
Long leaseholds	168,966	168,966	161,867	161,867
Short leaseholds	5,020	5,020	5,025	5,025

Notes to the Financial Statements - continued

14 Tangible fixed assets – housing properties - continued

	Group & Association 2018 £'000	Group & Association 2017 £'000
Work to properties:		
Improvements to existing properties capitalised	12,413	9,955
Planned maintenance expenditure included in the Statement of Comprehensive Income	10,562	9,932

Interest capitalisation:		
Interest capitalised in the year	3,268	4,571
Cumulative interest capitalised	21,906	18,638
Rate used for capitalisation	4.27%	4.13%

Freehold buildings with a carrying value of £1,462.9m (2017: £1,457.1m) 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 without the prior consent of lenders.

Impairment

An assessment of impairment is performed annually at 31 March. The Group 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, PA Housing has recognised a net impairment of £2k (2017: £2,572k) in respect of general needs and shared ownership housing stock under construction. An impairment charge has been recognised on an Extra Care scheme, this is as a result of delays in ensuring fire safety compliance and a re-appraisal of scheme costs based on final costs and occupancy dates. A reversal of prior year impairment has been made on two schemes based on revised costs and rising sales values.

15 Tangible fixed assets - other

Group and Association	Freehold offices £'000	Leasehold office £'000	Furniture fixtures and fittings £'000	Computers and office equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 April 2017	9,990	619	2,108	3,885	475	17,077
Additions	-	7	150	739	-	896
Reclassification	(298)	-	-	-	-	(298)
Write-offs	-	-	(907)	(105)	(14)	(1,026)
At 31 March 2018	9,692	626	1,351	4,519	461	16,649
Depreciation						
At 1 April 2017	1,269	289	1,614	3,240	315	6,727
Charge for year	158	40	189	415	73	875
Reclassification	(152)	-	-	-	-	(152)
Write-offs	-	-	(856)	(104)	(12)	(972)
At 31 March 2018	1,275	329	947	3,551	376	6,478
Net book value						
At 31 March 2018	8,417	297	404	968	85	10,171
At 31 March 2017	8,721	330	494	645	160	10,350

Notes to the Financial Statements - continued

16 Investment properties

Group and Association	Market Rent £'000	Commercial £'000	Total £'000
At 1 April 2017	15,281	2,016	17,297
Transfer from housing properties	207	-	207
Transfer to housing properties	(2,012)	-	(2,012)
Under construction	4,008	-	4,008
Revaluations	941	(21)	920
At 31 March 2018	18,425	1,995	20,420

Commercial properties were professionally valued by Jones Lang LaSalle chartered surveyors, independent valuer and Savills chartered surveyors, independent valuer, to fair value at 31 March 2018 and 31 March 2017.

Market rent properties, which are all freehold or long leasehold, were valued to fair value at 31 March 2018 and 2017 based on a valuation undertaken by Savills, chartered surveyors, independent valuer, RICS Registered valuers. Details on the assumptions made and the key sources of estimation uncertainty are given in note 1.

The surplus on revaluation of investment property arising of £920k (2017: £1,519k) has been credited to the Statement of Comprehensive Income for the year.

17 Investments

Group and Association	2018 £'000	2017 £'000
Other loans	510	558
	510	558

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.

Notes to the Financial Statements - continued

18 Investments in subsidiaries

Association	2018 £'000	2017 £'000
Cost at 1 April and 31 March	13	13
	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
Asra Construction Services Limited	Company limited by shares	Design and build services
Paragon Development & Construction Services Limited	Company limited by shares	Design and build services
Paragon Treasury Plc	Public limited company	Group borrowing vehicle
Asra Housing Group Limited	Community Benefit Society	Dormant
Sandy Hill (Woolwich) Limited	Company limited by shares	Dormant
Newlight Properties Limited	Company limited by shares	Dormant

Franklands Park Limited is a joint venture in which PA Housing 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 2018 show a profit for the year of £1k and net assets of £250k.

Asra Housing Group Limited, a Community Benefit Society (registered 30442R) is the former parent company of asra, and is currently not trading.

19 Stock

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Consumable stocks	-	27	-	27
Housing stock for sale	22,169	17,672	17,605	10,728
Shared ownership completed units	1,091	348	1,091	348
Shared ownership under construction	17,086	18,984	17,086	18,984
Commercial under construction	1,638	1,604	1,638	1,604
Impairment on Commercial under construction	(615)	(338)	(615)	(338)
Outright sales completed units	-	2,238	-	2,238
Outright sales under construction	4,148	4,025	4,148	4,025
Market rent completed units	-	872	-	872
	45,517	45,432	40,953	38,488

Housing stock for sale comprises 253 units to be sold to other Registered Providers as part of a stock rationalisation programme in 2018-19.

Notes to the Financial Statements - continued

20 Debtors

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Due within one year:				
Rent and service charge arrears	8,146	7,065	8,146	7,065
Less: provision for bad debts	(4,544)	(3,082)	(4,544)	(3,082)
	3,602	3,983	3,602	3,983
Other debtors	6,872	4,820	6,838	4,740
Prepayments and accrued income	1,118	1,038	1,118	1,038
Amounts owed by Group undertakings	-	2	5,100	5,726
	11,592	9,843	16,658	15,487

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

21 Current asset investments

Group and Association	2018 £000	2017 £000
Collateral	3,814	6,165

At 31 March 2018, at the request of the counterparties, cash collateral of £3,814k (2017: £6,165k) has been lodged with Santander and The Royal Bank of Scotland to secure mark to market positions with swap counterparties. This collateral is included within current asset investments in the Statement of Financial Position.

22 Creditors: amount falling due within one year

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Loans and borrowings (note 27)	21,318	30,621	21,318	30,621
Trade creditors	5,521	7,033	5,096	7,033
Corporation tax	393	148	294	144
Taxation and social security	461	517	461	517
Accruals and deferred income	21,701	22,811	19,333	17,585
Recycled capital grant fund (note 25)	3,654	3,551	3,654	3,551
Disposal proceeds fund (note 26)	1,289	802	1,289	802
Pension deficit contributions	2,131	2,068	2,131	2,068
Deferred capital grant (note 24)	5,195	5,185	5,195	5,185
Amounts owed to Group undertakings	-	-	2,322	3,683
Other creditors	832	835	832	543
Rent and service charges received in advance	5,117	4,764	5,117	4,764
	67,612	78,336	67,042	76,496

The average time taken to pay trade creditors is 39 days.

Notes to the Financial Statements - continued

23 Creditors: amount falling due after more than one year

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Loans and borrowings (note 27)	667,318	705,228	667,318	705,228
Issue costs	-	(2,402)	-	(2,402)
Loan premium	60	77	60	77
Pension deficit contributions (note 35)	11,901	13,969	11,901	13,969
Recycled capital grant fund (note 25)	6,511	5,166	6,511	5,166
Disposal proceeds fund (note 26)	868	1,348	868	1,348
Deferred capital grant (note 24)	437,864	447,136	437,864	447,136
Sinking fund balances	4,741	3,803	4,741	3,803
Other creditors	459	345	459	343
Derivative financial instruments (note 29)	51,600	82,609	51,600	82,609
	1,181,322	1,257,280	1,181.322	1,257,277

24 Deferred Capital Grant

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
At 1 April 2017	452,322	452,037	452,322	452,037
Grants received during the year	1,064	3,821	1,064	3,821
Grants recycled to the RCGF and DPF (notes 25 and 26)	(1,438)	(1,602)	(1,438)	(1,602)
Grants directly written back to RCGF	-	375	-	375
Grants transferred from stock acquisition	-	3,012	-	3,012
Grant transferred to other registered provider	(3,694)		(3,694)	
Released to income during the year	(5,195)	(5,321)	(5,195)	(5,321)
At 31 March 2018	443,059	452,322	443,059	452,322
The original total value of the grant	507,730	507,730	507,730	507,730
Amount recognised in the Statement of Comprehensive Income	69,310	64,115	69,310	64,115

Deferred capital grants were government grants received from the Homes England and predecessor organisation and other local authorities.

25 Recycled Capital Grant Fund

Group and Association	2018 £'000	2017 £'000
At 1 April 2017	8,716	7,067
Inputs to fund:		
Grants recycled	1,663	1,635
Interest accrued	34	28
Recycling of grant:		
New build	-	-
Cash repaid on expiry of three year investment period	(247)	(14)
At 31 March 2018	10,166	8,716

The regulator may require repayment of amounts 3 years or older of £3,654k (2017: £511k).

Notes to the Financial Statements - continued

26 Disposal Proceeds Fund

Group and Association	2018 £'000	2017 £'000
At 1 April 2017	2,150	1,689
Inputs to fund:		
Proceeds recycled - Greater London Authority	-	-
Proceeds recycled – outside Greater London Authority	-	473
Interest accrued	8	-
Recycling of proceeds:		
New build	-	-
Cash repaid on expiry of three year investment period	-	(12)
At 31 March 2018	2,158	2,150

The regulator may require repayment of amounts 3 years or older of £1,289k (2017: £290k).

27 Loans and borrowings

Policies

Loans and short-term deposits

All loans and short-term deposits held by PA Housing 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, and subsequently measured at amortised cost, using the effective interest rate method. Loans that are repayable within one year are not discounted.

Maturity of debt:

Bank loans	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Between one year and two years	7,743	8,680	7,918	8,680
Between two years and five years	111,479	105,953	111,479	105,953
In more than five years	286,410	332,688	286,410	332,688
Total (note 23)	405,632	447,321	405,806	447,321
In one year or less, or on demand (note 22)	20,111	25,498	19,939	25,498
	425,743	472,819	425,744	472,819

Other loans	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Between one year and two years	1,112	1,179	1,157	1,179
Between two years and five years	6,295	6,337	6,295	6,337
In more than five years	31,853	32,968	31,853	32,968
Total (note 23)	39,260	40,484	39,305	40,484
In one year or less, or on demand (note 22)	1,207	2,470	1,161	2,470
	40,467	42,954	40,466	42,954

27 Loans and borrowings - continued

Bonds	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
In more than five years	225,000	225,000	225,000	225,000
Total (note 23)	225,000	225,000	225,000	225,000

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Total loans and borrowings	691,210	740,773	691,210	740,773
Unamortised debt issue costs and adjustments for FRS 102 reporting	(2,537)	(7,327)	(2,536)	(7,327)
Total loans and borrowings under FRS 102	688,673	733,446	688,674	733,446

Net debt at 31 March 2018 was £666,062k (2017: £649,155k) after adjusting for loan premium (£60k), bond discount (£36k credit) and deducting liquid asset balances held of £22,636k.

PA Housing has committed borrowing facilities of £881,209k primarily raised through the debt and capital markets. As at 31 March 2018, £691,209k was drawn down. Loans are secured by specific charges on PA Housing's housing properties granted to the relevant lenders. During the financial year interest rates paid on borrowings varied from 0.5 per cent to 12 per cent including, where relevant, the respective margin above the London Inter Bank Offered Rate (LIBOR). As at 31 March 2018 PA Housing had undrawn committed loan facilities of £165,000k (2017: £41,000k) plus a retained bond of £25,000k (2017: £25,000k). Of the drawn loan facilities, £558,974k (81 per cent) was borrowed at fixed rates including the effect of interest rate swaps as detailed in note 28. The weighted average cost for the year of drawn borrowings was 4.3 per cent (2017: 4.4 per cent).

Loan balances: prior period adjustment

Loan balances include a prior period adjustment to certain loan balances acquired from Paragon Community Housing Limited arising from the alignment of accounting policies post-merger. This relates to the treatment of loan balances in accordance with FRS 102. As at 1st April 2017, loan balances (included in long term creditors) were reduced by £16.4m. As a result there was a net increase of £16.4m in income and expenditure reserves and a £2.2m increase in interest and finance costs in 2016-17.

28 Financial Instruments

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

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Financial Assets				
Measured at fair value through the Statement of Comprehensive Income:				
- Cash and cash equivalents	22,636	86,817	21,523	85,799
Measured at discounted amount receivable:				
-Fixed asset investments (note 17)	509	558	509	558
Measured at undiscounted amount receivable:				
-Rent arrears and other debtors (note 20)	11,592	9,843	16,658	15,487
Total	34,737	97,218	38,690	101,844

Notes to the Financial Statements – continued

28 Financial Instruments - continued

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Financial liabilities				
Measured at fair value and designated in a hedging relationship	51,600	82,609	51,600	82,609
Financial liabilities measured at fair value at amortised cost	1,131,695	1,202,567	1,131,695	1,202,567
Financial liabilities measured at fair value through the Statement of Comprehensive Income	64,786	65,891	64,316	64,054
Total	1,248,081	1,351,067	1,247,611	1,349,230

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.

Financial assets and liabilities measured at amortised cost comprise housing loans and bond issuance.

PA Housing's objectives, policies and processes for managing capital are included in the Report of the Board of management (see pages 31 to 37).

Risks arising on financial instruments

The main risks arising from PA Housing'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. PA Housing considers the security of principal sums invested to rank above seeking the highest possible return on the investment. Surplus funds are invested only with approved counterparties that meet minimum credit rating thresholds detailed in the treasury management policy, with maximum exposure levels set for each counterparty.

The Group's 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. PA Housing's policy is 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 Group's Treasury team monitors available liquidity resources on an ongoing basis to ensure compliance with its liquidity policy goals as well as the longer-term growth aspirations of the business. Apart from its working capital and capital expenditure requirements, the nature of the Group's debt portfolio requires regular repayments of bank term loan principal to certain lenders. It is considered that PA Housing has sufficient financial resources to make these repayments, and therefore the risk of being unable to meet its financial obligations to these lenders is considered to be low.

The maturity profile of the Group's debt has been structured to reflect the long term nature of PA Housing's assets and to achieve a balanced profile of scheduled repayments of loan principal. As at the year end 79% of PA Housing's borrowings were due to mature in more than five years.

Notes to the Financial Statements - continued

28 Financial Instruments - continued

Interest rate risk

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

PA Housing's interest rate strategy is reviewed annually and aims to achieve a conservative 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

PA Housing's treasury management function is responsible for developing and implementing an appropriate financial strategy to ensure the business holds the required level of liquidity to fund its capital investment programme and day to day operating activities.

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 PA Housing'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 (note 27).

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

	2018 £'000	2017 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	109	423
Total interest expense for financial liabilities at amortised cost	(33,515)	(27,277)
Fair value gains and losses		
On financial assets (including listed investments) measured at fair value through the Statement of Comprehensive Income	6,290	(1,945)

29 Derivative Financial Instruments

	Current		Non-current	
Group and Association	**2018 £'000**	**2017 £'000**	**2018 £'000**	**2017 £'000**
Derivatives that are designated and effective as hedging instruments carried at fair value				
Liabilities				
Interest rate swaps	291	1,083	18,913	26,614
Non-hedged instruments carried at fair value				
Liabilities				
Interest rate swaps	62	1,378	32,333	53,534
	354	2,461	51,246	80,148

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.

29 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	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Effective hedges	**%**	**%**	**£'000**	**£'000**	**£'000**	**£'000**
Outstanding receive floating rate pay fixed contracts						
0 - 1 years	-	-	-	-	-	-
1 - 5 years	-	-	50,000	-	291	1,083
Over 5 years	4.14	4.16	110,000	200,000	18,913	26,614
At 31 March	4.14	4.16	160,000	200,000	19,204	27,697
Not effective						
Outstanding receive floating rate pay fixed contracts						
0 - 1 years	-	-	-	-	-	-
1 - 5 years	-	-	-	-	62	1,378
Over 5 years	-	-	-	-	32,333	53,534
At 31 March	-	-	-	-	32,396	54,912
Total Hedges	4.14	4.16	160,000	200,000	51,600	82,609

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR. The Group will settles the difference between the fixed and floating interest rate on a net basis.

All the Group's interest rate swap contracts are designated as hedges against variable rate interest rate risk associated with 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. During 2017 the level of hedge effectiveness achieved by the Group's interest rate swap portfolio was reviewed following entry into revised bank facilities, and certain of the hedge relationships were subsequently redesignated to improve their effectiveness.

Gains of £5,737k (2017: £3,055k) were recognised in other comprehensive income representing the effective component of the swap. The ineffective components of £554k gain (2017: loss of £5,000k) representing the excess of the fair value of hedging instruments over the change in the fair value of expected cash flows were recognised in surplus or deficit.

As at 31 March 2018 the Group had nine cash flow hedges. The hedge relationships 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 typically to 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.

Notes to the Financial Statements - continued

29 Derivative Financial Instruments - continued

In accordance with chapter 12 of FRS 102, hedge accounting has been applied to the following swap contracts:

	2018	2017
	£'000	£'000
Lloyds £50m 1.413% 12 October 2020	354	1,379
Santander £10m 4.84% 25 June 2026	2,700	3,350
Lloyds £20m 4.48% 26 February 2032	7,580	8,663
Lloyds £10m 4.70% 5 October 2032	4,226	4,793
Lloyds £20m 4.79% 4 January 2036	10,331	11,440
Lloyds £15m 4.39% 5 November 2037	7,403	8,151
Lloyds £15m 4.44% 13 May 2038	-	8,455
Lloyds £15m 4.44% 13 May 2038	7,693	8,455
Santander £10m 4.32% 4 July 2038	4,955	5,451
Lloyds £15m 4.37% 26 February 2041	-	9,169
Lloyds £10m 3.85% 13 November 2049	-	6,516
RBS £10m 3.90% 4 October 2050	6,359	6,787
	51,600	82,609

The hedged items have a variable interest rate risk associated with the LIBOR linked bank loan. The credit risk associated with the swap counterparty 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 26 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 - continued

30 Cash flow from operating activities

	2018 £'000	2017 £'000
Surplus for the financial year	32,866	26,639
Adjustments for non cash items:		
Profit on sale of other fixed assets	(108)	-
Interest payable	33,515	27,277
Interest receivable	(109)	(423)
Net fair value gain recognised in the SoCI	4,263	6,536
Revaluation	(2,405)	(1,874)
Other finance liabilities	(25,272)	-
Depreciation charge on other fixed assets	875	1,284
Depreciation charge on housing properties	21,345	21,628
Add back cost of sale movement - sale of housing	10,378	12,166
Impairment of housing properties	(2)	2,420
Amortisation of grant on housing properties	(5,184)	(5,321)
Amortisation negative goodwill	(685)	(661)
Taxation	393	147
Increase in bad debt provision	1,462	669
Adjustment for pension funding	(1,350)	(3,076)
(Increase) / decrease in debtors	(3,210)	2,103
(Decrease) / increase in creditors	(5,177)	830
Deficit / (surplus) on sale of investment properties	-	114
Other provisions	(109)	616
Net cash generated from operating activities	61,486	91,074

31 Reconciliation of net cash flow to movement in net debt

	2018 £'000	2017 £'000
Decrease in cash in the year	64,181	11,799
Other changes	3,459	281
Loans and bond finance received	45,000	15,000
Loans repaid	(94,375)	(34,323)
Loan arrangement fees	(1,358)	(200)
Change in net debt	16,907	(7,443)
Net debt at 1 April	649,155	656,598
Net debt at 31 March	666,062	649,155

32 Analysis of changes in net debt

	At beginning of the year £'000	Cash Flows £'000	Other Changes £'000	At the end of the year £'000
Cash at bank and in hand	(86,817)	64,181	-	(22,636)
Housing loans due within one year	27,968	(27,968)	21,318	21,318
Housing loans due after one year	487,805	(21,407)	(21,506)	444,892
Bond finance	225,000	-	-	225,000
Loan and bond arrangement fees	(4,840)	(1,358)	3,662	(2,536)
Loan premium	76	-	(16)	60
Bond discount	(37)		1	(36)
	649,155	13,448	3,459	666,062

33 Called up share capital

Association	2018 Number	2017 Number
Allotted, issued and fully paid:		
At 1 April	24	39
Issued during the year	-	5
Cancelled during the year	(9)	(20)
At 31 March	15	24

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.

34 Provisions

Group and Association	Onerous contract £'000
Balance at 1 April 2017	616
Provisions used during the year	(108)
Balance at 31 March 2018	508

35 Pensions

The present value of the creditor is as follows (included in falling due within and after more than one year):

Group and Association	SHPS deficit contribution £'000	SCCPF - Elmbridge deficit contribution £'000	Total £'000
At 1 April 2017	15,185	903	16,088
Unwinding of the discount factor (interest expense)	195	(3)	192
Contributions paid	(1,987)	(86)	(2,073)
Remeasurements – impact of any change in discount factor	(192)	34	(158)
At 31 March 2018	13,201	848	14,049

Notes to the Financial Statements - continued

35 Pensions - continued

Assumptions

	2018 % per annum	2017 % per annum
Rate of discount	1.72	1.33

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.

Defined Benefit – Social Housing Pension Scheme

The Social Housing Pension Defined Benefit Scheme ("SHPS" or "the Scheme"), 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 the Group to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

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

A full actuarial valuation for the scheme was carried out 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.

Notes to the Financial Statements - continued

35 Pensions – continued

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.

Defined Benefit - Surrey County Council Pension Fund (Elmbridge Borough Council)

Under the terms of the transfer agreement with Elmbridge Borough Council (EBC), PA Housing 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 PA Housing's payments due to the Pension Fund in respect of that past service deficit.

As the scheme is in deficit and as PA Housing has agreed to a payment to EBC to contribute to funding the deficit PA Housing 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 PA Housing's bond.

Defined benefit pension scheme - Surrey County Council Pension Fund

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 2018. PA Housing's contribution to the LGPS was £60,000 (2017 - £60,000).

Notes to the Financial Statements - continued

35 Pensions – continued

	2018 £'000	2017 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	14,199	11,905
Current service cost		-
Interest cost on defined benefit obligations	351	411
Actuarial losses/(gains)		
- Changes in financial assumptions	(486)	2,793
- Changes in demographics assumptions	-	(175)
- Other experience	-	(402)
Benefits paid	(338)	(333)
Plan participants' contributions	-	-
At the end of the year	13,726	14,199
Reconciliation of fair value of plan assets		
At the beginning of the year	12,682	11,199
Interest income on plan assets	313	387
Actuarial gains/(losses)		
- Return on assets excluding amounts included in net interest	(98)	1,369
Plan participants' contributions		-
Employer contributions	60	60
Benefits paid	(338)	(333)
At the end of the year	12,619	12,682
Composition of plan assets		
Equities	9,842	10,526
Bonds	1,262	888
Property	1,010	761
Cash	505	507
Total plan assets	12,619	12,682
Equities	78%	83%
Bonds	10%	7%
Property	8%	6%
Cash	4%	4%

Principal actuarial assumptions used at the reporting date

	2018	2017
Discount rate	2.4%	2.5%
Salary increase rate	2.7%	2.8%
Pension increase rate	2.6%	2.5%
Mortality rates	Females	Males
Current Pensioners	24.6 years	22.5 years
Future Pensioners *	26.4 years	24.1 years

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

Notes to the Financial Statements - continued

35 Pensions – continued

	2018 £'000	2017 £'000
Amounts recognised in the Statement of Financial Position		
Fair value of plan assets	12,619	12,682
Present value of plan liabilities	(13,726)	(14,199)
Net pension scheme liability	(1,107)	(1,517)
Amounts recognised in the Statement of Comprehensive Income		
Current service cost	-	-
Interest cost on defined benefit obligations	313	411
Interest income on plan assets	(351)	(387)
	(38)	24
Analysis of actuarial (loss)/gain recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	(98)	1,369
Changes in assumptions underlying the present value of the scheme liabilities	486	(2,618)
Other experience relating to scheme liabilities	-	402
	388	(847)

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"). During the year, former asra members had the choice of paying contributions of between 4% and 6% of salary with the employer (PA Housing) matching these contributions. Former Paragon members had the choice of paying contributions of between 3% and 5% of salary with the employer (PA Housing) paying twice the selected contribution rate. 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. With effect from 1 April 2018, all PA Housing employees moved on to the former Paragon contributions basis, with the employee paying between 3% and 5% of salary and the employer paying twice the selected rate.

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 (PA Housing) also contributes 1% of pensionable salary.

The original increase in contribution rates that was planned for October 2017 was delayed until April 2018 when there was a requirement for a minimum 5% contribution with at least 3% coming from the employee.

PA Housing has chosen to contribute 6% with a further 3% coming from the employee giving a total of 9%

Notes to the Financial Statements - continued

36 Operating lease obligations

At 31 March 2018 the Group was committed to non-cancellable operating lease minimum future payments for each of the following periods:

Group and Association	Land and buildings 2018 £'000	Land and buildings 2017 £'000
Operating leases which expire:		
Less than 1 year	293	380
Within 1 to 5 years	1,320	680
After 5 years	1,847	1,978
	3,460	3,038

37 Capital Commitments

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Expenditure contracted for but not provided in the financial statements	31,478	66,391	20,087	50,298
Expenditure authorised by Board but not contracted for	112,122	53,862	23,284	41,811
	143,600	120,253	43,371	92,109
The company expects these commitments to be financed with:				
Bank loans and reserves	143,600	120,253	43,371	92,109

38 Contingent Liabilities

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 £165m of undrawn loan facilities and £25m retained bond at 31 March 2018.

The Business Plan also demonstrates the Group's ability to service its debts, secure loans and repay long term loans as they fall due.

PA Housing 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 £443.1m (2017: £452.3m).

The Association has securitised bond borrowings of its subsidiary, Paragon Treasury Plc. At the reporting date the liabilities covered by these securities totaled £225m (2017 - £225m).

39 Group company information

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 9.

Notes to the Financial Statements - continued

39 Group company information - continued

Transactions with non-regulated entities

Asra Construction Services Limited (ACSL) and Paragon Development and Construction Services Limited (PDCSL) provide design and build development services to PA Housing. They are not registered providers and therefore classified by the HCA as non-regulated entities.

Service Level and Framework Agreements are in place between PA Housing and, ACSL and PDCSL. Development services are provided by ACSL and PDCSL to PA Housing. Finance services are provided by PA Housing. These are recharged by PA Housing at cost with an appropriate transfer pricing mark-up applied.

ACSL and PDCSL recharge PA Housing with design and build costs for development services carried out. ACSL and PDCSL have no employees.

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

Aggregate costs recharged for the year ended 31 March 2018 are as follows:

	2018				2017			
	ACSL £'000	**PDCSL £'000**	**PTP £'000**	**PAH £'000**	**ACSL £'000**	**PDCSL £'000**	**PTP £'000**	**PAH £'000**
ACSL recharges				13,179				21,171
PAH development recharge		89				69		
PAH finance recharge	181				181			
PDCSL recharges				2,421				2,409
PTP interest recharge				8,208				8,169
PTP cost recharge				8				31
Debtor/(Creditor) balances	2,365	(5,150)		2,785	1,812	(5,489)		3,677

Notes to the Financial Statements - continued

40 Paragon Asra Housing Limited – New Merged Entity

On 13 April 2017 Paragon Community Housing Limited amalgamated with asra Housing Association Limited and Leicester Housing Association Limited into a newly formed community benefit society Paragon Asra Housing Limited. The Association and Group financial statements presented here incorporate the results of both organisations prior to merger and the new entity from merger date to 31 March 2018.

The share of Total Comprehensive Income for the prior year, the share of Total Comprehensive Income in the current year to the merger date with the effect of any accounting policy adjustments and the contribution post merger date, and the share of net assets at merger are disclosed in accordance with FRS 102 PBE34.86.

Total Comprehensive Income 31 March 2017

	Leicester Housing Association £'000	Asra Housing Association £'000	Paragon Community Housing Association £'000	Adjust-ment £'000	Total £'000
Turnover	41,933	49,628	71,903	-	163,464
Less: Cost of sales	(253)	(4,014)	(5,871)	-	(10,138)
Less: Operating costs	(30,054)	(31,594)	(39,325)	-	(100,973)
Surplus on disposal of housing fixed assets	691	1,252	1,599	-	3,542
Negative goodwill - gift	-	1,551	-	-	1,551
Operating Surplus	12,317	16,823	28,306	-	57,446
Interest receivable	8	146	267	-	421
Interest and financing costs	(10,174)	(6,683)	(8,217)	(2,203)	(27,277)
Deficit on disposal of investment properties	-	-	(114)	-	(114)
Movement in fair value of financial instruments	-	(5,000)	-	-	(5,000)
Movement in fair value of investment properties	748	317	454	-	1,519
Gift aid receivable	-	713	-	-	713
Surplus before tax	2,899	6,316	20,696	(2,203)	27,708
Taxation	(49)	(95)	-	-	(144)
Surplus for the year	2,850	6,221	20,696	(2,203)	27,564
Movement in fair value of hedged financial instruments	3,321	(266)	-	-	3,055
Actuarial losses on defined benefit pension scheme	-	-	(847)	-	(847)
Total comprehensive income for the year	6,171	5,955	19,849	(2,203)	29,772

Notes to the Financial Statements - continued

40 Paragon Asra Housing Limited – New Merged Entity - continued

Total Comprehensive Income in the year of merger

	Prior to Merger Date						
	Leicester Housing Association £'000	**Asra Housing Association £'000**	**Paragon Community Housing Association £'000**	**Adjustment Association £'000**	**At Merger Date £'000**	**Post Merger £'000**	**31 March 2018 £'000**
Turnover	1,458	1282	1,867	-	4,607	160,355	164,962
Operating Surplus	922	627	972	-	2,521	62,888	65,409
Interest and financing costs	(271)	(238)	(278)	-	(787)	(32,728)	(33,515)
Surplus for the year	651	389	692	-	1,732	32,380	34,112
Total comprehensive income for the year	651	389	692	-	1,732	38,467	40,199
Net assets	(3,676)	68,439	371,353	14,371	450,487	40,200	490,687

Notes to the Financial Statements - continued

40 Paragon Asra Housing Limited – New Merged Entity - continued

Accounting policy adjustments

A review of the bad debt accounting policies of Asra Housing Association Limited, Leicester Housing Association Limited and Paragon Community Housing Association Limited was undertaken.

The adjustments aligning accounting policies are outlined below:

	£'000
Bad debt provision	444

The provision for bad debts has been reviewed for the new group. All former tenant balances are provided for in full and a scale of provision is in place for current tenant balances depending on age. Any other non tenant balances are reviewed quarterly and provided for in full if impairment is assessed.

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