

TEES VALLEY HOUSING LIMITED
Annual Report and Financial Statements

For the Year Ended 31 March 2016

Contents

| | Page |
|----------------------------------------------------------------------------|-------------|
| Board Directors, Executive Directors, Advisors and Bankers | 2 |
| Directors' Report | 3 |
| Independent Auditors' Report to the Members of Tees Valley Housing Limited | 17 |
| Consolidated Statement of Comprehensive Income | 20 |
| Association Statement of Comprehensive Income | 21 |
| Consolidated and Association Statement of Changes in Reserves | 22 |
| Consolidated and Association Statement of Financial Position | 23 |
| Notes to the Financial Statements | 24 |

Board Directors, Executive Directors, Advisors and Bankers

Registered Number Registered as a charitable social landlord under the Co-operative and Community Benefit Societies Act 2014, No: 17594R
Registered by the Homes and Communities Agency, No: L1872

Registered Office Northshore
North Shore Road
Stockton-on-Tees
TS18 2NB

Board

Chair Clare Brayson (from 7 September 2015)
Sue Jeffrey (to 7 September 2015)

Other Members Robert Murphy (to 7 September 2015)
Jim Scollen
Jim Seed (to 7 September 2015)
John Stoney (to 7 September 2015)
James Johnstone
Christine Storrs (to 1 April 2016)
Helen Batey
Miriam Harte (from 7 September 2015)
Michael Bretherick (from 7 September 2015)
Keith Hurst (from 7 September 2015)

Lead Executive Martin Hawthorne

Company Secretary Heather Ashton

Independent Auditors PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3AZ

Solicitors Anthony Collins Solicitors LLP
134 Edmund Street
Birmingham
BS3 2ES

Bankers Barclays Bank Plc
PO Box 3333
One Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

Directors' Report

Corporate Structure

Tees Valley Housing Limited ('the association', 'Tees Valley Housing') is a registered society under the Co-operative and Community Benefit Societies Act 2014, operating under charitable rules and also a registered provider of social housing with the Homes and Communities Agency (HCA).

The association has two subsidiaries, Portico Homes Limited and Partnering Plus Limited, both of which are private limited companies. 'Group' is used to indicate that a comment relates to both of the above named entities together or that a value is the consolidated value.

During the financial year Tees Valley Housing was a wholly owned subsidiary of Thirteen Housing Group Limited ('Thirteen'). Thirteen is the non-asset owning, non-charitable parent which is a company limited by guarantee and also a registered provider with the HCA

Although Tees Valley Housing is a separate legal entity within Thirteen, this is mainly for the purpose of presenting a familiar brand to its customers. In practice its operational activities, and those of the other registered providers within Thirteen, are delivered as though they are one landlord. For this reason the directors have opted to apply the exemption available to subsidiary companies not to prepare a separate strategic report. A strategic report that covers the performance and activities of Tees Valley Housing is contained in the consolidated financial statements of Thirteen Housing Group Limited.

Principal Activities and Geographical Focus

The key activities undertaken by Tees Valley Housing Limited are:

- Provision of general needs affordable rented homes
- Housing management and leasehold management
- Provision of housing support services to older people
- Regeneration and development of new properties
- Money advice and employability services

During the financial year Tees Valley Housing owned or managed housing stock in the local authority areas detailed below.

Directors' Report

| Local Authority | 2016 No. of properties | 2015 No. of properties |
|----------------------|------------------------------|------------------------------|
| Babergh | 1 | 1 |
| Craven | 0 | 1 |
| Darlington | 340 | 339 |
| Durham | 178 | 190 |
| Gateshead | 114 | 114 |
| Hambleton | 90 | 100 |
| Hartlepool | 351 | 379 |
| Middlesbrough | 149 | 159 |
| Newcastle Upon Tyne | 87 | 51 |
| North Tyneside | 12 | 12 |
| Northumberland | 1 | 1 |
| Redcar and Cleveland | 796 | 813 |
| Richmondshire | 52 | 52 |
| Scarborough | 65 | 65 |
| Stockton | 1,386 | 1,444 |
| Sunderland | 152 | 162 |
| York | 315 | 325 |
| Total | 4,089 | 4,208 |

**Source: National Register of Social Housing (NROSH+) data 2016 and 2015*

The principal activity of Portico Homes Limited ("Portico") is the development and sale of residential properties. There were no properties constructed or sold by the company in 2015/16 but Portico is well placed to resume its core activity of the development and sale of residential properties should the activities of Tees Valley Housing require this. Portico has one director, James Johnson, who is also a director of Tees Valley Housing, and a secretary, Heather Ashton, who is also the secretary of Tees Valley Housing.

In 2012/13 Portico Homes Limited entered into a joint arrangement with Woodside Landholdings Limited, under which 50% of the shareholding of Woodside Landholdings Limited passed to Portico Homes Limited. Woodside Landholdings Limited has an 'option' to purchase some land in West Rainton, County Durham, although full planning permission will be required in order to undertake residential and other development on the land. The main risks associated with this joint venture are:

- failure to get full planning consent, although costs to date could be recovered if we successfully marketed and sold the land to a third party as it does have outline planning in place;

Directors' Report

- inability to secure development funding, but we are in advanced discussions with the HCA investment team on this subject;
- failure to carry out appropriate due diligence on the technical aspects of the build during the project planning phase could cause issues when on site. We have employed a project manager to oversee this phase; and
- inability to achieve the sales levels assumed within the financial plans, with the mitigation here being that we could respond by building on release.

The principal activity of Partnering Plus Limited ("Partnering Plus") is the provision of regeneration consultancy service for third party housing bodies. Partnering Plus has two directors, Helen Batey and Martin Hawthorne, who are also directors of Tees Valley Housing, and a secretary, Heather Ashton, who is also the secretary of Tees Valley Housing. As Partnering Plus is wholly controlled by Tees Valley Housing and has net assets of £191k, of which £190k is cash, there are not thought to be any significant risks associated with it.

Board Members and Lead Executive

The board members and the executive director of the group who were in office during the year and up to the date of signing the financial statements are set out on page 2. Board members have been selected because of their complementary blend of skills and experience to ensure that the board possesses the necessary skills and competencies to carry out its duties. This is supported by a board appraisal system and a programme of board development and training. At 31 March 2016, the board was made up of seven non-executive directors (selected for their specific skills) and one lead executive director.

The lead executive for Tees Valley Housing is Martin Hawthorne, Thirteen's Group Director of Development and Regeneration. He held no interest in the group's shares and acted as an executive within the authority delegated by the board. The board also has the power to co-opt additional members should this be required.

Remuneration paid to non-executive directors in the financial year was £35,535 (2015: £34,888).

Service contracts

The lead executive is employed on the same terms as other staff, except that his notice period would be three months.

Pensions

The executive director is a member of the Social Housing Pension Scheme which is a defined benefit pension scheme. The executive director participates in the scheme on the same terms as all other eligible staff. The group contributes to the scheme on behalf of its employees.

Directors' Indemnities

As permitted by the articles of association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The association also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Directors' Report

Employees

Delivering great services and meeting our obligations is a team effort and is heavily reliant upon everyone involved being aware of the part that they play, being fully committed and having the right skills and experience.

Through the direction of the chair, the directors have ensured that strategies and frameworks are fit for purpose and make these roles and responsibilities clear; whilst ensuring that decisions can be taken by the right people, taking into account the views of both customers and employees. We have improved our approach to shaping and sharing this information, which has included the introduction of a managers' forum and will be using Aon Hewitt's Model of Employee Engagement as the basis for continually improving our approach moving forward.

During the year, we have used the established consultation and negotiations framework to have meaningful discussions on matters that directly affect staff. This framework, which recognises both staff and union representatives, has resulted in some significant changes being implemented. These have included the introduction of a single set of terms and conditions for all staff, as well as changes to the staffing structures that will ensure we are better equipped to deliver services.

Throughout these changes, we have ensured that staff members are supported and provided with the necessary skills and training to deliver their roles moving forward.

We have also continued to honour our commitment to having a diverse workforce and to ensuring that our pay and terms and conditions meet equal pay principles. We will continue this pledge in the years to come.

With the board fully aware of its health and safety responsibilities, it has continued to use the consultation framework, which includes a health and safety committee and working groups from all directorates. Our health and safety policy statement which is supported by detailed policies and procedures is reviewed on an annual basis, with training and education provided to staff on all relevant matters.

The board also ensures there is an appropriate performance management framework, to identify any gaps in training and development that can be addressed in the following year.

Donations

Tees Valley Housing made no donations in its own right in 2016 (total donations in 2015: £nil) and made no political donations (2015: £nil). Details of donations made by Thirteen on behalf of all group companies are contained in the strategic report in the consolidated financial statements of Thirteen Housing Group Limited.

Financial Review

Financial Position

The group's consolidated statement of comprehensive income is shown on page 20 of the financial statements, and its consolidated Statement of Financial Position as at 31 March 2016 is shown on page 23.

The group has adopted the Financial Reporting Standard applicable in the UK and Ireland (FRS 102) with effect from the transition date of 1 April 2014. Where applicable, comparative figures cited in this report have been restated under FRS 102.

The directors are pleased to report a surplus for the year of £4million for the financial year ended 31 March 2016 (2015 restated: £3.2million). The association has continued to invest in its existing housing stock as well developing new properties during the year.

Directors' Report

The group has delivered 80 (2015: 134) new housing units in the financial year. The continued economic difficulties have meant that the group has had to adopt a flexible and innovative approach to development in order to meet its strategic objectives in this area.

In order to ensure that it can achieve its investment and regulatory objectives, the group has continued to develop its excellent working relationships with the Homes and Communities Agency (HCA) and the Regulatory Committee. In February 2016 the HCA confirmed that Tees Valley Housing meets the requirements set out in the Governance & Financial Viability Standard issuing a G1 grade for governance along with a V1 grade for financial viability, Tees Valley Housing therefore meets the HCA governance and viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.

Tees Valley Housing is committed to providing neighbourhoods that are sustainable in the long term. It is therefore continuing to invest heavily in its existing homes and neighbourhoods. Alongside that investment, the association is continuing to offer a range of complementary money advice and employment initiatives.

Accounting Policies

The group's principal accounting policies are set out in note two to the financial statements on pages 24 to 32. Accounting policies have been reviewed and updated for FRS 102 and the Housing SORP 2014: Statement of Recommended Practice for registered social housing providers. The impact of the adoption of FRS 102 on the reserves of the group is set out in note 34. The policies that are most critical to the understanding of the financial results relate to the accounting treatment of housing properties, government grants, the capitalisation of costs, housing property depreciation and the treatment of shared ownership properties.

Significant Judgements and Estimation Uncertainties

Any significant judgements and estimation uncertainties included in the financial statements are set out in the accounting policies note.

Pension Costs

The group participates in two pension schemes; the Social Housing Pension Scheme (SHPS) and the Pensions Trust Growth Plan (the Growth Plan). The SHPS is a defined benefit scheme with benefits based on final salary up to 31 March 2013 and based on career average earnings from 1 April 2013. The group has contributed to the scheme in accordance with the levels set by the scheme actuaries. The group's contribution rate during the year was 5% or 10.9% depending on the benefits of the scheme. The Growth Plan is an additional voluntary contribution scheme for staff. Details of the actuarial financial assumptions used for both schemes are shown in note 27 to the financial statements.

Housing Properties

At 31 March 2016, Tees Valley Housing owned or managed 4,089 properties (2015: 4,023).

The association has reverted to historic cost under FRS 102. As at 31 March 2016 the carrying value of housing properties was £232.9million (2015 restated: £227.5million)

Housing properties are valued for loan security purposes (excluding properties under construction), and the estimated value of secured and unsecured properties was £202million (2015: £126.5million).

No impairment adjustments were made during the financial year (2015: nil).

Directors' Report

Investment in housing properties this financial year was funded through a mixture of social housing grant, loan finance and internally generated cash surpluses. The group's treasury management arrangements are considered below.

Payment of Creditors

Thirteen processes and pays supplier invoices on behalf of the group. Thirteen's policy is to pay purchase invoices within 30 days of the invoice date, or earlier if agreed with the supplier. During the financial year the average time taken to pay suppliers was 40 days from the date of the invoice (2015: 40 days). Although performance has not worsened during the year, it is still well below target and we are working with suppliers to get invoices received and processed more rapidly.

Reserves

After transfer of the surplus for the year of £4million (2015 restated: £3.2million), at the year-end group reserves amounted to £74.5million (2015 restated: £71.5million).

Capital Structure and Treasury Policy

The group has loan facilities in place totalling £82.5million with a range of banks and building societies.

At the financial year end group borrowings amounted to £82.5million (2015 restated: £86.7million) which falls due to be repaid as shown below:

| Maturity | 2016 | 2015 |
|------------------------------|-----------------|-----------------|
| | £million | £million |
| Within one year or on demand | 2.2 | 4.2 |
| Between one and two years | 2.4 | 3.5 |
| Between two and five years | 9.5 | 8.3 |
| After five years | 68.4 | 70.7 |
| | <hr/> | <hr/> |
| | 82.5 | 86.7 |
| | <hr/> | <hr/> |

The group borrows principally from banks and building societies at both fixed and floating rates of interest. Embedded fixed rate loans are used to generate the desired interest rate profile and to manage the group's exposure to interest rate fluctuations. The group's policy is to continue to monitor variable interest rates and to consider additional fixed debt should the three month LIBOR rate reach 3.5%. At the financial year end 53% of the group's borrowings were at fixed rates (2015: 62%). The fixed rates of interest, including the margin, range from 3.1% to 11.77% which compares at the year-end to the current market, where long term fixed rates are around 3.2% (2015: 4%).

Gearing, calculated as total loans as a percentage net assets, had reduced to 33% by 31 March 2016 (2015 restated: 34.7%) with no new loans (2015: £nil) being drawn from existing facilities during the financial year. During the next twelve months further planned borrowings to finance new developments are not expected to increase gearing significantly.

The group's lending agreements require compliance with a number of financial and non-financial covenants. The group's position is monitored on an ongoing basis and reported to the board each quarter. The most recent report confirmed that the group was in compliance with its loan covenants

Directors' Report

at the balance sheet date and the board expects the group to remain compliant for the foreseeable future.

The group has cash balances of £17.4million at 31 March 2016 (2015: £20.9million) and the current ratio stands at 185.6% (2015 restated: 201.1%). The group monitors cash flow forecasts closely to ensure that sufficient funds are available to meet liabilities when they fall due, whilst not incurring unnecessary finance costs, by only drawing on loan facilities when required.

Future Developments

A key influence on the timing of borrowings is the rate at which development activity takes place and the levels of grant funding available. The board has approved plans to deliver 479 new properties over the next seven years at a total cost of £33million. This investment will be funded from £15million of new borrowings with the balance funded through social housing grant from the HCA along with internally generated surpluses. Undrawn loan facilities of £5million are available under existing arrangements.

A full stock condition survey of our housing stock was carried out in November 2014. The survey is reviewed annually and used to update our 30 year business plan. The group plans to invest £6.2million in its major repairs programme during the 2016/17 financial year of which £3.4million will be capital expenditure.

The group continues to assess the impact of government policy on its business plan and intended future developments. The group's resources are only committed to a scheme once funding has been secured.

Operational and Financial Performance

Directors monitor the operational performance of the association via a number of key performance indicators (KPIs) that are presented to the board on a quarterly basis. The key focus of operational performance reporting during 2015/16 has been on the business critical areas of income collection, void properties and gas safety.

Current tenant rent arrears net of housing benefit have only increased slightly during the year, with the year-end position being 1.98% (3.2% including housing benefit) of rents receivable (2015: 1.91% and 3.5%). We have been proactive in utilising the local discretionary housing fund and making referrals to our in-house financial inclusion team which has reduced the number of tenancy terminations and had a positive impact on arrears. We have also started a review of the income recovery service which includes how we can make better use of technology, engagement with new tenants, tenants' responsibilities and the potential for imposing sanctions for non-payment. Despite these measures we are aware that our dependency on reducing welfare benefits will place increased pressure on our income streams and this has been reflected in our business plan assumptions.

Bringing void properties back into use was an area of business focus during the year with the number of void properties available to let reducing from 160 to 110 during the year, partly due to reduced turnover and partly due to increased re-lets. At 31 March there were a further 39 properties under option appraisal and therefore unavailable to let. Problematic areas continue to be unsold shared ownership and outright sale units that come into the void statistics, and a number of units that are either unpopular in type or location that are proving hard to let. During the year a number of longer-term voids have finally been let, this had the result of increasing the average end-to-end re-let time from 66 days to 71 days. This has prompted us to review the process for managing empty properties with the assistance of North of England Excellence and an improvement plan is being put in place for implementation during 2016. At a more strategic level we use a sustainability appraisal model which allows us to gauge the sustainability of our stock

Directors' Report

down to property level based on a number of elements including financial return. We use this to make informed decisions about the future of our less profitable units.

The directors take responsibility for the safety of tenants extremely seriously and set a target of 100% compliance for gas safety checks at all times. At 31 March 2016 performance stood at 99.4% with 14 safety checks outstanding, mainly due to issues with access and difficulties with the new housing management ICT system. Measures are now in place to improve access including giving tenants more notice when a service is due and sending text message reminders.

Tees Valley Housing received 133 complaints during the year, mainly attributable to repairs performance. A significant number of these were due to operational issues arising as a result of technical problems with new housing management software. For a short period of time, these problems severely impacted on the delivery of our repairs service and resulted in a number of customers receiving a level of service that fell below our normal standards. We have worked extremely hard to resolve these issues and resume the delivery of high quality services. All complaints received during the year are now resolved. We also received one query via the Housing Ombudsman which was still outstanding at 31 March 2016.

Thirteen participates in the Housemark benchmarking community, whereby its operational performance in a number of key areas is compared to its peers in the sector. Because the operations of Thirteen's partner landlords are conducted as though they are one landlord, this benchmarking exercise is completed at a group level and the results of this are reported in the strategic report contained within the consolidated annual report and financial statements of Thirteen Housing Group Limited. There are also a number of operational KPIs that are reported at group level that can be found in the same report.

Financial performance is benchmarked against other registered providers using the Global Accounts of Housing Providers 2015, as illustrated in the table below.

| Tees Valley Housing | 2016 | Global benchmark 2015* | 2015 | 2014 | 2013 | 2012 |
|------------------------------------|-------------|-------------------------------|-------------|-------------|-------------|-------------|
| Management costs £/unit | £588 | £1,082 | £637 | £692 | £569 | £445 |
| Maintenance costs £/unit | £732 | £1,016 | £718 | £678 | £543 | £463 |
| Void losses % of debit | 3.0% | 1.8% | 3.4% | 2.9% | 1.6% | 1.8% |
| Bad debts % of debit | 1.2% | 0.8% | 1.1% | 0.5% | 0.7% | 0.2% |
| Current tenant arrears % of debit | 3.2% | 4.9% | 3.5% | 2.3% | 3.3% | 3.3% |
| Operating margin | 31.6% | 27.9% | 30.9% | 26.7% | 28.1% | 25.2% |
| Growth in turnover** | 5.3% | 3.5% | -20.4% | -5.4% | 0.8% | 8.8% |
| Growth in total assets** | 0.6% | 5.4% | -1.0% | 2.3% | 0.9% | 19.2% |
| Gearing | 111.5% | 77.0% | 116.8% | 124.6% | 220.4% | 226.9% |
| Debt per social housing unit £ | £20,363 | £28,205 | £21,231 | £20,815 | £18,937 | £18,833 |
| Effective interest rate (year-end) | 4.3% | 4.8% | 4.6% | 4.5% | 4.5% | 4.6% |

* The Global Benchmark is taken from the 2015 Global Accounts of Housing Providers and is the mean result across all traditional sub-sector landlords. The 2015 KPIs and Global Benchmark have not been restated under FRS 102.

** Growth in turnover and growth in assets is calculated using restated amounts for 2015.

Directors' Report

Management costs per unit have decreased significantly over the last two years and compare extremely favourably with the 2015 mean costs of other traditional social landlords, reflecting the ongoing efficiencies made as a result of the formation of Thirteen. Maintenance costs have seen only a slight increase and also compare favourably to the global benchmark.

Void losses, although less than last year, are still more than the benchmark. Reasons for this, and measures being taken to reduce voids, are explained earlier in this section.

Bad debts are higher than the global benchmark, however this reflects our prudent bad debt provision and not necessarily the level of debt written off, which was 0.7% of rent charged in the year. We continue to review the method of calculating the bad debt provision in line with the requirements of FRS 102.

Current tenant arrears have reduced and have remained below the 2015 benchmark. The level of arrears can fluctuate considerably depending on the level of housing benefit that is outstanding. We therefore focus on the underlying arrears which were 1.98%.

Operating margin has increased steadily over the last three years and compares favourably to other traditional social landlords. This is due to increased rental income from new properties and continued cost efficiencies from being part of Thirteen.

The increase in turnover is mainly attributable to rental income on new properties let on affordable rents which are higher than social rent. There has also been an increase in income from shared ownership first tranche sales.

There has been no growth in total assets due to the statement of properties at cost under FRS 102. New properties have been added at cost of £8.2million, but this has been offset by depreciation in the year and a reduction in cash balances.

Gearing and debt per unit have both reduced slightly. There have been no loans drawn during the year and a small amount of capital had been repaid. The effective interest rate is consistent with other traditional social landlords.

Return on Assets

We appreciate the importance of our assets, in ensuring that they generate a return in terms of their financial, social and environmental impact, and of maintaining our assets, particularly our housing properties, so that they provide good quality homes for our tenants to live in, and last for generations to come. The group uses a sustainability appraisal model which informs our decision making process in respect of our housing properties, providing performance data at property and housing estate level, and is described in more detail in Thirteen Housing Group's consolidated financial statements.

One measure of the return on assets, is in terms of generating a surplus that can be reinvested in our business to support our objectives going forward.

| Return on assets | 2016 | Global benchmark 2015* | 2015 Restated | 2014 | 2013 | 2012 |
|---------------------|------|------------------------|---------------|------|------|------|
| Tees Valley Housing | 3.0% | 5.6% | 2.9% | 4.8% | 4.6% | 4.2% |

* The global benchmark is taken from the 2015 Global Accounts of Housing Providers and is the mean cost across all traditional sub-sector landlords. The 2015 KPI has been restated under FRS 102. The global benchmark has not been restated.

Directors' Report

The return on assets (ROA) ratio which measures our operating income against the cost of our housing properties as stated in the financial statements, as shown in the table above, has increased slightly to 3.0% in 2016 (2015 restated 2.9%), this figure being below the 2015 sector average benchmark.

With the introduction of FRS 102 for the 2016 financial statements (and the 2015 restated figures), a number of changes have occurred, including holding our housing properties at cost (previously held at valuation). This change resulted in a significant reduction in the ROA of Tees Valley Housing, with housing properties increasing by 59% due to the change to cost along with capital grant no longer being netted off property cost and instead being shown separately as a creditor, which has driven down the ROA.

The table below shows the estimated existing use value for social housing (EUV-SH) value of our housing properties, which is the value generally used by the housing sector to show the 'value in use' of its housing properties.

| Estimated EUV-SH per property | 2016 £ | 2015 £ | Increase % |
|-------------------------------|-----------|-----------|---------------|
| Tees Valley Housing | 37,462 | 35,086 | 6.8% |

As can be seen from the table above, the value of our housing properties has increased over the past year by 6.8%, which reflects both the investment in our existing properties, along with the development of new quality homes.

The average property value of £37,462 compares well against the debt per unit of £20,363 showing that there is capacity within the association for future investment.

Value for Money (VFM)

Under the regulatory framework, registered providers are required to produce and publish a value for money self-assessment annually and include it (or signpost to it) in the narrative report that accompanies their financial statements.

As set out earlier in this report, the operational activities of Tees Valley Housing and those of the other registered providers within the Thirteen Group are delivered as though they are one landlord. Thirteen has therefore developed and published a consolidated value for money self-assessment on behalf of all entities within the Thirteen Group.

An abridged version of Thirteen's value for money self-assessment for 2015/16 can be found in the strategic report contained within the consolidated annual report and financial statements of Thirteen Housing Group Limited. The full value for money self-assessment for 2015/16 can be found on Thirteen's website at: <https://www.thirteengroup.co.uk/page/value-for-money>.

Financial Risk Management Objectives and Policies

The group uses various financial instruments including loans and cash, and other items such as rental arrears and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The existence of these financial instruments exposes the group to a number of financial risks. The main risks arising from the group's financial instruments are considered by the directors to be interest rate risk, liquidity risk, counterparty and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

The group borrows and lends only in sterling and so is not exposed to currency risk.

Directors' Report

Interest rate risk

The group finances its operations through a mixture of retained surpluses and bank borrowings. The group's exposure to interest fluctuations is managed by the use of both fixed and variable rate facilities, including interest rate swap instruments, which have been set out on page eight of this report.

Liquidity risk

The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and invest cash assets safely and profitably.

The maturity of borrowings is set out in note 25. In addition to drawn borrowings the group has £5million of undrawn committed facilities (2015: £5million).

Counterparty risk

The group's policy requires counterparties to reach a minimum standard based on a combination of rating agency ratings along with credit default swaps. All counterparties met this requirement at the balance sheet date.

Credit risk

The group's principal credit risk related to tenant arrears. This risk is managed by providing support to tenants with applications for housing benefit and to closely monitor the arrears of all tenants. Changes to the welfare benefits system continue to be identified as a key risk to the group.

Going Concern

The group's business activities and its current financial position are set out within this director's report. Factors likely to affect its future development are considered in the strategic report contained within the consolidated financial statements of Thirteen Housing Group Limited.

The group has in place long-term debt facilities, including £5million of undrawn facilities at 31 March 2016, which provide adequate resources to finance committed reinvestment and development programmes along with the group's day to day operations.

The 2015 summer budget announced by the Chancellor of the Exchequer in July 2015, introduced reforms to the welfare system to make it more affordable, which included reducing rents in the social housing sector by 1% each year for four years from April 2016, along with other policies which have had a significant impact on our business. The extension of the right to buy scheme to registered providers will also have an impact on our business going forward.

We have considered these reforms and built them into our revised business plan along with mitigating actions, including cost and activity reductions. The resulting long-term business plan for the group shows that it is able to service its debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the board has a reasonable expectation that the group has sufficient resources to continue in operational existence for the foreseeable future, being a period of 12 months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Internal Controls Assurance

The assurance framework, which includes robust internal control and risk management systems, is reviewed, developed and implemented by Thirteen on behalf of all companies within the Thirteen Group.

Thirteen's board acknowledges its overall responsibility for establishing and maintaining a comprehensive internal control and risk management system, and for reviewing its effectiveness.

Directors' Report

The system of internal control is designed to mitigate the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by Thirteen is ongoing and has been in place throughout the period commencing 1 April 2015 up to the date of approval of the report and financial statements.

Key elements of the internal control framework include:

- Board approved terms of reference and delegated authorities for Thirteen's Group Audit and Risk, Remuneration and Treasury and Investment Committees;
- Standing orders, financial regulations and scheme of delegation approved by the Group Audit and Risk Committee;
- Robust strategic and business planning processes with detailed financial budgets and forecasts;
- Clearly defined management responsibility for the identification, evaluation and control of significant risks;
- An articulated board risk appetite statement;
- Strategic risks aligned to the group's strategic objectives;
- Quarterly review of strategic risks and mitigating actions by the Group Audit and Risk Committee;
- Consideration of impact of board discussions and decisions on strategic risks at each board meeting;
- Directorate risk registers owned and regularly reviewed by each directorate's senior management team; and reviewed by the Group Audit and Risk Committee on an annual basis;
- Formal recruitment, retention, induction, training and development policies for employees and board directors;
- Established strategic planning framework supported by a project plan, managed by heads of service and monitored quarterly;
- A considered and prudent approach to treasury management which is subject to review on an annual basis;
- Regular reporting of key performance indicators to boards and senior management to assess progress towards the achievement of key business objectives, targets and outcomes;
- Board approved whistle-blowing, probity and financial impropriety (anti money laundering, fraud and bribery) policies;
- Regular reporting to the Group Audit and Risk Committee in relation to transparency issues including gifts and hospitality, exception to standing orders, contract variations, the awarding of housing and employment to staff and close relatives, payroll overpayments, data protection breaches and whistleblowing incidents;

Directors' Report

- Regular monitoring of loan covenants and requirements for new loan facilities;
- Regular scenario and stress testing of business plans, and consideration of mitigating actions required as a result; and
- Detailed policies and procedures in each service area.

An exceptional events register is maintained and is reviewed by the Group Audit and Risk Committee on behalf of all companies within Thirteen on a quarterly basis. This records any suspected incidents of fraud and serious crime, breaches of governance policies, including ICT and data governance, and any other exceptional events including whistleblowing.

In addition to exceptional events, risk events, i.e. those that could lead to serious detriment, are reported by exception by the Group Audit and Risk Committee, with action plans to improve and remedy any breaches or inefficiencies. The purpose of such reporting is to demonstrate to the Group Audit and Risk Committee that the internal controls are operating, that appropriate policies are being adhered to and, where necessary, appropriate action has been taken to prevent similar occurrences and, where relevant, incidents have been reported to the HCA or other regulatory authority.

The board cannot delegate ultimate responsibility for the system of internal control, but it can, and has, delegated authority to the Group Audit and Risk Committee to regularly review the effectiveness of Thirteen's internal controls on behalf of all companies within Thirteen. The board receives annual assurance reports from the Group Audit and Risk Committee and minutes of all Audit and Risk Committee meetings. The Group Audit and Risk Committee has received the Group Chief Executive's annual review of the effectiveness of the system of internal control for Thirteen, and the annual reports of the internal and external auditors and has reported its findings to the board.

NHF Code of Governance

Tees Valley Housing has adopted the NHF Code of Governance (2015 edition) and complies with the principal recommendations within the code.

The Group Audit and Risk Committee has agreed a protocol with the independent auditors, which sets out policies for determining the non-audit work that can be undertaken by the independent auditors and procedures for periodic review and selection of independent auditors. The level of fees paid for their work is set out in note five to the financial statements.

Directors' Report

Statement of Board's Responsibilities

The board is responsible for preparing the annual Report and the financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the registered provider of social housing (RP) and of the surplus or deficit 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the RP will continue in business.

The board is responsible for keeping proper accounting records that are sufficient to show and explain the RP's transactions and disclose with reasonable accuracy at any time the financial position of the RP and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and regulations thereunder, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England from April 2015. It is also responsible for safeguarding the assets of the RP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board is responsible for the maintenance and integrity of the society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual General Meeting

The annual general meeting will be held on 5 September 2016.

Independent Auditors

PricewaterhouseCoopers LLP continue their term as independent auditors for Tees Valley Housing.

The report of the board was approved by the Board on 5 September 2016 and signed by order of the board by:

Clare Brayson
Chair

Independent Auditors' Report to the Members of Tees Valley Housing Limited

Report on the financial statements

Our opinion

In our opinion, Tees Valley Housing Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the registered provider's ("the Association") affairs as at 31 March 2016 and of the group's and the registered provider's result for the year then ended; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing from April 2015.

What we have audited

The financial statements comprise:

- the group and registered provider statements of financial position as at 31 March 2016;
- the group and registered provider statements of comprehensive income for the year then ended;
- the group and registered provider statements of changes in reserves for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the board has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Adequacy of accounting records, system of internal control and information and explanations received

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the registered provider; or
- the registered provider financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the Members of Tees Valley Housing Limited

Responsibilities for the financial statements and the audit

Our responsibilities and those of the board

As explained more fully in the Statement of Board's Responsibilities set out on page 16, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the registered provider's members as a body in accordance with Section 87 (2) and Section 98(7) of the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the registered provider's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the board; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the board's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Greg Wilson
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

Independent Auditors' Report to the Members of Tees Valley Housing Limited

- a) The maintenance and integrity of the Tees Valley Housing Limited website is the responsibility of the board; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income

Year ended 31 March 2016

| | Note | 2016 £'000 | 2015 £'000 |
|-------------------------------------------------------------------------|------|---------------|---------------|
| Turnover | 3 | 22,112 | 20,997 |
| Operating expenditure | 3 | (15,108) | (14,425) |
| Operating surplus | 5 | 7,004 | 6,572 |
| (Loss)/gain on disposal of property, plant and equipment (fixed assets) | 6 | (42) | 103 |
| Interest receivable | 7 | 134 | 183 |
| Interest payable | 8 | (2,996) | (3,548) |
| Other finance costs | | (49) | (67) |
| Surplus on ordinary activities before taxation | | 4,051 | 3,243 |
| Tax on surplus on ordinary activities | 11 | - | (1) |
| Surplus for the year | | 4,051 | 3,242 |
| Remeasurement loss in respect of pension scheme | | (945) | (112) |
| Unrealised deficit on the revaluation of investment properties | | (100) | - |
| Total comprehensive income for the year | | <u>3,006</u> | <u>3,130</u> |

The consolidated results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements on pages 20 to 66 were approved and authorised for issue by the Board of Directors on 5 September 2016 and signed on its behalf by:

Clare Brayson
Board Member

Jim Scollen
Board Member

Heather Ashton
Company Secretary

Association Statement of Comprehensive Income

Year ended 31 March 2016

| | Note | 2016 £'000 | 2015 £'000 |
|-------------------------------------------------------------------------|------|---------------|---------------|
| Turnover | 3 | 22,106 | 20,937 |
| Operating expenditure | 3 | (15,098) | (14,409) |
| Operating surplus | 5 | 7,008 | 6,528 |
| (Loss)/gain on disposal of property, plant and equipment (fixed assets) | 6 | (42) | 103 |
| Interest receivable | 7 | 132 | 220 |
| Interest payable | 8 | (2,996) | (3,548) |
| Other finance costs | 8 | (49) | (67) |
| Surplus on ordinary activities before taxation | | 4,053 | 3,236 |
| Tax on surplus on ordinary activities | 11 | - | - |
| Surplus for the year | | 4,053 | 3,236 |
| Remeasurement loss in respect of pension scheme | | (945) | (112) |
| Unrealised deficit on the revaluation of investment properties | | (100) | - |
| Total comprehensive income for the year | | <u>3,008</u> | <u>3,124</u> |

The association's results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements on pages 20 to 66 were approved and authorised for issue by the Board of Directors on 5 September 2016 and signed on its behalf by:

Clare Brayson
Board Member

Jim Scollen
Board Member

Heather Ashton
Company Secretary

Consolidated Statement of Changes in Reserves

Year ended 31 March 2016

| | Income and Expenditure Reserve £'000 | Total Reserves £'000 |
|-----------------------------------------------------|-----------------------------------------------|----------------------------|
| Balance as at 1 April 2014 | 68,376 | 68,376 |
| Surplus for the year | 3,242 | 3,242 |
| Other comprehensive income for the year | (112) | (112) |
| Balance as at 31 March 2015 | <u>71,506</u> | <u>71,506</u> |
| Surplus for the year | 4,051 | 4,051 |
| Other comprehensive income/expenditure for the year | (1,045) | (1,045) |
| Balance as at 31 March 2016 | <u>74,512</u> | <u>74,512</u> |

Income and Expenditure reserve

At 31 March 2016, the revenue reserve included £3million defined pension liability (2015 restated: £2.3million).

Association Statement of Changes in Reserves

Year ended 31 March 2016

| | Income and Expenditure Reserve £'000 | Total Reserves £'000 |
|-----------------------------------------------------|-----------------------------------------------|----------------------------|
| Balance as at 1 April 2014 | 68,230 | 68,230 |
| Surplus for the year | 3,236 | 3,236 |
| Other comprehensive income for the year | (112) | (112) |
| Balance as at 31 March 2015 | <u>71,354</u> | <u>71,354</u> |
| Surplus for the year | 4,053 | 4,053 |
| Other comprehensive income/expenditure for the year | (1,045) | (1,045) |
| Balance as at 31 March 2016 | <u>74,362</u> | <u>74,362</u> |

Statement of Financial Position

As at 31 March 2016

| | Note | Group | | Association | |
|----------------------------------------------------------------|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Fixed assets | | | | | |
| Tangible fixed assets | 12,13 | 239,005 | 233,618 | 239,005 | 233,618 |
| Investment properties | 14 | 2,410 | 2,510 | 2,410 | 2,510 |
| Homebuy loans receivable | 15 | 565 | 565 | 565 | 565 |
| Financial assets | 16 | 1 | 1 | - | - |
| Total fixed assets | | <u>241,981</u> | <u>236,694</u> | <u>241,980</u> | <u>236,693</u> |
| Current assets | | | | | |
| Properties held for sale | 18 | 1,605 | 1,054 | 1,605 | 1,054 |
| Trade and other debtors | 19 | 2,737 | 3,658 | 2,768 | 3,673 |
| Cash and cash equivalents | 20 | 17,414 | 20,871 | 17,215 | 20,688 |
| | | 21,756 | 25,583 | 21,588 | 25,415 |
| Creditors: amounts falling due within one year | 21 | <u>(11,706)</u> | <u>(12,724)</u> | <u>(11,699)</u> | <u>(12,719)</u> |
| Net current assets | | <u>10,050</u> | <u>12,859</u> | <u>9,889</u> | <u>12,696</u> |
| Total assets less current liabilities | | <u>252,031</u> | <u>249,553</u> | <u>251,869</u> | <u>249,389</u> |
| Creditors: amounts falling due after more than one year | 22 | (174,457) | (175,710) | (174,457) | (175,710) |
| Provision for liabilities | | | | | |
| Pension provision | | (3,050) | (2,325) | (3,050) | (2,325) |
| Total net assets | | <u>74,524</u> | <u>71,518</u> | <u>74,362</u> | <u>71,354</u> |
| Reserves | | | | | |
| Minority interest | 26 | 12 | 12 | - | - |
| Income and expenditure reserve | | 74,512 | 71,506 | 74,362 | 71,354 |
| Total reserves | | <u>74,524</u> | <u>71,518</u> | <u>74,362</u> | <u>71,354</u> |

The accompanying notes form part of these financial statements.

The financial statements on pages 20 to 66 were approved and authorised for issue by the Board of Directors on 5 September 2016 and signed on its behalf by:

Clare Brayson
Board Member

Jim Scollen
Board Member

Heather Ashton
Company Secretary

Notes to the Financial Statements

1. Statement of Compliance

The association is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Home and Communities Agency (HCA) as a private registered provider of social housing.

The financial statements of the group and association have been prepared in compliance with FRS 102 as it applies to the financial statements of the association for the year ended 31 March 2016.

The group and association transitioned from previously extant UK GAAP to FRS 102 on 1 April 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial results is given in Note 34.

2. Accounting policies

Basis of accounting

The financial statements of the group and association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102, the Financial Reporting Standard applicable in the UK and Ireland (FRS 102), and the Housing SORP 2014: Statement of Recommended Practice for registered social housing providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. Accounting policies have been applied consistently throughout the year. The financial statements are prepared on a going concern basis, under the historical cost convention.

The group and association have adopted FRS 102, the transition date was 1 April 2014 and therefore the 2014/15 comparatives have been restated to meet the requirements of FRS 102. A reconciliation of the changes to the group and association's reserves and 2014/15 comparatives is shown within note 34.

The group has opted to apply the exemption available under paragraph 1.11 of FRS 102 to not prepare an individual statement of cash flows. A consolidated statement of cash flows is included in the consolidated financial statements of the parent undertaking, Thirteen Housing Group Limited.

Basis of consolidation

The group financial statements consolidate the financial statements of the association and its subsidiaries at 31 March using acquisition accounting. Accounting policies have been applied consistently across the group.

Intra-group transactions, balances and unrealised surpluses on transactions between group entities are eliminated on consolidation.

Notes to the Financial Statements

2. Accounting policies

Turnover

Turnover comprises income from lettings, revenue grants and contract income, capital grants from non-government sources and amortised grants from government sources, income from properties built for outright sale and first tranche shared ownership sales and income from the supply of other goods and services.

Rents and service charges from lettings are recognised net of losses from voids. Income is recognised from the date the property is first let.

Income from first tranche shared ownership sales and properties built for outright sale is recognised at the point of legal completion of the sale.

Income from the supply of other goods and services is recognised at the invoiced amount, net of VAT, in the period that the goods or services were supplied.

Grants relating to revenue expenditure are credited to the comprehensive income and expenditure statement in the same period as the expenditure to which they relate.

Supporting People and other contract income is recognised when it is entitled to be received under the terms of the contract.

Bad debts

For rent ledger debtors, 100% of former tenant arrears are provided. For current tenant arrears risk factors are identified which impact on the likelihood of the debt being collected. Where a significant risk factor exists provision of 100% of arrears is made.

The provision also takes into account a reduction in the value of any debt that is being collected under payment arrangements that fall outside of normal business terms.

Where there is a policy in the organisation not to collect 100% of the income chargeable in some circumstances, the amount not collectable is provided immediately.

For sundry (sales ledger) debtors, the provision is based on the customer type, the age of the debt and the likelihood of it being collected and takes into account a reduction in the value of any debt that is being collected under payment arrangements that fall outside of normal business terms. Where it is assessed that there is a likelihood of non-collection, 100% provision is made. Where the customer is a former tenant, 100% of the debt is provided.

Bad debts are written off against the provision once all avenues for collection have been exhausted.

Value Added Tax (VAT)

The group charges VAT on a small part of its income and is able to recover VAT on expenditure related to that income. The group also operates a partial exemption method that allows it to reclaim VAT on a proportion of its overheads.

The financial statements of the group include VAT to the extent that it is borne by the group and not recoverable from HM Revenue and Customs. The balance of VAT receivable or payable is included in debtors or creditors.

Notes to the Financial Statements

2. Accounting policies

Interest receivable and payable

Interest is capitalised on borrowings to finance developments to the extent that it accrues in the financial year of development if it represents either:

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

In the latter case a weighted average cost of borrowing is used.

Other interest payable and interest receivable is charged or credited to the statement of comprehensive income in the financial year in which it accrues.

Schemes managed by agents

The treatment of income and expenditure in respect of schemes managed by agents depends on the nature of the management arrangement and whether the group retains the financial risk.

Where the group retains the financial risk, all of the scheme's income and expenditure is included in the statement of comprehensive income.

Where the agent carries the financial risk, the statement of comprehensive income includes only that income and expenditure that relates solely to the group.

Interests in joint ventures

The group has contractual agreements with other participants to engage in joint activities that do not create an entity carrying on trade or business of its own. The association accounts for its own share of assets, liabilities and cash flows in such joint arrangements, measured in accordance with the terms of the arrangement.

Leased assets

The rental payable under operating leases is charged to the comprehensive income and expenditure statement on a straight-line basis over the term of the lease.

Retirement benefits

The group participates in two funded multi-employer defined benefit schemes, the Social Housing Pension Scheme (SHPS) and the Pensions Trust Growth Plan.

It is not possible to identify the group's share of the underlying assets and liabilities on a consistent and reasonable basis. Therefore the contributions to these schemes are treated as defined contributions. Where the scheme is in deficit and where the association has agreed to a deficit funding arrangement the association 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.

Notes to the Financial Statements

2. Accounting policies

Taxation

Any charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Income and capital gains are generally exempt from tax if applied for charitable purposes.

Housing properties

Housing properties are classified as property, plant and equipment where they are held for social benefit. Housing properties are principally properties available for rent and properties subject to shared ownership leases.

On adoption of FRS 102 the association converted from valuation to historic cost and now measures additions to existing properties and properties under construction at cost. Costs include the direct costs of acquisition including fees, development staff costs, development period interest and expenditure incurred on improvements.

Expenditure on improvements that enhance the economic benefits of an asset by increasing its rental stream, reducing future maintenance costs or significantly extending its useful economic life or that restores or replaces a component that has been treated separately for depreciation purposes is capitalised.

Shared ownership and other shared equity schemes

The cost of unsold shared ownership properties, including those under construction, are split proportionally between current and fixed assets according to the expected percentage of the first tranche sale. The cost of the expected first tranche is included in current assets with the remainder being included in fixed assets.

Loans to purchasers of properties sold under shared equity schemes are included in fixed asset investments.

Investment property

Investment property consists of housing properties not held for social benefit. Investment property is carried at fair value which is considered to be its open market value. Changes in fair value are recognised in income and expenditure.

Notes to the Financial Statements

2. Accounting policies

Depreciation of housing properties

Freehold land is not depreciated. Depreciation of buildings is provided on the cost so as to write down the net book value of housing properties to their estimated residual value. Depreciation is calculated on a straight line basis over the useful economic life of the building. Rates range from 0.8% to 4% per annum.

Properties held on leases are amortised over the life of the lease or their estimated useful economic lives in the business, if shorter.

Major components are treated as separable assets and depreciated over their expected useful economic lives, or the lives of the structure to which they relate if shorter. The rates are as follows:

| | |
|--------------|-----------------|
| • Land | Not depreciated |
| • Structure | 0.8% - 4% |
| • Roofs | 2% |
| • Kitchens | 5% |
| • Bathrooms | 3.33% |
| • Windows | 3.33% |
| • Doors | 3.33% |
| • Electrical | 2% |
| • Heating | 6.67% |
| • PV Panels | 4% |

Other tangible fixed assets

Other fixed assets are measured at cost. Only costs that can be directly attributed to acquiring the asset and bringing it into use are capitalised. Other fixed assets are depreciated over their useful economic lives on a straight line basis to their residual value. Freehold land is not depreciated.

The principal annual rates used for the depreciation of other fixed assets are:

| | |
|----------------------------------|--------------------|
| • Freehold buildings | 0.8% - 4% |
| • Leasehold property | Over life of lease |
| • Furniture and fittings | 20% |
| • Computers and office equipment | 20% |
| • Motor vehicles | 20% |
| • Other plant and equipment | 10% |
| • Market rented equipment | 10% |
| • Service chargeable fittings | 4% - 20% |

Notes to the Financial Statements

2. Accounting policies

Impairment

Fixed assets are reviewed for impairment if there is an indication that impairment may have taken place.

Where there is evidence of impairment, fixed assets are written down to their recoverable amount, being the higher of the net realisable value and the value-in-use. Any such write down is charged to the operating surplus, unless it is a reversal of a past revaluation surplus.

Social housing grant

Social housing grant (SHG) is receivable from the Homes and Communities Agency (HCA) and is utilised to support the build and development of housing properties.

The accounting treatment for SHG received for capital purposes follows the treatment for housing properties and is held as a liability on the statement of financial position and amortised to the statement of comprehensive income over the life of the structure component of the property for which the grant was received.

SHG due from the HCA or received in advance is included as a current asset or liability.

SHG received in respect of revenue expenditure is credited to the comprehensive income and expenditure statement in the same financial year as the expenditure to which it relates.

SHG is subordinated to the repayment of loans by agreement with the HCA.

SHG released on the sale of a property may be repayable but is normally available to be recycled and is credited to the recycled capital grant fund (RCGF) and included in the statement of financial position in creditors.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to the comprehensive income and expenditure statement. Upon disposal of the associated property, the group is required to recycle these proceeds. A contingent liability is disclosed to reflect this.

Properties for sale

Stocks of properties for sale including shared ownership first tranche sales, completed properties for outright sale and properties under construction, are valued at the lower of cost and net realisable value. Cost includes direct costs, attributable overheads and development period interest. Net realisable value is based on estimated sales price after allowing for further costs of completion and disposal.

Notes to the Financial Statements

2. Accounting policies

Financial instruments

The group and association have assessed the financial instruments held as basic in accordance with FRS 102, and as such are accounted for under the amortised historic cost model.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Debtors and other receivables

Short term debtors are measured at transaction price, less any impairment. Loans receivable are initially measured at transaction price (including transaction costs) and subsequently measured at amortised costs using the effective interest rate method. Current carrying value is considered to equate to the amortised cost.

Creditors and loans payable

Short term creditors are measured at transaction price, less any impairment. Loans payable are initially measured at transaction price (including transaction costs) and subsequently measured at amortised costs using the effective interest rate method. Current carrying value is considered to equate to the amortised cost.

Tenancy repayment arrangements

Current and former arrears for rental debtors are subject to specific repayment terms. Where required, a bad debt provision is held against these balances. The net position is considered to represent the fair value of the debtor balance.

Disposal proceeds fund

As required by section 177 of the Housing and Regeneration Act 2008, the group credits to a disposal proceeds fund (DPF) the net disposal proceeds from right to acquire sales. Net disposal proceeds comprise gross disposal proceeds less eligible deductions. The purpose of the DPF is to provide replacement properties and its use is subject to certain conditions. The balance of the DPF is included in creditors.

Reserves

The group establishes restricted reserves for funds that are subject to external restrictions and must be applied for specific purposes.

Notes to the Financial Statements

2. Accounting policies

Significant judgements

The following are the significant management judgements that have been made when applying the accounting policies of the group and association.

FRS 102 transition options

On transition, the association has opted to convert to historical cost. As a traditional association, it holds detailed historical cost records for the build costs of its properties. This option is therefore considered to best reflect the cost of the fixed assets at this point in time.

Property classifications

The fixed assets within the group have been assessed to determine whether they are investment properties or property, plant and equipment. Management have considered the purpose to which the assets are held, and concluded that, with the exception of properties held in Tees Valley at market rent, all other fixed assets within the group are held primarily for their social benefit and as such have been classified as property, plant and equipment. Relevant factors that have been considered as part of this assessment include:

- Operated at below market rent
- Held for the provision of a service
- Part of regeneration or community investment
- Supported by government grant

Impairment assessment

At the year-end, indicators of impairment are considered. Where an indicator exists, an impairment assessment is performed.

For each cash generating unit identified, an assessment of its recoverable amount compared to its carrying amount is performed. The recoverable amount is the higher of the value in use or the fair value less costs to sell. Management have applied the judgement that they hold their properties for their social benefits and therefore a valuation based purely on cash flows does not reflect their service potential. Management have applied the principles of the Housing SORP 2014 and utilised a depreciated replacement cost measurement as an estimate of the value in use, service potential, for social housing properties that are not voids.

In determining these estimates, a cash generating unit is utilised which are properties:

- of a similar size
- of a similar tenure
- within a geographical area that has similar market characteristics

Financial instrument classifications

The financial instruments held by the group have been assessed to determine whether they meet the basic or non-basic criteria set by FRS 102. All financial instruments have been concluded as basic as part of this assessment and are therefore held using the historic cost convention.

Notes to the Financial Statements

2. Accounting policies

Estimation uncertainty

Property components and lives

Management review the assigned lives of assets and individual components. A detailed review was carried out in 2014/15 to harmonise policies across the group which included decisions on the appropriate lives. The decisions were made based on the assumptions made in the most recent stock condition surveys, adjusted for any known departures from historic knowledge. Property depreciation charged in 2015/16 was £3.4million (2015 restated £3.5million).

Recoverable amount of rental and other debtors

Rental and other debtors are categorised into debt types with similar characteristics. Each category is reviewed and assigned a risk factor based upon management's knowledge of the specific debts in that category. This risk factor is used to determine the expected recoverability and therefore value of rental and other debtors to recognise in the financial statements. The values recognised are disclosed in note 19.

Defined benefit obligations

The pension liability recognised within the financial statements is based on a number of underlying assumptions. These include inflation, mortality rates, salary changes, interest and investment rates and discount factors. Changes within any of these assumptions will affect the pension liability and associated costs recognised. Management utilise pension actuary experts to help determine the appropriate assumptions and calculations to apply. The key assumptions and resulting obligations are detailed in note 27 of these financial statements.

Asset recoverable values for impairment assessments

Management consider depreciated replacement cost to be a suitable measure for estimating a property's recoverable amount. Depreciated replacement cost is based on the current construction costs for a similar property.

Investment property valuations

Investment properties are valued at their market value which is considered to be their fair value at the reporting date. Management utilise an expert valuer to provide their assessment on the appropriate market values to apply. Investment properties are estimated to be worth £2.4m as at 31 March 2016 (2015: £2.5m).

Holiday pay accrual

An accrual is made for outstanding holiday pay at the year end. The initial accrual was calculated by taking a 5% sample of holiday cards at 1 December 2015 to ascertain the number of days outstanding. As there are no seasonal factors affecting the business this position is not thought to have changed significantly at 31 March 2016. The average number of days outstanding is then applied to the aggregate pay costs to arrive at the amount to be accrued.

Notes to the Financial Statements

3. Particulars of turnover, cost of sales, operating expenditure and operating surplus

Group – continuing activities

| | 2016 | | | |
|--------------------------------------------------------|---------------|----------------|-----------------|------------------------------|
| | Turnover | Cost of sales | Operating costs | Operating surplus/ (deficit) |
| | £'000 | £'000 | £'000 | £'000 |
| Social housing lettings | 19,959 | - | (12,804) | 7,155 |
| Other social housing activities | | | | |
| Supporting people contract income | 18 | - | (74) | (56) |
| Charges for support services | 96 | - | (405) | (309) |
| Development costs not capitalised | - | - | (154) | (154) |
| Management services | 778 | - | (366) | 412 |
| Other | 23 | - | (3) | 20 |
| Current asset property sales | 1,072 | (1,020) | - | 52 |
| | <u>1,987</u> | <u>(1,020)</u> | <u>(1,002)</u> | <u>(35)</u> |
| Activities other than social housing activities | | | | |
| Lettings | 160 | - | (181) | (21) |
| Restructuring costs | - | - | (91) | (91) |
| Consultancy and other | 6 | - | (10) | (4) |
| | <u>166</u> | <u>-</u> | <u>(282)</u> | <u>(116)</u> |
| | <u>22,112</u> | <u>(1,020)</u> | <u>(14,088)</u> | <u>7,004</u> |

Group – continuing activities

| | 2015 restated | | | |
|----------------------------------------|---------------|---------------|-----------------|------------------------------|
| | Turnover | Cost of sales | Operating costs | Operating surplus/ (deficit) |
| | £'000 | £'000 | £'000 | £'000 |
| Social housing lettings | 19,091 | - | (12,095) | 6,996 |
| Other social housing activities | | | | |
| Supporting people contract income | 16 | - | (91) | (75) |
| Charges for support services | 75 | - | (423) | (348) |
| Development costs not capitalised | - | - | (391) | (391) |
| Management services | 803 | - | (355) | 448 |
| Other | 24 | - | - | 24 |
| Current asset property sales | 446 | (438) | - | 8 |
| | <u>1,364</u> | <u>(438)</u> | <u>(1,260)</u> | <u>(334)</u> |
| Non-social housing activities | | | | |
| Lettings | 160 | - | (174) | (14) |
| Development for sale | 175 | (178) | - | (3) |
| Restructuring costs | - | - | (260) | (260) |
| Consultancy and other | 207 | (6) | (14) | 187 |
| | <u>542</u> | <u>(184)</u> | <u>(448)</u> | <u>(90)</u> |
| | <u>20,997</u> | <u>(622)</u> | <u>(13,803)</u> | <u>6,572</u> |

Notes to the Financial Statements

3. Particulars of turnover, cost of sales, operating expenditure and operating surplus

Association – continuing activities

| | 2016 | | | |
|--------------------------------------------------------|----------|---------------|-----------------|------------------------------|
| | Turnover | Cost of sales | Operating costs | Operating surplus/ (deficit) |
| | £'000 | £'000 | £'000 | £'000 |
| Social housing lettings | 19,959 | - | (12,804) | 7,155 |
| Other social housing activities | | | | |
| Supporting people contract income | 18 | - | (74) | (56) |
| Charges for support services | 96 | - | (405) | (309) |
| Development costs not capitalised | - | - | (154) | (154) |
| Management services | 778 | - | (366) | 412 |
| Other | 23 | - | (3) | 20 |
| Current asset property sales | 1,072 | (1,020) | - | 52 |
| | 1,987 | (1,020) | (1,002) | (35) |
| Activities other than social housing activities | | | | |
| Lettings | 160 | - | (181) | (21) |
| Restructuring costs | - | - | (91) | (91) |
| | 160 | - | (272) | (112) |
| | 22,106 | (1,020) | (14,078) | 7,008 |

Association – continuing activities

| | 2015 restated | | | |
|----------------------------------------|---------------|---------------|-----------------|------------------------------|
| | Turnover | Cost of sales | Operating costs | Operating surplus/ (deficit) |
| | £'000 | £'000 | £'000 | £'000 |
| Social housing lettings | 19,091 | - | (12,095) | 6,996 |
| Other social housing activities | | | | |
| Supporting people contract income | 16 | - | (91) | (75) |
| Charges for support services | 75 | - | (423) | (348) |
| Development costs not capitalised | - | - | (391) | (391) |
| Management services | 803 | - | (355) | 448 |
| Other | 24 | - | - | 24 |
| Current asset property sales | 446 | (438) | - | 8 |
| Sales to subsidiaries | 174 | (178) | - | (4) |
| | 1,538 | (616) | (1,260) | (338) |
| Non-social housing activities | | | | |
| Lettings | 160 | - | (174) | (14) |
| Restructuring costs | - | - | (260) | (260) |
| Other | 148 | - | (4) | 144 |
| | 308 | - | (438) | (130) |
| | 20,937 | (616) | (13,793) | 6,528 |

Notes to the Financial Statements

3. Particulars of turnover, cost of sales, operating expenditure and operating surplus

Particulars of income and expenditure from social housing lettings

Group and Association

| | General needs housing | Supported housing and housing for older people | Low cost home ownership | 2016 Total | 2015 Total |
|-----------------------------------------------------|-----------------------------|---------------------------------------------------------|-------------------------------|-----------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Rent receivable net of identifiable service charges | 13,960 | 1,379 | 1,501 | 16,840 | 15,991 |
| Service charges receivable | 659 | 1,356 | 84 | 2,099 | 2,101 |
| Amortised government grants | 1,020 | - | - | 1,020 | 999 |
| Turnover from social housing lettings | 15,639 | 2,735 | 1,585 | 19,959 | 19,091 |
| Management | (1,803) | (224) | (352) | (2,379) | (2,290) |
| Service charge costs | (906) | (1,086) | (95) | (2,087) | (1,898) |
| Routine maintenance | (2,359) | (150) | (104) | (2,613) | (2,485) |
| Planned maintenance | (300) | (28) | (21) | (349) | (380) |
| Major repairs expenditure | (1,650) | (12) | (97) | (1,759) | (1,362) |
| Bad debts | (175) | (19) | (31) | (225) | (203) |
| Property lease charges | (133) | - | (7) | (140) | (22) |
| Depreciation of housing properties | (2,544) | (276) | (432) | (3,252) | (3,455) |
| Operating costs on social housing lettings | (9,870) | (1,795) | (1,139) | (12,804) | (12,095) |
| Operating surplus on social housing lettings | 5,769 | 940 | 446 | 7,155 | 6,996 |
| Void losses | (448) | (79) | (57) | (584) | (632) |

Particulars of turnover from non-social housing lettings

| Group and Association | 2016 £'000 | 2015 £'000 |
|---------------------------|---------------|---------------|
| Non-social housing | | |
| Market rented schemes | 152 | 151 |
| Commercial units | 8 | 9 |
| | <u>160</u> | <u>160</u> |

Notes to the Financial Statements

4. Accommodation in management and development

At the end of the financial year the number of units in management for each class of accommodation was as follows:

| Group and Association | 2016 | 2015 restated |
|---------------------------------------------------------------|------------------------------|------------------------------|
| | No. of properties | No. of properties |
| Social housing | | |
| General housing | | |
| - social rent | 2,790 | 2,792 |
| - affordable rent | 274 | 203 |
| Supported housing and housing for older people | 337 | 337 |
| Low cost home ownership | 530 | 534 |
| Total owned | <u>3,931</u> | <u>3,866</u> |
| General housing managed for others | 29 | 29 |
| Leasehold properties | 89 | 88 |
| Total owned and managed | <u>4,049</u> | <u>3,983</u> |
| Non-social housing | | |
| Market rented | <u>30</u> | <u>30</u> |
| Other property types | | |
| Commercial units | 8 | 9 |
| Garages | 12 | 12 |
| Non social leased | <u>10</u> | <u>10</u> |
| Accommodation in development at the financial year end | <u>113</u> | <u>113</u> |

The group owns 82 and leases 30 supported housing units (2015: 82 and 30) that are managed on its behalf by other bodies who contract with the Supporting People administering authorities and carry the financial risk related to the supported housing units.

The group owns 76 and leases 14 supported housing units (2015: 88 and 14) that are managed on its behalf by Thirteen Care and Support Limited who contract with the Supporting People administering authorities and carry the financial risk related to the supported housing units.

A further 11 supported housing units are currently vacant pending the implementation of new management agreements.

Where the agency carries the financial risk, the Group's income and expenditure account includes only the income and expenditure for which it retains responsibility.

The 2015 restatement relates to a re-categorisation of one property from market rented to low cost home ownership, and 10 properties from low cost home ownership to non social leased.

Notes to the Financial Statements

5. Operating surplus

| This is arrived after charging : | Group | | Association | |
|---------------------------------------------|---------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Depreciation of social housing properties | 3,448 | 3,475 | 3,448 | 3,475 |
| Impairment of housing properties | - | - | - | - |
| Depreciation of other tangible fixed assets | 446 | 784 | 446 | 784 |
| Operating lease rentals | | | | |
| - land and buildings | 167 | 67 | 167 | 67 |
| - office equipment and computers | - | 7 | - | 7 |
| - motor vehicles | - | 25 | - | 25 |
| Auditors' remuneration (excluding VAT) | | | | |
| - for audit services: | 3 | 1 | - | - |
| - for non-audit services: | | | | |
| - Tax compliance services | 1 | 1 | - | - |

Audit fees of £105,950 (2015 restated: £74,950) for the entire Thirteen Housing Group Limited are recognised in the ultimate parent undertaking. Of these fees, £35,000 relates to the completion of the audit of the financial statements for the year ended 31 March 2015.

6. (Loss)/gain on disposal of property, plant and equipment (fixed assets)

| Group and Association | 2016 £'000 | 2015 £'000 |
|------------------------------------|---------------|---------------|
| Housing properties | | |
| Disposal proceeds | 306 | 429 |
| Carrying value of fixed assets | (420) | (403) |
| Administrative costs of sale | - | 1 |
| | (114) | 27 |
| Capital grant recycled (Note 24) | 72 | 81 |
| | (42) | 108 |
| Other tangible fixed assets | | |
| Carrying value of fixed assets | - | (1) |
| Administrative costs of sale | - | (4) |
| | - | (5) |

Notes to the Financial Statements

7. Interest receivable

| | Group | | Association | |
|---------------------------------------------|---------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Bank interest receivable and similar income | 133 | 172 | 131 | 170 |
| Loan interest receivable | 1 | 11 | 1 | 11 |
| Gift aid received from subsidiaries | - | - | - | 39 |
| | <u>134</u> | <u>183</u> | <u>132</u> | <u>220</u> |

8. Interest payable

| | Group | | Association | |
|-----------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Loans and bank overdrafts | 3,622 | 4,008 | 3,622 | 4,008 |
| Interest payable charged to other activities | (113) | (103) | (113) | (103) |
| Amortisation of borrowing costs | 29 | 29 | 29 | 29 |
| Other interest payable | 49 | 67 | 49 | 67 |
| | <u>3,587</u> | <u>4,001</u> | <u>3,587</u> | <u>4,001</u> |
| Interest payable capitalised on housing properties under construction | (542) | (386) | (542) | (386) |
| | <u>3,045</u> | <u>3,615</u> | <u>3,045</u> | <u>3,615</u> |
| Average interest rate used to determine the amount of finance costs capitalised during the financial year | <u>4.67%</u> | <u>4.62%</u> | <u>4.67%</u> | <u>4.62%</u> |

Notes to the Financial Statements

9. Employees

| Average monthly number of employees: Group and Association | 2016 Number | 2015 Number |
|-----------------------------------------------------------------------|------------------------|------------------------|
| Housing, support and care | 24 | 23 |
| | <u>24</u> | <u>23</u> |
| Expressed as full time equivalents: Group and Association | 2016 Number | 2015 Number |
| Housing, support and care | 24 | 23 |
| | <u>24</u> | <u>23</u> |
| Employee costs: Group and Association | 2016 £'000 | 2015 £'000 |
| Wages and salaries | 1,154 | 616 |
| Social security costs | 79 | 37 |
| Other pension costs | 94 | 42 |
| | <u>1,327</u> | <u>695</u> |
| Restructuring costs | 91 | 260 |
| | <u>1,418</u> | <u>955</u> |

Partnering Plus Limited and Portico Homes Limited have no employees (2015: none).

Other pension costs exclude payments to the Social Housing Pension Scheme to fund past service deficits. These payments amount to £257k for the financial year (2015: £247k).

Other pension costs also exclude payments to the Pensions Trust to fund past service deficits on the Growth Plan. These payments amount to £5k for the financial year (2015: none).

Restructuring costs have been included in operating costs and relate to redundancy and associated costs following the formation and subsequent restructuring of Thirteen Housing Group Limited.

Notes to the Financial Statements

10. Key management personnel

Group and Association

Martin Hawthorne, Group Director of Development and Regeneration for Thirteen, is the lead executive director for Tees Valley Housing Limited.

The Chief Executive and other executive directors were employed by Thirteen Housing Group Limited. A charge for their costs has been included within the management charge for the financial year. No emoluments were paid directly by Tees Valley Housing Limited to executive directors (2015: £nil). Details of emoluments paid to executive directors are detailed in the annual report and financial statements of Thirteen Housing Group Limited.

Non-executive directors

Non-executive directors are set out on page 2. Emoluments paid to board members amounted to £35,535 (2015: £34,888) and reimbursement of expenses £2,892 (2015: £1,612).

Notes to the Financial Statements

11. Tax on surplus on ordinary activities

| | Group | | Association | |
|----------------------------------------------|---------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Current tax | | | | |
| UK corporation tax on surplus for the year | - | 1 | - | - |
| Adjustment in respect of prior years | - | - | - | - |
| Tax on surplus on ordinary activities | <u>-</u> | <u>1</u> | <u>-</u> | <u>-</u> |

Factors affecting tax charge for the current year

The tax charge for the year differs (2015: differs) from the standard rate of corporation tax in the UK of 20%. The differences are explained below:

| | Group | | Association | |
|----------------------------------------------------------|---------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Surplus on ordinary activities before taxation | <u>4,051</u> | <u>3,219</u> | <u>4,053</u> | <u>3,212</u> |
| Tax on profit at standard UK tax rate of 20% (2015: 20%) | 810 | 644 | 811 | 642 |
| Effects of: | | | | |
| Non-taxable income | (810) | (643) | (811) | (642) |
| Adjustments in respect of prior years | - | - | - | - |
| Total tax charge for the year | <u>-</u> | <u>1</u> | <u>-</u> | <u>-</u> |

Factors that may affect future tax charges

On the basis that future income and gains will be applied for charitable purposes, the association should fall within the tax exemptions available to charitable entities. Group tax charges relate to Partnering Plus and Portico Homes.

Notes to the Financial Statements

12. Tangible fixed assets – housing properties

Group and Association

| | Social housing properties held for letting £'000 | Housing properties for letting under construction £'000 | Completed shared ownership housing properties £'000 | Shared ownership properties under construction £'000 | Total housing properties £'000 |
|----------------------------------------------------|-----------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------|
| Cost | | | | | |
| At 1 April 2015 | 211,571 | 9,632 | 34,840 | 2,367 | 258,410 |
| Additions | - | 6,131 | - | 1,640 | 7,771 |
| Works to existing properties | 431 | 1,846 | - | - | 2,277 |
| Interest capitalised | - | 405 | - | 137 | 542 |
| Schemes completed | 6,992 | (6,992) | 872 | (872) | - |
| Disposals | (469) | - | (141) | - | (610) |
| Transfer to current assets | - | - | (587) | (787) | (1,374) |
| At 31 March 2016 | 218,525 | 11,022 | 34,984 | 2,485 | 267,016 |
| Accumulated depreciation and impairment | | | | | |
| At 1 April 2015 | 28,192 | - | 2,538 | 169 | 30,899 |
| Depreciation charged in year | 3,022 | - | 426 | - | 3,448 |
| Depreciation released on disposal | (237) | - | (43) | - | (280) |
| At 31 March 2016 | 30,977 | - | 2,921 | 169 | 34,067 |
| Net book value | | | | | |
| At 31 March 2016 | 187,548 | 11,022 | 32,063 | 2,316 | 232,949 |
| At 31 March 2015 | 183,379 | 9,632 | 32,302 | 2,198 | 227,511 |

Notes to the Financial Statements

12. Tangible fixed assets - housing properties

Financial assistance and other government grant receivable

The total accumulated amount of financial assistance and other government grant received or receivable at 31 March was:

| | 2016 | 2015 |
|-------------------------------------------|-----------------------|-----------------------|
| | £'000 | £'000 |
| Amounts held as deferred income | 95,310 | 94,275 |
| Amounts charged to income and expenditure | <u>10,454</u> | <u>9,434</u> |
| | <u><u>105,764</u></u> | <u><u>103,709</u></u> |

Housing properties book value, net of depreciation

| | 2016 | 2015 |
|------------------------------------|-----------------------|-----------------------|
| | £'000 | £'000 |
| Freehold land and buildings | 205,279 | 213,046 |
| Long leasehold land and buildings | 13,835 | 14,058 |
| Short leasehold land and buildings | <u>13,835</u> | <u>407</u> |
| | <u><u>232,949</u></u> | <u><u>227,511</u></u> |

Expenditure on works to existing properties

| | 2016 | 2015 |
|----------------------------------------------|---------------------|---------------------|
| | £'000 | £'000 |
| Components capitalised to property assets | 2,277 | 802 |
| Components capitalised to other fixed assets | 20 | - |
| Amounts charged to income and expenditure | <u>1,759</u> | <u>1,362</u> |
| | <u><u>4,056</u></u> | <u><u>2,164</u></u> |

Impairment

The group considers individual schemes to be separate income generating units when assessing for impairment in accordance with section 27 of FRS 102: Impairment of Assets.

There was no impairment provision made in 2016 (2015: £nil).

Notes to the Financial Statements

13. Tangible fixed assets - other

Group and Association

| | Freehold land and buildings | Furniture fixtures and ICT/office equipment | Other plant and equipment | Motor vehicles | Total |
|---------------------------------|-----------------------------------|------------------------------------------------------|---------------------------------|-------------------|-------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | | |
| At 1 April 2015 | 3,891 | 4,679 | 104 | 1 | 8,675 |
| Additions | 1 | 358 | 36 | - | 395 |
| At 31 March 2016 | 3,892 | 5,037 | 140 | 1 | 9,070 |
| Accumulated depreciation | | | | | |
| At 1 April 2015 | 362 | 2,131 | 74 | 1 | 2,568 |
| Charged in year | 29 | 407 | 10 | - | 446 |
| At 31 March 2016 | 391 | 2,538 | 84 | 1 | 3,014 |
| Net book value | | | | | |
| At 31 March 2016 | 3,501 | 2,499 | 56 | - | 6,056 |
| At 31 March 2015 | 3,529 | 2,548 | 30 | - | 6,107 |

Notes to the Financial Statements

14. Investment properties

Non-social housing properties held for letting

| Group and Association | 2016 | 2015 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| At 1 April | 2,510 | 2,510 |
| Movement in value | (100) | - |
| At 31 March | <u>2,410</u> | <u>2,510</u> |

Investment properties were valued as at 31 March 2016 by Greig Cavey Commercial Limited, professional external valuers in accordance with the RICS Valuation Standards 2014 ("The Red Book"). The valuation was undertaken on the basis of market value as individual units with the assumption of vacant possession or that the tenant who is in occupation occupies under an assured shorthold tenancy, is not a protected tenant and vacant possession can be secured if required.

15. Homebuy loans receivable

Group and Association

| Shared Equity and Homebuy Direct loans | 2016 | 2015 |
|----------------------------------------|------------|------------|
| | £'000 | £'000 |
| At 1 April | <u>565</u> | <u>565</u> |
| At 31 March | <u>565</u> | <u>565</u> |

16. Financial assets

| | Group | | Association | |
|-------------------------------------------------------|---------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Financial investment in Woodside Landholdings Limited | <u>1</u> | <u>1</u> | <u>-</u> | <u>-</u> |
| | <u>1</u> | <u>1</u> | <u>-</u> | <u>-</u> |

Portico Homes Limited has a joint arrangement with Woodside Landholdings Limited, under which 50% of the shares of Woodside Landholdings Limited are held by Portico Homes Limited. The shareholding in Woodside Landholdings Limited has been included in financial assets measured at cost less impairment.

Notes to the Financial Statements

17. Investments in subsidiaries

As required by statute, the financial statements consolidated the results of the association and its subsidiaries, Portico Homes Limited and Partnering Plus Limited.

Portico Homes Limited is a company incorporated in England and Wales, registration number 03379796. The association holds the two shares issued by Portico Homes Limited.

Partnering Plus Limited is a company incorporated in England and Wales, registration number 4448871. The association holds 760 shares with voting rights in Partnering Plus Limited. The remaining 80 shares are held by third parties and have no voting rights attached to them. Partnering Plus Limited is therefore treated as a wholly owned subsidiary for consolidation purposes.

18. Properties held for sale

Group and Association

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|---------------|---------------|
| Properties completed for sale | 1,422 | - |
| Properties in development for sale | 183 | 1,054 |
| | <u>1,605</u> | <u>1,054</u> |

19. Trade and other debtors

| | Group | | Association | |
|--------------------------------------------|---------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Due within one year | | | | |
| Rent and service charges receivable | 788 | 830 | 788 | 830 |
| Less: provision for bad and doubtful debts | (258) | (249) | (258) | (249) |
| Net rental debtors | <u>530</u> | <u>581</u> | <u>530</u> | <u>581</u> |
| Prepayments and accrued income | 282 | 141 | 282 | 141 |
| Development debtor | 8 | 6 | 8 | 6 |
| Other debtors | 239 | 663 | 230 | 640 |
| Share capital in Partnering Plus Limited | - | - | 38 | 38 |
| Loan to Whitby Network | 12 | 12 | 12 | 12 |
| Amounts owed by group undertakings | <u>1,622</u> | <u>2,199</u> | <u>1,624</u> | <u>2,199</u> |
| | 2,693 | 3,602 | 2,724 | 3,617 |
| Due after more than one year | | | | |
| Loan to Whitby Network | <u>44</u> | <u>56</u> | <u>44</u> | <u>56</u> |
| | <u>2,737</u> | <u>3,658</u> | <u>2,768</u> | <u>3,673</u> |

The loan to Whitby Network is secured by a legal charge over Whitby Resource Centre. The loan is repayable over 20 years at an interest rate of 1% above bank base rate. The final instalment is due to be repaid by 31 July 2020.

Trade debtors are processed within Thirteen Housing Group Limited and any amounts owing to the association is included under 'amounts owed by group undertakings'. Before this time any amounts owing from non- rent debtors were shown in 'other debtors'.

Notes to the Financial Statements

20. Cash and cash equivalents

| | Group | | Association | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Deposit accounts | 12,372 | 15,287 | 12,372 | 15,287 |
| Leaseholders trust account | 250 | 249 | 250 | 249 |
| | <u>12,622</u> | <u>15,536</u> | <u>12,622</u> | <u>15,536</u> |
| Cash Balances | 4,792 | 5,335 | 4,593 | 5,152 |
| Total cash and cash equivalents | <u>17,414</u> | <u>20,871</u> | <u>17,215</u> | <u>20,688</u> |

21. Creditors: amounts falling due within one year

| | Group | | Association | |
|----------------------------------------------|---------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Debt (note 25) | 2,765 | 4,180 | 2,765 | 4,180 |
| Rent and service charges received in advance | 481 | 526 | 481 | 526 |
| Social housing grant received in advance | 3,062 | 3,461 | 3,062 | 3,461 |
| Deferred capital grant (note 23) | 758 | 778 | 758 | 778 |
| Recycled capital grant fund (note 24) | - | 5 | - | 5 |
| Development creditors | 793 | 1,375 | 793 | 1,375 |
| Pension creditor | 35 | 34 | 35 | 34 |
| Corporation Tax | 1 | 1 | - | - |
| VAT payable | 2 | 1 | 1 | - |
| Other taxation and social security | - | 29 | - | 29 |
| Other creditors | 888 | 948 | 888 | 948 |
| Accruals and deferred income | 833 | 479 | 830 | 479 |
| Restructuring costs | - | 104 | - | 104 |
| Amounts owed to group undertakings | <u>2,088</u> | <u>803</u> | <u>2,086</u> | <u>800</u> |
| | <u>11,706</u> | <u>12,724</u> | <u>11,699</u> | <u>12,719</u> |

Notes to the Financial Statements

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

| | Group | | Association | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Debt (note 25) | 80,294 | 82,520 | 80,294 | 82,520 |
| Borrowing costs unamortised | (611) | (640) | (611) | (640) |
| Deferred capital grant (note 23) | 94,552 | 93,497 | 94,552 | 93,497 |
| Recycled capital grant fund (note 24) | 222 | 333 | 222 | 333 |
| | <u>174,457</u> | <u>175,710</u> | <u>174,457</u> | <u>175,710</u> |

23. Deferred capital grant

Group and Association

| | 2016 | 2015 |
|----------------------------------------------|---------------|---------------|
| At 1 April | 94,275 | 92,406 |
| Grant received in the year | 2,263 | 3,058 |
| Released to income in the year | (1,020) | (999) |
| Released to the RCGF on disposal | (208) | (190) |
| At 31 March | <u>95,310</u> | <u>94,275</u> |
| | 2016 | 2015 |
| | £'000 | £'000 |
| Amounts to be released within one year | 758 | 778 |
| Amounts to be released in more than one year | 94,552 | 93,497 |
| | <u>95,310</u> | <u>94,275</u> |

Notes to the Financial Statements

24. Recycled capital grant fund

Group and Association

| Funds pertaining to activities within areas covered by the HCA: | 2016 £'000 | 2015 £'000 |
|-----------------------------------------------------------------|-----------------------------|-----------------------------|
| At 1 April | 338 | 117 |
| Inputs to RCGF: Grants recycled | 208 | 221 |
| Recycling of grant: New build | (324) | - |
| At 31 March | <u>222</u> | <u>338</u> |
| Amounts 3 years old or older | <u>-</u> | <u>-</u> |
| | 2016 £'000 | 2015 £'000 |
| Amounts to be released within one year | - | 5 |
| Amounts to be released in more than one year | <u>222</u> | <u>333</u> |
| | <u>222</u> | <u>338</u> |

Withdrawals from the recycled capital grant fund were used to fund new build developments.

Notes to the Financial Statements

25. Debt analysis

Group and Association

| | 2016 | 2015 |
|---------------------------------------------------------------|----------------------|----------------------|
| | £'000 | £'000 |
| Debt profile | | |
| Accrued interest | 509 | 646 |
| Bank and building society loans at fixed rates of interest | 43,455 | 54,000 |
| Bank and building society loans at variable rates of interest | <u>39,095</u> | <u>32,054</u> |
| | <u><u>83,059</u></u> | <u><u>86,700</u></u> |

Terms of repayment and interest rates

The bank and building society loans are repaid in monthly, quarterly, and half-yearly instalments at fixed and variable rates of interest.

The fixed rates of interest are between 3.1% and 11.77%. The variable rates of interest are between 0.25% and 0.4% over LIBOR.

Final instalments fall to be repaid in the period from 2015 to 2039.

Debt is repayable as follows:

| | 2016 | 2015 |
|--------------------------------------------|----------------------|----------------------|
| | £'000 | £'000 |
| Within one year or on demand | 2,765 | 4,180 |
| One year or more but less than two years | 2,432 | 3,534 |
| Two years or more but less than five years | 9,472 | 8,270 |
| Five years or more | <u>68,390</u> | <u>70,716</u> |
| | <u><u>83,059</u></u> | <u><u>86,700</u></u> |

All loans are secured by fixed charges over the association's properties.

As at 31 March 2016 the association had undrawn loan facilities of £5million (2015: £5million).

Notes to the Financial Statements

26. Non-equity share capital

Group and Association

| Shares of £1 each issued and fully paid | 2016 | 2015 |
|-------------------------------------------------------|-------------|-------------|
| | £ | £ |
| At 1 April | 12 | 12 |
| Shares issued/(surrendered) during the financial year | <u>-</u> | <u>-</u> |
| At 31 March | <u>12</u> | <u>12</u> |

The shares provide members with the right to vote at general meetings but do not provide any rights to dividends or distributions on winding-up.

Group

| Minority interest in group companies | 2016 | 2015 |
|----------------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Minority interest in Partnering Plus Limited | <u>12</u> | <u>12</u> |

Notes to the Financial Statements

27. Pensions

The Association participates in the Social Housing Pension Scheme (SHPS) and the Pensions Trust Growth Plan.

The Pensions Trust - Social Housing Pension Scheme

The association participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK.

It is not possible for the association 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 association 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 £3,123million, liabilities of £4,446million and a deficit of £1,323million. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid to the scheme as follows:

Deficit contributions

| | |
|----------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Tier 1 From 1 April 2016 to 30 September 2020: | £40.6million per annum (payable monthly and increasing by 4.7% each year on 1 st April) |
| Tier 2 From 1 April 2016 to 30 September 2023: | £28.6million per annum (payable monthly and increasing by 4.7% each year on 1 st April) |
| Tier 3 From 1 April 2016 to 30 September 2026: | £32.7million per annum (payable monthly and increasing by 3.0% each year on 1 st April) |
| Tier 4 From 1 April 2016 to 30 September 2026: | £31.7million per annum (payable monthly and increasing by 3.0% each year on 1 st April) |

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

Notes to the Financial Statements

27. Pensions

Social Housing Pension Scheme (continued)

Present values of provision

| | 2016 £'000 | 2015 £'000 |
|----------------------------------------|---------------|---------------|
| Present value of provision at 31 March | <u>3,012</u> | <u>2,282</u> |

Reconciliation of opening and closing provisions

| | 2016 £'000 | 2015 £'000 |
|----------------------------------------------------------|---------------|---------------|
| Provision at 1 April | 2,282 | 2,353 |
| Unwinding of the discount factor (interest expense) | 41 | 66 |
| Deficit contribution paid | (257) | (247) |
| Remeasurements - impact of any change in assumptions | (19) | 110 |
| Remeasurements - amendments to the contribution schedule | 965 | - |
| Provision at 31 March | <u>3,012</u> | <u>2,282</u> |

Income and expenditure impact

| | 2016 £'000 | 2015 £'000 |
|----------------------------------------------------------|---------------|---------------|
| Interest expense | 41 | 66 |
| Remeasurements - impact of any change in assumptions | (19) | 110 |
| Remeasurements - amendments to the contribution schedule | 965 | - |
| Contributions paid in respect of future service | 95 | 164 |
| Costs recognised in income and expenditure account | <u>1,082</u> | <u>340</u> |

Assumptions

| | 2016 % per annum | 2015 % per annum |
|------------------|------------------------|------------------------|
| Rate of discount | <u>2.06</u> | <u>1.92</u> |

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.

Notes to the Financial Statements

27. Pensions

The Pensions Trust - The Growth Plan

The association participates in the scheme, a multi-employer scheme which provides benefits to some 1,300 non-associated participating employers. The scheme is a defined benefit scheme in the UK.

It is not possible for the association 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 association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out at 30 September 2011. This actuarial valuation showed assets of £780million, liabilities of £928million and a deficit of £148million. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid to the scheme as follows:

Deficit contributions

| | |
|----------------------------------------|---------------------------------------------------------------------------------|
| From 1 April 2013 to 31 March 2023: | £13.9million per annum (payable monthly and increasing by 3% each on 1st April) |
| From 1 April 2016 to 30 September 2025 | £12.9million per annum (payable monthly and increasing by 3% each on 1st April) |
| From 1 April 2016 to 30 September 2028 | £54.6k per annum (payable monthly and increasing by 3% each on 1st April) |

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the series 1 and series 2 scheme liabilities.

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

Notes to the Financial Statements

27. Pensions

The Growth Plan (continued)

Present values of provision

| | 2016 £'000 | 2015 £'000 |
|----------------------------|---------------|---------------|
| Present value of provision | <u>38</u> | <u>43</u> |

Reconciliation of opening and closing provisions

| | 2016 £'000 | 2015 £'000 |
|------------------------------------------------------|---------------|---------------|
| Provision at 1 April | 43 | 45 |
| Unwinding of the discount factor (interest expense) | 1 | 1 |
| Deficit contribution paid | (5) | (5) |
| Remeasurements - impact of any change in assumptions | <u>(1)</u> | <u>2</u> |
| Provision at 31 March | <u>38</u> | <u>43</u> |

Income and expenditure impact

| | 2016 £'000 | 2015 £'000 |
|------------------------------------------------------|---------------|---------------|
| Interest expense | 1 | 1 |
| Remeasurements - impact of any change in assumptions | <u>(1)</u> | <u>2</u> |
| Costs recognised in income and expenditure account | <u>-</u> | <u>3</u> |

Assumptions

| | 2016 % per annum | 2015 % per annum |
|------------------|------------------------|------------------------|
| Rate of discount | <u>2.07</u> | <u>1.74</u> |

Notes to the Financial Statements

28. Capital commitments

Group and Association

| | 2016 £'000 | 2015 £'000 |
|----------------------------------------------------------------------------------------|---------------|---------------|
| Capital expenditure | | |
| Expenditure contracted for, but not provided for in the in the financial statements | 33,816 | 5,537 |
| Expenditure authorised by the board, but not contracted | <u>5,581</u> | <u>44,840</u> |
| | <u>39,397</u> | <u>50,377</u> |

Expenditure authorised by the board but not contracted includes capital major repairs works of £3.4million.

The capital commitments for the development of new property assets will be financed from the association's available resources, which are from revenue surpluses generated, borrowing from approved loan facilities, and social housing grants. The balance of funding is determined as the new development schemes occur and the commitments are realised.

29. Contingent liabilities

Social Housing Pension Scheme

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the trustee of the Social Housing Pension Scheme. The debt is due in the event of the employer ceasing to participate in the scheme or the scheme winding up.

Tees Valley Housing Limited has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the scheme as at 30 September 2015. As of this date the estimated employer debt for Tees Valley was £19,272,221. No provision has been made in the financial statements for these amounts as the possibility of the liabilities arising is considered to be remote.

In addition the association participates in the Pension Trust's Growth Plan. From December 2014 there were no active members enrolled in the plan and a period of grace to December 2015 was implemented to allow the association to enrol a new member. No new members enrolled therefore the debt on withdrawal of £103,975 became payable in December 2015. This is now settled and there is no longer a potential liability relating to debt on withdrawal.

Notes to the Financial Statements

30. Operating leases

Group and association

Operating leases where the association is the lessee

The future minimum lease payments which the group and association are committed to make under non-cancellable operating leases are as follows:

| | 2016 | 2015 |
|---------------------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Land and buildings - housing properties | | |
| Payments due: | | |
| Not later than one year | 138 | 188 |
| Later than one year and not later than five years | 437 | 472 |
| Later than five years | 840 | 942 |
| | <u>1,415</u> | <u>1,602</u> |

Housing property leases relate to properties leased from private landlords. There are no purchase options. The final lease expires in March 2030.

Operating leases where the association is the lessor

The association leases two properties to specialist housing providers.

The lease for Ann Charlton Lodge runs until December 2021. The lease payments are adjustable annually based on actual expenditure incurred. There are no purchase options.

The lease for 367 Thornaby Road runs until September 2030. The lease provides for an annual RPI based increase. There are no purchase options.

The future minimum rentals receivable under non-cancellable operating leases are as follows:

| | 2016 | 2015 |
|---------------------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Land and buildings - housing properties | | |
| Payments due: | | |
| Not later than one year | 108 | 106 |
| Later than one year and not later than five years | 449 | 441 |
| Later than five years | 817 | 932 |
| | <u>1,374</u> | <u>1,479</u> |

The association also has in place a number of management agreements that include the right to occupy specific properties. These agreements have no defined term and are cancellable with 12 months' notice.

Notes to the Financial Statements

30. Operating leases

The association lets a retail unit in York on a non-cancellable lease. The lease can be broken in August 2019. There are no purchase options. The future minimum rentals receivable under this non-cancellable operating lease are as follows:

| | 2016 £'000 | 2015 £'000 |
|---------------------------------------------------|---------------|---------------|
| Land and buildings | | |
| Payments due: | | |
| Not later than one year | 6 | 6 |
| Later than one year and not later than five years | 8 | 19 |
| | <u>14</u> | <u>25</u> |

Social housing - general needs, supported housing and housing for older people

The association acts as lessor for operating leases for its tenanted housing properties, commercial properties and garages. The lease arrangements for these types of property are cancellable by the lessee.

Operating leases in this category are for social housing that is regulated and bound by restrictions on rents by the Homes and Communities Agency (HCA).

Payments under these operating leases include both lease rental payments and service charges. Rents are set at either a target social rent using the HCA rent formula or an affordable rent which is deemed to be 80% of market rent. More information on these rent regimes can be found on the HCA website.

Service charges may be fixed or variable. Fixed charges are set at the 1 April and are not adjusted to recover under or over payments from previous years. Variable charges are adjusted annually to recover the amount expended on delivering the services.

The significant leasing arrangements in place are:

Assured tenancies

Assured tenancies are for no fixed period and unless there is a breach of tenancy by the lessee which results in enforcement action the tenancy cannot normally be terminated by the lessor. The tenancy can be ended by the lessee with 28 days' notice. Assured tenancies that were transferred from a local authority have protected right to buy (RTB). Tenancies that commenced after a local authority stock transfer have the right to acquire (RTA). The rent is set at the commencement of the tenancy and is normally reviewed on the 1 April. The lessor must give one month's notice of intention to change the rent. Changes in rent are made in line with rent guidance from the HCA. As at 31 March 2016 there were 2,840 assured tenancies in place.

Assured shorthold tenancies

Assured shorthold tenancies are for a fixed duration of a minimum of six months and not more than two years. Unless there is a breach of tenancy by the lessee which results in enforcement action, the tenancy cannot be ended by the lessor within the first six months but can then be ended with two months' notice. The tenancy can be ended by the lessee with 28 days' notice. RTB or RTA does not apply. Assured shorthold tenancies are normally used for supported or specialist housing and the rent is set in accordance with the HCA rent standard and takes into account the level of services received in agreement with the local housing benefit department. The lessor must give one month's notice of intention to change the rent. As at 31 March 2016 there were 187 assured shorthold tenancies in place.

Notes to the Financial Statements

30. Operating leases

Secure tenancies

Secure tenancies are no longer issued for new tenancies unless a secure tenant transfers to a new property in which case they are afforded the same rights and conditions in their new tenancy. They are for no fixed period and, unless there is a breach of tenancy by the lessee which results in enforcement action, the tenancy cannot normally be terminated by the lessor. The tenancy can be ended by the lessee with 28 days' notice. RTB applies. Rents are increased every two years usually on the anniversary of the tenancy and must be agreed by the Valuation Office Agency incorporating rent officer functions. As at 31 March 2016 there were 64 secure tenancies in place.

Fixed term tenancies

Fixed term tenancies are for a term of three years and, unless there is a breach of tenancy by the lessee which results in enforcement action, the tenancy cannot normally be terminated by the lessor or the lessee within the three year period. Fixed term tenancies are normally used for mortgage rescue and intermediate market rented schemes. Rent is set at the commencement of the tenancy and is normally reviewed on the 1 April. The lessor must give one month's notice of intention to change the rent. Changes in rent are made in line with rent guidance from the HCA. As at 31 March 2016 there were 134 fixed term tenancies in place.

Equitable tenancy

Equitable tenancies are used for under 18s and are not tenancies legally, but are equitable agreements to hold a tenancy in trust until the person reaches 18. The tenancy can be ended by the lessor with two months' notice and by the lessee with 28 days' notice. The rent is set at the commencement of the tenancy and is normally reviewed on the 1 April. The lessor must give one month's notice of intention to change the rent. Changes in rent are made in line with rent guidance from the HCA. As at 31 March 2016 there were no equitable tenancies in place.

License

Licenses are used for shared tenancies where the licensee does not have exclusive occupation rights or security of tenure. The licensee can end the agreement without giving notice and the landlord can end the agreement giving "reasonable notice", usually 28 days. As at 31 March 2016 there were five licenses in place.

Starter tenancy

Starter tenancies are issued initially for 12 months and may be extended to 18 months. The lessor may cancel by giving two months' notice and the lessee may cancel by giving 28 days' notice. RTB and RTA do not apply. Rent is set at the commencement of the tenancy and is normally reviewed on the 1 April. The lessor must give one month's notice of intention to change the rent. Changes in rent are made in line with rent guidance from the HCA. As at 31 March 2016 there were 525 starter tenancies in place.

Social housing – shared ownership leases

Under shared ownership the lessee owns a percentage of the equity of the property. The lessor retains the remaining equity and grants a lease for that share. There are a number of differing leases but the main terms are similar. The term of the lease amortises over time and if the lease is sold, only the remaining term is transferred to the new lessee.

The lessee may at any point purchase a further share of the equity of the property until 100% of the equity is owned.

Payments under these operating leases include lease rental payments, service charges, insurance and management fees. Rents are set initially in accordance with the terms of the HCA funding and are increased according to the terms of the each lease. Service charges are normally variable and are adjusted annually to recover the amount expended on delivering the services.

As at 31 March 2016 there were 295 (2015: 299) shared ownership leases in place.

Notes to the Financial Statements

30. Operating leases

Leasehold properties

Leasehold properties are usually flats or apartments that have been purchased on a fixed term lease. The term of the lease amortises over time and if the lease is sold, only the remaining term is transferred to the new lessee.

Payments under these operating leases include ground rent, service charges, insurance and management fees. Service charges are normally variable and are adjusted annually to recover the amount expended on delivering the services.

As at 31 March 2016 there were 89 (2015: 88) such leases in place.

Leasehold schemes for the elderly (LSE)

Under LSE the lessee owns a percentage of the equity of the property. The lessor retains the remaining equity but there is no rent charged on this. There are a number of differing leases but the main terms are similar. The lease term is fixed and amortises over time, however if the lease is sold a new lease is issued for the full term.

Payments under these operating leases include service charges, insurance and management fees. Service charges are normally variable and are adjusted annually to recover the amount expended on delivering the services.

As at 31 March 2016 there were 75 (2015: 75) LSE leases in place.

Commercial property leases

The association owns eight (2015: nine) retail units that it leases to small businesses on a cancellable basis.

Investment properties

The association holds 30 (2015: 30) housing properties as investment properties which are let on assured shorthold agreements. Rents are set in accordance with open market conditions and are reviewed annually. There are no purchase options.

Notes to the Financial Statements

31. Related party transactions

There were two tenant board members during the financial year, Jim Scollen and Jim Seed (to 7 September 2015). Their tenancies are on normal commercial terms and they are not able to use their position to their advantage. Aggregate rent charges relating to tenant board members were £5,983 (2015: £8,612), payments received were £6,216 (2015: £8,594) and aggregate amounts owing at 31 March 2016 were £76 (2015: £510).

The association participates in the Social Housing Pension Scheme (SHPS) and the Pensions Trust Growth Plan. Transactions between the association and the pension schemes are detailed in Note 27. The balance included in creditors for the Social Housing Pension Scheme is £13,494 (2015: £13,381).

There was one member of Redcar and Cleveland Council on the board during the financial year, Sue Jeffrey (to 7 September 2015). Transactions with Redcar and Cleveland Council during the financial year were on an arms-length basis and transactional amounts and outstanding balances as at March 2015 are disclosed in the consolidated financial statements of Thirteen Housing Group Limited.

Disclosures in relation to key management personnel are included within Note 10.

The association has taken advantage of the exemptions under paragraph 33.1A of FRS 102 not to disclose transactions with other group companies, apart from transactions with unregistered group entities as required by the Accounting Direction 2015.

Services purchased from unregistered group entities are as follows:

| Company | Service purchased | Cost allocation basis | 2016 £'000 | 2015 £'000 |
|-----------------------------------|--------------------------|------------------------------|-----------------------|-----------------------|
| Thirteen Care and Support Limited | Tenancy support | Funding as per agreement | (42) | (32) |

Services provided to unregistered group entities are as follows:

| Company | Service provided | Cost allocation basis | 2016 £'000 | 2015 £'000 |
|-----------------------------------|-------------------------|----------------------------------------|-----------------------|-----------------------|
| Thirteen Care and Support Limited | Leased properties | Percentage of rental income less voids | 280 | 359 |

During the year the association had the following intra-group transactions with Portico Homes Limited, an unregistered group entity:

| | Basis of allocation | 2016 £'000 | 2015 £'000 |
|-----------------------------------|------------------------------|-----------------------|-----------------------|
| Transfer of properties for resale | Market value less sale costs | - | 174 |

During the year the association had no intra-group transactions with Partnering Plus Limited (2015: £nil).

Notes to the Financial Statements

32. Financial assets and liabilities

| Group | 2016 £'000 | 2015 £'000 |
|-------------------------------------------------------------------------------|-----------------|-----------------|
| Categories of financial assets and liabilities | | |
| Financial assets that are debt instruments measured at amortised cost | 20,151 | 24,529 |
| Financial assets that are equity instruments measured at cost less impairment | 1 | 1 |
| Financial liabilities measured at amortised cost | <u>(92,000)</u> | <u>(95,244)</u> |
| | <u>(71,848)</u> | <u>(70,714)</u> |

The association's policy on financial instruments and managing financial risk are explained in the Report of the Board.

Cash, loans receivable and debtors are categorised as financial assets measured at amortised cost. Details of these balances can be found in notes 19 and 20.

The financial asset held at cost less impairment relates to the shareholding in Woodside Land Holdings Limited. Further details can be found in note 16.

Financial liabilities held at amortised cost are the association's debt and creditors. Details behind the debt instrument conditions, interest charges and repayment terms can be found in note 25.

33. Post balance sheet events

Since the balance sheet date Thirteen Housing Group has commenced a review of its governance structure to ensure it is as structured and resourced as efficiently as possible. Having five separate landlord companies within the group increases bureaucracy and duplication and is not considered an effective use of money and resources. The HCA is increasingly keen to see that groups offer streamlined, less complicated and less risky structures to drive efficiencies and value for money and enable more effective risk management.

There are a number of benefits associated with implementing a revised group structure. These include the ability to release and make best use of funding capacity, maximising resources and services across the group, limiting the need for recharges between companies and ensuring we are ready to collaborate on future opportunities in the area.

Savings can be realised by reducing the number of boards and board directors across the group. However, the greatest benefit of revising the structure will be the ability to release borrowing capacity across the group. The Thirteen group currently has four registered providers which means four sets of assets and four sets of loan covenants, each with a different capacity for borrowing.

Thirteen is therefore proposing to deliver social housing lettings and associated activities through one landlord in future. The impact of the revised group structure on Tees Valley is not yet fully understood, but it is possible that the association will no longer be an asset owning registered provider of social housing.

The restructure will require the approval of stakeholders including lenders and local authorities and consultation with tenants and other parties. Together with the legal process, this is likely to take a number of months to complete and the current expectation is that the new structure will be in place by 1 April 2017.

Notes to the Financial Statements

34. Transition to FRS 102

The association has adopted FRS 102 for the year end 31 March 2016 and has restated the comparative prior year amounts.

Explanations of changes for FRS 102 adoption

- i. SHPS Pension and Pensions Trust Growth Plan**
Under section 28 the association is now required to recognise the net present value of any contractual agreements to make additional payments for a past deficit. This has been recognised under provisions.
- ii. Government grants**
Under section 24 government grants must be accounted for using either the performance model or the accrual model. The Housing SORP 2014 states that social landlords that account for their properties at cost must adopt the accrual model. As the association has opted to revert to historic cost when accounting for its housing properties the accrual model applies at the point of transition and government grants, net of amortisation, have been credited to deferred income.
- iii. Revaluation of housing properties**
The association has opted to account for its housing properties at historic cost. The revaluation reserve at the point of transition has been removed and the revaluation adjustment for 2014/15 has been reversed.
- iv. Depreciation**
Depreciation has been recalculated before the deduction of government grants creating an additional charge.
- v. Amortisation of government grants**
With effect from the transition date the accrual model has been adopted for the treatment of government grants. Government grants are included in creditors and amortised over the useful economic life of the property to which they relate.
- vi. Classification of housing properties**
The association holds a number of non-social housing properties that it judges to be investment properties under FRS 102. These properties have been valued at their market value and there is an unrealised gain arising on transition.
- vii. Holiday pay accrual**
An accrual is now made for entitlement to holiday which has not been taken at the year-end. This has been calculated based on a sample of employees' holiday cards using average pay costs.
- viii. Additional parent company recharge**
Additional costs in Thirteen arising from the adoption of FRS 102 are passed on to the landlord partners.

Notes to the Financial Statements

34. Transition to FRS 102

Restated consolidated statement of financial position

| | Revenue Reserve | | Revaluation Reserve | | |
|------|-------------------------------------------------------------|---------------|---------------------|--------------|----------|
| | 31 | | 31 | | |
| | March 2015 | 1 April 2014 | March 2015 | 1 April 2014 | |
| | £'000 | £'000 | £'000 | £'000 | |
| | Original reserves | 64,675 | 61,712 | 27,273 | 28,523 |
| i | SHPS past deficit obligation | (2,325) | (2,398) | - | - |
| ii | Historic grant adjustment | 221 | - | - | - |
| iii | Remove revaluation reserve - convert to historic cost | 17,151 | 17,151 | (28,523) | (28,523) |
| iii | Remove the revaluation adjustment in 14/15 | (646) | - | 770 | - |
| iii | Remove transfers between revaluation and revenue reserves | (480) | - | 480 | - |
| iv | Additional depreciation charge on gross cost | (9,162) | (9,162) | - | - |
| v | Amortised government grant | 999 | - | - | - |
| vi | Unrealised gain on the revaluation of investment properties | 1,093 | 1,093 | - | - |
| vii | Accrual for holiday pay | (3) | (20) | - | - |
| viii | Parent company additional recharge | (17) | - | - | - |
| | | <u>71,506</u> | <u>68,376</u> | <u>-</u> | <u>-</u> |

Restated association statement of financial position

| | Reserve | | Reserve | | |
|------|-------------------------------------------------------------|---------------|---------------|--------------|----------|
| | 31 | | 31 | | |
| | March 2015 | 1 April 2014 | March 2015 | 1 April 2014 | |
| | £'000 | £'000 | £'000 | £'000 | |
| | Original reserves | 64,523 | 61,566 | 27,273 | 28,523 |
| i | SHPS past deficit obligation | (2,325) | (2,398) | - | - |
| ii | Historic grant adjustment | 221 | - | - | - |
| iii | Remove revaluation reserve - convert to historic cost | 17,151 | 17,151 | (28,523) | (28,523) |
| iii | Remove the revaluation adjustment in 14/15 | (646) | - | 770 | - |
| iii | Remove transfers between revaluation and revenue reserves | (480) | - | 480 | - |
| iv | Additional depreciation charge on gross cost | (9,162) | (9,162) | - | - |
| v | Amortised government grant | 999 | - | - | - |
| vi | Unrealised gain on the revaluation of investment properties | 1,093 | 1,093 | - | - |
| vii | Accrual for holiday pay | (3) | (20) | - | - |
| viii | Parent company additional recharge | (17) | - | - | - |
| | | <u>71,354</u> | <u>68,230</u> | <u>-</u> | <u>-</u> |

Notes to the Financial Statements

34. Transition to FRS 102

Consolidated restated comprehensive income for the year ended 31 March 2015

| | 2015 £'000 | Recognised in: |
|--------------------------------------------------------------------------------|---------------------|----------------------------|
| Original total recognised surpluses relating to the year | 1,713 | |
| i SHPS deficit - Interest expense | (67) | Interest payable |
| i SHPS deficit - remeasurements - impact of any change in assumptions | (112) | Other comprehensive income |
| i SHPS deficit contributions - charged against provision | 252 | Operating expenditure |
| ii Transfer previously amortised capital grant to RCGF on disposal | (31) | P/L on sale of assets |
| ii Reclassify in-year grant addition | (110) | Cost of sales |
| ii Reverse posting to RCGF that went directly to reserves | 221 | |
| iii Removal of revaluation surplus | 770 | |
| iii Adjust carrying value of housing property disposal to NBV at historic cost | 32 | P/L on sale of assets |
| iv Additional depreciation charge | (537) | Operating costs |
| v Amortised government grant | 999 | Turnover |
| vii Movement in holiday pay accrual | 17 | Operating costs |
| viii Additional parent company recharge | (17) | Operating costs |
| | <u>1,417</u> | |
| Restated total comprehensive income for the year | <u>3,130</u> | |

Association restated comprehensive income for the year ended 31 March 2015

| | 2015 £'000 | Recognised in: |
|--------------------------------------------------------------------------------|---------------------|----------------------------|
| Original total recognised surpluses relating to the year | 1,707 | |
| i SHPS deficit - Interest expense | (67) | Interest payable |
| i SHPS deficit - remeasurements - impact of any change in assumptions | (112) | Other comprehensive income |
| i SHPS deficit contributions - charged against provision | 252 | Operating expenditure |
| ii Transfer previously amortised capital grant to RCGF on disposal | (31) | P/L on sale of assets |
| ii Reclassify in-year grant addition | (110) | Cost of sales |
| ii Reverse posting to RCGF that went directly to reserves | 221 | |
| iii Removal of revaluation surplus | 770 | |
| iii Adjust carrying value of housing property disposal to NBV at historic cost | 32 | P/L on sale of assets |
| iv Additional depreciation charge | (537) | Operating costs |
| v Amortised government grant | 999 | Turnover |
| vii Movement in holiday pay accrual | 17 | Operating costs |
| viii Additional parent company recharge | (17) | Operating costs |
| | <u>1,417</u> | |
| Restated total comprehensive income for the year | <u>3,124</u> | |

Notes to the Financial Statements

35. Ultimate parent undertakings and controlling party

The ultimate parent undertaking and controlling party is Thirteen Housing Group Limited, a company limited by guarantee and a registered provider incorporated in the UK.

Thirteen Housing Group Limited is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2016. The consolidated financial statements are available from the group's registered office at Northshore, North Shore Road, Stockton-on-Tees, TS18 2NB.