



Registered Company Number: 04373638
HCA Registration Number: L4622

TRISTAR HOMES LIMITED

Annual Report and Financial Statements

Year Ended 31 March 2016

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Board Directors, Executive Directors, Advisors and Bankers

Registered Numbers

| | |
|--|----------|
| Registered as a company limited by guarantee | 04373638 |
| Registered by the Homes and Communities Agency | L4622 |
| Registered Charity | 1138807 |

Registered Office

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

Board

Chair Mark Simpson

Other Members
Steve Nelson
Tina Large (to 10 June 2015)
Norma Stephenson O.B.E. (to 10 June 2015)
Paul Thomas (to 26 January 2016)
Michelle Bendelow (to 29 May 2015)
Denise Ross
Glen Rudd
Neil Pattison
Paul Rowling (from 10 June 2015)

Lead Executive David Pickard

Company Secretary Linda Minns

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

Royal Bank of Scotland
North East Corporate Office
2nd Floor Keel Row House
1 Sandgate
Quayside
Newcastle upon Tyne
NE1 2NG

Directors' Report

The directors of Tristar Homes Limited are pleased to present their report together with the audited financial statements of Tristar Homes Limited for the year ended 31 March 2016.

Corporate Structure

Tristar Homes Limited ('the company', 'Tristar Homes') is a company limited by guarantee, a charity registered with the Charity Commission and a registered provider of social housing with the Homes and Communities Agency (HCA).

During the financial year the company 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 of social housing with the HCA.

Although Tristar Homes 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 Tristar Homes is contained in the consolidated financial statements of Thirteen Housing Group Limited.

Principal Activities and Geographical Focus

The key activities undertaken by Tristar Homes are:

- Provision of general needs affordable rented homes
- Extra care housing for the elderly and those with related support needs
- Leasehold management
- Regeneration and development of new properties
- Provision of repairs and maintenance services
- Money advice and employability services

Directors' Report

Tristar Homes holds housing stock in the local authority areas detailed below:

| Local Authority | 31/03/2016 | 31/03/2015 |
|------------------------|--------------------------|--------------------------|
| | No. of properties | No. of properties |
| Darlington | 36 | 36 |
| Durham | 17 | 17 |
| Gateshead | 28 | 28 |
| Middlesbrough | 136 | 82 |
| Redcar | 36 | 20 |
| Stockton | 9,784 | 9,922 |
| Sunderland | 19 | 19 |
| Total | 10,056 | 10,124 |

**Source: National Register of Social Housing (NROSH+) data 2016 and 2015. Data includes stock we have on a lease where for NROSH purposes we are classifying as owning.*

Board Directors and Lead Executive

The board directors and the executive director of the company who were in office during the year and up to the date of signing the financial statements are set out on page two. Board directors 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 two nominees from Stockton Borough Council, two tenants, three independents (selected for their specific skills) and one lead executive director.

The lead executive for Tristar Homes is David Pickard, Thirteen's Group Director of Operations. He holds no interest in the company's shares and acts 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 £12,000 (2015: £13,053).

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 lead executive is a member of the Teesside Pension Fund, a defined benefit career average pension scheme. The executive director participates in the scheme on the same terms as all other eligible staff. The company contributes to the scheme on behalf of its employees.

Directors' Report

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 company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

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

The company 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 of Thirteen Housing Group Limited.

Directors' Report

Financial Review

Financial Position

The company's statement of comprehensive income is shown on page 21 of the financial statements, and its statement of financial position as at 31 March 2016 is shown on page 23.

The company 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 of £0.9million (2015 restated: £3.8million) for the financial year ended 31 March 2016. We have continued to invest in our existing housing stock as well as developing new properties during the year.

The company has delivered 87 (2015: 141) new housing units in the financial year. The continued economic difficulties have meant that the company 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, Tristar Homes 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 Tristar Homes meets the requirements set out in the Governance and Financial Viability Standard issuing a G1 grade for governance along with a V1 grade for financial viability, Tristar Homes therefore meets the HCA governance and viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.

Tristar Homes 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 company is also continuing to develop the range of social investment activities it undertakes.

Accounting Policies

The company's principal accounting policies are set out in the notes to the financial statements on pages 24 to 33. Accounting policies have been reviewed and updated for FRS 102 and the Housing SORP 2014: Statement of Recommended Practice for registered housing providers. The impact of the adoption of FRS 102 on the reserves of the group is set out in note 30. 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. Any significant judgements made and estimation uncertainties are also included within the accounting policies note.

Significant Judgements and Estimation Uncertainties

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

Directors' Report

Pension Costs

The company participates in two pension schemes; the Social Housing Pension Scheme (SHPS), and the Teesside Pension Fund (TPF). Both of these are defined benefit schemes offering comparable benefits to staff.

The company has contributed to each scheme, in accordance with the levels set by the scheme actuaries, between 5% and 14.8%. The last full actuarial valuation of the TPF was undertaken at 31 March 2013 and of the SHPS at 30 September 2014.

Details of the actuarial assumptions used for both schemes are shown in note 23 to the financial statements.

Housing Properties

At 31 March 2016, the company owned 10,056 properties and managed a further 300 properties (2015: owned 10,110 and managed 309).

The company has opted to apply the transitional arrangement under FRS 102 whereby the opening balance sheet position at 1 April 2014 states housing property assets at existing use value for social housing (EUV-SH) and this position is frozen and becomes deemed cost. Future additions to housing properties will be stated at historic cost. As at 31 March 2016 the carrying value of housing properties was £183.3million (2015 restated: £180.4million).

Housing properties are valued for loan security purposes (excluding properties under construction) which is reported as £174million (2015: £154million).

There was no housing property impairment adjustment made during the financial year (2015: £3.1million).

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

Other Freehold Land and Buildings

Other freehold land and buildings includes garages, commercial properties and office buildings owned by Tristar Homes.

There was an impairment adjustment of £0.4million made during the financial year (2015: £nil) as a result of a number of garages being earmarked for demolition.

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 the transfer of the surplus for the financial year of £0.9million (2015 restated: £3.8million) at the financial year end, the company's reserves amounted to £122.5million (2015 restated: £119.8million), including a revaluation surplus on housing properties of £113.1million (2015: £115.4million).

Directors' Report

Capital Structure and Treasury Policy

The company has loan facilities in place totalling £87.5million. This consists of a loan facility with the Royal Bank of Scotland.

At the financial year end company borrowings amounted to £63million (2015 restated: £63million) which falls due to be repaid as shown below:

| Maturity | 2016 | 2015 |
|----------------------------|-----------------|------------------------------|
| | £million | restated £million |
| Between one and two years | 2.2 | - |
| Between two and five years | 16.3 | - |
| After five years | 44.5 | 63.0 |
| | <hr/> | <hr/> |
| | 63.0 | 63.0 |
| | <hr/> | <hr/> |

The company 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 company's exposure to interest rate fluctuations. The company's policy is to continue to monitor variable interest rates and to consider additional fixed debt should the 3 month LIBOR variable rate reach 3.5%. At the financial year end 48% of the company's borrowings were at fixed rates with no cancellable fixed rates (2015: 48%).

The fixed rates of interest, excluding the margin, range from 5.76% to 6.32% which compares to the current market, where comparable fixed rates are around 3.2% (2015: 4%).

Gearing, calculated as total loans as a percentage of total assets less current liabilities, was 31% as at 31 March 2016 (2015 restated: 31%) with no new loans being drawn during the financial year. Gearing is expected to remain constant over the next 12 months with finance for new developments coming from loans, capital grants and the revenue surplus.

The company's lending agreements require compliance with a number of financial and non-financial covenants. The company's position is monitored on an ongoing basis and reported to the board each quarter. The most recent report confirmed that the company was in compliance with its loan covenants at the balance sheet date and the board expects the company to remain compliant for the foreseeable future.

The company has cash and investment balances of £7.9million at 31 March 2016 (2015: £11.4million) and the current ratio stands at 123% (2015 restated: 162%). The company monitors cash flow forecasts closely to ensure that sufficient funds are available to meet liabilities when they fall due, while 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 826 new properties over the next seven years at a total cost of £89million. This investment will be funded from new borrowings, social housing grant from the Homes and Communities Agency along with internally generated surplus. Undrawn loan facilities of £24.5million are available under existing arrangements.

Directors' Report

A full stock condition survey of the company's housing stock was carried out in 2013. The survey is reviewed annually and used to update the 30 year business plan. The company plans to invest £16.8million in its major repairs programme during the 2016/17 financial year, of which £8.9million will be capital expenditure.

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

Operational and Financial Performance

Directors monitor the financial performance of the company 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 increased during the year, with the year-end position being 3.2% (3.7% including housing benefit) of rent receivable (2015: 2.65% and 2.9%). This was not unexpected, and is mainly due to the changes in the welfare system, and the introduction of a new housing management system which took some time to be fully operational. We are also experiencing a reluctance by the courts to support the recovery process, with more than 50% of warrants applied for during the year being suspended. On a more positive note, 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 reducing from 442 at 31 March 2015 to 357 at 31 March 2016. This reduction is partly due to the demolition of long-term voids in regeneration areas, but lettable voids have fallen from 333 to 226 during the year which was a better result than target. Problematic areas continue to be the number of shared ownership and outright sale units that remain unsold, a number of unpopular estates that are proving hard to let, high-rise blocks that can be an expensive option for tenants due to service charges and properties that are under option appraisal. End-to-end re-let times have increased from 59 to 77 days in the year. 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 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 99.5% with 49 safety checks outstanding, mainly due to issues with access and 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.

Tristar Homes received 254 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

Directors' Report

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 three queries via the Housing Ombudsman of which two are still outstanding.

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.

| Tristar Homes | 2016 | Global benchmark 2015 | 2015 | 2014 | 2013 | 2012 |
|------------------------------------|--------|-----------------------|--------|--------|--------|--------|
| Management costs £/unit | £518 | £972 | £596 | £676 | £967 | £904 |
| Maintenance costs £/unit | £1,048 | £1,018 | £1,070 | £948 | £920 | £1,109 |
| Void losses % of debit | 3.1% | 1.6% | 5.3% | 2.0% | 1.5% | 2.0% |
| Bad debts % of debit | 2.2% | 0.8% | 0.5% | 0.5% | 2.0% | 3.9% |
| Current tenant arrears % of debit | 3.7% | 4.2% | 2.9% | 2.9% | 4.7% | 6.5% |
| Operating margin | 6.4% | 28.8% | 16.0% | -2.7% | -10.1% | 17.3% |
| Growth in turnover | 3.9% | 5.0% | 4.0% | 4.4% | 10.7% | 47.0% |
| Growth in total assets | 4.2% | 7.6% | 14.5% | 0.5% | -0.5% | 8.4% |
| Gearing (historic cost) | 667.5% | 214.0% | -37.3% | -10.5% | 86.6% | 32.7% |
| Debt per social housing unit £ | £6,072 | £18,413 | £5,129 | £3,864 | £993 | £390 |
| Effective interest rate (year-end) | 4.1% | 4.5% | 3.7% | 3.9% | 6.9% | 7.3% |

* The Global Benchmark is taken from the 2015 Global Accounts of Housing Providers and is the mean cost across all LSVT 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.

Tristar Homes has seen a significant reduction in management costs over the past two years and the cost per unit compares extremely favourably with the 2015 mean cost of other large scale voluntary transfer (LSVT) landlords. This reflects ongoing efficiencies made as a result of the formation of Thirteen.

Maintenance costs have reduced in the year following the setting of challenging budgets and close monitoring of spend. However costs are still higher than the global benchmark partly due to a higher spend per property on void repairs arising from the declining state at which many properties are handed back. Additional repair costs have also been incurred because more repairs have been given to contractors when there have been some operational difficulties with the new housing management system, as well an instance of industrial action when implementing new terms and conditions for Thirteen. Further reductions in cost are budgeted for 2016/17.

Directors' Report

Void loss has decreased during the year from a higher than desired level in 2015, mainly due to the demolition of properties in regeneration areas. However voids losses are still higher than other LSVTs in 2015, reflecting the challenging operating conditions we are currently facing. Reasons for the increase and measures we are taking to address this are explained more fully earlier in this report.

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 1.13% of the debit. We continue to review the method of calculating the bad debt provision in line with the requirements of FRS 102.

Current tenant arrears appear to be significantly higher than 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 3.2%.

Operating margin has reduced and is lower than other LSVTs, despite an increase in turnover. This is down to the amount of major repairs expensed in the year of £17million. As Tristar Homes is a relatively recent LSVT, it is not as far through its programme of improvement works than longer established social landlords. This major investment in properties is one of our primary objectives.

Total assets have increased less than in previous years due to the statement of properties at cost under FRS 102. The increase is mainly due to additions to housing properties and other fixed assets.

Gearing, measured as loans as a proportion of grants and reserves (excluding the revaluation reserve), appears extremely high as Tristar Homes is carrying out a stock improvement programme fully funded by debt. In the early years LSVTs are more likely to return a deficit and report negative balances on reserves. These factors result in higher gearing ratios than the rest of the sector.

Debt per unit has remained steady with no new borrowing being drawn during the year. The effective interest rate remains low compared to the benchmark reflecting the favourable market conditions at the point at which the rates were fixed.

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 company 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 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 |
|------------------|------|------------------------|---------------|--------|-------|------|
| Tristar Homes | 1.6% | 5.4% | 3.9% | (0.6%) | -2.8% | 5.0% |

* The global benchmark is taken from the 2015 Global Accounts of Housing Providers and is the mean cost across all LSVT 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 reduced to 1.6% in 2016 (2015 restated 3.6%), this figure being significantly below the 2015 sector average benchmark.

The decrease in ROA in the year, resulted mainly from an increase of £6.7million in major repairs expenditure charged to the statement of comprehensive income in 2016. However, it should be noted that in cash terms there was actually a decrease in major repairs expenditure in 2016, as in 2015 £17million of expenditure was capitalised (added to property assets in the statement of financial position rather than being charged to the statement of comprehensive income). Had that not been the case there would have been an increase in ROA in 2016 and we expect that the ROA will increase in future years when the level of investment reduces to long term investment levels.

With the introduction of FRS 102 for the 2016 financial statements, a number of changes have occurred, including now holding housing properties at cost (previously held at valuation). 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 |
|--------------------------------------|-------------|-------------|-----------------|
| | £ | £ | % |
| Tristar Homes | 16,151 | 14,913 | 8.3% |

As can be seen from the table above, the value of our housing properties has increased over the past year by 8.3%, which reflects both the investment in our existing properties, along with the development of new quality homes.

Tristar Homes' average property value in 2016 is the lowest within the group, reflecting that it is the most recently formed of the group's LSVT landlords and still undertaking significant investment in its existing housing stock.

The average property value of £16,151 compares well against the debt per unit of £6,072 showing that there is capacity within the company 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 Tristar Homes and those of the other registered providers within Thirteen 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>.

Directors' Report

Financial Risk Management Objectives and Policies

The company 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 company's operations.

The existence of these financial instruments exposes the company to a number of financial risks. The main risks arising from the company'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 company borrows and lends only in sterling and so is not exposed to currency risk.

Interest rate risk

The company finances its operations through a mixture of retained surpluses and bank borrowings. The company's exposure to interest fluctuations is managed by the use of both fixed and variable rate facilities, which have been set out on page 8 of this report.

Liquidity risk

The company 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 22. In addition to drawn borrowings the company has £24.5million of undrawn committed facilities (2015: £24.5million).

Counterparty risk

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

Going Concern

The company'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 company has in place long-term debt facilities, including £24.5million of undrawn facilities at 31 March 2016, which provide adequate resources to finance committed reinvestment and development programmes along with the company'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 government manifesto also includes a commitment to extend the right to buy scheme to registered providers which will also have an impact on our business in future.

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 company shows that it is able to service its debt facilities whilst continuing to comply with lender's covenants.

On this basis, the board has a reasonable expectation that the company has sufficient resources to continue in operational existence for the foreseeable future, being a period of 12 months after

Directors' Report

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.

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 Group's 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 are owned and regularly reviewed by each directorate's senior management team and are 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;

Directors' Report

- 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, award of housing and employment to staff and close relatives, payroll overpayments, data protection breaches and whistleblowing incidents;
- 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 to 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 Group 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

Tristar Homes 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 Directors' Responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

In accordance with section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Annual General Meeting

The annual general meeting will be held on 6 September 2016.

Directors' Report

Independent Auditors

PricewaterhouseCoopers LLP continue their term as independent auditors for Tristar Homes.

The directors' report was approved by the board on 6 September 2016 and signed by order of the board by:

Linda Minns
Company Secretary

Independent Auditors' Report to the Members of Tristar Homes Limited

Report on the financial statements

Our opinion

In our opinion, Tristar Homes Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the registered provider's affairs as at 31 March 2016 and of the registered provider's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing from April 2015.

What we have audited

The financial statements comprise:

- the registered provider statement of financial position as at 31 March 2016;
- the registered provider statement of comprehensive income for the year then ended;
- the registered provider statement 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 directors have 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the registered provider, or returns adequate for our audit have not been received from branches not visited by us; or

Independent Auditors' Report to the Members of Tristar Homes Limited

- the registered provider financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and 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 Chapter 3 of Part 16 of the Companies Act 2006 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 registered provider's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' 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

Independent Auditors' Report to the Members of Tristar Homes Limited

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 (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

- (a) The maintenance and integrity of the Tristar Homes Limited website is the responsibility of the directors; 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.

Statement of Comprehensive Income

Year ended 31 March 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|------|---------------|---------------|
| Turnover | 3 | 46,156 | 44,438 |
| Operating expenditure | 3 | (43,183) | (37,998) |
| Operating surplus | 5 | 2,973 | 6,440 |
| Gain/(loss) on disposal of property, plant and equipment (fixed assets) | 6 | 530 | (367) |
| Interest receivable | 7 | 26 | 20 |
| Interest payable | 8 | (2,100) | (1,884) |
| Other finance costs | 23 | (480) | (457) |
| Surplus on ordinary activities before taxation | | 949 | 3,752 |
| Tax on surplus on ordinary activities | 11 | - | - |
| Surplus for the year | | 949 | 3,752 |
| Actuarial gain/(loss) in respect of pension schemes | 23 | 1,763 | (3,585) |
| Remeasurement loss in respect of pension schemes | 23 | (3) | - |
| Total comprehensive income for the year | | 2,709 | 167 |

The company's results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements on pages 21 to 62 were approved and authorised for issue by the board of directors on 6 September 2016 and signed on its behalf by:

Mark Simpson
Director

Neil Pattison
Director

Statement of Changes in Reserves

Year ended 31 March 2016

| | Income and Expenditure Reserve | Revaluation Reserve | Total Reserves |
|--|--------------------------------------|------------------------|-------------------|
| | £'000 | restated £'000 | restated £'000 |
| Balance as at 1 April 2014 | (231) | 119,239 | 119,008 |
| Correction of prior period error | - | 647 | 647 |
| Surplus for the year | 3,752 | - | 3,752 |
| Other comprehensive income for the year | (3,585) | - | (3,585) |
| Transfer from revaluation reserve to income and expenditure reserve | 4,447 | (4,447) | - |
| Balance as at 1 April 2015 | <u>4,383</u> | <u>115,439</u> | <u>119,822</u> |
| Surplus for the year | 949 | - | 949 |
| Other comprehensive income for the year | 1,760 | - | 1,760 |
| Transfer from revaluation reserve to income and expenditure reserve | 2,329 | (2,329) | - |
| Balance as at 31 March 2016 | <u>9,421</u> | <u>113,110</u> | <u>122,531</u> |

Revaluation reserve

The revaluation reserve relates to the revaluation of housing properties and commercial properties held for letting.

Income and Expenditure reserve

At 31 March 2016 the revenue reserve included £14.7million defined pension's liability (2015 restated: £15.6million).

The company entered into a VAT arrangement with Stockton Borough Council as part of the stock transfer on 13 December 2010, enabling the company to recover VAT on the improvement works it carries out as part of its property investment programme. The revenue reserve includes VAT recovered under this arrangement of £6.0million.

Restated opening balances

There has been a restatement of the opening revaluation reserve as a result of a prior year adjustment relating to the disposal cost of housing properties. The opening balance has increased by £0.6million to £114.8million from £115.4million.

Statement of Financial Position

Year ended 31 March 2016

| | Note | 2016 £'000 | 2015 restated £'000 |
|--|-------|-----------------|---------------------------|
| Fixed assets | | | |
| Tangible fixed assets | 12,13 | <u>200,032</u> | <u>194,107</u> |
| Total fixed assets | | <u>200,032</u> | <u>194,107</u> |
| Current assets | | | |
| Properties held for sale | 14 | 5,274 | 2,991 |
| Stock | 15 | - | 208 |
| Trade and other debtors | 16 | 10,227 | 5,510 |
| Cash and cash equivalents | 17 | <u>7,855</u> | <u>11,474</u> |
| | | 23,356 | 20,183 |
| Creditors: amounts falling due within one year | 18 | <u>(18,507)</u> | <u>(12,439)</u> |
| Net current assets | | <u>4,849</u> | <u>7,744</u> |
| Total assets less current liabilities | | <u>204,881</u> | <u>201,851</u> |
| Creditors: amounts falling due after more than one year | 19 | (67,649) | (66,411) |
| Provisions for liabilities | | | |
| Pension provision | 23 | (14,701) | (15,618) |
| Total net assets | | <u>122,531</u> | <u>119,822</u> |
| Capital and reserves | | | |
| Income and expenditure reserve | | 9,421 | 4,383 |
| Revaluation reserve | | <u>113,110</u> | <u>115,439</u> |
| Total reserves | | <u>122,531</u> | <u>119,822</u> |

The accompanying notes form part of the financial statements.

The financial statements on pages 21 to 62 were approved and authorised for issue by the board of directors on 6 September 2016 and signed on its behalf by:

Mark Simpson
Director

Neil Pattison
Director

Tristar Homes Limited
Company number 04373638

Notes to the Financial Statements

1. Statement of compliance

Tristar Homes Limited is incorporated in England under the Companies Act 2006 and is registered with the Homes and Communities Agency as a private registered provider of social housing.

The financial statements of the company have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 31 March 2015.

The company 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 30.

2. Accounting policies

Basis of accounting

The financial statements of the company 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), the Companies Act 2006 and the Housing SORP 2014: Statement of Recommended Practice for registered 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 company has adopted FRS 102, the transition date was the 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 company's reserves and 2014/15 comparatives is shown within note 30.

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.

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 income and expenditure account 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.

Notes to the Financial Statements

2. Accounting policies

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

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

The company has in place an agreement with the local authority to improve existing properties. This agreement allows the company to recover VAT on the improvement works to existing properties that fall under the terms of the agreement.

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

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 company 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.

Notes to the Financial Statements

2. Accounting policies

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 company retains the financial risk.

Where the company retains the financial risk, all of the scheme's income and expenditure is included in the company income and expenditure account.

Where the agent carries the financial risk, the income and expenditure account includes only that income and expenditure that relates solely to the company.

Interests in joint ventures

The company 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 company 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 statement of comprehensive income 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 Teesside Pension Fund (TPF) and the Social Housing Pension Scheme (SHPS).

For SHPS it is not possible to identify the company'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 company has agreed to a deficit funding arrangement the company 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.

For the TPF the net scheme asset or liability is recognised in the statement of financial position. The operating costs of providing retirement benefits to participating employees are recognised in the financial years in which the benefits are earned. The related finance costs, and any other changes in fair value of the assets and liabilities are recognised in the financial year in which they arise. The operating costs and finance costs are recognised in the statement of comprehensive income with any other changes in fair value of assets and liabilities being recognised in other comprehensive income.

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.

Notes to the Financial Statements

2. Accounting policies

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.

The company has opted to apply the transitional arrangement available on adoption of FRS 102 whereby the opening balance sheet position at 1 April 2014 states housing property assets at existing use value for social housing (EUV-SH) and this position is frozen and becomes deemed cost.

From 1 April 2014, the company measures additions to existing properties and properties under construction at cost. Cost includes 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.

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% |

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.

Notes to the Financial Statements

2. Accounting policies

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 accounting treatment of housing properties. SHG received to the 1 April 2014 is credited to the statement of comprehensive income when the company has met any performance conditions relating to the receipt of the funding. From the 1 April 2014 SHG 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 statement of comprehensive income 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 statement of comprehensive income. Upon disposal of the associated property, the group is required to recycle these proceeds. A contingent liability is disclosed to reflect this.

Stocks and work-in-progress

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.

Stocks of repair materials are valued at the lower of cost and net realisable value.

Notes to the Financial Statements

2. Accounting policies

Financial instruments

The company has 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 company credits to a disposal proceeds fund 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 company establishes restricted reserves for funds that are subject to external restrictions and must be applied for specific purposes.

Where properties are held at valuation, the difference between the valuation and the carrying value of the housing properties is held in the revaluation reserve.

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 company.

FRS 102 transition options

The company has opted to use a previous GAAP revaluation of fixed assets and use this as its deemed cost at the date of transition.

This option is considered to best reflect the “cost” of the fixed assets at this point in time as the company’s stock transferred the properties for a nominal value and as such deemed cost is considered to be a more appropriate measurement.

Property classifications

The fixed assets within the company 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 all other fixed assets within the company 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

Notes to the Financial Statements

2. Accounting policies

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.

Agreement to improve existing properties

The company entered into an agreement to purchase improved properties from the local authority and, at the same time, entered into a sub-contracting agreement to carry out those improvements on behalf of the local authority for a fixed sum established in advance.

The impact of these two transactions is that, whilst the local authority has a legal obligation to the company to complete the refurbishment works, this work has been contracted back to the company which is also legally obligated.

The underlying substance of the transaction is therefore that the company has acquired the properties in their existing condition at their agreed value, and will complete certain repairs and improvements in line with the legal agreement.

In the opinion of the directors, the commercial effect of these transactions, when viewed as whole, does not in practice create separate assets and liabilities for reporting purposes. Therefore the resulting debit and credit balances relating to the legal obligation of the council to complete the refurbishment works for the company and the equal and opposite legal obligation of the company to perform the refurbishment works for the council have been offset, and are not recorded in the balance sheet.

Revaluation reserve

In the absence of asset-specific historical accounting records we have calculated the movement between the revaluation reserve and the income and expenditure reserve relating to asset disposals and depreciation in the following way: the revaluation balance at 31 March 2015 was apportioned over all existing assets, at deemed cost, at that date and this apportionment value is used to calculate the movement between reserves. The adjustment is calculated in line with the useful economic life of the structure component. The effect of this adjustment is that as the structure depreciates, the revaluation reserve apportioned to it reduces at the same rate.

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. These decisions were made based on the assumptions made in the most recent stock condition surveys, adjusted for any material departures ascertained from historic knowledge. Property depreciation charged in 2015/16 was £2.3million (2015 restated: £2.2million).

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 16.

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 23 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.

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/(deficit)

Continuing activities

| | 2016 | | | Operating surplus/ (deficit) £'000 |
|--|---------------|---------------|-----------------|--|
| | Turnover | Cost of sales | Operating costs | |
| | £'000 | £'000 | £'000 | |
| Social housing lettings | 43,130 | - | (39,324) | 3,806 |
| Other social housing activities | | | | |
| First tranche low cost home ownership sales | 1,107 | (841) | - | 266 |
| Supporting people contract income | 17 | - | (180) | (163) |
| Charges for support services | 2 | - | (24) | (22) |
| Development costs not capitalised | - | - | (236) | (236) |
| Management services | - | - | (13) | (13) |
| Regeneration activities | 7 | - | (1,260) | (1,253) |
| Other | 1,134 | - | (376) | 758 |
| | <u>2,267</u> | <u>(841)</u> | <u>(2,089)</u> | <u>(663)</u> |
| Activities other than social housing activities | | | | |
| Lettings | 590 | - | (196) | 394 |
| Impairment of non-social housing assets | - | - | (435) | (435) |
| Management services | - | - | - | - |
| Restructuring costs | - | - | (288) | (288) |
| Other | 169 | - | (10) | 159 |
| | <u>759</u> | <u>-</u> | <u>(929)</u> | <u>(170)</u> |
| | <u>46,156</u> | <u>(841)</u> | <u>(42,342)</u> | <u>2,973</u> |

Notes to the Financial Statements

3. Particulars of turnover, cost of sales, operating expenditure and operating surplus/(deficit)

Continuing activities

| | 2015 | | | |
|--|---------------|---------------|-----------------|-----------------------------|
| | Turnover | Cost of sales | Operating costs | Operating surplus/(deficit) |
| | £'000 | £'000 | £'000 | £'000 |
| Social housing lettings | 42,435 | - | (35,558) | 6,877 |
| Other social housing activities | | | | |
| Current asset property sales | 558 | (351) | - | 207 |
| Charges for support services | - | - | (19) | (19) |
| Development costs not capitalised | - | - | (174) | (174) |
| Management services | - | - | (91) | (91) |
| Regeneration activities | 33 | - | (886) | (853) |
| Other | 619 | - | (380) | 239 |
| | <u>1,210</u> | <u>(351)</u> | <u>(1,550)</u> | <u>(691)</u> |
| Activities other than social housing activities | | | | |
| Lettings | 614 | - | (31) | 583 |
| Management services | (1) | - | - | (1) |
| Restructuring costs | - | - | (541) | (541) |
| Other | 180 | - | 33 | 213 |
| | <u>793</u> | <u>-</u> | <u>(539)</u> | <u>254</u> |
| | <u>44,438</u> | <u>(351)</u> | <u>(37,647)</u> | <u>6,440</u> |

Notes to the Financial Statements

3. Particulars of turnover, cost of sales, operating expenditure and operating surplus/(deficit)

Particulars of income and expenditure from social housing lettings

| | General needs housing £'000 | Supported housing and housing for older people £'000 | Low cost home ownershi p £'000 | 2016 Total £'000 | 2015 Total £'000 |
|---|--------------------------------------|--|--|------------------------|------------------------|
| Rent receivable net of identifiable service charges | 41,563 | 634 | 51 | 42,248 | 41,313 |
| Service charge income | 833 | 16 | 3 | 852 | 1,118 |
| Amortised government grants | 30 | - | - | 30 | 4 |
| Turnover from social housing lettings | 42,426 | 650 | 54 | 43,130 | 42,435 |
| Management | (5,235) | (109) | (23) | (5,367) | (6,323) |
| Service charge costs | (2,511) | (152) | (4) | (2,667) | (2,067) |
| Routine maintenance | (9,457) | (29) | (6) | (9,492) | (9,417) |
| Planned maintenance | (1,359) | (2) | (1) | (1,362) | (1,733) |
| Major repairs expenditure | (16,788) | (149) | (68) | (17,005) | (10,274) |
| Bad debts | (937) | (9) | (4) | (950) | (203) |
| Depreciation | (2,446) | (24) | (11) | (2,481) | (2,462) |
| Impairment | - | - | - | - | (3,079) |
| Operating costs on social housing lettings | (38,733) | (474) | (117) | (39,324) | (35,558) |
| Operating surplus on social housing lettings | 3,693 | 176 | (63) | 3,806 | 6,877 |
| Void losses | (1,369) | (27) | - | (1,396) | (1,187) |

Particulars of turnover from non-social housing lettings

| | 2016 £'000 | 2015 £'000 |
|---------------------------|---------------|---------------|
| Non-social housing | | |
| Commercial units | 199 | 188 |
| Garages | 391 | 426 |
| | <u>590</u> | <u>614</u> |

Notes to the Financial Statements

4. Accommodation in management and development

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

| | 2016 | 2015 |
|---|-------------------|-------------------|
| | No. of | No. of |
| | properties | properties |
| Social housing | | |
| General housing | | |
| - social rent | 8,621 | 8,922 |
| - affordable rent | 1,274 | 1,059 |
| Supported housing and housing for older people | 114 | 85 |
| Low cost home ownership | 47 | 44 |
| Total owned | <u>10,056</u> | <u>10,110</u> |
| General housing managed for others | 9 | 9 |
| Leasehold properties | 291 | 300 |
| Total owned and managed | <u>10,356</u> | <u>10,419</u> |
| Other property types | | |
| Commercial units | 56 | 60 |
| Garage sites | 255 | 297 |
| Leased garages | 1,501 | 1,494 |
| Non-social housing leasehold | - | 12 |
| Total owned and managed | <u>1,812</u> | <u>1,863</u> |
| Accommodation in development at the year end | <u>226</u> | <u>214</u> |

Notes to the Financial Statements

5. Operating surplus

| | 2016 £'000 | 2015 £'000 |
|---|-------------------|-------------------|
| This is arrived after charging: | | |
| Depreciation of social housing properties | 2,268 | 2,159 |
| Impairment of housing properties | - | 3,079 |
| Depreciation of other tangible fixed assets | 501 | 302 |
| Impairment of other tangible fixed assets | 435 | - |
| Operating lease rentals | | |
| - Land and buildings | 152 | 116 |
| - Office equipment and computers | - | 3 |
| - Motor vehicles | - | 150 |
| | <u> </u> | <u> </u> |

Audit fees of £105,950 (2015: £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. Gain/(loss) on disposal of property, plant and equipment (fixed assets)

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|-------------------|-------------------|
| Housing properties | | |
| Disposal proceeds | 1,412 | 1,468 |
| Repayable to the local authority | (280) | (269) |
| Carrying value of fixed assets | (662) | (1,425) |
| | <u> </u> | <u> </u> |
| | 470 | (226) |
| Disposal proceeds fund (note 21) | - | (141) |
| | <u> </u> | <u> </u> |
| | 470 | (367) |
| | <u> </u> | <u> </u> |
| Other tangible fixed assets | | |
| Disposal proceeds | 95 | - |
| Carrying value of fixed assets | (35) | - |
| | <u> </u> | <u> </u> |
| | 60 | - |
| | <u> </u> | <u> </u> |

Notes to the Financial Statements

7. Interest receivable

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Interest receivable and similar income | 26 | 20 |
| | <u>26</u> | <u>20</u> |

8. Interest payable

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Loans and bank overdrafts | 2,565 | 2,304 |
| | <u>2,565</u> | <u>2,304</u> |
| Interest payable capitalised on housing properties under construction | (465) | (420) |
| | <u>2,100</u> | <u>1,884</u> |
| Average interest rate used to determine the amount of finance costs capitalised during the financial year | <u>3.92%</u> | <u>3.89%</u> |

Notes to the Financial Statements

9. Employees

| Average monthly number of employees: | 2016 Number | 2015 Number |
|--|------------------------|------------------------|
| Housing, support and care | 119 | 249 |
| | <u>119</u> | <u>249</u> |
| Expressed as full time equivalents: | 2016 Number | 2015 Number |
| Housing, support and care | 110 | 232 |
| | <u>110</u> | <u>232</u> |
| The full time equivalent number of staff who received emoluments: | 2016 Number | 2015 Number |
| £70,001 to £80,000 | - | 1 |
| | <u>-</u> | <u>1</u> |
| Employee costs: | 2016 £'000 | 2015 £'000 |
| Wages and salaries | 2,899 | 7,291 |
| Social security costs | 194 | 509 |
| Other pension costs | 223 | 730 |
| | <u>3,316</u> | <u>8,530</u> |
| Restructuring costs | 288 | 541 |
| | <u>3,604</u> | <u>9,071</u> |

Other pension costs exclude current service costs accounted for under Section 28 of FRS 102. These service costs amounted to £363k for the financial year (2015 restated: £166k).

Past service deficits payments to the Teesside Pension Fund are also excluded. These payments amount to £267k for the financial year (2015: £267k).

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

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. David Pickard, Group Director of Operations, is the lead executive director for Tristar Homes Limited.

No emoluments were paid directly by Tristar Homes 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 non-executive directors amounted to £12,000 (2015: nil).

11. Tax on surplus on ordinary activities

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Current tax | | |
| UK corporation tax on surplus for the year | - | - |

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% (2015: 21%).

The differences are explained below:

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Surplus on ordinary activities before taxation | 949 | 3,752 |
| Tax on profit at standard UK tax rate of 20% (2015: 20%) | 190 | 750 |
| Effects of: | | |
| Non-taxable income | (190) | (750) |
| Total tax charge for the year | - | - |

Factors that may affect future tax charges

On the basis that future income and gains will be applied for charitable purposes, the company should fall within the tax exemptions available to charitable entities.

Notes to the Financial Statements

12. Tangible fixed assets – housing properties

| | Social housing properties held for letting restated £'000 | Housing properties for lettings under construction restated £'000 | Completed shared ownership housing properties restated £'000 | Shared ownership properties under construction restated £'000 | Total housing properties restated £'000 |
|--|---|---|--|---|---|
| Cost | | | | | |
| At 1 April 2015 | 152,630 | 27,327 | 2,077 | 3,537 | 185,571 |
| Reclassifications | 1,009 | - | (1,009) | - | - |
| Additions | - | 9,944 | - | 2,228 | 12,172 |
| Works to existing properties | 3,561 | (6,859) | - | - | (3,298) |
| Interest capitalised | - | 375 | - | 90 | 465 |
| Schemes completed | 5,493 | (5,493) | 46 | (46) | - |
| Disposals | (726) | - | - | - | (726) |
| Transfers (to)/from current assets | 2,296 | (3,968) | 202 | (1,936) | (3,406) |
| At 31 March 2016 | 164,263 | 21,326 | 1,316 | 3,873 | 190,778 |
| Accumulated depreciation and impairment | | | | | |
| At 1 April 2015 | 5,211 | - | 1 | - | 5,212 |
| Depreciation charged in year | 2,261 | - | 7 | - | 2,268 |
| Depreciation released on disposal | (23) | - | - | - | (23) |
| At 31 March 2016 | 7,449 | - | 8 | - | 7,457 |
| Net book value | | | | | |
| At 31 March 2016 | 156,814 | 21,326 | 1,308 | 3,873 | 183,321 |
| At 31 March 2015 | 147,419 | 27,327 | 2,076 | 3,537 | 180,359 |

There has been a restatement of the opening revaluation reserve as a result of a prior year adjustment relating to the disposal cost of housing properties. The opening balance has increased by £0.6million to £114.8million from £115.4million.

There has also been an adjustment to the opening balance of cost at 1 April 2015 between social housing properties held for letting and housing properties for letting under construction, due to the reclassification of work in progress to works to existing properties.

Transitional arrangements

The company has opted to apply the transitional arrangement whereby the opening balance sheet position at 1 April 2014 states housing property assets at existing use value for social housing (EUV-SH) and this position is frozen and becomes deemed cost.

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 | 6,323 | 4,354 |
| Amounts charged to income and expenditure | <u>1,776</u> | <u>1,746</u> |
| | <u><u>8,099</u></u> | <u><u>6,100</u></u> |

Housing properties book value, net of depreciation

| | 2016 | 2015 |
|-----------------------------|-----------------------|-----------------------|
| | £'000 | £'000 |
| Freehold land and buildings | <u>183,321</u> | <u>179,712</u> |
| | <u><u>183,321</u></u> | <u><u>179,712</u></u> |

Expenditure on works to existing properties

| | 2016 | 2015 |
|---|----------------------|----------------------|
| | £'000 | £'000 |
| Components capitalised to property assets | (3,298) | 17,191 |
| Components capitalised to other fixed assets | 1,857 | - |
| Amounts charged to income and expenditure account | <u>17,005</u> | <u>10,274</u> |
| | <u><u>15,564</u></u> | <u><u>27,465</u></u> |

Impairment

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

No impairment provision was made in 2016 (2015: £3.1million).

Notes to the Financial Statements

13. Other fixed assets

| | Freehold land and buildings £'000 | Furniture Fittings and ICT / Office equipment £'000 | Other plant and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|--|--|---|--|----------------------------|----------------|
| Cost or valuation | | | | | |
| At 1 April 2015 | 12,016 | 2,201 | 249 | 550 | 15,016 |
| Additions | 1,133 | 2,801 | - | - | 3,934 |
| Disposals | (36) | - | - | - | (36) |
| At 31 March 2016 | 13,113 | 5,002 | 249 | 550 | 18,914 |
| Accumulated depreciation and impairment | | | | | |
| At 1 April 2015 | 78 | 922 | - | 268 | 1,268 |
| Depreciation charged in year | 116 | 275 | - | 110 | 501 |
| Impairment charge in year | 435 | - | - | - | 435 |
| Depreciation released on disposal | (1) | - | - | - | (1) |
| At 31 March 2016 | 628 | 1,197 | - | 378 | 2,203 |
| Net book value | | | | | |
| At 31 March 2016 | 12,485 | 3,805 | 249 | 172 | 16,711 |
| At 31 March 2015 | 11,938 | 1,279 | 249 | 282 | 13,748 |

The company has opted to apply the transitional arrangement whereby the opening balance sheet position at 1 April 2014 states commercial properties for letting at existing use value for social housing (EUV-SH) and this position is frozen and becomes deemed cost.

Other freehold land and buildings are stated at historic cost.

Impairment

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

An impairment provision of £435k was made in 2016 (2015: £nil).

Notes to the Financial Statements

14. Properties held for sale

| | 2016 | 2015 |
|------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Properties completed for sale | 1,676 | 2,991 |
| Properties in development for sale | 3,598 | - |
| | <u>5,274</u> | <u>2,991</u> |

15. Stock

| | 2016 | 2015 |
|-------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Raw materials and consumables | <u>-</u> | <u>208</u> |

16. Trade and other debtors

| | 2016 | 2015 |
|--|----------------|---------------------------|
| | £'000 | restated £'000 |
| Due within one year | | |
| Rent and service charges receivable | 2,530 | 2,202 |
| Less: provision for bad and doubtful debts | <u>(1,448)</u> | <u>(1,344)</u> |
| Net rental debtors | 1,082 | 858 |
| Prepayments and accrued income | 5,425 | 3,341 |
| Capital grants receivable | - | 18 |
| VAT reclaimable | 158 | 89 |
| Other debtors | 58 | 30 |
| Amounts owed by group undertakings | <u>3,504</u> | <u>1,174</u> |
| | <u>10,227</u> | <u>5,510</u> |

There has been an adjustment made to the categorisation of debtors due within one year for the year ended 31 March 2015. This has not affected total debtors.

17. Cash and cash equivalents

| | 2016 | 2015 |
|---------------------------------|--------------|---------------|
| | £'000 | £'000 |
| Deposit accounts | <u>7,809</u> | <u>11,447</u> |
| | <u>7,809</u> | <u>11,447</u> |
| Cash balances | <u>46</u> | <u>27</u> |
| Total cash and cash equivalents | <u>7,855</u> | <u>11,474</u> |

Notes to the Financial Statements

18. Creditors: amounts falling due within one year

| | 2016 | 2015 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Debt (note 22) | 271 | 155 |
| Rent and service charges received in advance | 3,304 | 897 |
| Social housing grant received in advance | 1,660 | 1,057 |
| Deferred capital grant (note 20) | 37 | 26 |
| Development creditors | 634 | 1,141 |
| Major repairs creditors | 953 | 1,673 |
| VAT payable | 183 | 148 |
| Other taxation and social security | 178 | 183 |
| Other creditors | 1,516 | 1,945 |
| Accruals and deferred income | 1,197 | 4,723 |
| Restructuring costs | 29 | 31 |
| Amounts owed to group undertakings | 8,545 | 460 |
| | <u>18,507</u> | <u>12,439</u> |

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

| | 2016 | 2015 |
|----------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Debt (note 22) | 62,882 | 63,000 |
| Deferred capital grant (note 20) | 4,626 | 3,270 |
| Disposal proceeds fund (note 21) | 141 | 141 |
| | <u>67,649</u> | <u>66,411</u> |

Notes to the Financial Statements

20. Deferred capital grant

| | 2016 | 2015 |
|--|--------------|--------------|
| | £'000 | £'000 |
| At 1 April | 3,296 | - |
| Grant received in the year | 1,397 | 3,300 |
| Released to income in the year | (30) | (4) |
| At 31 March | <u>4,663</u> | <u>3,296</u> |
| | 2016 | 2015 |
| | £'000 | £'000 |
| Amounts to be released within one year | 37 | 26 |
| Amounts to be released in more than one year | 4,626 | 3,270 |
| | <u>4,663</u> | <u>3,296</u> |

21. Disposal proceeds fund

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Funds pertaining to activities within areas covered by the HCA: | | |
| At 1 April | 141 | - |
| Inputs to DPF: Funds recycled | - | 141 |
| At 31 March | <u>141</u> | <u>141</u> |

Notes to the Financial Statements

22. Debt analysis

| Housing loans | 2016 | 2015 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Debt profile | | |
| Accrued interest | 153 | 155 |
| Bank loans at fixed rates of interest | 30,000 | 30,000 |
| Bank loans at variable rates of interest | 33,000 | 33,000 |
| | <u>63,153</u> | <u>63,155</u> |

Terms of repayment and interest rates

Fixed rates of interest range from 5.76% to 6.32%.

Variable rates are at 1.25% and 1.85% over LIBOR.

Final instalments fall to be repaid in the period from 2019 to 2029.

| Debt is repayable as follows: | 2016 | 2015 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Within one year or on demand | 271 | 155 |
| One year or more but less than two years | 2,185 | - |
| Two years or more but less than five years | 16,205 | - |
| Five years or more | 44,492 | 63,000 |
| | <u>63,153</u> | <u>63,155</u> |

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

As at 31 March 2016 the company had undrawn loan facilities of £24.5million (2015: £24.5million).

Notes to the Financial Statements

23. Pension provisions

The company participates in two pension schemes, the Social Housing Pension Scheme and the Teesside Pension Fund. Both are defined benefit multi-employer schemes.

The Pensions Trust - Social Housing Pension Scheme

The company 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 company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

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

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123million, 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 company has agreed to a deficit funding arrangement the company 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.

Tristar Homes was not obligated to contribute to the funding of past deficits during the reporting period.

Notes to the Financial Statements

23. Pension provisions

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

Reconciliation of opening and closing provisions

| | 2016 £'000 | 2015 £'000 |
|--|-----------------------------|-----------------------------|
| Provision at 1 April | - | - |
| Remeasurements - amendments to the contribution schedule | <u>3</u> | <u>-</u> |
| Provision at 31 March | <u>3</u> | <u>-</u> |

Income and expenditure impact

| | 2016 £'000 | 2015 £'000 |
|--|-----------------------------|-----------------------------|
| Remeasurements - amendments to the contribution schedule | 3 | - |
| Contributions paid in respect of future service | <u>32</u> | <u>-</u> |
| Costs recognised in income and expenditure account | <u>35</u> | <u>-</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

23. Pension provisions

The Teesside Pension Fund

The company participates in the Teesside Pension Fund Scheme, a multi-employer defined benefit scheme with more than one participating employer, which is administered by Middlesbrough Council under the regulations governing the Local Government Pension Scheme (LGPS). Triennial actuarial valuations of the pension scheme are performed by an independent, professionally qualified actuary using the projected unit method. The most recent formal actuarial valuation was completed as at 31 March 2013.

The employer's contributions to the Teesside Pension Fund by Tristar Homes for the year ended 31 March 2016 were £1.26million (2015: £1.56million). The employer's contribution rate was fixed as 14.8% of pensionable pay until 31 March 2017.

| Financial assumptions | 2016 | 2015 |
|---|---------------|---------------|
| | % p.a. | % p.a. |
| Discount rate | 3.5 | 3.2 |
| RPI Inflation | 2.9 | 2.9 |
| CPI Inflation | 1.8 | 1.8 |
| Rate of increase to pensions in payment | 1.8 | 1.8 |
| Rate of increase to deferred pensions | 1.8 | 1.8 |
| Rate of general increase in salaries | 3.3 | 3.3 |

Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of members within the fund and allow for expected future mortality improvements. Sample life expectancies at age 65 resulting from these mortality assumptions are show below

| Future lifetime from age 65: | | 2016 | 2015 |
|------------------------------|---------|---------------------|---------------------|
| | | No. of years | No. of years |
| Aged 65 at accounting date | Males | 23.1 | 23.0 |
| | Females | 25.6 | 25.5 |
| Aged 45 at accounting date | Males | 25.3 | 25.2 |
| | Females | 28.0 | 27.8 |

Notes to the Financial Statements

23. Pension provisions

The Teesside Pension Fund (continued)

Breakdown of amounts recognised in profit and loss

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Current service cost | 1,599 | 1,429 |
| Past service cost | 28 | 292 |
| Amounts charged to operating costs | <u>1,627</u> | <u>1,721</u> |

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Net interest cost | 480 | 457 |
| Amounts charged to other finance costs | <u>480</u> | <u>457</u> |

Analysis of amounts recognised in other comprehensive income

| | 2016 | 2015 |
|--------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Total actuarial gains/(losses) | 1,763 | (3,585) |
| | <u>1,763</u> | <u>(3,585)</u> |
| Total loss in OCI | <u>(6,284)</u> | <u>(8,047)</u> |

Reconciliation of funded status to the statement of financial position

| | 2016 | 2015 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| Net pension liability | | |
| Present value of scheme liabilities | (52,239) | (53,182) |
| Fair value of assets | 37,541 | 37,564 |
| Net liability recognised in the statement of financial position | <u>(14,698)</u> | <u>(15,618)</u> |

Notes to the Financial Statements

23. Pension provisions

The Teesside Pension Fund (continued)

Changes to the present value of the defined benefit obligation

| | 2016 | 2015 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| Opening defined benefit obligation | (53,182) | (45,111) |
| Current service cost | (1,599) | (1,429) |
| Interest expense on defined benefit obligation | (1,694) | (1,922) |
| Actuarial gains/(losses) on scheme liabilities | 3,733 | (5,285) |
| Net benefits paid out | 963 | 1,307 |
| Contributions by participants | (432) | (450) |
| Past service cost | (28) | (292) |
| | <u>(52,239)</u> | <u>(53,182)</u> |

Changes to the fair value of assets

| | 2016 | 2015 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Opening fair value of scheme assets | 37,564 | 33,701 |
| Interest income on assets | 1,214 | 1,465 |
| Remeasurement (losses)/gains on assets | (1,970) | 1,700 |
| Contributions by employer | 1,264 | 1,555 |
| Contributions by participants | 432 | 450 |
| Net benefits paid out | (963) | (1,307) |
| | <u>37,541</u> | <u>37,564</u> |

Notes to the Financial Statements

24. Capital commitments

| Capital expenditure commitments were as follows: | 2016 | 2015 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Expenditure contracted for, but not provided for in the financial statements | 15,868 | 16,887 |
| Expenditure authorised by the board, but not contracted | <u>9,092</u> | <u>15,287</u> |
| | <u>24,960</u> | <u>32,174</u> |

Expenditure authorised by the board but not contracted includes capital major repairs works of £8.9million.

The capital commitments for the development of new property assets will be financed from the company'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.

25. Contingent liabilities

Social Housing Pension Scheme

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

Tristar Homes 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 Tristar Homes was £214,359. No provision has been made in the financial statements for this amount as the possibility of the liability arising is considered to be remote.

25. Operating leases

Operating lease agreements where the company is the lessee

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

| Land and buildings | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Payments due: | | |
| Not later than one year | 43 | 152 |
| Later than one year and not later than five years | <u>73</u> | <u>121</u> |
| | <u>116</u> | <u>273</u> |

Land and buildings leases relate to office buildings. There are no purchase options. The final lease expires in September 2018.

Notes to the Financial Statements

25. Operating leases

Operating lease agreements where the company is the lessor

Commercial property leases

The company owns 25 (2015: 24) retail units that it leases to third parties on non-cancellable leases. Rents are set in accordance with market conditions. The latest expiry date is July 2020. Future minimum rentals receivable under these leases are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Land and buildings | | |
| Payments due: | | |
| Not later than one year | 76 | 87 |
| Later than one year and not later than five years | 84 | 156 |
| Later than five years | - | 1 |
| | <u>160</u> | <u>244</u> |

The company leases a number of units to other businesses on a short-term cancellable basis and also leases roof space to telecoms companies for the situation of telecoms masts. The term of these leases are now expired and the leases are cancellable with between one and six months' notice.

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

The company acts as lessor for operating leases for its tenanted housing properties. 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 the local authority have protected right to buy (RTB). Tenancies that commenced after the 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 are 9,230 assured tenancies in place.

Notes to the Financial Statements

25. Operating leases

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 are 882 assured shorthold tenancies in place.

Equitable tenancy

Equitable tenancies are used for under 18s and are not a 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 five 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 21 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 308 starter tenancies in place.

Notes to the Financial Statements

25. Operating leases

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 up to 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 47 (2015: 44) shared ownership leases in place.

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 291 (2015: 300) leases in place.

Garages

The company owns 1,501 (2015: 1,494) garages that it leases to third parties on a cancellable basis.

Notes to the Financial Statements

26. Related party transactions

There were four tenant board members during the financial year, Paul Thomas (to 26 January 2016), Glen Rudd, Denise Ross and Michelle Bendelow (to 29 May 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 £19,859 (2015: £14,853), payments received were £20,052 (2015: £13,808) and aggregate amounts owing at 31 March 2016 were £255 (2015: £448).

The company participates in two pension schemes, the Social Housing Pension Scheme and the Teesside Pension Fund, which are defined benefit multi-employer schemes. Transactions between the company and the pension schemes are detailed in Note 23. The balance included in creditors for the Social Housing Pension Scheme is £4,881 (2015: £5,184) and for the Teesside Pension Fund is £116,453 (2015: £115,959).

There were four members of Stockton Borough Council on the board during the financial year, Steve Nelson, Tina Large (to 10 June 2015), Norma Stephenson O.B.E. (to 10 June 2015) and Paul Rowling (from 10 June 2015). Transactions with Stockton Borough Council during the financial year were on an arms-length basis and transactional amounts and outstanding balances as at 31 March 2016 are shown in the consolidated financial statements of Thirteen Housing Group Limited.

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

The company 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. Transactions with unregistered group entities are as follows:

| Company | Service provided | Cost allocation basis | 2016 £'000 | 2015 £'000 |
|-----------------------------------|--|-------------------------------|---------------|---------------|
| Thirteen Care and Support Limited | Tenancy support and mediation services | Recharge full cost of service | 92 | 37 |

27. Agreement to improve existing properties

Tristar Homes entered into an agreement to purchase improved properties from the local authority and, at the same time, entered into a sub-contracting agreement to carry out those improvements on behalf of the local authority for a fixed sum established in advance which was equal to the expected cost of the works. These contracts have enabled the company to recover VAT on the improvement costs that would otherwise have been expensed.

The impact of these transactions is that, whilst the local authority has a legal obligation to the company to complete the refurbishment works, this work has been contracted back to the company which is also legally obligated.

The underlying substance of the transaction is therefore that the company acquired the properties in their existing condition at their agreed value, and will complete certain repairs and improvements in line with the legal agreement.

In the opinion of the directors, the commercial effect of these transactions, when viewed as whole, does not in practice create separate assets and liabilities for reporting purposes. Therefore the resulting debit and credit balances relating to the legal obligation of the local authority to complete the refurbishment works for the company and the equal and opposite legal obligation of the company to perform the refurbishment works for the local authority have been offset, and are not recorded in the balance sheet.

At the point of entering the agreement, the estimated value of the improvements was £217million. As at the 31 March 2016 the value of invoiced work on which VAT had been reclaimed was £86million (2015: £72million).

Notes to the Financial Statements

28. Financial assets and liabilities

| | 2016 £'000 | 2015 £'000 |
|---|-----------------|-----------------|
| Categories of financial assets and liabilities | | |
| Financial assets that are debt instruments measured at amortised cost | 18,082 | 16,984 |
| Financial liabilities measured at amortised cost | <u>(81,389)</u> | <u>(75,439)</u> |
| | <u>(63,307)</u> | <u>(58,455)</u> |

The company's policy on financial instruments and managing financial risk are explained in the directors' report.

Cash, loans receivable and debtors are categorised as financial assets measured at amortised cost. Details of these balances can be found in notes 16 and 17.

Financial liabilities held at amortised cost are the company's debt and creditors. Details behind the debt instrument conditions, interest charges and repayment terms can be found in note 22.

29. Post balance sheet event

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 Tristar Homes is not yet fully understood, but it is possible that the company 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

30. Prior Period Adjustments and Transition to FRS 102

a. Correction of prior period error

There has been a restatement of the closing balance of the revaluation reserve at 31 March 2015 as a result of a prior year adjustment relating to the disposal value of housing properties.

Explanations of changes for FRS 102 adoption

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

i. 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 and those that account for their properties at valuation must adopt the performance model. The company has opted to apply the transitional arrangement whereby the opening balance sheet position at 1 April 2014 states housing property assets at existing use value for social housing (EUV-SH) and this position is frozen and becomes deemed cost. Therefore the performance model applies at the point of transition and grants where the performance conditions had been met at that date have been taken to the revenue reserve.

ii. Revaluation of housing properties

With effect from the date of transition the company has opted to account for its housing properties at cost. The revaluation adjustment for 2014/15 has therefore been reversed.

iii. Depreciation

Depreciation has been recalculated before the deduction of government grants creating an additional charge.

iv. 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.

v. Teesside Pension Fund

The main difference between reporting under FRS 17 and FRS 102 relates to the calculation of the pensions financing cost. The financing cost will normally be significantly higher under FRS 102 than FRS 17 because the "expected return on assets" item is effectively calculated using the discount rate so that no credit is taken for the expected outperformance on the fund's assets. There are also differences in the treatment of surplus under the two standards.

vi. 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.

vii. 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

30. Transition to FRS 102

Restated statement of financial position

| | Revenue Reserve | | Revaluation Reserve | |
|---|------------------------|-----------------------|------------------------|-----------------------|
| | 31 March 2015 £'000 | 1 April 2014 £'000 | 31 March 2015 £'000 | 1 April 2014 £'000 |
| Original reserves | 1,898 | (1,903) | 122,082 | 120,981 |
| a Correction of prior period error | | | 647 | |
| Restated original reserves | 1,898 | (1,903) | 122,729 | 120,981 |
| i Write off SHG @31/03/14 where perf conditions have been met | 1,742 | 1,742 | (1,742) | (1,742) |
| ii Remove the revaluation adjustment in 14/15 | - | - | (4,533) | - |
| ii Remove the revaluation adjustment for other fixed assets | - | - | (156) | - |
| iii Adjustment for additional historical cost depreciation | 859 | - | (859) | - |
| iv Amortised government grant | 4 | - | - | - |
| vi Parent company additional recharge | (60) | - | - | - |
| vii Holiday pay accrual | (60) | (70) | - | - |
| Restated reserves | 4,383 | (231) | 115,439 | 119,239 |

Restated recognised surplus for the year ended 31 March 2015

| | 2015 £'000 | |
|--|---------------|-----------------------------|
| Original total recognised surpluses relating to the year | 4,902 | |
| ii Removal of revaluation surplus | (4,689) | |
| iv Amortised government grant | 4 | Turnover |
| v TPF - restatement of net interest on DB scheme | (845) | Other finance costs |
| v TPF - restatement of current service cost & curtailments | (63) | Other operating expenditure |
| v TPF - restatement of actuarial loss in OCI | 908 | Other comprehensive income |
| vi Parent company additional recharge | (60) | |
| vii Movement in holiday pay accrual | 10 | |
| | (4,735) | |
| Restated total comprehensive income for the year | 167 | |

Notes to the Financial Statements

31. 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 of Thirteen Housing Group Limited are available from the group's registered office at Northshore, North Shore Road, Stockton-on-Tees, TS18 2NB.