

PARADIGM HOUSING GROUP LIMITED
**ANNUAL REPORT &
FINANCIAL STATEMENTS
2017-18**

Paradigm

BUILDING ON
30 YEARS
OF SUCCESS

OUR VISION

*To make the very best use of our resources
so we can provide new affordable homes
and a fair deal for existing residents*

Springett Place, Amersham



ANNUAL REPORT & FINANCIAL STATEMENTS 2017-18

FOR THE YEAR ENDED 31 MARCH 2018

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GROUP INFORMATION

CHAIRMAN

Julian Ashby
(from 01 April 2018)

David Easson
(to 31 March 2018)

OTHER BOARD MEMBERS

Richard Archer

Matthew Bailes

Mathew Bishop

Pat Brandum

John Cross

Eva Cullen

Janet Ogundele

Peter Quinn
(from 06 June 2018)

Phil Shepley

John Simpson
(from 27 Sept 2017)

Shona Spence
(to 20 Feb 2018)

Jane Harrison
(co-opted to 06 June 2018)

Andrew Lovelace
(co-opted to 06 June 2018)

SECRETARY

Ewan Wallace *(from 1 July 2016)*

SENIOR EXECUTIVES

Matthew Bailes
(Chief Executive)

Tracey Gray
(Executive Director of Operations)

Jane Harrison
(Deputy Finance Director)

Andrea Smith
(Interim Executive Director of Development from January 2018)

Andrew Main
(Executive Director of Business Development to January 2018)

Justin McCarthy
(Executive Director of Property Services from May 2017)

Lee North-Smith
(Interim Director of Property Services to May 2017)

Gary Robinson
(Executive Director of Corporate Services)

Andrew Lovelace
(Executive Director of Finance to June 2018)

Rosemary Farrar
(Interim Executive Director of Finance from June 2018)

SOLICITORS

Clarke Willmott LLP

Devonshires LLP

Owen White LLP

Trowers and Hamblins LLP

VALUERS

Savills (L&P) Ltd

Bruton Knowles

BANKERS

Barclays Bank plc

Santander Bank plc

AUDITORS

RSM UK Audit LLP

REGISTERED OFFICE

1 Glory Park Avenue, Wooburn Green,
Bucks, HP10 ODF

COMMUNITY BENEFIT SOCIETY

Registration number: 28844R

HOMES AND COMMUNITIES AGENCY

Registration number: L4215



CHAIR'S STATEMENT

I am pleased to present Paradigm's Annual Report and Financial Statements as I take up the role of Chair, and as Paradigm celebrates its 30th anniversary.

As we publish these results, we are also publishing our Corporate Plan for the next three years. At the heart of this is our clear goal to focus on our core purpose of providing as much affordable housing as well as we can and to provide a fair deal for Paradigm's residents. Our aim is to be the best at what we do in the places where we work.

At the same time, the Regulator of Social Housing has concluded its In Depth Assessment of Paradigm, and has confirmed its Regulatory Judgement that we continue to have the top grading for our performance in relation to both Governance and Viability.

This assessment reflects the rigour of our approach to managing and planning our business, and our overall financial performance in 2017/18. We generated a surplus of £26.2million on a turnover of £123.9million, and an operating margin, excluding sales, of 48.5%.

The surplus is lower compared with the previous year (£33.6million) largely as the result of breakage costs incurred in refinancing some of our loans. We have now secured long term and development financing at very good margins, sufficient to fund the level of development in our Corporate Plan for the next three years.

Generating a surplus in this way means that we can look after our existing homes, invest in improving our infrastructure, and, maximise the construction of new homes. This year we have completed 610 new homes,

at a cost of £86.3million, of which 394 are for social or affordable rent.

We also have major new development projects in the pipeline, in Luton, Hillingdon and Chesham. We have committed in our Corporate Plan to continuing to be one of the top performers in terms of numbers built for our size, and to undertake more development where we control the land relative to the proportion where we purchase section 106 sites.

We have started the early stages of looking at how we develop the land and assets we own in Chiltern where we can tackle the housing challenge by making better use of what we already have, and we have a partnership agreement with Chiltern District Council as a formal statement of intent to work closely with them in how we achieve this.

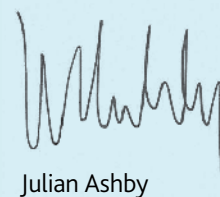
Paradigm's financial performance is the result of sustaining our approach to find better ways of managing our business, so that we can bear down on costs and improve our services.

For Paradigm, better management of our business has meant that we have restructured our Operations team, and are working on better management information and reporting systems to support them. This is about intelligent, data-driven management of our properties and tenancies, so that we are seeking out and increasing the financial and social value in our business, and not budget cuts which shrink the service we provide to our customers.

In fact, we will improve the service we offer to our customers. We can only do this with a clear sense of our customers' views of their experience of our service, and how they want us to improve it. We are reinvigorating our approach to how we engage with our residents, at all levels, so that we can target our service improvement intelligently. We are also committing to an accelerated programme to offer a better online experience. We want more of our customers to engage with us digitally, because it is more convenient for them, and will help us to give them a better service.

Our ability to move forward with a new Corporate Plan from a position of financial strength and solid operational performance is a tribute to the leadership of David Easson as Paradigm's Chair, from whom I take the baton with the purpose of consolidating and extending Paradigm's performance of its social housing mission.

I would like to thank David for his service to Paradigm, and to Shona Spence who stepped down from the Board, and to welcome John Simpson who joined the Board this year. We also welcome Peter Quinn who joined the Board in June 2018.



Julian Ashby
Chair



“ This year we have completed 610 new homes, at a cost of £86.3million, of which 394 are for social or affordable rent. ”

Julian Ashby, Chair



“ I was over the moon when I heard we had been given this lovely home. ”

Trudy, 24, who has moved into Springett Place, Amersham





Our residents at the Foyer are being supported to take AQA qualifications to help them move towards independent living and employment.

OUR BUSINESS

The Board presents its report on the activities, results and audited financial statements of Paradigm Housing Group (Paradigm) for the year ended 31 March 2018.

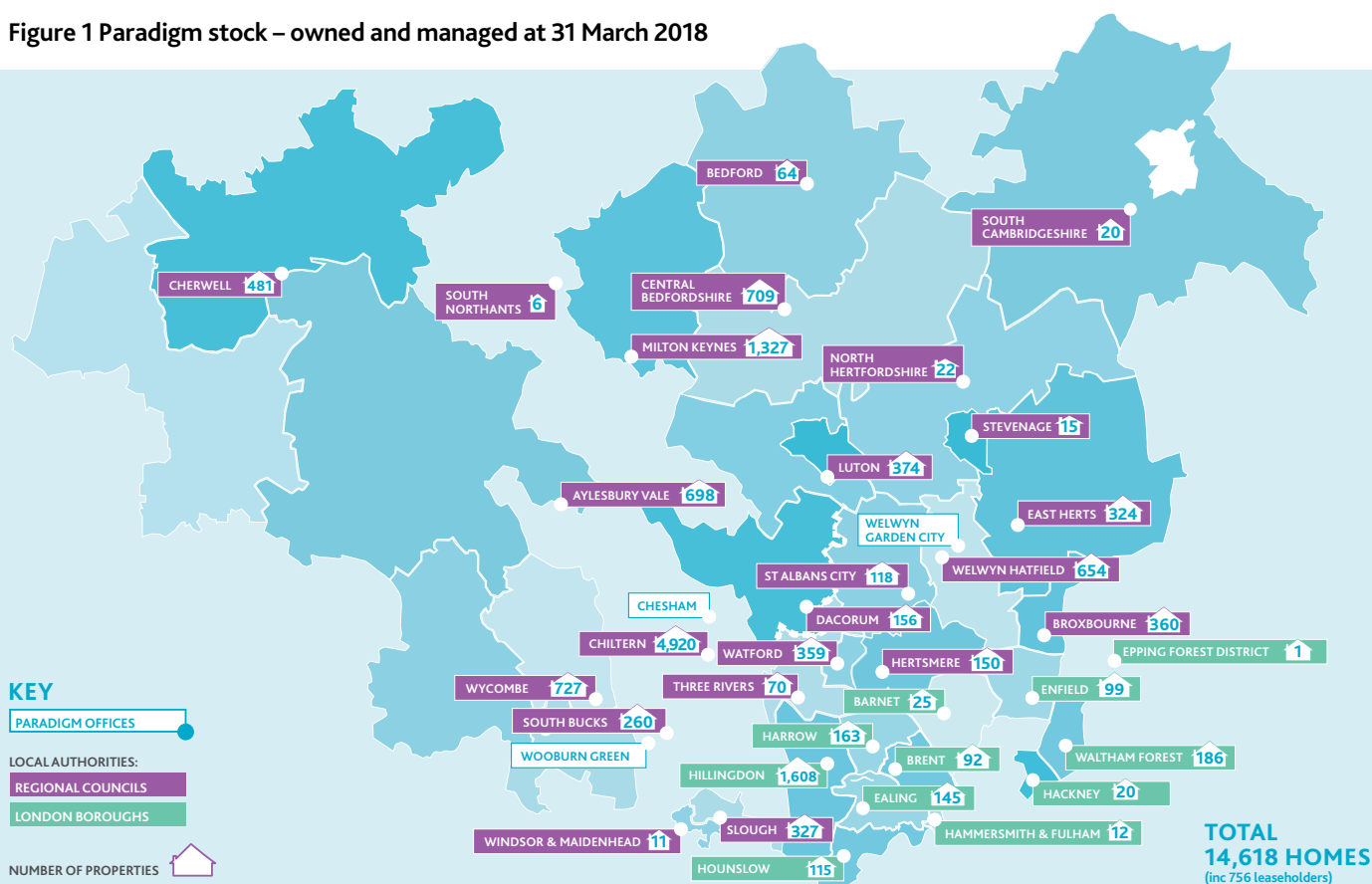
PRINCIPAL ACTIVITIES

Paradigm is one of the leading housing providers in the south-east, managing over 14,500 homes across 34 local authorities (Figure 1). As Chiltern Hundreds Housing Association it received the first large scale voluntary transfer of local authority houses, from Chiltern District Council in 1988. The Chiltern area continues to be a

core focus for Paradigm although the organisation now has properties across the Home Counties and north and west London with principal activities:

- > providing affordable housing for rent
- > delivering low-cost home ownership (mainly shared ownership)
- > offering temporary or permanent housing solutions to address homelessness issues
- > providing hostel accommodation for single and young people.

Figure 1 Paradigm stock – owned and managed at 31 March 2018





STRUCTURE

Within the Paradigm group two organisations are registered as housing providers with the Regulator of Social Housing (RSH):

- > Paradigm Housing Group (Paradigm)
- > Paradigm Homes Charitable Housing Association (PHCHA), a subsidiary of Paradigm as shown in the outline Group structure (Figure 2).

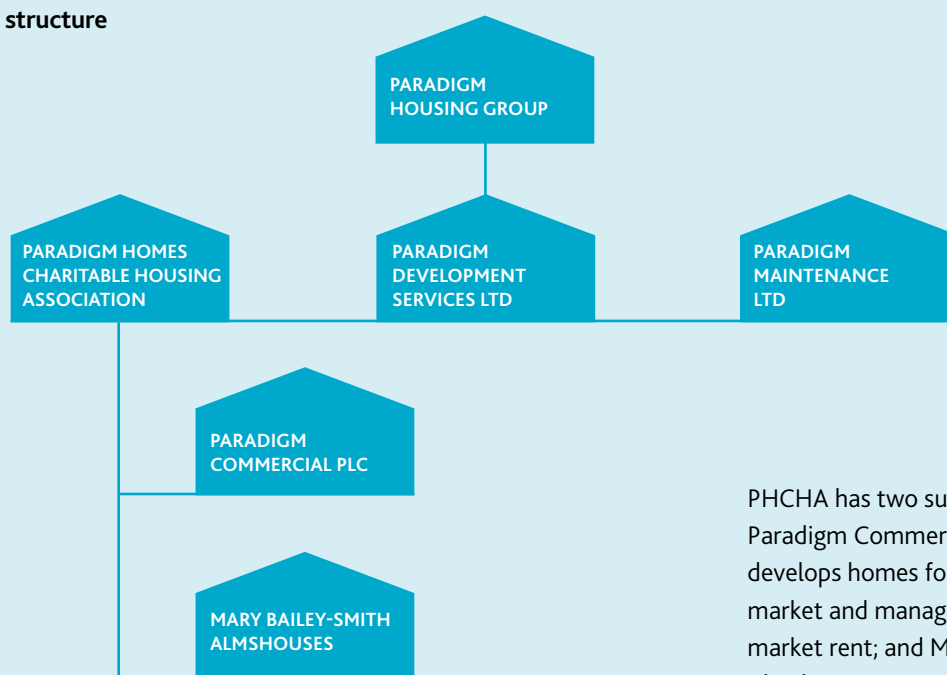
Paradigm Development Services Limited (PDSL) is a wholly-owned subsidiary of

Paradigm, undertaking developments which are usually transferred to group members on completion.

Paradigm Maintenance Limited (PML) is a wholly-owned subsidiary of Paradigm and was established in 2010. During 2017-18 PML has acted as the group's maintenance provider delivering a planned programme of investment and cyclical works as well as providing day-to-day repairs, including emergency cover.

Welwyn Hatfield Foyer Charitable Trust is a charity providing support for the group's Foyer in Hatfield, Hertfordshire and has previously been reported as a subsidiary of Paradigm due to control. On review this is no longer the case and the organisation therefore sits outside the group structure, the disposal of subsidiary reflected in the results for the year (see Consolidated Statement of Comprehensive Income).

Figure 2 Group structure



PHCHA has two subsidiaries: Paradigm Commercial plc, which develops homes for sale on the open market and manages properties for market rent; and Mary Bailey-Smith Almshouses, a small charity with three properties in management.

OUR GOVERNANCE



The Board has adopted the NHF Code of Governance 2015 (the Code) and complies with its principal recommendations except that, as noted in last year's Board report, the outgoing Chair had agreed to serve until March 2018, exceeding the 9 years of service by six months, in order to ensure continuity between the previous and current Board.

The Amalgamated Board meets every two months and is supported by two sub-committees, each chaired by a non-executive member of the Board, that meet at least quarterly:

- > Audit and Risk Committee – overseeing Paradigm's risk management strategy; financial management; standards of probity; and internal and external audit
- > Governance, Nomination and Remuneration Committee – responsible for remuneration; Board recruitment and effectiveness; governance and conduct; and committee effectiveness

A Development Panel meets, at least quarterly, to review progress with planned developments and to consider and advise on new scheme appraisals. The Board and Committee structure at the date of this report is set out in Figure 3.

Other sub-committees that meet on an ad-hoc basis as needed include:

Figure 3
Board and committee structure

AMALGAMATED BOARD	
Audit and Risk Committee	Role
Pat Brandum	Chair
Richard Archer, Mathew Bishop, John Simpson	Non-executive members
Governance, Nomination and Remuneration Committee	
Janet Ogundele	Chair
Eva Cullen, Julian Ashby	Non-executive members
Development Panel	
John Cross	Chair
Phil Shepley, Sue Belk, Freddie Coupe, Peter Quinn	Non-executive members

- > Treasury Committee – to review the Treasury Management Policy and detail of treasury documents such as loan agreements or side letters to existing agreements

Our appointments policy for non-executive Board and Committee members aims to ensure appropriate representation reflecting business need and the diverse communities we serve. Members undergo a comprehensive induction programme with on-going training provided through attendance

at conferences as well as formal training courses. The Board members who served throughout 2017-18 and up to the date of this report are listed on page 2 and total remuneration is set out on page 57.

Each member is expected to attend at least 80% of meetings each year and all Board and Committee members are subject to regular performance appraisal.

Non-executive pay is agreed at a level proportionate to the Group's

Our aim is to be the best at what we do in the places where we work.

Julian Ashby, Chair

size, complexity and resources. Non-executive Board member emoluments for 2017-18 are set out in Figure 4.

Total expenses paid to non-executive members during the year were £3,808 (2017: £2,287). Board member indemnity insurance is provided through the NHF insurance scheme.

Board member turnover reflects necessary change to ensure length of service is in line with our chosen Code of Governance; as well as recommendations from our 2016-17 governance review. Since the year-end we have appointed a new Chair, Julian Ashby and a further Board member with expertise in development, Peter Quinn.

Figure 4
Non-executive Board member emoluments

Non-executive	Role	2017-18 £	2016-17 £
David Easson	Chair (to 31 March 2018)	13,351	13,351
Janet Ogundele	Chair – Governance, Nomination and Remuneration Committee	10,500	7,313
John Cross	Chair – Development Panel	10,500	1,952
Richard Archer	Chair – Audit and Risk Committee (to March 2018)	10,500	1,952
Mathew Bishop	Board member	8,000	1,487
Pat Brandum	Board member	8,000	1,487
Eva Cullen	Board member	-	-
Phil Shepley	Board member	8,000	1,487
John Simpson	Chair – Treasury Committee (from 27 September 2017)	5,371	-
Shona Spence	Board member (to 20 February 2018)	7,764	1,487
Andrew Lovegrove	Deputy Chair (to 23 February 2017)	-	10,120
Sue Cooper	Board member (to 25 January 2017)	-	5,563
Iain Foster-Poole	Board member (to 13 September 2016)	-	3,338
Linda Ives	Board member (to 25 January 2017)	-	4,451
Rashid Khilji	Board member (to 25 January 2017)	-	7,275
Claer Lloyd-Jones	Board member (to 25 January 2017)	-	7,275
Tim Yates	Board member (to 25 January 2017)	-	7,275

OUR OBJECTIVES AND STRATEGY

Our purpose is to make the very best use of our resources so we can provide new affordable homes and a fair deal for existing residents.



Marlborough Grove – We completed four two-bedroom houses and one four-bedroom house for social rent at a former BT depot in Langley.

In the areas we serve average house prices are significantly higher than average earnings, and options in the private rented sector are expensive and insecure. A high proportion of the population is not adequately housed, reducing life chances and putting at risk the economic success of the area. We already provide homes for more than 14,500 households and will continue to offer these residents a fair deal, providing good quality and responsive services in return for prompt rental payments and care for our property. However it is essential that we make the best use of our resources so that we can help more people who need our support. This means:

We will stay financially strong – we know we need to maintain a stable financial position so we can help new residents and ensure the homes of existing residents are not put at risk.

We will run an excellent business – using commercial disciplines and continually striving to deliver efficiency improvements. We will attract high quality staff, invest in their skills and hold them to account for effective delivery.

We will make the very best use of our existing asset base – with a clear asset management strategy, selling or converting stock where appropriate to add value.

We will invest in new homes – offering a range of tenures including shared ownership, and social and affordable rented housing.

We will support our customers and invest in local communities through the Paradigm Foundation – helping residents into work, education and training; supporting initiatives to alleviate financial hardship; and investing in larger projects that benefit the wider community.

EXTERNAL INFLUENCES

We are operating in an environment where external factors, over which we have little or no control, have a significant effect on our business.



We completed a review of our employee benefits package to ensure we can attract and retain excellent staff.

These factors include:

Welfare reforms are affecting a number of our residents who rely on benefits and have seen a reduction in their disposable income. In some cases this has been substantial. We have experienced two years of rent reductions under the Welfare Reform and Work Act 2016, which also introduced a freeze or reduction in some benefits as well as reducing the overall benefit cap both inside and outside London. We are continuing to work alongside our residents to help them manage the changes. Our Tenancy Intervention and Enforcement Team has worked with over 200 residents helping them access local authority discretionary housing payments and apply for appropriate benefits, as well as advising on other actions such as downsizing, where accommodation is available either from Paradigm or through local authorities. A further 45 people were supported with employment or training opportunities, in some cases working alongside the Paradigm Foundation.

A key element of our approach to minimising rent arrears is to encourage residents to pay by direct debit or prepay their rent where possible so that when they receive Universal Credit, monthly in arrears, they will be ready for the change. During 2017-18 twelve of the local authorities in which we work moved to Universal Credit for new applicants and the roll-out is accelerating in 2018-19.

The 1% rent reduction helps our residents but reduces our income. Factoring in inflation, the loss in planned rental income will be £10m a year by 2020. We continue to bear down on costs but are committed to maintaining a strong development programme which has an appropriate balance of homes for rent and for sale (mainly shared ownership) taking account of property market risks.

Changes in housing and planning legislation introduced under the Housing and Planning Act 2016 offer potential opportunities to drive value from assets through more active asset management. In particular the relaxation of regulatory control through disposal consents should, in time, simplify the disposal process and ease stock rationalisation. In developing new products and programmes we work closely with local authorities to design and deliver innovative schemes, both small and large, that meet local and national planning requirements.

The economy affects all businesses and Paradigm is no exception. Reductions in government spending have meant less grant contribution to the development of homes. Bond markets have become popular sources of finance for housing organisations wishing to fund developments over a 20 or 30 year period at a fixed rate of interest. Since the year-end Paradigm has successfully completed a Private Placement, securing funds

of £100m to be drawn in two tranches and used for new developments. In the run up to Brexit the markets generally have become more volatile and the government has indicated a softening of its economic targets. The property market is under pressure and, in London and parts of the south-east in particular, the housing market is experiencing a small downturn but at this stage it is not clear whether the medium to long-term impact for social housing and the housing market more generally will be positive or negative.

Regulatory change affects all housing providers who are registered with and regulated by the Regulator of Social Housing (RSH). The Regulatory Code focuses on key financial risks including governance, viability and value for money and the Board's response is set out in this Strategic and Board Report. It seems likely that following the Hackitt Review there will be a greater focus around building regulation and control, and possibly a call for greater tenant involvement. In the meantime, for tenant-related matters emphasis continues to be placed on local scrutiny. Paradigm's Residents' Forum meets regularly with management, Board and Committee members and staff to promote residents' views and to scrutinise the organisation's activities in those areas which directly impact on residents such as rent and service charge policy; changes in estate services and management; and welfare reform.

VALUE FOR MONEY

As a charitable housing provider we operate to a clear set of values including the importance of optimising value for money in the activities we carry out.

The regulatory framework published by the RSH includes a specific requirement for registered providers to publish evidence in the statutory accounts to enable stakeholders to understand the provider's:

1. Performance against its own value for money targets and any metrics set out by the regulator, and how that performance compares to peers
2. Measurable plans to address any areas of underperformance, including clearly stating any areas where improvements would not be appropriate and the rationale for this.

Introduction

Driving value from our asset base will be essential for Paradigm's future success. Our 2017-18 business plan identified key projects to deliver a programme of business improvements including:

- > Operating model, that commenced in 2016-17 and has continued through 2017-18 as noted below (page 19)
- > Tenant deal, embedding the tenant deal, reaffirming the services we provide for our residents and what we expect in return
- > Procurement and contract management, consolidating the savings and improvements reported in 2016-17 but planning to retender substantial maintenance supplier contracts and implement contract management discipline across the business

- > Asset management, with a new Head of Asset Management appointed to lead a review of asset management across the business underpinned by a clear asset management strategy
- > Reward, reviewing the employee benefit package to ensure alignment with business objectives and maintain a competitive edge.

Our focus on delivering a fair deal for existing residents whilst managing our assets effectively and delivering operating efficiencies means we can build more new homes to meet the high demand for affordable housing in

the areas in which we operate. We use financial and non-financial measures to target specific service areas and to monitor progress in managing or reducing costs, or improving quality.

Profit

Our financial strategy has a clear requirement that we should achieve a minimum annual operating surplus, and that each part of the business should make a positive contribution to that surplus. Further information on our financial performance against strategic and operational targets is set out on pages 20 to 22.



“ We are reinvigorating our approach to how we engage with our residents. ”

Julian Ashby, Chair



Investing in new homes

A key strategic objective is delivering as many new homes as possible within certain financial parameters and within geographic constraints set by the Board. We aim to provide a range of housing solutions and information on our performance against agreed targets is included on pages 28 to 29.

Customer satisfaction

Delivering to agreed standards and as reliably and efficiently as possible is a clear message from our customers. Implementation of the tenant deal continues to be a central plank of our service delivery. Our performance against existing strategic targets is set out in the section of this report: Running Our Business (page 24).

Governance

Our Board and Committees review performance throughout the year with continuing focus on effective risk management, including 'deep dives' into key risk areas such as Development and Treasury.

Benchmarking performance

As a charitable housing provider it is essential that we make a healthy surplus so we can fulfil our core aims. Our strategy is to provide a fair deal for our customers so that we can re-invest our profit into providing more new homes for people who are unable to access the general housing market.

Previously we have reported our performance against both financial and non-financial targets using HouseMark performance data and continue to monitor this information that now includes RSH Value for Money metrics. The following paragraphs set out how Paradigm has performed in 2017-18 and the previous two years.

Economy

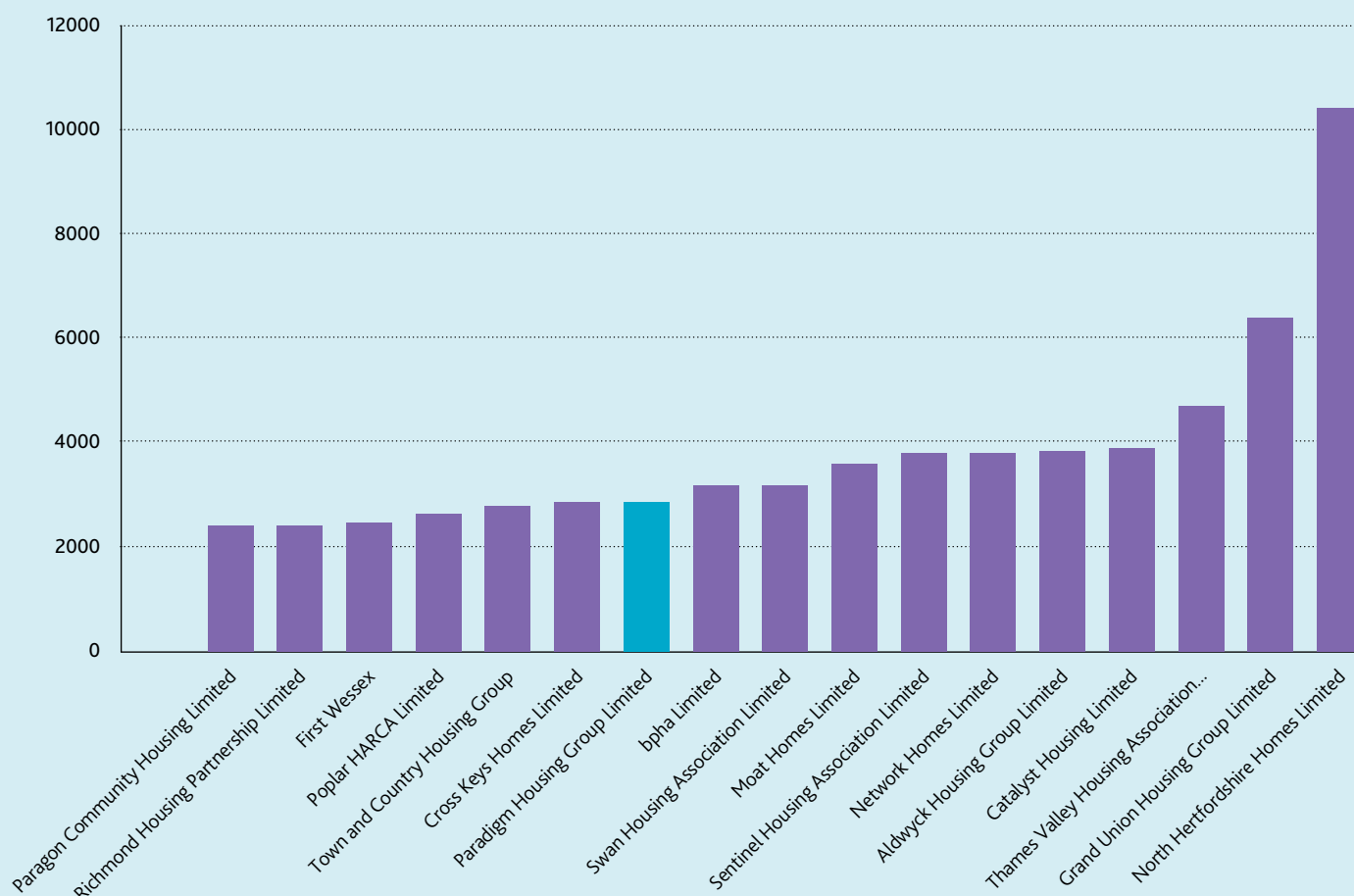
As a charitable housing provider we operate to a clear set of values including the importance of optimising value for money in the activities we carry out. Our focus has been to maintain operating surpluses in spite of the 1% rent reductions imposed through legislation over the past two years. In order to achieve this we have implemented strong budgetary control and a business planning process that means every directorate

within the business has to confirm the performance that will be delivered within agreed budgetary constraints. Throughout the year performance against both budget and business plan targets, including progress with corporate projects is monitored by the Board.

The key value for money metric that measures 'economy', minimising the cost of resources used while having regard to quality, is Headline Social Housing Cost per Unit:

Metric	Description	2018	2017	2016
Headline social housing cost per unit	The unit cost metric defined by the regulator with the denominator being total social housing units owned and/or managed at period end	£2,785	£2,867	£3,453

Figure 5 Benchmarking performance against 16 other Registered Providers in London, the South East and East of England – Headline Social Housing Cost per Unit 2016-17



For Paradigm this is a relevant measure as most of our housing properties under management are social housing. At the end of the last financial year we managed 13,334 social housing properties out of a total 14,231 (93%) and this increased to 13,613 (93%) at 31 March 2018. Our Headline Social Housing Cost per Unit has reduced year on year since 2015-16, although the most significant reduction was in 2016-17 when, as reported in last year's VFM self-assessment, we made significant savings from better procurement, lower spend on sub-contractors and reduced void costs. We have experienced a further reduction in this indicator in 2018 although anticipate a slight increase in 2018-19 reflecting planned investment in IT to ensure resilience in our in-house systems as well as developing new platforms to deliver improved digital services.

Comparative performance against 16 other Registered Providers in our region in 2016-17 (source: RSH Unit Cost Data 2016-17) is shown in Figure 5. The comparator group includes Registered Providers with between 8,000 and 20,000 housing properties, but excludes those Registered Providers with more than 10% supported housing to minimise the risk of distortion in the benchmarking.

Efficiency

Our strategy is to maximise surpluses so that we can develop new affordable homes but also to deliver a fair deal for our residents. That means continuing to maintain and improve our existing properties so that they remain fit for purpose, providing well-maintained, safe and secure homes for our residents.

Metric	Description	2018	2017	2016
Reinvestment %	Investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held	4.8%	3.2%	3.3%
Gearing %	A measure of debt:equity and key indicator for investment capacity; equity is calculated as housing properties carrying value at the period end	56.5%	56.9%	58.7%
Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %	A key indicator for liquidity and investment capacity that seeks to measure the level of surplus generated compared to interest payable, avoiding any distortions stemming from the depreciation charge	172.5%	194.8%	147.0%
Operating Margin (social housing lettings) %	Operating surplus/(deficit) from social housing lettings/turnover from social housing lettings	48.5%	50.2%	46.3%
Operating Margin (overall) %	Operating surplus/(deficit) excluding gain/(loss) on disposal of fixed assets (housing properties)/turnover	43.6%	40.8%	39.3%
Return on Capital Employed (ROCE) %	Operating surplus/(deficit) including gain/(loss) on disposal of fixed assets (housing properties)/total assets less current liabilities	4.6%	4.7%	4.0%

Over the past three years our overall operating margin has increased and our operating margin from social housing lettings has remained strong, in spite of the rent reductions imposed under the welfare reform legislation in 2016. Last year the operating margin from social housing lettings was just over 50%. In the year under review we continued to invest in our properties but capitalised a lower proportion of works and this had a consequent

£1.5m overall impact on the margin which reduced to 48.5%.

Our reinvestment measure has strengthened to 4.8% (2017: 3.2%). This metric supports the strategic approach we have adopted and our investment in new homes. In 2017-18 we delivered 610 new homes, principally for rent and affordable home ownership. However we have sold some homes outright as a means of de-risking our development

programme as well as providing some cross subsidy for affordable developments.

Two key indicators for investment capacity are gearing and interest cover. Both measures are also loan covenants with our lenders. Treasury management policy controls implemented to prevent non-compliance with loan covenants include internal ceilings/floors. For gearing the internal ceiling is 70%; and for interest cover the floor is 115%. In both cases our current performance is strong and is a good basis on which to build our development plans.

Return on Capital Employed (ROCE) assesses the efficient investment of capital resources and is particularly relevant for registered providers with a wide range of capital investment programmes including joint ventures and those with a mature asset management strategy. Following development and approval of our asset management strategy in 2017-18 we are planning to implement an asset performance valuation model to support a planned approach to asset management, in particular decision-making on investment or disposal of assets. Our current ROCE of 4.6% is around the median for the sector (source: HouseMark Sector Scorecard) but once we implement our new approach we anticipate that this measure will increase.

Effectiveness

The VFM metrics set out by the RSH focus on delivery of new homes. These measures are relevant for Paradigm in reflecting a key plank of our corporate strategy to develop 600 new homes each year. The trend below shows a dip in delivery

in 2017 which followed our decision to revise our development plans and targets after the rent reduction announcement in July 2015.

The immediate effect of that decision was a temporary suspension in bidding for and developing new schemes which meant in 2016-17 we delivered fewer homes than originally planned. Whilst we have completed 610 homes in 2017-18, the impact of that temporary suspension will continue to be felt into 2018-19 due to the length of the development cycle.

Metric	Description	2018	2017	2016
New supply delivered (social housing units) %	Number of new social housing units acquired or developed in the year as a proportion of total social housing units owned at the period end	3.7%	2.3%	4.0%
New supply delivered (non-social housing units) %	Number of new non-social housing units acquired or developed in the year as a proportion of total social and non-social housing units owned at the period end	0.8%	0.4%	0.0%

In the absence of regular overall customer satisfaction surveys we have relied on proxy performance measures to assess the quality of our services for residents. Those measures are reported regularly to Board and performance over the past three years is shown below.

Performance measure	2018 Target	2018 Actual	2017	2016
Average number of days to resolve all complaints	15	11.7	13.8	10.7
Average Customer Services call rate per property	<2017	9.2	9.8	11.0
Customer satisfaction with repairs (%)	85	81.5	80.3	81.0

The measure of customer satisfaction with repairs is based on a small number of satisfaction forms returned by customers. Whilst it has improved over the last three years the satisfaction level has been below target and we have included a wider-ranging customer insight project as part of our 2018-19 business plan. The project is due to complete by November and one outcome will be recommendations regarding future performance indicators for service effectiveness.

Operating model

Following consideration of a number of alternative business operating models we identified a 'target operating model' as the most appropriate means of underpinning delivery of our corporate strategy. The model places homes and residents front and centre with operations teams having responsibility for delivering services and accountability for profit or loss by housing area. The changes that arise from implementing the new operating model are significant and reach every area of the business including Property Services, Development, Asset Management, Finance and IT. During 2017-18 the foundations and infrastructure for the new model were put in place with new teams, systems, processes, controls established and performance measures agreed in advance of the 'go live' from 1 April 2018.

Reward

During 2017-18 we completed a review of the employee benefits package and following a period of consultation implemented key changes including: flexible working (replacing the old 'flexi-time' arrangement); critical illness insurance (together with updated sick pay arrangements); and a

performance-related bonus, dependent on achieving targets relating to profit, customer satisfaction and development of new homes.

Corporate Plan 2018 to 2021

Our new Corporate Plan reflects the context in which the business operates:

- > High house prices and market rents
- > Significant levels of acute housing need
- > A large cohort of the younger working population finding it increasingly difficult to access home ownership

We recognise that the biggest impact we can make is through providing new affordable homes, allied with good services whilst maximising efficiency. A high operating margin means that we are able to support a strong development programme, whilst reducing our gearing and creating more headroom on financial covenants.

In 2018-19 key financial targets, which will be monitored by Board during the year, include, but are not limited to, sector scorecard metrics:

Performance measure	Target
Operating margin (overall)	>40% Turnover
Operating margin (excluding first tranche and outright sales)	>46% Turnover
Operating margin (social housing lettings)	>46% Turnover
Social housing cost per unit	£2,760
Interest cover (EBITDA-MRI)	1.7
Gearing	<55%
New supply delivered – social housing	2.8%
New supply delivered – non-social housing	0.7%
Return on Capital Employed	4.2%
Reinvestment	4%

A FINANCIALLY SOUND ORGANISATION

Our business remains financially strong and we continue to deliver strong surpluses.

The Board is pleased to report an overall surplus for the year of £26.2m (2017: £33.6m) after spending £15.1m (2017: £13.6m) to maintain our existing housing stock together with a further £2.6m (2017: £5.5m) on investment works so that we continue to provide high quality homes for our residents. The increase in operating maintenance costs reflects higher spend on fire safety works, particularly in high rise or other high risk blocks. Whilst we capitalise some of these works the capitalisation rate adopted is lower than for other major works and therefore we have experienced a reduction in other spend on investment works.

The development for sale programme, principally shared ownership, has a significant impact on the overall surplus. Whilst the volume of first tranche shared ownership and outright sales has reduced from last year, we have experienced higher margins, increasing from 24% in 2017 to 33% in 2018. However the overall margin for 2016-17 was depressed by the low-margin sale of the Packet Boat development to Hillingdon Borough Council. In spite of the slow-down in the housing market in London and the south east we have continued to sell our new schemes at strong margins, although any change in the mortgage market for new homebuyers will have a negative impact. The sales team provide weekly updates for management

team so that should there be an increase in sales risk we are well-placed to react quickly and positively.

Net interest payable in 2017-18 includes £5.6m breakage costs associated with the early repayment of a £22m loan in August 2017 that released security worth more than double the value of the loan for alternative borrowings as well as removing some older loan covenants that did not align with those from more recent agreements.

Continuing to deliver strong surpluses has meant that by the year-end we had increased our total net assets to £572.6m with housing properties increasing by almost £40m – a good base for our future development plans, with lower gearing increasing our investment capacity.

Figure 6 Group highlights, five-year summary

	2018 £m	2017 £m	2016 £m	2015 £m	2014** £m
INCOME AND EXPENDITURE					
Income from social housing letting	87.8	86.7	85.2	83.5	75.4
First tranche shared ownership and outright sales	32.6	46.0	25.1	18.2	35.9
Other operating income	3.5	4.0	5.0	3.4	4.2
Operating income	123.9	136.7	115.3	105.1	115.5
Repairs and maintenance	15.1	13.6	16.0	16.9	12.8
Management costs	6.8	6.1	8.8	6.4	7.3
Lease charges	6.1	6.6	7.2	7.6	7.6
Property depreciation	11.6	11.3	9.9	10.7	8.7
Cost of first tranche shared ownership and outright property sales	21.7	34.8	19.0	15.2	31.5
Other operating costs	8.7	8.6	9.1	8.8	9.6
Operating costs	70.0	81.0	70.0	65.6	77.5
Operating surplus	53.9	55.7	45.3	39.5	38.0
Surplus on sale of fixed assets	6.4	7.2	5.4	4.7	3.7
Net interest payable	*(33.7)	*(29.1)	*(29.6)	*(30.0)	(28.9)
Disposal of subsidiary (WHFCT)	(1.0)	–	–	–	–
Tax	–	–	–	–	–
Surplus for the financial year	25.6	33.8	21.1	14.2	12.8
Actuarial gain/(loss) in respect of pension scheme	0.6	(0.2)	0.8	(0.9)	N/A
Total comprehensive income for the year	26.2	33.6	21.9	13.3	12.8

*Includes movement in fair value of investments

**As previously reported and not adjusted for FRS102

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
FINANCIAL POSITION					
Housing properties	1,239.9	1,201.1	1,182.0	1,161.3	1,099.2
Other fixed assets	10.9	11.5	12.1	13.5	14.1
Investments	21.5	19.4	18.0	16.9	5.4
Net current assets	52.5	100.3	41.1	18.9	16.0
Total assets less current liabilities	1,324.8	1,332.3	1,253.2	1,210.6	1,134.7
Less: Housing loans, grants and other long term liabilities	743.7	775.8	730.2	710.1	649.9
Less: Net pension liability	8.5	10.1	10.2	9.6	2.6
Total net assets	572.6	546.4	512.8	490.9	482.2
Capital and reserves	572.6	546.4	512.8	490.9	482.2

Performance measure	2018 Target	2018 Actual	2017	2016
Average standard re-let time (days)	12	12.9	13.2	22.1
Rent losses (voids and bad debt as % of rent and service charges receivable)	1.5%	1.1%	1.1%	1.5%
Rent arrears (current tenant arrears as % of rent and service charges receivable)	-	4.8%	5.3%	5.4%
Rent arrears (rolling average adjusted for timing of housing benefit, used for management purposes)	2.8%	2.6%	2.7%	2.8%

In addition to the metrics reported above, we use key measures to monitor performance across the business. Lower void costs and quicker lettings times have contributed to the strong financial results for the year, as have lower rent arrears:

- > Rent collection and arrears recovery – we maintained strong control over rent arrears and rent collection and at year-end, the current arrears level (reported in the financial statements) was 4.8% (2017: 5.3%). For management purposes we monitor a rolling figure that adjusts for the timing of housing benefit receipts paid in arrears by local authorities. Using our rolling measure, year-end arrears were 2.6% (2017: 2.7%), continuing the sustained pressure over the past five years. We are not complacent and recognise the importance of reducing arrears further, particularly in view of the additional pressures relating to welfare reforms. Our plans for 2018-19 include an end to end review of income setting and collection, including rent and sundry debt.

- > Voids and lettings – we have continued to focus on voids and lettings so that we minimise the time that a property is vacant. A sustained effort across both housing and property services has helped deliver significant improvements in 'days to let' (2018: 12.9 days; 2017: 13.2 days; 2016: 22.1 days) and reduction in associated void rent losses. We are continuing to focus on minimising void costs and during 2018-19 will monitor and react to both days to let and overall void costs (including repairs).

Our procurement team have continued to work across the business to deliver savings through initial contractual arrangements and on-going contract management. They have been targeted to deliver £1.7m procurement savings by the end of 2018-19 and are on track to do so.

As well as improving on efficiency we are also focused on compliance, with key areas being gas, fire safety, electrical testing, asbestos, lifts and water (legionella). Embedding a new asset management team in the operations directorate is delivering stronger performance monitoring and control to ensure our property assets are properly maintained (page 26).



RUNNING OUR BUSINESS

We are committed to using commercial disciplines in continuing to strive to deliver efficiency improvements and investing in our staff, supporting their development and holding them to account for effective service delivery.

KEY TARGETS AND OUTCOMES

KEY TARGETS	OUTCOMES
Greater accessibility and self-service options	> Achieved – updates to the corporate website and customer portal introduced in 2017-18, although there is further work to do to enhance the customer digital experience.
The production of easy to read and accessible standards for customers and staff	> Achieved – service standards have been relaunched as part of the tenant deal.
Increased customer satisfaction	> On-going – a key target for the business and a customer insight project planned for 2018-19 will be an important constituent.
To have a comprehensive training strategy from induction to leadership development	> On-going – we have continued to support more apprentices across the business and are strengthening leadership development with coaching and management training.
To introduce a new Reward strategy	> Achieved – implemented from 1 April 2018. Review of pension strategy planned by November 2018 in line with timing agreed at the last review in 2015, with consultation on any changes to be complete by the end of the financial year.
To implement a Target Operating Model with clear accountability for property and tenancy management and for the profitability of our services	> On-going – the model has been in operation from 1 April 2018 but full implementation will depend on the effectiveness of the Asset Management Strategy and on strong financial partnering and support.

PERFORMANCE – OPERATIONS

As noted in the benchmarking (page 16) our Headline Social Housing Cost per Unit fell again in the year under review, although at a slower rate. Lower total repairs costs (including capitalised works) have been a key factor.

Highlights include:

- > lower responsive repairs amounting to £6.6m (2017: £7.7m) following implementation of our tenant

deal which has clarified repairs responsibilities between Paradigm and tenants

- > £8.6m (2017: £5.9m) spent on planned maintenance, where a focus has been on health and safety including electrical testing, compliance with fire regulations, gas servicing and lift maintenance; as well as cyclical internal and external decorations
- > lower capitalised works of £2.5m (2017: £4.2m) reflecting a changed

mix of work undertaken. We increased our expenditure on fire doors and equipment but capitalised a lower proportion of these costs compared to the other investment works including windows, kitchens and bathrooms (page 26)

As noted above we have implemented the first stage of our tenant deal setting out a clear statement of responsibilities so that we are clear about what we commit to do for our tenants and



what we expect from them in return. The next stage will focus on improved digital services for both residents and operations teams to enhance delivery and improve response times.

Welfare reform is a key risk for the group and Paradigm has invested in a Tenancy Intervention and Enforcement team who work with more vulnerable residents to minimise instances of tenancy breakdown and to enforce the deal with residents who engage in anti-social behaviour. The team has managed 219 referrals covering all forms of tenancy breaches as well as working on a pre-tenancy check project to assess and support nominees who may be affected by welfare reform changes such as the move towards Universal Credit.

Our Private Sector Leasing (PSL) team provides temporary housing solutions by letting properties, mostly held on short-term leases from private

landlords, to people who are on local authority waiting lists. The PSL team has continued to face a number of challenges including competition for new properties; enforcing landlord health and safety compliance; and effects of rent restrictions under welfare reform, particularly the benefit cap. The team is working to de-risk our exposure to welfare reform by agreeing management fee arrangements with local authorities rather than carrying the direct management costs. Strong performance in managing void rent loss and recovering arrears has reduced voids and bad debts cost to £0.2m (2017: £0.5m). However, the competition for new properties has meant fewer homes in management. This, together with increased internal management costs, has resulted in a reduction in operating surplus to £0.2m (2017: £0.8m). Rent setting compliance with legislation is recorded as a key risk for the business and following

identification of non-compliance, albeit with minimal financial impact, scrutiny in this area has increased further. In February 2018 we reported an error in interpreting the rent legislation implemented in 2016 to the RSH. On investigation we found that some rents for fair rent properties had not been reduced as much as they should have been in 2017-18 and the preceding year. We commissioned an external consultant to undertake a root cause analysis of the incident and are taking action to implement the recommendations within their report. In addition we took prompt action to credit the 400 affected residents before the end of March and report our findings and actions to the Residents' Forum.

MANAGING OUR PROPERTY ASSETS

Our programme of investing in our housing properties has been driven by a strategy of achieving a balance between maintaining Decent Homes and addressing fuel poverty. Using existing stock condition data our investment works programme for 2015-18 was developed to concentrate in geographical areas to deliver the works in the most cost effective manner. We have refined this based on initial findings from a full stock condition survey. A new asset management team is working to a new asset management strategy, commission investment and planned works as part of our business planning and budgeting cycle.

KEY TARGETS	OUTCOMES
Full stock condition survey to be completed by September 2018	> Ongoing - the survey has taken longer than expected with a higher number of 'no admittance' than expected – leading to more return visits. However 86% of our properties have had a stock condition survey within the last 5 years. The completion date was revised to September 2018 and the outcome will contribute to our asset management strategy, approved in September 2017.
Planned and investment works programme for 2017-18 reflects priorities highlighted by compliance reviews, in particular relating to fire risk and lift inspections, and informed by stock condition survey	> Achieved – we have continued the implementation of recommendations from fire risk assessments that commenced in 2016 and, following the appointment of a new Head of Compliance at the beginning of the year, have strengthened our monitoring and reporting of compliance risks.

The new asset performance model will inform future decisions on reinvestment or disposal of properties. Until then we continue a reactive approach to disposal, reviewing properties that become void before making a decision to retain or dispose of these assets.

INVESTING IN OUR PROPERTIES

We have continued to invest in our property assets with highlights in 2017-18:

> £0.7m spent on 198 domestic boiler replacements so that our residents benefit from more fuel efficient boilers and lower fuel bills. We have reduced the cost per boiler by 18% compared with the previous year through a combination of better procurement and an increase in the proportion of work done by in-house

> £0.1m to replace the commercial boilers at Abbey Court, a general needs scheme for people over 55. Further replacements at two other schemes commenced during the year and will complete in 2018-19

> £0.9m replacement windows and doors, with a further £0.3m on roofs, improving thermal insulation in over 50 homes

> £1.6m on our kitchen and bathroom programme, with 318 replacements (2017: £2.4m with 370 replacements). The average cost per replacement reduced from £6.5k to £5k, reflecting some procurement savings together with clarity regarding the specification under the Tenant Deal

> The fire risk programme continued during the year with £370k invested in a range of works including doors, compartmentation and

dry risers. We continue to review compliance in this area, including any recommendations arising from the Hackitt enquiry.

During the year a small number of properties were referred to Management Team for a decision of whether to retain or dispose of the properties taking into account an assessment of future service potential and value to the business; and market value. Two properties were sold generating a surplus of £248k to reinvest in new homes.

A planned programme of investment has been scheduled for 2018-19 to address the 0.8% of our stock that we report as non-decent against the Decent Home standard. The works will include loft insulation top ups and validation of the condition of roofs that have failed on age criteria.

*We invested 1.6m
in our kitchen and
bathroom programme*



INVESTING IN NEW HOMES

We believe it is our duty to provide new affordable homes for people who cannot afford to rent or buy in the open market. We aim to provide a range of housing solutions targeted at affordable home ownership as well as rental, including the implementation of a prudent and limited outright sale programme as a way of generating finance and reducing dependence on capital grant funding.

KEY TARGETS AND OUTCOMES

KEY TARGETS	OUTCOMES
Provision of 600 new homes per annum (400 rent, 200 shared ownership).	> Following the announcement of the 1% per annum rent reduction from 2016 we revised our development plans and targets, changing the mix of homes developed for rent or sale and temporarily suspending bids for new schemes. Last year we delivered 403 new homes but anticipated a significant increase for 2017-18. As expected we delivered more: 610 new homes, bringing us in line with our target 600 homes per year.
Development and implementation of a Build for Sale strategy	> Our strategy is to undertake a limited build for sale programme where opportunities exist to generate cross subsidy to support more affordable housing.
Optimum level of grant achieved from HCA/GLA enabling us to provide more homes	> We delivered the 2015-18 programme including an additional 106 units at Lea Bridge, single persons accommodation in East London, almost doubling the size of that scheme.

The high levels of demand for affordable rented homes and low cost home ownership properties in our areas of operation mean that developing new homes continues to be a priority for Paradigm. Factors affecting development include:

- > availability of land and sites, a particular constraint within Chiltern district where our original post-transfer properties are located
- > competition, from other registered providers and housebuilders; and planning restrictions
- > legislative change imposing rent cuts that affect the valuation of existing stock and gearing ratios, both of

which are key factors in the amounts we are able to borrow to develop more homes as well as the viability of schemes developed for affordable rent.

During 2017-18 we:

- > delivered 610 (2017: 403) new build properties, with a further 2,398 currently on-site
- > delivered our HCA and GLA commitments
- > continued our dialogue with Chiltern District Council to consider options for maximising the use of brownfield sites to support delivery of their Local Plan, signing a partnership agreement in May 2018

- > supported low-cost home ownership by selling 131 (2017:185) new homes under shared ownership arrangements, achieving income of £18.0m
- > sold 47 properties on the open market through our commercial subsidiary, achieving income of £14.5m and profits of £5.0m
- > completed the development at Lea Bridge to deliver 63 additional rooms for homeless people and to refurbish the remainder of the block to provide a total of 186 rooms, with support from the GLA under the Homelessness Change – Platform for Life programme



A new Development Strategy covering the next three years was approved in principle by the Board in April 2018. The Development and Sales directorate is the process of transformational change to deliver the new strategy which aims to deliver an average of 600 new homes per year, primarily for affordable tenures. We have stress tested our business plan to confirm that our development ambitions are consistent with our capability to deliver within the constraints of our treasury policy. Following conclusion of our Private Placement fund-raising in April 2018 we have increased our facilities by £60m, with a further £40m available in April 2019.

We built an extra 106 rooms at Lea Bridge House, our hostel for single homeless people in London.

INVESTING IN RESIDENTS AND COMMUNITIES

The Paradigm Foundation is a company limited by guarantee and a registered charity. The Foundation was launched in July 2013 and operates independently from Paradigm, although the Group is its principal donor (see Financial Statements note 34).

Key aims of the Foundation are:

- > supporting residents and their families into work, education and training
- > alleviating financial hardship through initiatives and small grants relating to income maximisation and financial welfare
- > encouraging community involvement through grant funding for small and larger community projects

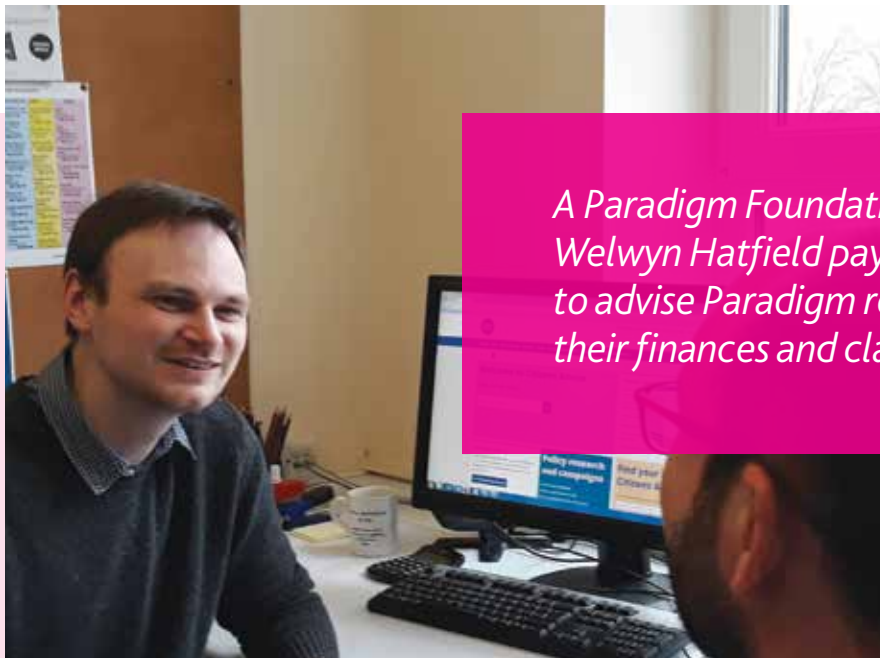
The Foundation is managed by its six trustees and achievements during 2017-18 include:

- > Supporting Citizens Advice across the areas in which Paradigm operates, to enable their work providing debt advice, counselling and support, with a further £25k to support the Bucks Money Advice Service

- > £193k grants provided to a number of other not-for-profit organisations and community groups to support a wide range of projects including: Contact Centres and Home Start, supporting children and families; Mind the Gap to support people with mental health needs; and New Meaning, offering further education and training to support access into work for young people in more deprived areas
- > 30 small individual grants allocated to Paradigm residents for education and training, including work-based schemes to help them into employment; and relief of financial hardship, including assistance with removal costs to help downsizing

- > Continued to support Bucks Money Advice Service (BMAS), established through joint working with Chiltern, Wycombe and Aylesbury Citizens Advice and providing consistent financial advice for residents across Buckinghamshire. The service has received publicity through the local press and via Citizens Advice; and takes direct referrals from Paradigm staff as well as being readily accessible to residents. Since its launch in June 2016 the service has provided support for over 400 people with a further 1,000 receiving advice from Chiltern Citizens Advice, delivering total financial benefits exceeding £700k for Paradigm residents
- > Promoted a similar joint approach across Hertfordshire, led by Welwyn Hatfield Citizens Advice so that even more people can benefit. In 2018-19 we anticipate further applications from Citizens Advice across the areas in which the Group operates to support bids for joint working arrangements that will benefit Paradigm residents directly.





A Paradigm Foundation award to Citizens Advice Welwyn Hatfield pays for a dedicated caseworker to advise Paradigm residents how to manage their finances and claim the right benefits.



Cash from the Paradigm Foundation has helped to save Buckingham Youth Club from closure.

DEVELOPING TALENT ACROSS THE BUSINESS

We recognise that the success of our business depends on the quality of managers and staff.

MANAGEMENT AND STAFF

Key initiatives in 2017-18 included:

- > a staff survey to measure staff opinion and offer an outlet for staff views and concerns. The response rate of 85% demonstrates strong engagement providing a good basis for understanding issues and formulating action plans to implement changes during 2018-19 that will address key concerns such as 'silo working' and communication
- > a new rewards strategy to ensure alignment with business objectives and maintain the competitive edge to help recruit and retain the best quality staff
- > continuing investment in a management and leadership development programme, including coaching and mentoring.

The intranet remains a communication channel for all staff and has been valuable for sharing information during a period of considerable change, including the restructuring of the Development and Sales Directorate to ensure effective delivery of our approved Development Strategy.

PENSIONS

Paradigm participates in pension schemes with two providers: the Pensions Trust (Social Housing Pension Scheme 'SHPS') and Buckinghamshire County Council Pension Fund 'BCCPF' (Financial Statements note 23).

The executive directors are members, on similar terms as other eligible staff, of one of the pension schemes in which the Group participates.

EQUALITY AND DIVERSITY

Paradigm has embedded equality and diversity within its governance and culture so that we take positive action to:

- > eliminate discrimination, harassment and victimisation
- > advance equality of opportunity
- > foster good relations between people
- > encourage people to participate in public life or in any other activity in which their participation is disproportionately low.

Our approach is to make sure we comply with both the letter and spirit of equality legislation as an employer and provider of social housing and related activities.

HEALTH AND SAFETY

The Board is aware of its responsibilities on all matters relating to health and safety. Paradigm has prepared and implemented detailed health and safety policies for both residents and staff. All staff receive relevant training and education on health and safety as part of induction and through personal training programmes and follow-on training.

Resident health and safety is high on our agenda with improvement works over the past three years including fire

doors and compartmentation across our housing stock. Since the Grenfell fire last year we have identified high risk properties, with factors being ACM cladding, building height and vulnerability of residents. We have taken action to mitigate the risks, for example by removing cladding where appropriate and implementing a rigorous inspection programme. The focus continues with the Audit & Risk Committee receiving compliance updates at every meeting and a named board champion for health and safety.

CAPITAL STRUCTURE AND TREASURY POLICY

Paradigm's capital structure is founded on long-term bank borrowings, spread across five main lenders, together with capital market bond issues. At 31 March 2018 the breakdown of borrowings was as set out in Figure 7:

Figure 7 Funding at 31 March 2018

	Arranged £m	Drawn £m	Undrawn £m
Bank loans	634.8	537.6	97.2
'Bond' issues	173.7	173.7	0.0
Total funding	808.5	711.3	97.2

The 'bond' issues have been through 'clubs' including: The Housing Finance Corporation (THFC), Affordable Housing Finance (through THFC), Haven Bond and GB Social Housing.

Borrowing facilities are at both fixed and floating rates of interest in order to manage exposure to interest rate fluctuations. Fixed rates of interest range from 1.939% to 7.00%. Floating rates are no more than 0.45% above the London Interbank Offered Rate

(LIBOR). The Group has no free-standing derivatives or swaps.

The Board approves the treasury policy and key strategic targets are:

- > no more than 75% of debt fixed for more than 20 years (compliant)
- > no more than 25% at variable or fixed rates for less than 5 years (compliant)
- > appropriate fixings and/or hedging in place to ensure that no more than 35% of debt can be exposed

to interest rate rises in any five year period (compliant)

- > a £30m 'buffer' to mitigate risks relating to sales demand and possible downwards pressure on house prices.

Paradigm borrows and lends only in sterling and is not exposed to currency risk.

At the year-end the group's drawn borrowings of £711.3m (2017: £751.0m) were repayable as shown in Figure 8:

Figure 8 Maturity profile

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Maturity					
Within one year	4.6	6.1	4.1	3.9	3.8
Between one and two years	12.0	4.5	6.0	4.0	3.9
Between two and five years	75.1	41.6	14.2	15.2	14.4
After five years	619.6	698.8	681.0	660.1	624.8
Total borrowings	711.3	751.0	705.3	683.2	646.9

Cash inflows and outflows are shown in the consolidated cash flow statement on page 47. The group net decrease in cash during the period was £6.5m (2017: increase £6.6m). Paradigm's lending agreements require compliance with a number of financial and non-financial loan covenants which are closely monitored and reported to Board each quarter. Recent reports confirmed that

the group was compliant with loan covenants at the balance sheet date and this is expected to continue in the foreseeable future.

New borrowing

Since the year-end additional funding has been secured through a Private Placement with Barings arranged by Santander. The agreement is for

two tranches: the first £60m drawn in April 2018 and the second £40m the following year. In addition we agreed a new £75m Revolving Credit Facility with Santander, increasing our capacity and enabling repayment of an existing facility with more onerous covenants that could have limited our development capability.

RISKS AND UNCERTAINTIES

Key risks to the delivery of Paradigm's plans are identified, reviewed and revised throughout the year by senior management, the Audit and Risk Committee (ARC) and the Board and are summarised below.

KEY RISK	ACTION TAKEN TO ADDRESS RISK
Funding availability/liquidity <ul style="list-style-type: none"> > solvency risk if liquid funds insufficient to meet obligations - leading to possible covenant breach > non-compliance with loan covenants – could lead to requirement to repay or reprice debt and possible action by regulator > shortage of security – affects ability to borrow or draw down funds and to deliver planned developments 	<ul style="list-style-type: none"> > clear treasury management strategy and policy, approved by the Board > regular communication with lenders to maintain strong relationships > close monitoring of lenders financial and non-financial covenants, reported to the Board > regular stress-testing of financial forecasts and plans together with implementation of Board approved mitigations (most recently in April 2018) > cash availability scrutinised and six month buffer maintained > negotiating and securing new facilities well in advance of need – quarterly reports to Board on assets available for charging and secured facilities
Development <ul style="list-style-type: none"> > failure to identify realistic development opportunities – affecting our ambition to grow by at least 600 new homes per year > reduction in grant support from HE and GLA – affecting scheme viability and affordability of homes > contractor failure during, or shortly after, construction process – delayed completion and possible cost implications > failure to implement robust development processes to ensure timely delivery within budget > properties not built to appropriate standard – failure to deliver quality parameters adversely affecting demand for properties > sales risk – failure of housing market or impairment of land value 	<ul style="list-style-type: none"> > rigorous review of development scheme appraisal by management and Development Panel > regular contact with HE and GLA on the development programme > enhanced credit checks through due diligence on new contractors and re- assessing existing contractors > implementation of new Development Strategy, including programme gateways to manage new acquisitions and monitor progress of schemes under development > in-house clerk of works overseen by experienced Quality/Technical manager to confirm compliance with building regulations and control; warranties secured to ensure contract delivery > weekly reports for management team on sales; flexibility to switch tenure types reduces exposure
Implementation or change of government policy <ul style="list-style-type: none"> > welfare reforms, in particular benefit cap and roll-out of Universal Credit – severe hardship for some residents leading to increased rent arrears significantly disrupting cashflow and leading to financial loss for the business > rent setting for social housing is now covered by the Welfare Reform legislation which is complex, in particular relating to those tenancies exempt from the requirement to reduce rents. The risk increased during the year when we identified a number of fair rents that had been incorrectly increased in 2016-17 and 2017-18 > pensions reporting is changing and this together with risk associated with changes in valuations of defined benefit pension schemes has increased the risks relating to pension costs and liabilities 	<ul style="list-style-type: none"> > monitoring rental arrears and working closely with tenants and tenancy sustainment team to recover these on a timely basis > strong focus on rent recovery processes, including recovering rent as soon as it falls due (at the beginning of the week or other rent period) > use of automated possession tracker to ensure legal process properly followed > external review of rent setting processes and testing of rent changes was commissioned during the year and concluded in April 2018. We are implementing the recommendations to strengthen our processes and credited those tenants who had been incorrectly charged. The overall impact for 2016-17 was £22k (affecting some 400 tenants) and £67k for 2017-18 (affecting some 450 tenants). The RSH was kept fully informed. > strategic review of pensions provision to be commissioned by September 2018

KEY RISK	ACTION TAKEN TO ADDRESS RISK
<p>Health and safety</p> <p>Effective management of health and safety risk is essential for our residents, staff and contractors as well as protecting our reputation. Key areas include:</p> <ul style="list-style-type: none"> > fire risk > gas safety > asbestos management > electrical testing > lift servicing and maintenance > third-party landlord property compliance 	<ul style="list-style-type: none"> > policies covering the key areas of health and safety are regularly updated and approved by Board. Policy review is monitored by management team > high risk properties, including consideration of vulnerability of residents identified and programme of fire risk assessments with follow up remedial work closely monitored to ensure timely completion. > compliance with gas safety testing, undertaken at every relevant property each year (key performance indicator) – with an important focus being accurate base data > asbestos specialist appointed to advise/support asbestos management in the Property Services team and develop a full asbestos register > at the request of the Board the electrical testing programme has been accelerated and progress is reported at ARC > lift servicing programme monitored through compliance scorecard reported at ARC > landlord obligations clearly set out within leases and a programme of visits to relevant properties has been established to confirm on-going compliance or specify works that must be undertaken to remedy any non-compliance
<p>Business development and information technology</p> <ul style="list-style-type: none"> > compliance with law and regulation, with new requirements under General Data Protection Regulation (GDPR) from May 2018 > major business continuity event including risk of network hacking and use of viruses to infect systems > failure to provide timely and accurate financial information and support, particularly in delivering the target operating model 	<ul style="list-style-type: none"> > GDPR consultant advised on compliance; data protection training mandatory for all staff; and policies and procedures updated to meet new GDPR requirements > external and internally configured firewalls are the first line of defence against viruses and network hacking with daily threat reporting. Programme of network penetration tests give additional assurance. Business continuity planning updated as project in 2018-19 > identification and implementation of new finance strategy, including restructure of the team, from July 2018
<p>Asset management and procurement</p> <ul style="list-style-type: none"> > inadequate investment in housing stock – non-compliance with regulatory expectations eg Decent Homes Standard adversely affecting demand for homes, reactive repair costs and reputation > failure to effectively procure and manage use of supply chain partners within property services and more widely in the business risks non-compliance with legislation and regulation and would have negative impact on VfM strategy 	<ul style="list-style-type: none"> > stock condition surveys carried out and data held centrally on asset management system; data cleansing exercise to ensure accuracy > investment works programme aligned with business plans annually and exercise in progress as part of implementation of asset management strategy to ensure accurately reflected in 30-year financial model > contract procurement managed centrally by a specialist team, ensuring legal and regulatory compliance, with anticipated on-going savings exceeding £1.7m per year (from 2018-19).

INTERNAL CONTROLS ASSURANCE

INTERNAL CONTROLS ASSURANCE

The Board acknowledges its ultimate responsibility for ensuring Paradigm has in place a system of controls that is appropriate to the various business environments in which it operates and for monitoring its effectiveness. The system is designed to manage the risk of failure to achieve business objectives and give reasonable assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by Paradigm is on-going and has been in place throughout the year under review and up to the date of approval of the report and financial statements. A summary of the main policies the Board has established and processes it has adopted is set out below:

- > formal policies and procedures are in place, including the documentation of key systems and clearly defined management responsibilities for the identification and control of significant risks
- > financial forecasts, budgets and business plans are prepared to support the Board and management as they monitor key business risks, financial objectives and progress towards financial objectives set for the year and the medium term
- > all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures by the Board
- > a comprehensive approach to treasury management has been adopted and this approach is reviewed by the Board at least once a year, with covenant compliance reviewed quarterly
- > the Board has approved fraud policies, covering the prevention,

detection and reporting of fraud, and the recovery of assets

- > the Board has approved anti-bribery and corruption policies
- > experienced and suitably qualified staff take responsibility for important business functions and annual appraisal procedures have been established to maintain standards of performance
- > the Board has delegated responsibility to the Audit and Risk Committee to review and report to the Board on reports from management, from the internal auditors and from the external auditors, to provide reasonable assurance that control procedures are in place and are being followed.

It is the Board's responsibility to establish and maintain a system of internal controls and review its effectiveness and whilst it cannot delegate this responsibility, it has delegated authority to an Audit and Risk Committee to regularly review the effectiveness of internal controls.

A fraud register is maintained and is reviewed by the Audit and Risk Committee at each meeting. The Group has not suffered significant financial loss as a consequence of any incidents or subsequent investigations which have led to staff dismissal. The Board receives and reviews the minutes of Audit and Risk Committee meetings.

The Audit and Risk Committee has received and considered the annual report of the internal auditor.

CHARITABLE DONATIONS

Charitable donations during the year were £0.35m (2017: £0.35m), primarily the donation to Paradigm Foundation. There were no political donations.

GOING CONCERN

Paradigm's business activities, current financial position and factors likely to affect future development are set out in this Strategic Report. The Group has in place long-term debt facilities (including £97.2m of undrawn facilities at 31 March 2018 and subsequent new borrowing through Private Placement in April 2018), which provide adequate resources to finance committed reinvestment and development programmes, along with the Group's day to day operations. Paradigm's business plan shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

We have stress-tested the business plan through modelling the impact of uncertainty and volatility in the financial and housing markets on our financial forecasts and covenants and confirm our expectation that the Group will remain compliant with loan covenants in both short and longer term.

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

STATEMENT OF RESPONSIBILITIES OF THE BOARD FOR THE REPORT AND FINANCIAL STATEMENTS

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

Co-operative and Community Benefit Society legislation requires the Board to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under Co-operative and Community Benefit Society legislation, the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the company and Group. In preparing those financial statements the Board are required to:

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

The Board is responsible for keeping proper accounting records that are sufficient to disclose with reasonable accuracy at any time the financial position of the Group and company and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014. It is also responsible for safeguarding the assets of the company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

At the date of making this report each of the Group's directors, as set out on page 2, confirms that in so far as each director is aware:

- > there is no relevant information needed by the Group's auditors in connection with preparing their report of which the Group's auditors are unaware
- > each director has taken all the steps that he or she ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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

STATEMENT OF COMPLIANCE

In preparing this Strategic and Board Report, the Board has followed the principles set out in the Statement of Recommended Practice (SORP): Accounting for registered social housing providers (2014).

The Board has considered the expectations of the RSH regarding compliance with the Governance and Financial Viability Standard (Regulator of Social Housing, April 2015) and has assessed the Group's compliance. As reported on page 25 the Group did not reduce rents for some fair rent properties in 2016-17 as set out in legislation. Rent credits amounting to £22k (2016-17) and £67k (2017-18) were applied to affected tenancies before the end of March 2018 to meet the requirements of the Welfare Reform Act 2016 for the year under review. The Board certifies the Group's compliance with the Governance and Financial Viability Standard for the period commencing 1 April 2017 to the date of this report.

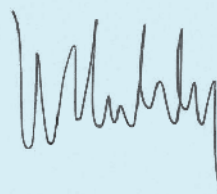
ANNUAL GENERAL MEETING

The annual general meeting will be held on 26 September 2018.

EXTERNAL AUDITORS

The re-appointment of RSM UK Audit LLP will be proposed at the forthcoming annual general meeting.

The report of the Board was approved by the Board on 11 July 2018 and signed on its behalf by:



Julian Ashby
Chair

FINANCIAL STATEMENTS





Tighter management of our contracts means we now have 95% satisfaction with our grounds maintenance contractors

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARADIGM HOUSING GROUP LIMITED

OPINION

We have audited the financial statements of Paradigm Housing Group Limited ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2018 which comprise the consolidated and company statements of comprehensive income, the consolidated and company statements of changes in reserves, the consolidated and company statements of financial position, the consolidated and company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standards applicable in the UK and Republic of Ireland".

In our opinion the financial statements:

- > give a true and fair view of the state of the Group's and Association's affairs as at 31 March 2018 and of the income and expenditure of the Group and the income and expenditure of the Association for the year then ended
- > have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- > have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- > the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- > the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion

on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- > A satisfactory system of control over transactions has not been maintained; or
- > the Association has not kept proper accounting records; or
- > the financial statements are not in agreement with the books of account of the Association; or
- > we have not received all the information and explanations we need for our audit.

RESPONSIBILITIES OF THE BOARD

As explained more fully in the Board's

Responsibilities Statement set out on page 37, the Board is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's

website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditors' report is Laragh Jeanroy.

USE OF OUR REPORT

This report is made solely to the Association's members as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.



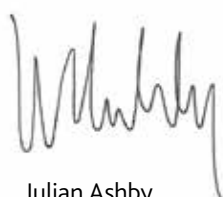
RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Abbotsgate House
Hollow Road
Bury St Edmunds
Suffolk
IP32 7FA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Notes	2018 £'000	2017 £'000
Turnover	2	123,942	136,720
Operating costs	2	(69,950)	(80,998)
Operating surplus	2	53,992	55,722
Gain on disposal of fixed assets (non operational)	4	6,370	7,156
Interest receivable	7	325	363
Interest payable and financing costs	8	(33,973)	(29,784)
Movement in fair value of investments		(83)	358
Disposal of subsidiary (WHFCT)		(1,028)	-
Surplus before tax		25,603	33,815
Taxation	10	-	(13)
Surplus for the financial year		25,603	33,802
Actuarial (loss)/gain in respect of LGPS pension scheme	23	600	(224)
Total comprehensive income for the year		26,203	33,578

The consolidated results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board on 11 July 2018 and signed on their behalf by:



Julian Ashby
Chair



John Simpson
Board member



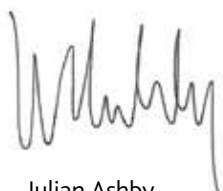
Ewan Wallace
Secretary

COMPANY STATEMENT OF COMPREHENSIVE INCOME	Notes	2018 £'000	2017 £'000
Turnover	2	20,415	20,037
Operating expenditure	2	(20,478)	(19,581)
Group donation		-	(225)
Operating (deficit) / surplus		(63)	231
Interest receivable	7	44	55
Interest payable and financing costs	8	(164)	(241)
(Deficit) / surplus before taxation		(183)	45
Taxation	10	-	-
(Deficit)/ surplus for the year		(183)	45
Actuarial gain / (loss) in respect of LGPS pension scheme	23	600	(224)
Total comprehensive income for the year		417	(179)

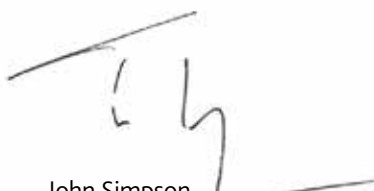
The company's results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board on 11 July 2018 and signed on their behalf by:



Julian Ashby
Chair



John Simpson
Board member



Ewan Wallace
Secretary

	Revenue Reserve	Revaluation Reserve	Restricted Reserve	Total Reserves
	£'000	£'000	£'000	£'000
CONSOLIDATED STATEMENT OF CHANGES IN RESERVES				
Balance as at 1 April 2016	407,310	105,295	229	512,834
Surplus for the year	33,802	–	–	33,802
Other comprehensive income for the year:				
Actuarial loss in respect of LGPS pension scheme	(224)	–	–	(224)
Transfer from revaluation reserve to income and expenditure reserves	597	(597)	–	–
Transfer of restricted income from unrestricted reserve	(3)	–	3	–
Balance as at 31 March 2017	441,482	104,698	232	546,412
Surplus for the year	25,603	–	–	25,603
Other comprehensive income for the year:				
Actuarial gain in respect of LGPS pension scheme	600	–	–	600
Transfer from revaluation reserve to income and expenditure reserves	39	(39)	–	–
Transfer from restricted reserves to income and expenditure reserve relating to disposal of WHFCT	232	–	(232)	–
Balance as at 31 March 2018	467,956	104,659	–	572,615

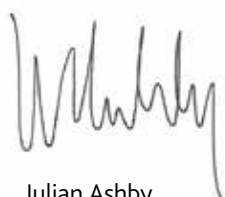
	Revenue reserve
	£'000
COMPANY STATEMENT OF CHANGES IN RESERVES	
Balance as at 1 April 2016	(9,731)
Surplus for the year	45
Other comprehensive expenditure for the year:	
Actuarial loss	(224)
Balance as at 31 March 2017	(9,910)
Deficit for the year	(183)
Other comprehensive income for the year:	
Actuarial gain	600
Balance as at 31 March 2018	(9,493)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

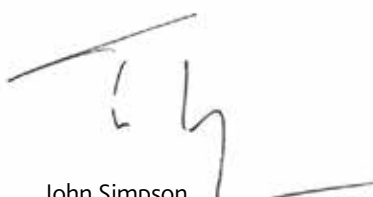
	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible fixed assets - housing properties	11	1,239,902	1,201,080
Other tangible fixed assets	12	10,930	11,474
Investment Properties	13	11,174	9,781
Investments - other	14	10,299	9,691
		1,272,305	1,232,026
Current assets			
Properties for sale	15	54,645	47,159
Debtors	16	10,613	14,489
Short term investments	17	1,110	50,765
Cash and cash equivalents		11,191	17,7118
		77,559	130,124
Creditors: amounts falling due within one year	18	(25,020)	(29,833)
Net current assets		52,539	100,291
Total assets less current liabilities		1,324,844	1,332,317
Creditors: amounts falling due after more than one year	19	(743,527)	(775,801)
Provisions for liabilities			
Net pension liability - SHPS	23	(5,715)	(6,669)
Net pension liability - LGPS	23	(2,830)	(3,290)
Other provisions	24	(157)	(145)
Total Net assets		572,615	546,412
Reserves			
Non equity share capital	26	–	–
Income and expenditure reserve		467,956	441,482
Revaluation reserve		104,659	104,698
Restricted reserve		–	232
Total reserves		572,615	546,412

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board on 11 July 2018 and signed on their behalf by:



Julian Ashby
Chair



John Simpson
Board member



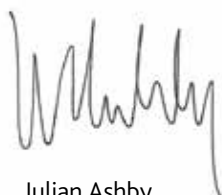
Ewan Wallace
Secretary

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2018 £'000	2017 £'000
Current assets			
Debtors	16	1,212	1,354
Cash at bank and in hand		1,534	1,500
		2,746	2,854
Creditors: amounts falling due within one year	18	(3,537)	(2,660)
Net current (liabilities)/assets		(791)	194
Provisions for liabilities			
Net pension liability - SHPS	23	(5,715)	(6,669)
Net pension liability - LGPS	23	(2,830)	(3,290)
Other provisions	24	(157)	(145)
Total net assets		(9,493)	(9,910)
Capital and reserves			
Non-equity share capital	26	–	–
Revenue reserve		(9,493)	(9,910)
Total reserves		(9,493)	(9,910)

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board on 11 July 2018 and signed on their behalf by:



Julian Ashby
Chair



John Simpson
Board member



Ewan Wallace
Secretary

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2018 £'000	2017 £'000
Net cash generated from operating activities	28	61,659	61,096
Cash flow from investing activities			
Purchase of fixed assets - housing properties		(58,330)	(35,655)
Purchase of other tangible fixed assets		(156)	(86)
Proceeds from sales of housing properties		13,776	17,413
Purchase of fixed asset investments		(673)	(753)
Grants received		5,194	2,240
Interest received		266	425
		(39,923)	(16,416)
Cash flow from financing activities			
Interest paid		(36,644)	(31,695)
Pension fund payments		–	(924)
New secured loans		68,000	77,902
Repayment of borrowings		(108,822)	(32,142)
Short term cash deposits		49,696	(50,697)
Grants repaid		–	(551)
Grants disposed		(485)	–
		(28,255)	(38,107)
Net change in cash and cash equivalents		(6,519)	6,573
Cash and cash equivalents at the beginning of the year		17,711	11,138
Cash and cash equivalents at the end of the year		11,192	17,711

COMPANY STATEMENT OF CASH FLOWS

	Notes	2018 £'000	2017 £'000
Net cash (used by)/generated from operations	28	(10)	(501)
Cash flow from investing activities			
Interest received		44	55
Net change in cash and cash equivalents		34	(446)
Cash and cash equivalents at the beginning of the year		1,500	1,946
Cash and cash equivalents at the end of the year		1,534	1,500

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The Group is a Community Benefit Society and is registered with both the Regulator of Social Housing and the Registrar of Co-operative and Community Benefit Societies.

Registered office and principal place of business: 1 Glory Park Avenue, Wooburn Green, Buckinghamshire, HP10 0DF.

The Group's principal activities are:

- > The provision of affordable housing for all age groups
- > Low cost home ownership
- > Temporary or permanent housing solutions to address homelessness issues.

Basis of accounting

The financial statements of the Group and association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice for Registered Social Housing Providers (SORP) 2014 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. The Association is a public benefit entity, part of a public benefit group.

The financial statements are presented in Sterling (£'000's except where indicated).

The financial statements have been prepared on the historical cost basis of accounting except for investments which are accounted for at fair value.

Reduced Disclosures

The individual accounts of Paradigm Housing Group have adopted the

following disclosure exemptions except for the disclosure exemptions from Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues.

- > financial instrument disclosures, including items of income, expenses, gains or losses relating to financial instruments; and exposure to and management of financial risks

Going concern

As noted in the Board Report on page 36 the Board has reasonable expectation that the Group and company will continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason it continues to adopt the going concern basis in the financial statements.

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Significant management judgements

Exemptions taken on transition to FRS 102

FRS 102 allows entities to elect to measure an item of property, plant and equipment at its fair value on the date of transition and to use that fair value as its deemed cost at that date. The Board has adopted this approach and applied the previous GAAP revaluation (at 31 March 2014) as deemed cost at 1 April 2014.

Impairment of housing properties

The Board has determined whether there are indicators of impairment of its assets and in particular of housing

properties carried in the accounts at cost or deemed cost on transition. Factors taken into consideration in reaching such a decision include economic viability and expected future financial performance of the assets.

Classification of financial instruments

In considering the appropriate classification of financial instruments as 'basic' or 'non-basic' the Board has reviewed the definitions given in FRS 102 clause 11 (d). When assessing the 'basic' nature of financial instruments, clause 11.9(b) refers to principal and current/prior interest. Under our agreements breakage costs are payable in respect of future interest payments so the Board does not consider these should be taken into account when assessing whether instruments are 'basic' or 'other'. In addition, clause 11.9(c) states that contractual terms which require the issuer to compensate the holder on early termination do not breach the 'basic' test. Whilst there is no specific mention of compensation from the holder back to the issuer, the Board does not consider silence to be grounds on which financial instruments should be classed as 'other'.

Estimates

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected use of the assets. Uncertainties in these estimates relate to technological innovation, maintenance programmes or changes in homes standards that may require more frequent replacement of key components.

Defined benefit obligation

Management's estimate of the defined benefit obligations (in both Local Government Pension Scheme and Social Housing Pension Scheme) is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact both defined benefit obligation and the annual defined benefit expenses (note 23).

Valuation of investment properties: Investment properties are included at fair value, being value after applying a discount to the open market value to reflect current assured shorthold tenancies.

Valuation of investment properties: The valuation advised by an independent qualified valuer reflects key assumptions regarding discount rate and inflation.

Related Party Transactions

The Group has taken advantage of the exemptions permitted under FRS 102 - Related Party Disclosures (Reference IAC 34), and does not disclose transactions with wholly owned group undertakings that are eliminated in consolidation.

Basis of consolidation

The Group accounts consolidate the accounts of the association and all its subsidiaries at 31 March 2018 using acquisition accounting. Details of subsidiaries are shown in note 33.

Turnover and revenue recognition

Turnover for the Group represents rental and service charge income receivable in the year, after deducting voids, income from shared ownership first-tranche sales, sales of properties built for outright sale and other services included at the invoiced value (excluding

VAT where recoverable) of goods and services supplied in the year and revenue grants receivable in the year.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting. Income from first tranche sale and sales of properties built for sale is recognised at the point of legal completion of the sale. Revenue grants are receivable when the conditions for receipt of agreed grant funding have been met. For the company, turnover represents management services to other members of the Group and other services. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with Administering Authorities.

Deferred taxation

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

For investment properties at fair value (except investment property with a limited useful life held by the company to consume substantially all of its economic benefits), deferred tax is measured using the tax rates and allowances that apply to the sale of the property.

Value Added Tax (VAT)

The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it

incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. The balance of VAT payable or recoverable at the year-end is shown as a current liability or asset.

Properties for sale

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 comprises materials, direct labour, direct development overheads, capitalised interest and where appropriate less any grant receivable. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Interest payable

Interest is capitalised on borrowings to finance developments of qualifying assets to the extent that it accrues in the period of development if it represents:

- a) interest on borrowings specifically financing the development programme after deduction of related grants received in advance; or
- b) a fair amount of interest on borrowings of the Group as a whole after deduction of government grants received in advance to the extent that they can be deemed to be financing the development programme.

Other interest payable on bank loans is charged to the income and expenditure account in the year in which it is incurred. Capitalised interest and interest on intercompany balances is calculated on a weekly basis at the Group's average external borrowing rate.

Pension costs

The Group participates in two funded multi-employer defined

benefit schemes, the Social Housing Pension Scheme (SHPS) and the Local Government Pension Scheme (LGPS).

For SHPS, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. However, in accordance with FRS 102, the company and Group recognise the deficit funding arrangement as a liability as a net present value of the contributions payable relating to the deficit.

For LGPS, scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit, adjusted for deferred taxation, is presented separately from other net assets on the statement of financial position. A net surplus is recognised only to the extent that it is recoverable by the Group through reduced contributions or through refunds from the plan.

The current service costs and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income.

The Group also participates in a defined contribution scheme and the income and expenditure charge represents the employer's contribution payable to the scheme for the accounting period.

Fixed asset investments

Fixed asset investments are stated at market value. Changes in fair value are taken to the Statement of Comprehensive Income.

Donated land

Land donated by local authorities and

others is added to cost at the market value of the land at the time of the donation. Where the land is donated by a public body an amount equivalent to the increase in value between market value and cost is added to other grants. Where the donation is from a non-public source, the value of the donation is included as income.

Housing properties

Housing properties are principally properties available for rent and shared ownership and are stated at deemed cost being the Existing Use Value - Social Housing valuation at 31 March 2014 plus subsequent additions at cost.

Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of improvements.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements.

Shared ownership properties are split proportionally between current and fixed assets based on the element relating to expected first-tranche sales. The first-tranche proportion is classed as a current asset and related sales proceeds are included in turnover, and the remaining element is classed as a fixed asset and is included in housing properties at cost, less any provisions needed for depreciation or impairment.

Depreciation of housing properties

The Group separately identifies the major components which comprise its housing properties, and charges depreciation, so as to write-down

the cost of each component to its estimated residual value, on a straight line basis, over its estimated useful economic life.

The Group depreciates the major components of its housing properties at the following rates:

Assets	Annual rates	Years
Structure	1.0%	100
Roofs	1.4%	70
Windows and doors	2.5%	40
Kitchens	3.3%	30
Bathrooms	2.5%	40
Heating systems	5.6%	18

Freehold land is not depreciated.

Completed shared ownership properties that are held as fixed assets are generally not depreciated. Where the residual value of the assets exceeds historic cost, due principally to the expectation that staircasing will occur within a reasonable timescale, no depreciation charge arises.

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

Impairment

Annually housing properties are assessed for impairment indicators. Where indicators are identified an assessment for impairment is undertaken comparing the asset's carrying amount to its recoverable amount. Where the carrying amount of an asset is deemed to exceed its recoverable amount, the asset is written down to its recoverable amount, this is likely to be the value in use of the asset based on its service potential. The resulting impairment loss is recognised as expenditure. Where an asset is currently deemed not to be providing service potential to the Group, its recoverable amount is its fair value

less costs to sell. The group considers local authorities areas to be separate Cash Generating Units (CGUs) when assessing for impairment, in accordance with the requirements of FRS 102 and SORP 2014.

Other tangible fixed assets

Depreciation is provided on the cost of other tangible fixed assets on a straight-line basis so as to write them down to their estimated residual values over their expected economic useful lives. The expected useful economic lives are:

Assets	Years
Freehold offices	30
Leasehold office improvements	30 (or the term of the lease, whichever is shorter)
Office equipment and computers	3 – 5
Office furniture	7
Telephone system	7
Scheme furniture and equipment	5 – 10
Photo voltaic panels	25

Investment properties

Investment properties consist of commercial properties and other properties not held for the social benefit or for the business. Investment properties are measured at cost on initial recognition and subsequently at fair value at year end, with changes in fair values recognised in income and expenditure.

Government grants

Government grants include grants receivable from the Regulator of Social Housing (RSH), local authorities and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure under the accruals model.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once reasonable assurance has been gained that the entity will comply with the conditions and that the funds will be received.

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

Government grants received in relation to housing properties are subordinated to the repayment of loans by agreement with Homes England (HE). Government grants released on sale of a property may be repayable but are normally available to be recycled and are credited to the Recycled Capital Grant Fund or Disposal Proceeds Fund and reflected in the Statement of Financial Position.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income.

Nomination grants

Where the Group receives a payment in return for nomination rights (where a council can select a new tenant for a housing association property) over a period of more than one year, the income is held as deferred income in the statement of financial position and amortised over the life of the nomination agreement. Each year an equal proportion of the income is credited to income, the balance remaining is shown as deferred income in the statement of financial position.

Other grants

Grants received from non-government sources are recognised using the

performance model. A grant which does not impose specified future performance conditions is recognised as revenue when the grant proceeds are received or receivable. A grant that imposes specified future performance-related conditions on the Association is recognised only when these conditions are met. A grant received before revenue recognition criteria are satisfied is recognised as a liability.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Current asset investments

Investments are stated at market value. Changes in market value are taken to the Statement of Comprehensive Income.

Reserves

The Group establishes restricted reserves for specific purposes where their use is subject to external restrictions and designated reserves where reserves are earmarked for a particular purpose.

Restricted reserve

These are funds which were only to be used within the objects of the Welwyn Hatfield Foyer Charitable Trust for the following restricted purposes:

- > to provide small grants to local employers to help them offer modern apprenticeships in areas of skill shortages to young people in the Welwyn Hatfield area
- > to provide general support for local employment and training schemes for young people in the Welwyn Hatfield area, linked to the Welwyn Hatfield Foyer project

- > to provide community initiatives in the Welwyn Hatfield area which support activities such as anti-poverty, community development, equality, economic regeneration and improving the environment.

The primary objective of the Welwyn Hatfield Foyer Charitable Trust is to relieve poverty by the provision of accommodation and any associated amenities for single homeless persons in necessitous circumstances between the ages of sixteen and twenty five years in the administrative area of Welwyn Hatfield, and to further help those so accommodated who are in need of advice, counselling and other forms of aid to find employment, training, education and other benefit to prepare them for a settled way of life in the community.

WHFCT had previously been consolidated however this year it has been identified that Paradigm do not have a controlling interest and this has now been disposed of.

Revaluation reserve

Before the properties were carried at deemed cost, whenever there was any re-valuation of housing properties, the difference between the valuation and carrying value of the land and structure elements of housing properties was credited to the revaluation reserve. Where such assets are disposed of any related revaluation surplus is transferred to the revenue reserve.

Operating leases

Rentals payable under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term.

Financial instruments

The Group has elected to apply the provisions of Section 11 'Basic Financial

Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument, and are offset only when the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

Debtors

Debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

Where the arrangement with a debtor constitutes a financing transaction, the debtor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

A provision for impairment of debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in profit or loss for the excess of the carrying value of the debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in the statement of comprehensive income.

Financial liabilities

Creditors

Creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Where the arrangement with a creditor constitutes a financial transaction, the creditor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar instrument..

Borrowings

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

Commitments to receive a loan are measured at cost less impairment.

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS *continued...*

2. Particulars of turnover, cost of sales, operating costs and operating surplus

	Turnover	2018		
		Cost of sales	Operating costs	Operating surplus / (deficit)
GROUP – CONTINUING ACTIVITIES	£'000	£'000	£'000	£'000
Social housing lettings (page 54)	87,765	–	(45,225)	42,540
Other social housing activities				
– Supporting People contract income	129	–	(136)	(7)
– Corporate services	227	–	(443)	(216)
– Development costs	–	–	28	28
– First tranche shared ownership sales	18,067	(12,243)	–	5,824
– Other support services	16	–	–	16
– Office equipment, other rental and licence fees	338	–	(882)	(544)
	18,776	(12,243)	(1,433)	5,101
Non-social housing activities:				
– outright property sales	14,490	(9,419)	–	5,071
– lettings	2,910	–	(1,631)	1,279
– other	–	–	–	–
	17,400	(9,419)	(1,631)	6,350
Total	123,942	(21,662)	(48,289)	53,992

	Turnover	2017		
		Cost of sales	Operating costs	Operating surplus / (deficit)
GROUP – CONTINUING ACTIVITIES	£'000	£'000	£'000	£'000
Social housing lettings (page 54)	86,727	–	(43,191)	43,536
Other social housing activities				
– Supporting People contract income	129	–	(123)	6
– Corporate services	217	–	(177)	40
– Development costs	–	–	(254)	(254)
– First tranche shared ownership sales	23,893	(13,880)	–	10,013
– Other support services	15	–	–	15
– Office equipment, other rental and licence fees	343	–	(885)	(542)
	24,597	(13,880)	(1,439)	9,278
Non-social housing activities:				
– outright property sales	22,111	(20,896)	–	1,215
– lettings	3,285	–	(1,557)	1,728
– other	–	–	(35)	(35)
	25,396	(20,896)	(1,592)	2,908
Total	136,720	(34,776)	(46,222)	55,722

COMPANY – CONTINUING ACTIVITIES	2018			
	Turnover	Donation	Operating costs	Operating surplus / (deficit)
	£'000	£'000	£'000	£'000
Other social housing activities	20,415	–	(20,478)	(63)
	20,415	–	(20,478)	(63)

	2017			
	Turnover	Donation	Operating costs	Operating surplus / (deficit)
	£'000	£'000	£'000	£'000
Other social housing activities	20,037	(225)	(19,581)	231
	20,037	(225)	(19,581)	231

There are no social housing lettings within the Company.

Particulars of income and expenditure from social housing lettings

GROUP – CONTINUING ACTIVITIES	2018				2017	
	General needs housing	Supported housing and housing for older people	Temporary social housing	Low cost home ownership	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Income:						
Rent receivable net of identifiable service charges	68,696	514	6,571	6,426	82,207	82,131
Service income	3,131	387	44	668	4,230	3,765
Fee income	–	–	1,096	–	1,096	663
Amortised government grants	147	–	–	–	147	132
Revenue grants	–	85	–	–	85	36
Turnover from social housing lettings	71,974	986	7,711	7,094	87,765	86,727
Operating costs:						
Management	4,546	409	1,041	833	6,829	6,151
Services	3,297	344	40	704	4,385	4,209
Routine maintenance	6,182	96	271	11	6,560	7,724
Planned maintenance	8,522	23	3	21	8,569	5,852
Bad debts	352	20	30	6	408	464
Property lease charges	14	–	6,098	–	6,112	6,570
Depreciation	11,509	50	–	–	11,559	11,338
Other costs	707	11	11	74	803	883
Operating costs of social housing lettings	35,129	953	7,494	1,649	45,225	43,191
Operating surplus from social housing lettings	36,845	33	217	5,445	42,540	43,536
Void losses	349	15	155	–	519	506

NOTES TO THE FINANCIAL STATEMENTS *continued...*

3. Accommodation in management and development

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

	Group 2018 Number of properties	Group 2017 Number of properties
Social housing		
General needs housing – social and intermediate rent	8,717	8,672
General needs housing – affordable rent	2,092	1,862
Supported housing and housing for older people	269	269
Low cost home ownership	2,023	1,893
Temporary social housing	46	45
Total owned	13,147	12,741
Temporary social housing – short leasehold	424	580
Accommodation managed for others	42	13
Total owned and managed	13,613	13,334
Non-social housing		
Market rented properties	249	186
Leasehold properties	756	711
Total owned and managed	1,005	897
Accommodation in development at 31 March:		
General needs housing	892	631
Low cost home ownership	1,440	980
Outright sales	66	23
Total under development	2,398	1,634

4. Surplus on sale of fixed assets

	Housing properties	Other fixed assets	Group 2018 Total £'000	Group 2017 Total £'000
Proceeds	13,882	–	13,882	17,413
Transfer to Recycled Capital Grant Fund	(1,050)	–	(1,050)	(1,493)
Net book value of properties sold	(6,355)	–	(6,355)	(8,560))
Other costs	(107)	–	(107)	(204)
	6,370	–	6,370	7,156

5. Employees

AVERAGE MONTHLY NUMBER OF EMPLOYEES EXPRESSED AS FULL TIME EQUIVALENTS	Group and Company	
	2018 Number	2017 Number
Administration	100	105
Development	26	27
Housing and support	95	87
Maintenance	156	175
	377	394

Full time equivalents are calculated based on a standard working week of 37 – 42.5 hours.

STAFF COSTS FOR EMPLOYEES INCLUDING EXECUTIVE DIRECTORS	Group and Company	
	2018 £'000	2017 £'000
Wages and salaries	14,994	14,278
Social security costs	1,433	1,386
Pension costs	889	843
	17,316	16,507

The staff numbers and costs above exclude non-executive members of the Board (note 6).

Pension costs relate to participation in the Local Government Pension Scheme (LGPS), in the Social Housing Pension Scheme (SHPS) or in defined contributions stakeholder arrangements. Further information on LGPS and SHPS is given in note 23.

THE FULL-TIME EQUIVALENT NUMBER OF STAFF INCLUDING DIRECTORS WHO RECEIVED EMOLUMENTS	Group and Company	
	2018 No.	2017 No.
£60,000 to £70,000	10	8
£70,001 to £80,000	6	2
£80,001 to £90,000	2	3
£90,001 to £100,000	1	1
£110,001 to £120,000	0	2
£120,001 to £130,000	0	1
£130,001 to £140,000	3	2
£140,001 to £150,000	1	0
£150,000 to £160,000	1	0
£250,000 to £260,000	0	1

NOTES TO THE FINANCIAL STATEMENTS *continued...*

6. Key management personnel remuneration

The aggregate remuneration for key management personnel, which includes the executive directors and other members of Senior management charged in the year	1,275,352	1,040,511
Highest paid director:		
Remuneration payable to the highest paid director (2018: Chief Executive, 2017: Interim Director of Property Services)	151,700	253,219

Chief Executive pension contributions:

The Chief Executive is an ordinary member of the Defined Contribution Social Housing Pension Scheme (SHPS) (See note 23). The Group pays 11% employer contributions on a matched basis and does not make a contribution to any other pension arrangement for the Chief Executive.

Board members emoluments payable to non-executives and executive are shown below

	Group and Company 2018 £	2017 £
Directors are defined as members of the Board, including the Chief Executive		
Executive directors	1,074,539	887,233
Non-executive directors	92,414	78,846
Aggregate remuneration payable to directors including pension contributions and benefits in kind	1,166,953	966,079

Payments to non-executive Board members on a named basis is disclosed in the Board report

7. Interest receivable and other income

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Interest receivable from short term deposits	325	363	–	–
Interest receivable from group companies	–	–	44	55
	325	363	44	55

8. Interest payable and similar charges

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Pension interest expense:				
Defined Benefit Scheme	82	101	82	101
Defined Contribution Scheme	82	140	82	140
	164	241	164	241
On bank loans, overdrafts and other loans:				
Interest paid on loans due within five years	1,120	1,036	–	–
Interest paid on loans due in more than five years	35,559	31,334	–	–
	36,679	32,370	–	–
Interest payable capitalised on properties in the course of construction	(2,870)	(2,827)	–	–
Total	33,973	29,784	164	241
Capitalisation rate used to determine the finance costs capitalised during the period	4.1%	4.4%		

9. Operating surplus

The operating surplus is arrived at after charging:

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Depreciation of housing properties	11,050	10,930	–	–
Depreciation of other owned fixed assets	695	700	–	–
Operating lease rentals				
- land and buildings	6,112	6,570	–	–
- office equipment and computers	–	–	–	–
Auditors' remuneration (excluding VAT)				
- Fees payable to the Association's auditors for the audit of the financial statements	48	44	3	3
- Audit of the financial statements of the Association's subsidiaries pursuant to legislation	9	9	–	–
Total audit services	57	53	3	3
- All other services	6	5	–	–
Total non-audit services	6	5	–	–

10. Taxation

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<i>UK Corporation tax</i>				
Current tax on income for the period	–	–	–	–
Adjustments in respect of prior years	–	13	–	–
Tax on surplus on ordinary activities	–	13	–	–

The tax charge for the period differs to the standard rate of corporation tax as explained below:

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Surplus/(Deficit) on ordinary activities before tax	25,603	33,815	(183)	45
Surplus on charitable activities	(27,602)	(33,076)	–	–
Surplus/(Deficit) from non-charitable activities	(1,999)	739	(183)	45
Tax on (deficit)/ surplus on ordinary activities at standard corporation tax rate of 19%	(380)	145	(35)	9
Effects of:				
Expenses not deductible for tax	46	(78)	–	–
Income not taxable for tax purposes	(264)	(14)	–	–
Other permanent differences	–	–	–	45
Amounts (charged)/credited directly to equity or otherwise transferred	(798)	–	114	–
Adjustments in respect of prior year - CT	(10)	13	10	–
Adjust closing deferred tax to average rate of 19%	195	–	195	–
Adjust opening deferred tax to average rate of 19%	(205)	–	(205)	–
Exempt profits adjustments	1,497	–	–	–
Deferred tax not recognised	(81)	(53)	(80)	(54)
Total current tax charge	–	13	–	–

Factors that may affect future tax charges

It was announced in the budget 8 July 2015 that the UK corporation tax rate will reduce to 19% from 1 April 2017. This rate was substantively enacted on 26 October 2015. Further reductions in the UK corporation tax rate to 17% from 1 April 2020 has also been announced and substantively enacted in September 2016.

Deferred tax balances have been stated at a rate at which the items are expected to reverse in line with the dates noted above.

11. Tangible fixed assets – Housing Properties – Group

	Housing properties held for letting £'000	Housing properties for letting under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	Total £'000
Cost					
At 1 April 2017	1,117,102	45,622	136,116	24,002	1,322,842
Additions	(458)	28,941	232	24,854	53,569
Property improvements	3,362	–	–	–	3,362
Transfers to completed schemes	49,943	(49,943)	13,703	(13,703)	–
First Tranche Adjustment	–	–	(2,962)	–	(2,962)
Disposals	(2,207)	–	(5,353)	–	(7,560)
Interest capitalised	–	1,646	–	612	2,258
At 31 March 2018	1,167,742	26,266	141,736	35,765	1,371,509
Less Depreciation and Impairment					
At 1 April 2017	107,055	–	14,707	–	121,762
Charge for the year	11,050	–	–	–	11,050
Eliminated in respect of disposals	(1,069)	–	(136)	–	(1,205)
At 31 March 2018	117,036	–	14,571	–	131,607
Net book value at 31 March 2018	1,050,706	26,266	127,165	35,765	1,239,902
Net book value at 31 March 2017	1,010,047	45,622	121,409	24,002	1,201,080
				2018 £'000	2017 £'000
Freehold land and buildings				1,115,760	1,073,736
Long leasehold land and buildings				122,537	125,417
Short leasehold land and buildings				1,605	1,927
				1,239,902	1,201,080
EXPENDITURE ON WORKS TO EXISTING PROPERTIES				2018 £'000	2017 £'000
Completed properties acquired				130	1,250
Components capitalised				3,362	5,750
Component write offs				(939)	(1,532)
Property Improvements				2,423	4,218
Other works to existing properties				51	62
Amounts capitalised				2,604	5,530
Amounts charged to income and expenditure				15,129	13,576
				17,733	19,106

NOTES TO THE FINANCIAL STATEMENTS *continued...*

SOCIAL HOUSING ASSISTANCE	2018 £'000	2017 £'000
Total accumulated social housing grant received or receivable at 31 March:		
Held as deferred income (note 22)	28,561	21,612
Recognised in the Statement of comprehensive income	313,767	315,877
Total government grant	342,328	337,489

Valuation of Housing Properties

Completed housing properties are shown at deemed cost with a revaluation relating to transitional value at 31 March 2014.

DEEMED COST AT 31 MARCH IS REPRESENTED BY:	2018 £'000	2017 £'000
Historical cost	1,266,850	1,218,144
Less: depreciation	(131,607)	(121,762)
Historical cost net book value	1,135,243	1,096,382
Revaluation reserve	104,659	104,698
Net book value at 31 March	1,239,902	1,201,080

12. Tangible fixed assets – other – Group

	Freehold office properties £'000	Leasehold office improvements £'000	Photo-voltaic panels £'000	Equipment, fixtures and vehicles £'000	Total £'000
Cost					
At 1 April 2017	12,321	1,609	1,027	1,592	16,549
Additions	–	–	–	150	150
Disposals	–	–	–	–	–
At 31 March 2018	12,321	1,609	1,027	1,742	16,699
Depreciation					
At 1 April 2017	3,152	744	214	965	5,075
Charge for the year	410	53	40	191	695
Disposals	–	–	–	–	–
At 31 March 2018	3,562	797	254	1,156	5,770
Net book value at 31 March 2018	8,759	812	773	586	10,930
Net book value at 31 March 2017	9,169	865	813	627	11,474

13. Investment properties, non-social housing properties held for letting

VALUATION	2018 £'000	2017 £'000
At 1 April	9,781	9,373
Additions	6	30
Disposals	(1)	(13)
Increase in value	1,388	391
At 31 March	11,174	9,781
Number of properties in ownership	61	61

Investment properties were valued at 31 March 2018. The group's investment properties have been valued by Savills (UK) Limited, part of the Savills Group, a general practice firm providing surveying and valuation services around the country. The full valuation of properties was undertaken in accordance with the Royal Institution of Chartered Surveyors' ("RICS") Valuation - Professional Standards UK, the "RICS Red Book", effective from 6 January 2014 (revised April 2015).

Market rent stocks have been valued on MV-STT to reflect the current assured shorthold tenancies.

In valuing the properties, a discounted cash flow methodology was adopted with the following key assumptions:

	2018	2017
Discounted rate (real)	6.25%	6.25%
Annual inflation rate (long term)	2.00%	2.00%

14. Investments

The long term investments relating to The Housing Finance Corporation, AHF Bond and Haven 32 are security deposits required in relation to the Association's bond funding with these organisations and are held at valuation.

	Group		Company	
LONG TERM INVESTMENTS	2018 £'000	2017 £'000	2018 £'000	2017 £'000
The Housing Finance Corporation Ltd	6,195	6,259	–	–
Haven Bond issues security deposit	712	729	–	–
AHF Bond	3,392	2,703	–	–
Valuation at 31 March	10,299	9,691	–	–
Cost at 31 March	8,086	7,413	–	–

	Group		Company	
MOVEMENT OF LONG TERM INVESTMENTS	2018 £'000	2017 £'000	2018 £'000	2017 £'000
At 1 April	9,691	8,595	–	–
Additions	673	723	–	–
Interest	18	14	–	–
Movements in Fair Value	(83)	359	–	–
Valuation at 31 March	10,299	9,691	–	–

NOTES TO THE FINANCIAL STATEMENTS *continued...*

15. Properties for sale

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Properties under construction	47,157	44,414	–	–
Completed properties	7,488	2,745	–	–
At 31 March	54,645	47,159	–	–

During the year interest costs directly attributable to the financing of properties for sale were capitalised at the rate of interest (4.1%).

16. Debtors

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Rent and service charges receivable	5,026	5,477	–	–
Less bad debt provision	(847)	(927)	–	–
	4,179	4,550	–	–
Social Housing Grant receivable	25	25	–	–
Prepayments and accrued income	4,000	5,057	271	186
Amount owed by group undertakings	–	–	75	–
Other debtors	2,409	4,857	866	1,168
At 31 March	10,613	14,489	1,212	1,354

17. Short term investments

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
32 day notice deposits and sinking fund	1,110	50,765	–	–
At 31 March	1,110	50,765	–	–

18. Creditors: Amounts falling due within one year

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade creditors	949	2,434	949	1,226
Loans repayable in less than one year	4,596	6,117	–	–
Amounts owed to Group undertakings	–	–	1,613	736
Rent and service charges in advance	4,734	4,126	–	–
Corporation tax	–	13	–	–
Other taxation and social security payable	1,156	332	598	360
Deferred capital grant (note 22)	243	411	–	–
Other creditors	930	983	–	–
Accruals and deferred income	12,412	15,417	377	338
At 31 March	25,020	29,833	3,537	2,660

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

	Group	
	2018 £'000	2017 £'000
Bank loans	706,648	744,931
Other loans	370	370
Deferred income	305	325
Recycled capital grant fund (note 20)	6,471	7,564
Disposal proceeds fund (note 21)	1,415	1,410
Deferred grant (note 22)	28,318	21,201
At 31 March	743,527	775,801

Bank loans

Of the £706,648k (2017: £744,931k) bank loans due after more than one year and drawn down at 31 March 2018, £594,648k (2017: £611,806k) was fixed with interest rates varying from 1.939% to 7.00%. The balance of £112,000k (2017: £133,125k) has interest rates varying from 0.32% to 0.45% above the London Inter-Bank Offer Rate.

These loans, and those repayable within one year, are secured by a first charge on 9,693 of the Group properties and are repayable as follows:

	Group	
	2018 £'000	2017 £'000
One year or more but less than two years	11,979	4,458
Two years or more but less than five years	75,109	41,583
Five years or more	619,560	698,890
At 31 March	706,648	744,931

Included in housing loans above are unamortised arrangement fees of £313k (2017: £333k). These fees are being amortised over the period of the loans which range from 9 years to 19 years.

Other loans

Represents deferred land acquisition costs of £370k which under certain circumstances is repayable to the New Towns Commission.

Deferred income

Deferred income represents payments in advance from a charitable organisation for nomination rights and other agreements, amortised over the remaining period of the agreements. The income is released on a straight line basis over the period of the agreement, there are between 1 and 18 years remaining.

20. Recycled capital grant fund

	Group HCA		Company GLA	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
At 1 April	4,346	4,306	3,218	2,436
Adjustment to opening balance	–	–	–	(153)
Inputs to fund:				
Grants recycled	721	572	543	921
Interest accrued	18	9	12	14
Recycling of grant				
Purchase and development of properties	(1,440)	(541)	(947)	–
At 31 March	3,645	4,346	2,826	3,218

Recycled Capital Grant Fund is capital grant provided through Homes England and local authorities which is repayable in certain circumstances, but for which the Group is proposing to exercise its option to recycle into new projects. Withdrawals from the Recycled Capital Grant Fund were used for the purchase and development of new housing schemes for letting and for approved works to existing properties. No amount is due for repayment to HE or GLA (2017: nil).

NOTES TO THE FINANCIAL STATEMENTS *continued...*

21. Disposal proceeds fund

		Group HCA	
		2018 £'000	2017 £'000
At 1 April		1,410	1,406
Inputs to fund:	Interest accrued	5	4
Withdrawals:	Acquisition of dwellings for letting	–	–
At 31 March		1,415	1,410

Disposal Proceeds Fund comprises the net proceeds from sales of housing properties to tenants under voluntary and statutory purchase grant schemes. Withdrawals from the Disposal Proceeds Fund were used for acquisition of dwellings for letting. No amount is due for repayment to HE (2017: nil).

22. Deferred capital grant

	Group		Group	
	2018 Completed schemes £'000	2018 Under construction £'000	2017 Completed schemes £'000	2017 Under construction £'000
GOVERNMENT GRANT				
At 1 April	14,216	7,396	13,420	6,635
Grant received in the year	–	7,581	–	2,240
Grant repaid in the year	–	–	–	(551)
Transfer to completed schemes	10,092	(10,092)	928	(928)
Disposal	(216)	(269)	–	–
	24,092	4,616	14,348	7,396
Grant Amortised	(147)	–	(132)	–
At 31 March	23,945	4,616	14,216	7,396
Amounts to be released within one year	243	–	142	269
Amounts to be released in more than one year	23,702	4,616	14,074	7,127
	23,945	4,616	14,216	7,396

23. Pension obligations

The Group contributes to two defined benefit schemes, the assets of which are held in separately administered funds under the management of Buckinghamshire County Council (Local Government Pension Scheme) and the Social Housing Pension Scheme administered by The Pensions Trust.

For the Social Housing Pension Scheme, there is not sufficient information to account for the scheme as a defined benefit scheme, so it is accounted for as a defined contribution scheme. However, in accordance with FRS 102, the company recognises the deficit funding arrangement as a liability as a net present value of the contributions payable relating to the deficit.

In accordance with FRS102, pension costs in relation to the Buckinghamshire County Council Pension Fund are recognised in the accounting period in which the benefits are earned and the related finance costs are recognised in the accounting period in which they arise. The pension costs are charged in the accounts in accordance with valuation advice prepared by qualified actuaries using the projected unit method. The assumptions which have the most significant effect upon these valuations are those relating to the difference between the rate of return on investments and the rate of increases in salaries and pensions.

The Pensions Trust – Social Housing Pension Scheme (SHPS)

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 £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

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

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

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

NOTES TO THE FINANCIAL STATEMENTS *continued...*

The Pensions Trust – Social Housing Pension Scheme (SHPS)

PRESENT VALUES OF PROVISION	2018 £'000	2017 £'000	2016 £'000
Present Value of Provision	5,715	6,669	7,273

RECONCILIATION OF OPENING AND CLOSING PROVISIONS	2018 £'000	2017 £'000
Provision at the start of the period	6,669	7,273
Unwinding of the discount factor (interest expense)	82	140
Deficit contribution paid	(961)	(924)
Remeasurements – impact of any change in assumptions	(75)	180
Provision at the end of the period	5,715	6,669

INCOME AND EXPENDITURE IMPACT	2018 £'000	2017 £'000
Interest Expense	82	140
Remeasurements – impact of any change in assumptions	(75)	180
	7	320

ASSUMPTIONS	2018 % per annum	2017 % per annum	2016 % per annum
Rate of discount	1.72	1.33	2.06

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.

23. Pension obligations (continued)

The following schedule details the deficit contributions agreed between the company and the scheme at each year end period:

	2018 £'000	2017 £'000	2016 £'000
THE PENSIONS TRUST - SOCIAL HOUSING PENSION SCHEME (SHPS)			
Year Ending			
Year 1	1,000	961	924
Year 2	1,041	1,000	961
Year 3	878	1,041	1000
Year 4	701	878	1041
Year 5	728	701	878
Year 6	588	728	701
Year 7	438	588	728
Year 8	451	438	588
Year 9	232	451	438
Year 10	–	232	451
Year 11	–	–	232
At 31 March	6,057	7,018	7,942

The company must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises.

It is these contributions that have been used to derive the company's balance sheet liability.

Retirement benefits – Buckinghamshire County Council Pension Fund

Some employees of the Group are admitted to the Buckinghamshire County Council Pension Fund ("the Fund"), which is administered by Buckinghamshire County Council in accordance with the Local Government Pension Scheme (LGPS) Regulations 2014, was contracted out of the State Second Pension until April 2016 and currently provides benefits based on career average revalued salary and length of service on retirement. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations.

The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

The contribution by the Group during the year was £67k covering an average of 8 employees (2017: £69k covering 9 employees) at a contribution rate of 17% (2017: 16%) of pensionable salaries. The Group estimates that the contribution to be paid to the fund during the accounting period commencing 1 April 2018 is £67 k at a contribution rate of 17 %. Employee contributions vary between 6.5% and 8.5% of pensionable pay.

Demographic/Statistical Assumptions

The demographic assumptions that have been used are consistent with those used for the most recent completed Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 85%. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% per annum.

NOTES TO THE FINANCIAL STATEMENTS *continued...*

The assumed life expectancy from age 65 are:

	At 31 March		
	2018	2017	2016
Retiring today			
Males	24.0	23.9	23.8
Females	26.1	26.0	26.2
Retiring in 20 years			
Males	26.2	26.1	26.1
Females	28.4	28.3	28.5

Financial Assumptions

The financial assumptions used for the purposes of the FRS102 calculations are as follows:

	At 31 March		
	2018	2017	2016
Salary Increases	3.85%	4.0%	4.0%
Pensions Increases	2.35%	2.5%	2.2%
Discount Rate	2.50%	2.5%	3.5%

These assumptions are set with reference to market conditions at 31 March 2018.

Our estimate of the Employer's past service liability duration is 15 years.

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

Similarly to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year

point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.35% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is a slightly higher deduction than at the last accounting date where we assumed that CPI was 0.9% lower than RPI

23. Pension obligations (continued)

Retirement Benefits – Buckinghamshire County Council Pension Fund (continued)

	2018 £'000	2017 £'000	2016 £'000
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018			
Present value of funded obligation	(12,877)	(13,188)	(11,661)
Fair value of scheme assets (bid value)	10,313	10,181	8,992
Net liability	(2,564)	(3,007)	(2,669)
Present value of unfunded obligation	(266)	(283)	(276)
Net defined benefit liability	(2,830)	(3,290)	(2,945)
ANALYSIS OF AMOUNT CHARGED IN THE INCOME AND EXPENDITURE ACCOUNT:			
		2018 £'000	2017 £'000
Service Cost		117	82
Administration Expenses		10	7
Operating costs sub-total		127	89
Net interest on the defined liability (asset)		82	101
Finance costs sub-total		82	101
Total expense		209	190

Sensitivity analysis

Sensitivities regarding the principal assumptions used to measure scheme liabilities are set out below:

ADJUSTMENT TO THE DISCOUNT RATE:	0.10% £'000	0.00% £'000	-0.10% £'000
Present value of total obligation	12,955	13,143	13,333
Projected service cost	110	113	116
ADJUSTMENT TO LONG TERM SALARY INCREASE:	0.10% £'000	0.00% £'000	-0.10% £'000
Present value of total obligation	13,155	13,143	13,131
Projected service cost	113	113	113
ADJUSTMENT TO PENSION INCREASES AND DEFERRED REVALUATION:	0.10% £'000	0.00% £'000	-0.10% £'000
Present value of total obligation	13,322	13,143	12,966
Projected service cost	116	113	113
ADJUSTMENT TO LIFE EXPECTANCY ASSUMPTIONS:	+1 year £'000	none £'000	-1 year £'000
Present value of total obligation	13,696	13,143	12,612
Projected service cost	117	113	110

Contributions to other pension schemes

The Group did not make any contributions to other pension schemes in the year (2017: £nil).

NOTES TO THE FINANCIAL STATEMENTS *continued...*

CHANGES IN PRESENT VALUE OF DEFINED BENEFIT OBLIGATION:	2018 £'000	2017 £'000
Opening balance defined benefit obligation	13,471	11,937
Current service cost	117	82
Interest cost	331	407
Change in financial assumptions	(277)	2,102
Change in demographic assumptions	-	(379)
Experience gain on defined benefit obligation	-	(78)
Estimated benefits paid net of transfers in	(498)	(601)
Contributions by scheme participants	20	21
Unfunded pension payments	(21)	(20)
Closing defined benefit obligation	13,143	13,471

CHANGES IN VALUE OF SCHEME ASSETS:	2018 £'000	2017 £'000
Opening fair value of scheme assets	10,181	8,992
Interest on assets	249	306
Return on assets less interest	323	1,219
Other actuarial gains/(losses)	-	202
Administration expenses	(10)	(7)
Contributions by employer including unfunded	69	69
Contribution by scheme participants	20	21
Estimated benefits paid including unfunded benefits	(519)	(621)
Fair value of scheme assets at end of period	10,313	10,181

The total return on the fund assets for the year to 31 March 2018 is £572,000 (2017: £1,525,000).

RE-MEASUREMENTS IN OTHER COMPREHENSIVE INCOME	2018 £'000	2017 £'000
Return on fund assets in excess of interest	323	1,219
Other actuarial gains/(losses) on assets	-	202
Change in financial assumptions	277	(2,102)
Change in demographic assumptions	-	379
Experience gain/(loss) on defined benefit obligation	-	78
Remeasurement of the (defined liability)/net assets	600	(224)

24. Holiday pay

	Group and Company	
	2018 £'000	2017 £'000
As at 1 April	145	152
Increase/(Decrease) in provision	12	(7)
As at 31 March	157	145

25. Deferred Tax

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

The elements of deferred taxation are as follows:

	Unprovided deferred tax			
	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Difference between accumulated depreciation and amortisation and capital allowances	(10)	(10)	(10)	(10)
Pension scheme deficit	(1,729)	(1,729)	(1,729)	(1,729)
Deferred tax asset	(1,739)	(1,739)	(1,739)	(1,739)

The above deferred tax assets have not been recognised due to uncertainties as to the extent and timing of its future recovery.

26. Non-equity share capital

	Company	
	2018 £	2017 £
Allotted, issued and fully paid		
At 1 April	10	9
Issued during the year	–	–
Surrendered during the year	(1)	1
At 31 March	9	10

Each member of the Board, apart from the co-opted members, holds one ordinary share of £1 in the Company.

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

27. Financial assets and liabilities

	Group	
	2018 £	2017 £
Instruments measured at Fair Value	6,639	6,722
Financial assets that are debt instruments measured at amortised cost	8,414	9,388
Financial liabilities measured at amortised cost	761,854	(768,963)
At 31 March	776,907	(752,853)

NOTES TO THE FINANCIAL STATEMENTS *continued...*

28. Net cash generated from operations

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Surplus for the year	25,603	33,802	(183)	45
Adjustments for non-cash items:				
Depreciation of housing properties	11,050	9,776	–	–
Depreciation of other fixed assets	695	–	–	–
Increase in properties for sale	(3,912)	(1,746)	–	–
Decrease / (increase) in debtors	3,878	(4,924)	142	15,742
(Decrease) / increase in creditors	(1,545)	2,384	877	(15,743)
Increase in provisions	12	–	12	–
Pension costs less contributions payable	(978)	658	(978)	658
Movement in fair value of investments	(1,305)	(777)	–	–
Carrying amount of tangible fixed asset disposals	7,512	10,258	–	–
Remeasurement in LGPS scheme	–	(224)	–	–
Disposal of subsidiary	1,028	–	–	–
Adjustments for investing or financing activities:				
Net gain on sale of fixed assets	(13,882)	(17,413)	–	–
Amortised grants	(147)	(132)	–	–
Interest payable	33,973	29,784	164	–
Interest received	(325)	(363)	(44)	(55)
Taxation	–	13	–	–
Net cash generated from operations	61,659	61,096	(10)	647

29. Leasing commitments

The future minimum lease payments of leases are as set out below. Leases relate to temporary housing properties leased from landlords and lease van rental.

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Operating lease payments are as follows:				
Within one year	3,840	4,304	615	611
Between one and five years	4,313	6,860	1,623	2,182
At 31 March	8,153	11,164	2,238	2,793

30. Capital commitments

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Capital expenditure contracted for but not provided for in the financial statements	68,729	115,259	–	–
Capital expenditure that has been authorised by the Board but not contracted for	97,238	53,206	–	–
At 31 March	165,967	168,465	–	–

The above commitments will be financed primarily through borrowings of £97.3m (2017: £85.3m) which are available for draw-down under existing loan arrangements (note 31), with the balance of £68.6m (2017: £83.2m) partly funded through short term investments of £1.1m (2017: £50.8m), and the issue of unlisted private placement bond post year end of £100m. These commitments will additionally be supported by Social Housing Grant and income from property sales.

31. Borrowing facilities

The Group's undrawn committed borrowing facilities available at 31 March were as follows:

	Group	
	2018 £'000	2017 £'000
Expiring in more than two years	97,296	85,333

32. Contingent assets and liabilities

The Group and Company had no contingent assets or liabilities at 31 March 2018 (2017: £nil).

33. Subsidiaries

The following are subsidiary undertakings by virtue of the ability of the Company to control the composition of their boards or by exercising dominant influence.

Undertaking	Country of registration	Principal activity	Class of shares	% of shares held
Paradigm Homes Charitable Housing Association Limited	England	Provision of social housing	Ordinary	100%
Paradigm Commercial Plc	England	Provision of housing for rent	Ordinary	100%
Paradigm Development Services Limited	England	Provision of development services	Ordinary	100%
Paradigm Maintenance Limited	England	Provision of maintenance services	Ordinary	100%
Welwyn Hatfield Foyer Charitable Trust	England	Foyer support and training	None	
Mary Bailey-Smith Almshouses	England	Provision of almshouses	None	

Principal place of business for the above entities is 1 Glory Park Avenue, Wooburn Green, Buckinghamshire HP10 0DF.

The results of all subsidiaries are consolidated into the results of the Group.

During the year the Company had the following intra-group transactions with its non-regulated subsidiaries:

MANAGEMENT SERVICES PROVIDED BY THE COMPANY TO:	Allocation basis	2018 £'000	2017 £'000
Paradigm Commercial Plc	Accommodation units	32	30
Paradigm Development Services Limited	Payroll costs	1,985	1,956
Paradigm Maintenance Limited	Headcount	10,517	10,746
		12,534	12,732

At 31 March the intra-group balances between these companies and Paradigm were:

	2018 £'000	2017 £'000
Paradigm Commercial Plc	–	–
Paradigm Development Services Limited	75	196
Paradigm Maintenance Limited	–	–

Management services provided by the Company include administration and management of financial ledgers. The year end balances of subsidiaries include debtor and creditor transactions. Interest is charged on the weighted average balance at 4.4% (2017: 4.4%).

NOTES TO THE FINANCIAL STATEMENTS *continued...*

34. Related undertakings

Paradigm Foundation was incorporated on 17 July 2013 and is a registered charity. All decision making is the responsibility of a board of six trustees, of whom two, Jane Harrison and Ewan Wallace, are employees of Paradigm. Paradigm does not control the composition of the board of Trustees of the Foundation but is the Foundation's principal donor.

During the year Paradigm Housing Group Ltd paid donations of £350,000 (2017: 350,000) to Paradigm Foundation.

The Welwyn Hatfield Foyer Charitable Trust (WHFCT) was incorporated on 19 April 2001 and is a registered charity. All decision making is the responsibility of a board of three trustees, of whom one, Jane Harrison, is an employee of Paradigm. Paradigm does not control the composition of the board of Trustees. Welwyn Hatfield Foyer Charitable Trust (WHFCT) was previously consolidated in the Group accounts on the basis of control by the Board. On review, the Board does not control the Trustees and Welwyn Hatfield Foyer Charitable Trust (WHFCT) has been excluded from the consolidation. The consequent adjustment to reserves is as follows:

	£'000
Restricted reserves	232
Unrestricted reserves	796
	1,028

35. Legal status

The Company is a Community Benefit Society which was incorporated as an Industrial & Provident Society (IPS). The legislation that governs the Society is the Co-operative and Community Benefit Societies Act 2014. The regulator is the Financial Conduct Authority. The Company is also registered with the Regulator of Social Housing.





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