Annual Return (AR30) form

Section 1 – About this form

An Annual Return must be completed by all societies registered under the Co-operative and Community Benefit Societies Act 2014 ('the Act') (including any societies previously registered under the Industrial and Provident Societies Act 1965) or the Co-operative and Community Benefit Societies Act (Northern Ireland) 1969 ('the Act') (including any societies previously registered under the Industrial and Provident Societies Act 1969). The Annual Return must include:

- this form;
- a set of the society's accounts; and
- where required, an audit report or report on the accounts.

A society must submit the Annual Return within 7 months of the end of the society's financial year. Failure to submit on time is a prosecutable offence.

Please note that this form, including any details provided on the form, will be made available to the public through the Mutuals Public Register https://mutuals.fca.org.uk.

For guidance on our registration function for societies under the Co-operative and Community Benefit Societies Act 2014, which includes guidance on the requirement to submit an Annual Return, please see here: https://www.fca.org.uk/publication/finalised-guidance/fg15-12.pdf

Section 2 – About this application

Society name	Town and Country Housing Group
Register number	30167R
Registered address	Monson House, Monson Way, Tunbridge Wells, Kent
Postcode	TN1 1LQ

2.1 What date did the financial year covered by these accounts end?

3	1	0	3	2	0	1	9

Section 3 – People

3.1 Please provide the names of the people who were directors of the society during the financial year this return covers. Some societies use the term 'committee member' or 'trustee' instead of 'director'. For ease of reference, we use 'director' throughout this form.

Name of director	Month and year of birth	
Francis Salway	October	1957
Graham Hill	October	1960
Mark Dickinson	March	1968
Mark Easton	February	1953
Melanie Forrester	June	1969
Marianne Ismail	March	1952
Valerie Marshall	March	1945
Gaylene Kendall	March	1968
Chris Starke	November	1962
Kim Hill	November	1962
Robert Heapy	December	1958

Continue on to a separate sheet if necessary.

3.2 All directors must be 16 or older. Please confirm this is this case:

All directors are aged 16 or over ☒

3.3 Societies are within the scope of the Company Directors Disqualification Act 1986 (CDDA). Please confirm that no director is disqualified under that Act:

No director is disqualified ☒

3.4 Please state any close links which any of the directors has with any society, company or authority. 'Close links' includes any directorships or senior positions held by directors of the society in other organisations.

Francis Salway	– Retired Chief Executive, Land Securities plc; Non-Executive Director of Next plc; Chairman, The London Community Foundation; Chairman, Transport for London Property Advisory Group.
Graham Hill	- Retired/ Consultant Trustee Kent Wildlife Trust.
Mark Dickinson	– Managing Director of Anthology, London (a residential property development company).
Mark Easton	- Housing Consultant.
Melanie Forrester	– Shared Ownership Resident; Learning & Development Manager with Cripps LLP.
Marianne Ismail	- Private Equity Consultant.
Robert Heapy	- Chief Executive, Town & Country Housing; Trustee/ Non-Executive Director, The Work People, Hastings Work; Director, Monson Homes Limited; Director, TCHG Living Limited; Director, Countrywise Repairs Limited; Director/ Trustee, TCHG Foundation.
Kim Hill	- Tenant; School Liaison Officer
Gaylene Kendall	- Group Tax and Treasury Director, Kingfisher plc.
Valerie Marshall	- Chief Executive, Stratagem Corporate Finance and Strategy Ltd.
Christopher Starke	– Finance Director, Phoenix Community Housing.

3.5 Please provide the name of the person who was secretary at the end of the financial year this return covers. Societies must have a secretary.

Name of secretary	Month and year of birth	
Robin Tebbutt	**Feb**	**1964**

Section 4 – Financial information

4.1 Please confirm that:

accounts are being submitted with this form	☒
the accounts comply with relevant statutory and accounting requirements	☒
the accounts are signed by two members and the secretary (3 signatures in total)	☒

4.2 Based on the accounts, please provide the information requested below for the financial year covered by this return.

Number of members	**11**
Turnover	**£64,686,000**
Assets	**£824,293,000**
Number of employees (if any)	**195**
Share capital	**£11**
Highest rate of interest paid on shares (if any)	

4.3 What Standard Industrial Classification code best describes the society's main business? Where more than one code applies, please select the code that you feel best describes the society's main business activity. You will find a full list of codes here: http://resources.companieshouse.gov.uk/sic/

68201

Section 5 – Audit

Societies are required to appoint an auditor to audited unless they are small or have disapplied this requirement. For further guidance see chapter 7 of our guidance: https://www.fca.org.uk/publication/finalised-guidance/fg15-12.pdf

5.1 Please select the audit option the society has complied with:

Full professional audit	☒
Auditor's report on the accounts	☐
Lay audit	☐
No audit	☐

5.2 Please confirm the audit option used by the society is compliant with the society's own rules and the Act

We have complied with the audit requirements ☒

5.3 Please confirm any audit report (where required) is being submitted with this Annual Return

Yes	☒
Not applicable	☐

The information below impacts the level of audit required of the society's accounts. Please provide answers to the following questions.

5.4 Is this society accepted by HM Revenue and Customs (HMRC) as a charity for tax purposes?

Yes ☒

No ☐

5.5 If the society is registered with the Office of the Scottish Charity Regulator (OSCR) please provide your OSCR registration number.

Not applicable ☒

OSCR number:	

5.6 Is the society a housing association?

No ☐ Go to **section 6**

Yes ☒ Go to question **5.7**

5.7 Please confirm which housing regulator you are registered with, and provide the registration number they have given you:

		Registration number
Homes and Communities Agency	☐	L4251
Scottish Housing Regulator	☐	
The Welsh Ministers	☐	
Department for Communities (Northern Ireland)	☐	

Section 6 – Subsidiaries

6.1 Is the society a subsidiary of another society?

Yes ☐

No ☒

6.2 Does the society have one or more subsidiaries? (As defined in sections 100 and 101 of the Act)

Yes ☒ Continue to question 6.3

No ☐ Continue to Section 7

6.3 If the society has subsidiaries, please provide the names of them below (or attach an additional sheet)

Registration Number	Name
26702R	**TCHG Living Limited**
6254511	**TCHG Foundation**
5880788	**Monson Homes Limited**
7947560	**Countrywise Repairs Limited**

6.4 Please provide below (or on a separate sheet) the names of subsidiaries not dealt with in group accounts (if any) and reasons for exclusions: (the society must have written authority from us to exclude a subsidiary from group accounts)

Registration Number	Name	Reason for exclusion

Section 7– Condition for registration

All societies are registered meeting one of two conditions for registration. These are that the society is either:

- a bona fide co-operative society ('co-operative society'); **or**
- are conducting business for the benefit of the community ('community benefit society').

A society must answer the questions set out in either Section 7A or Section 7B of this form, depending on which condition of registration it meets.

If you are not sure which condition for registration applies to the society please see chapters 4 and 5 of our guidance:
https://www.fca.org.uk/publication/finalised-guidance/fg15-12.pdf

Section 7A - Co-operative societies

Co-operative societies must answer the following questions in relation to the financial year covered by this return.

7A.1 What is the business of the society? For example, did you provide housing, manufacture goods, develop IT systems etc.

7A.2 Please describe the members' common economic, social and cultural needs and aspirations. In answering this question, please make sure it is clear what needs and aspirations members had in common.

7A.3 How did the society's business meet those needs and aspirations? You have described the society's business answer to question 7A.1, and in question 7A.2 you have described the common needs and aspirations of members. Please now describe how during the year that business met those common needs and aspirations.

7A.4 How did members democratically control the society? For example, did the members elect a board at an annual general meeting; did all members collectively run the society.

7A.5 What did the society do with any surplus or profit? For instance, did you pay a dividend to members (and if so, on what basis); did money get reinvested in the business; put into reserves; used for some other purpose?

Section 7B - Community benefit societies

Community benefit societies must answer the following questions in relation to the financial year covered by this return.

7B.1 What is the business of the society? For example, did you provide social housing, run an amateur sports club etc.

The society benefits poor people, old people, disabled (physically or mentally) people or chronically sick people.

7B.2 Please describe the benefits to the community the society delivered? Here we are looking to see *what* the benefits to the community were. Community can be said to be the community at large. For example, did you relieve poverty or homelessness through the provision of social housing.

The provision of affordable housing which allowed people to house themselves more cheaply and with better security of tenure than on the open market. This increases their overall chances in society. The provision of specialist, adapted and supported accommodation and the provision of support services for those in need by reason of their age or disability/ health allowed such people to secure appropriate accommodation where this might otherwise have been unavailable and to receive services that relieved their needs. These activities meet a clear need within the communities in which the society operates and increases the residents' overall chances in society.

7B.3 Please describe how the society's business delivered these benefits? The business of the society must be conducted for the benefit of the community. Please describe *how* the society's business (as described in answer to question 7B.1) provided benefit to the community.

The provision of affordable housing which allowed people to house themselves more cheaply and with better security of tenure than on the open market. This increases their overall chances in society. The provision of specialist, adapted and supported accommodation and the provision of support services for those in need by reason of their age or disability/ health allowed such people to secure appropriate accommodation where this might otherwise have been unavailable and to receive services that relieved their needs. These activities meet a clear need within the communities in which the society operates and increases the residents' overall chances in society.

7B.4 Did the society work with a specific community, and if so, please describe it here? For instance, were the society's activities confined to a specific location; or to a specific group of people? Please note that in serving the needs of any defined community, the society should not inhibit the benefit to the community at large.

The society is based in the South East of England

7B.5 What did the society do with any surplus or profit? For instance, did you donate the money; did money get reinvested in the business; put into reserves; used for some other purpose?

Surpluses were reinvested in the business to ensure that the society continued to further its objects by providing social and other housing, amenities, services, facilities and assistance for the prevention or relief of poverty and the relief of those in need.
Profits cannot be distributed to shareholders.

7B.6 Please state any significant commercial arrangements that the society has, or had, with any other organisation that could create, or be perceived as creating, a conflict of interest. Please tell us how you ensured that any such conflict of interest did not prevent the society from acting for the benefit of the community.

N/A

Section 8– Declaration

The secretary of the society must complete this section.

Name	**Robert Heapy**
My signature below confirms that the information in this form is accurate to the best of my knowledge	
Signature	R. W. Heapy.
Position	**Company Secretary**
Date	

Section 9 – Submitting this form

Please submit a signed, scanned version of this form along with your accounts and any auditor's report by email to: mutualsannrtns@fca.org.uk.

Or you can post the form to:

Mutual Societies
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

This form is available on the Mutuals Society Portal:
https://societyportal.fca.org.uk

TOWN AND COUNTRY HOUSING

Report and Financial Statements
for the year ended
31 March 2019

Registered Society number 30167R
Homes and Communities Agency Registration number L4251

TOWN AND COUNTRY HOUSING
Year ended 31 March 2019

REPORT AND FINANCIAL STATEMENTS

CONTENTS

BOARD, DIRECTORS, ADVISERS AND BANKERS

BOARD MEMBERS

Francis Salway, (Chair)
Graham Hill, (Vice-Chair and Chair of Audit and Risk Committee)
Mark Easton, (Chair of Customer Services Committee)
Robert Heapy, (Executive Member and Chair of TCHG Living and TCHG Foundation)
Kim Hill
Marianne Ismail (Chair of Nominations Committee)
Christopher Starke
Gaylene Kendall
Valerie Marshall
Mark Dickinson, (Chair of Monson Homes and Chair of Development Committee)
Melanie Forrester
Deirdre Moss, *(appointed May 2019)*

EXECUTIVE DIRECTORS

Robert Heapy, Chief Executive
Robin Tebbutt, Finance Director, Company Secretary *(to May 2019)*
Jo Ellis, Operations Director
Colin Lissenden, Development Director

AUDITORS

External
BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA

Internal
Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

BANKERS

Lloyds Bank PLC
HSBC PLC
Handelsbanken PLC

LEGAL STATUS

Registered under the Co-operative and Community Benefit Societies Act 2014 number: 30167R
Registered under Section 3 of the Housing and Regeneration Act 2008 number: L4251

REGISTERED OFFICE

Monson House, Monson Way, Tunbridge Wells, Kent, TN1 1LQ

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2019

CHAIR'S INTRODUCTION

During our 2018/19 financial year we agreed to merge with Peabody Trust ('Peabody'), and the merger was subsequently completed on 9 May 2019. Peabody is a housing association with over 55,000 homes. As Town & Country Housing Group has approximately 9,000 homes, we become part of a larger group. However, Peabody wishes to maintain Town & Country Housing, as renamed, as a separate subsidiary company with local decision making on operations.

For both Town & Country and Peabody, the primary rationale for the merger is to increase the number of new homes developed. For Town & Country, we plan to move incrementally from our current annual delivery of around 300 homes towards a targeted annual delivery of 800 homes. For Peabody, the rationale is to use the skills and local expertise of Town & Country to deliver new homes across a wider geographical area within London's hinterland which offers more development opportunities. We also believe that with the trend for delivery of resident services using IT and digital interaction, we and our residents will benefit from the greater sophistication and economies of scale with IT that are opened up by being part of a larger organisation.

It is a testament to the strength of Peabody's reputation that the merger has been well received by our stakeholders across Kent and East Sussex. At the top of the list of our 'stakeholders', I include our residents who were formally consulted as part of the merger process.

Notwithstanding the time required to undertake due diligence and execute a merger, our team has continued to meet high standards on delivery of services to our residents and has also stepped up the scale of our development programme. Resident satisfaction with our responsive repairs service was 91.3% and satisfaction with the quality of these repairs was 92.3%.

In terms of our financial performance, we:

- Achieved a gross operating margin of 40% ahead of our target of 39%, despite another year of rent reductions and an increase in our property refurbishment programme.
- Maintained our net surplus margin at 25%.
- Delivered a financial surplus for the year of £16.2m (2017/18: £17.8m).

The financial surplus is lower than in the prior year primarily because of increased property refurbishment costs and a reduction in property disposals.

In a year of considerable significance for Town & Country Housing, I would like to thank: my fellow Board members for their careful consideration of the merger opportunity with Peabody; our Chief Executive, Bob Heapy, and his colleagues on the Executive Management Team for the way they have maintained high standards in business operations whilst taking on the very significant additional work associated with a merger; and the staff at Town & Country for their continued commitment to providing high quality housing and housing services for our residents.

Francis Salway
Chair
25 July 2019

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2019

REPORT OF THE BOARD

The Board presents its report and the audited financial statements of Town and Country Housing Group (TCHG, or the Group) for the year ended 31 March 2019.

Principal activities
TCHG's principal activities are the management and development of social and affordable housing.

Background
The Group consists of six companies:

- Town and Country Housing Group, the parent, is a registered provider of social housing (RP);
- Monson Homes Limited, a development company;
- TCHG Capital PLC, a funding vehicle;
- Countrywise Repairs Limited, a maintenance company
- TCHG Foundation, a registered charity (non-trading); and
- TCHG Living Limited (dormant).

Town and Country Housing Group (TCHG)
TCHG is a registered provider of social housing and a registered society. TCHG is the parent company and provides all of the central administrative functions for members of the Group, as well as providing the strategic direction and treasury management. The Group owned 8,962 properties at 31 March 2019; this includes portfolios of shared ownership, sub-market rented and market-rented units.

Monson Homes Limited (MHL)
MHL is the Group's developer and the vehicle for the Group's regeneration schemes.

TCHG Capital PLC (Capital)
Capital raises funds on the capital markets for on-lending to Group members. The shares are held by a Trustee, and the Group has an option to purchase them. The degree of control exercised is such that the company's financial statements are consolidated into the Group financial statements.

Countrywise Repairs Limited (CWR)
CWR is a joint venture company with 51% owned by TCHG and 49% by Wates Living Space (Maintenance) Limited (part of the Wates Group). This joint venture is designed to give the Group certainty over service delivery of its day-to-day repairs.

TCHG Foundation (Foundation)
Foundation is a registered charity, number 1122306. Up to 31 March 2018 it was responsible for the Group's community development activity playing a key role in the local communities in which it operates. At 31 March 2018 Foundation's activities and net assets and reserves were transferred to TCHG. Foundation has ceased trading, with all of its activities continuing as part of TCHG. Foundation will be deregistered in 2019.

TCHG Living Limited (TCH Living)
TCHG Living is a non-charitable registered society. The company did not trade during the year, and its tangible assets were limited to a cash balance of £5k.

Business review
A review of TCHG's results for the year is included in the strategic report from page 7 onwards.

REPORT OF THE BOARD (continued)

Governance
TCHG complies with the recommendations of the National Housing Federation Code of Governance (revised 2015).

Board Members and Executive Directors

The present Board Members and the Executive Directors are set out on page 1. The Board Members are drawn from a wide range of backgrounds, bringing together professional, commercial and local experience.

From 31 March 2019 there were 11 members, 10 of whom were Non-Executives, including two Tenant Members. The Board meets formally at least eight times a year to discuss the affairs of the Group.

The Board Members of TCHG are remunerated for their role as Non-Executive Members. Details of their remuneration levels can be found under note 9 of these financial statements.

Individual Board Members have their performance reviewed annually by the Group Chair, with input from fellow Board Members.

The performance of TCHG's committees is self-assessed by the various members annually, which is supported by assessments from Executives and staff and, in the case of the Audit Committee, by our internal and external auditors.

The Board undertakes a self-assessment of its performance, and that of its Chair annually, which is supported by assessments from the Executives. An external assessment of the Board's and the Group Chair's performance is undertaken by an independent reviewer every two years, most recently in 2017.

The purpose of the Board is to determine strategy, and to direct, control, scrutinise and evaluate the Group's affairs. The day-to-day management and implementation of the agreed strategy is delegated to the Chief Executive and the Executive Directors, who meet regularly and attend Board meetings. The Executive Directors hold no interest in the share capital of TCHG.

Statement of the Board's responsibilities

As a registered provider of social housing, the Board is responsible for preparing the report and financial statements for each financial year in accordance with applicable law and regulations, Co-operative and Community Benefit Societies Act 2014 and registered provider legislation. Under that law the members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) (United Kingdom Accounting Standards including The Financial Reporting Standard 102 (FRS102) applicable in the UK and Republic of Ireland). In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is not appropriate to presume that TCHG will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of TCHG and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2015 and the Statement of Recommended Practice (SORP): Accounting by Registered Social Landlords 2018.

REPORT OF THE BOARD (continued)

Statement of the Board's responsibilities (continued)

The Board has general responsibility for safeguarding the assets of TCHG and hence for the prevention and detection of fraud and other irregularities.

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

Employees and Board Members

The strength of TCHG lies in the quality of its Board Members and all its employees. In particular, its ability to meet its objectives and commitments in an efficient and effective manner depends upon their contribution.

TCHG is an equal opportunities employer.

TCHG shares information on its strategic objectives, progress and activities through regular formal briefing sessions, office and team meetings, and through the use of our intranet. Each member of staff has personal objectives set annually, which show how they will contribute to our overall objectives. These are kept under review in formal appraisals.

The health and safety of all staff is of utmost importance to TCHG. It has prepared detailed health and safety policies and provides staff training and education on health and safety matters.

Our commitment to the training of our staff is demonstrated by our having maintained Investors in People accreditation since 2000.

Modern slavery

The Group complies with its responsibilities under the Modern Slavery Act 2015 and has agreed a range of measures in order to fulfil them. These are set out in our Slavery and Human Trafficking Statement on our website.

Disclosure of information to auditors

At the date of making this report, each of TCHG's Board Members, as set out on page 1, confirms the following:

- so far as each Board Member is aware, there is no relevant audit information needed by TCHG's auditors in connection with preparing their report of which TCHG's auditors are unaware; and
- each Board Member has taken all the steps that they ought to have taken as a Board Member to make themselves aware of any relevant audit information needed by TCHG's auditors in connection with preparing their report and to establish that TCHG's auditors are aware of that information.

STATEMENT ON INTERNAL CONTROLS

The Board acknowledges its responsibility for establishing and maintaining the whole system of internal controls and for reviewing its effectiveness.

The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, and not absolute, assurance against material misstatement or loss.

REPORT OF THE BOARD (continued)

Statement of internal controls (continued)

The risks faced by TCHG are considered both in relation to TCHG and their impact on the Group as a whole.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and has been in place throughout the period commencing 1 April 2018 up to the date of approval of the annual report and financial statements. Some of the key elements of the control framework that the Group has established are as follows:

- The key risks are identified and recorded in a strategic risk register with the Group's Audit Committee being delegated to consider risk as a separate agenda item four times a year.
- The Board considers strategic risk twice a year and approves the Group's approach to risk and its risk appetite annually.
- The Board has approved a series of 'tramlines' (financial risk controls). These govern our decision-making and are intended to ensure that we do not place the viability of the Group at risk.
- A long-term business plan and comprehensive budgets are produced and approved at least annually by the Board.
- The Board regularly reviews key performance indicators, management accounts and performance against tramlines. TCHG ensures that appropriate action is taken to address any areas of underperformance.
- Standing orders and financial regulations, including delegated authorities, are approved by the Board and are reviewed on a regular basis.
- A comprehensive treasury management policy and strategy is maintained and reviewed regularly by the Board.
- An outsourced internal audit service reports quarterly to the Audit Committee and has direct access to the Chair of the committee.
- The Board appraises all significant new business opportunities as recommended by the Chief Executive.
- There has been significant investment in training and staff development to minimise control weaknesses through error.
- The Audit Committee and the Board receive and review annually a report from the Chief Executive on the effectiveness of the system of internal controls.

The Board confirms there are no significant problems in relation to failures in internal controls that warrant disclosure in the financial statements.

STATEMENT OF COMPLIANCE WITH GOVERNANCE AND FINANCIAL VIABILITY STANDARD

The Board undertakes an annual assessment of TCHG's compliance with the Regulator of Social Housing's Governance and Financial Viability Standard. It confirms that TCHG is compliant with the standard. The Regulator of Social Housing carried out an 'In-Depth Assessment' in March and April 2016, and an annual 'stability check' in December 2018. Both resulted in the reaffirmation of our ratings of V1 for viability and G1 for governance (the highest ratings).

The Audit Committee reviews compliance with regulation and law on a quarterly basis.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019

Merger with Peabody Group

TCHG became part of Peabody Group on 9 May 2019 and will continue as an operating subsidiary. The move, which follows a period of extensive consultations with residents and stakeholders, means that TCHG will be able to increase new construction to 800 new homes per annum. This is 500 more than TCHG could build as a separate organisation.

External influences and operating highlights

This was the third of four years in which the Government's revised rent policy for registered providers applied. Announced by the Chancellor of the Exchequer in his July 2015 Budget, the policy is for rent cuts of 1% in cash terms in each of the four Aprils 2016-2019. This replaced the 10-year policy implemented with effect from April 2015 of CPI + 1% increases. The cumulative effect of this policy, and the various reductions to welfare benefits available to our tenants, will be felt throughout the 30 years of our business plan and beyond. The effect has been and will continue to be to reduce our capacity to provide additional social housing. In October 2017 the Government announced a return to CPI +1% rent increases for the five years from April 2020. This was re-affirmed with the publication in February 2019 of the new rent policy which will apply from April 2020.

Despite the challenges of the welfare benefit reductions which are being progressively introduced, we have once again achieved a strong rent collection performance against our targets for the year. This results from our investment in the provision of support and advice to customers, as well as in enhancing our collection capability. We are not complacent, however, and recognise that we will need to continue to work hard to protect our income streams. This will apply particularly as Universal Credit affects more of our tenants.

The year has been a successful one for TCHG. The business has performed well both financially and operationally, with strong cash generation and key performance indicators being met.

We continue to prioritise investment in our assets with £11.0m (2018: £10.3m) spent on planned, responsive and programmed maintenance.

We completed the final stage of the regeneration of our estate at Lakewood (formerly Sherwood), with sales commencing in December 2018.

We completed 130 dwellings in the year as we continued to build the programme following a deliberate slowdown due to the more difficult environment caused by the rent cuts referred to above. The 'pipeline' of new schemes is strong, and we started 263 dwellings in the year with 475 planned for 2019/20.

We continue to invest in technology and redesign our internal processes to improve employees' efficiency and effectiveness, whether working in an office or visiting our customers in their homes.

The Group highlights for the last five years are shown on the following page.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

External influences and operating highlights (continued)

Annual accounts summaries	2019	2018	2017	2016	2015 Restated
Statement of comprehensive income (£m)					
Turnover	64.7	59.7	66.1	70.7	69.3
Income from social housing lettings	52.6	52.6	53.4	55.4	51.8
Operating surplus (before fixed asset sales)	26.0	26.8	30.5	30.2	29.2
Surplus on sales of fixed assets	4.0	6.5	4.9	3.5	0.2
Interest payable	(14.1)	(16.3)	(9.8)	(18.3)	(18.7)
Loan fair value movement	-	-	-	-	(26.4)
Surplus/(deficit) for the year before tax	16.2	17.8	28.5	16.9	(14.5)
Statement of financial position (£m)					
Fixed assets	784.0	772.2	767.0	808.2	809.1
Net current assets	15.7	21.1	18.9	38.6	27.2
Loans due after more than one year	371.0	383.2	394.9	478.1	486.5
Revenue reserves	200.9	185.7	166.8	134.8	118.9
Revaluation reserve	203.4	203.4	203.4	206.2	206.2
Key ratios					
Interest cover	239%	247%	215%	217%	226%
Gearing (main lender's calculation)	48%	48%	50%	57%	51%
Asset cover	177%	168%	166%	158%	142%
Average interest cost	3.81%	3.64%	3.52%	3.82%	3.89%
Gross operating margin	40.3%	45.0%	46.2%	42.8%	42.2%
Annual surplus/(deficit) margin	25.3%	25.7%	21.6%	23.2%	(21.3)%
Housing stock owned	8,962	8,920	8,930	9,176	9,131

Turnover increased in 2019 due to additional proceeds of sales of dwellings built for outright sale. Interest costs were lower as the prior year included a loan breakage cost of £4.0m. Our surplus for the year reduced as a result of increased property refurbishment costs and a reduction in sales of fixed assets. These also reduced our operating and annual surplus margin both of which were also affected by increased sales of private dwellings at a lower margin. The effects of increased maintenance costs and reduced asset sales were lessened by a strong income collection performance and a reduced interest cost.

Figures for 2015 have been restated for FRS102, which applied to us with effect from the 2016 financial year.

The annual surplus/(deficit) margin is based on an adjusted net surplus for the years shown under FRS102. This excludes valuation gains on investment properties, non-cash adjustments to interest costs and actuarial (losses)/gains in the defined benefit pension scheme.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

Development

TCHG continues to provide social housing in a number of areas in the South East (Kent, Sussex and Surrey) and offers a range of housing products: affordable housing, shared ownership, supported housing, market and sub-market rents.

During the year, TCHG completed 95 new affordable/social rented and shared ownership homes and received £1.5m of grant funding from Homes England.

Objectives and strategy

As part of joining Peabody Group we have developed a revised strategic plan for 2019-2021. The short life of this strategy is to allow:

- The integration with Peabody Group of some central services.
- The alignment, bedding in and testing of new systems, policies and processes.
- The gearing up of the development programme.
- The planned major operational service redesign.
- The important focus on our customers, our people, our culture and delivering 'business as usual' in times of change.

The strategic plan has the following key objectives

Deliver an alignment plan within the new Group in year one

- Invest in improvements to IT infrastructure and security.
- Integrate ICT, HR and Communications 'back office' functions.
- Deliver the programme of strategy and policy alignment and as appropriate embed changes to reporting and business processes.
- Develop plans for the alignment of property, housing management and CRM systems in 2020/2021 and beyond.

Continue to be an efficient, effective and viable business.

- Maximise our financial capacity as a member of the Peabody Group and operate within the Group business plan parameters.
- Focus our spend priorities towards growth and maintain our financial strength.
- Continue to monitor the roll out of the welfare benefit changes and manage the impact on revenues and our customers.
- Continue to focus on efficiency and value for money.

Build and maintain the best quality homes and neighbourhoods.

- Gear up the development programme to achieve 800 new homes starts per year from 2021.
- Target an appropriate mix of scheme size and new homes tenure to maximise our capacity.
- Design and build quality new homes that people are proud to live in, reflecting local need and demographics.
- Ensure we continue to deliver some smaller rural schemes that maximise local impact.
- Deliver 'active asset management' by disposing of low performing assets to invest in new homes.
- Invest in and maintain our homes so that they are decent, safe and warm.

Be an excellent landlord, proud of the services we deliver.

- Deliver high quality, reliable and modern services that reflect customer need.
- Keep our customers safe, ensuring all statutory Health and Safety and compliance issues are effectively managed.
- Deliver a responsive maintenance service that balances high customer satisfaction with cost efficiency in delivery.
- Ensure our customers can engage with us in the most effective and appropriate way.
- Utilise technology to assist in redesigning our service offer to achieve 'digital by default'.
- Support those tenants who are not able to manage their tenancies on line.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

Objectives and strategy – key objectives (continued)

Support those most vulnerable in our homes and in society.

- Supporting dependence to independence giving appropriate support.
- Identifying offers to support those most disadvantaged by the changes in the welfare benefit system.
- Maximise the number of new homes that are genuinely 'affordable'.
- Develop solutions to support those that are homeless.
- Focus on key themes to support tenancy sustainment of access to learning, skills and employment opportunities, health and wellbeing advice, money and financial inclusion advice.

Provide excellent governance and leadership during times of change.

- Complete a review of the new governance structures eighteen months post-merger to ensure they are fit for purpose.
- Provide a package of appropriate local support measures for staff during transition.
- Buy into the Peabody Group's learning and development programme to support staff.
- Complete the refurbishment of our offices at Monson house to provide high quality, flexible working environment.

Increase our influence on the local agenda.

- Prepare for a major intervention at Showfields Estate including planning for need with residents.
- Utilise our new brand to extend relationships and play a greater role in influencing the regional agenda.
- Advocate genuinely affordable homes for social rent and availability of shared ownership, particularly in high value areas.
- Promote our achievements and innovation to our stakeholders and partners through multimedia channels.

We have set measurable targets against each of these objectives. We ensure that the 'golden thread' of strategy flows from the strategic plan, through the Annual Delivery Plans into Team Plans and individual targets.

Our progress towards our strategic objectives in 2019 is as follows:

Efficiency and viability:
We maintained our business plan operating margin in the year, however our overall surplus was below our budget due to a reduced volume of property sales. Our rent collection performance was 100% compared to our target of 99.8% despite more of our tenants moving to Universal Credit. We achieved further Value for Money efficiencies during the year of £161k compared to the target of £154k.

Growth and asset investment:
We achieved our targets for new starts on construction projects during the year with 263 starts against a target of 220. Further work was carried out to improve the Return on Assets, including the planned sale of 14 dwellings where future maintenance costs are excessive. A further 15 have been approved for sale.

Customers – keeping residents at the heart of our business:
In 2019 our customer satisfaction with our overall services was 84.0%, below the 88.5% achieved in the prior year. Satisfaction with the way we dealt with enquiries in 2019 was 89.7%. Satisfaction with our responsive repairs service increased in 2019 to 91.3% from 88.4% achieved in 2018. We continue to receive excellent reports from our Resident Scrutiny Panel, and we act on almost all of their recommendations, providing a full explanation to them where we decide not to.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

Objectives and strategy – progress towards our strategic objectives in 2019 (continued)

Support – for the most vulnerable in our homes:
Further work was carried out to help tenants sustain their tenancies, including money support interventions for 672 tenants experiencing financial hardship. We also delivered a range of training courses. In 2019, 104 residents gained a qualification and 223 became skilled in ICT. We supported residents to volunteer and gain employment (19 residents gained sustainable employment and 27 volunteered).

Risk and uncertainty

The Group Board reviews its risk appetite at least annually. The main risks that may prevent the Group achieving its objectives are considered and reviewed regularly by the Executive Management Team and the Board. The risks are recorded and assessed in terms of their impact and likelihood. Major risks, presenting the greatest threats to the Group, are reported to the Board half-yearly and the Audit & Risk Committee four times a year. These reports include an assessment of key controls used to manage and mitigate the risks, and any further work required, with timescales and persons responsible. The major risks are organised within eight overarching themes as follows:

- Financial
- Governance failure
- People management
- Resident expectations
- Partnership risk and strategic contractors
- Legislative and regulatory
- External events
- Information and communication technology

The two risks which we have identified as being the most significant are Brexit and the recruitment and retention of key staff. The risks in relation to Brexit are the potential effects on the housing market, interest rates and inflation. We are continuing to closely monitor the housing market and the economic impacts from the continued uncertainty. We have a range of measures in place to manage the staff recruitment and retention risk and have set aside funds in the 2019/20 budget for an apprenticeship programme.

Financial position

Accounting policies

The Group's principal accounting policies are set out on pages 28 to 35 of the financial statements.

Housing properties

Independent professional valuers were appointed to assess the value of the Group's property portfolio as at 31 March 2019, for the purposes of loan covenants. The valuation bases are explained in note 11. The total value of the Group's completed housing stock is £715m with an additional sum of £15m, attributable to properties under construction, giving a total housing stock figure of £730m (2018: £717m).

Group investment in housing properties was funded through a mix of loan finance, working capital and Social Housing Grant.

Pension liability

The pension deficit at 31 March 2019 is £4.3m (2018: £5.6m), a reduction of £1.3m on the previous year's deficit. This is principally due to a reduction in the assumptions of post retirement life expectancy and a gain in the value of assets (equities).

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

Group borrowings and treasury policy

The Group has £457m (2018: £457m) of borrowing facilities from loans and a bond.

Loan facilities of £377m (2018: £377m) are provided by Nationwide Building Society (Nationwide) and Co-operative Bank in syndicate, Barclays Bank PLC (Barclays) and MUFG Bank PLC (MUFG).

The Group raised £80m (2018: £80m) through a bond issued by TCHG Capital PLC in 2014.

At 31 March 2019 the Group had loans and bond drawn of £352m, of which £13m was held by TCHG Capital PLC pending drawdown by TCHG. This left £105m available to be drawn by TCHG for future developments and regeneration activities.

There was no change to the level of Group borrowings during the year. Sales proceeds and free cash flow were adequate to meet development costs. There was an increase of £4m in the sum held by TCHG Capital PLC under the revolving facility, pending drawdown by TCH.

The average interest rate for the year was 3.81% (2018: 3.64%).

The Group finances its operations through a mixture of retained surplus and debt. The Group borrows at both fixed and floating rates of interest. It does not borrow in foreign currencies. The Group's policy is to keep between 70% and 90% of its net borrowings at fixed rates of interest. At 31 March 2019, 80.5% (2018: 80.5%) of the Group's net borrowings were at fixed rates.

On 9 May 2019 as part of the merger with Peabody, loans with Barclays and MUFG (facilities of £120m - £50m drawn) were transferred to Peabody. These were replaced with an inter-company loan and a facility for further borrowings.

Liquidity risk

Liquidity risk is the risk that the Group might not be unable to meets its financial obligations. Through setting a prudent budget and long-term cash flow forecasting the Group ensures that it always has sufficient undrawn funds to meet its future commitments, plus a further margin of safety of 24 months. This is deemed to be an adequate period in which to raise new funds.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. The Group's policy is that no more than 10% of fixed rates should mature in any one year. Maturities exceed this limit in 2030/31, arising from arrangements entered into prior to the policy's introduction. We will work towards compliance before we reach that year.

The current availability of funds is referred to above and exceeds this target. The undrawn bank facilities are revolving credit facilities, allowing the Group to manage short-term cash requirements effectively. The Company's loan facility with TCHG Capital under which it draws down the bond monies is also a revolving facility. In addition, TCHG has a small overdraft facility.

Credit rating

The Group's rating from S&P Global Ratings (S&P) was downgraded from A+ to A on 22 May, the stable outlook was maintained. S&P undertook a review following the merger with Peabody. The downgrade reflects Peabody's rating which is lower than TCHG's due to exposure to property sales risks.

Material estimates

In preparing the financial statements, the Group has made a number of estimates and judgements. The significant estimates and judgements are set out in note 3.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

Cash flow

Cash inflow and outflow during the year is shown in the consolidated statement of cash flows on page 26. The cash flow highlights the strong net operational inflows from which the interest cost is paid, with the balance being invested in development and capital maintenance programmes.

Value for Money

Introduction

Improving value for money has remained a priority for TCHG, and good progress has been made in achieving the objectives set out in our Value for Money Strategy 2016-2020, including using new technology to deliver efficiencies and delivering social and environmental value by providing good-quality homes and services.

Our overall approach to value for money is set out in our Value for Money Strategy which is owned by the Town and Country Board and shows the objectives we are aiming to achieve by 2020. The definition of value for money we have agreed is:

> "To produce as much social, financial and environmental value as possible from the resources we use in order to deliver quality homes and services, in neighbourhoods people choose, with the ultimate goal of improving lives."

Our approach to making decisions on efficiencies and the use of resources continues to be robust and driven by the Board. The key elements are:

- The **Corporate Strategy**, which sets out our mission, vision and overall objectives.
- The **Value for Money Strategy**, which contains the value for money objectives, targets and specific actions that will be taken to improve value for money.
- The **30-year Business Plan**, which shows our overall financial plans for the organisation in order to achieve the objectives, including income and expenditure, balance sheets and cashflows.
- **Annual budgets**, which are agreed by the Board in order to achieve the position set out in the business plan.
- **The Annual Delivery Plan**, which sets out the specific actions that will be taken during the year to help deliver our objectives and to deliver efficiencies.
- **Team Plans and individual objectives**, which translate the high-level actions contained in the Annual Delivery Plan into operational actions.

A significant proportion of our value for money efficiency gains have been delivered through procurement. Joining Peabody Group provides opportunities for further procurement savings and other efficiencies through economies of scale. We also expect to drive further efficiencies by moving more customer interactions and transactions to "digital by default" via service redesign. During the merger process with Peabody we slowed down our service redesign programme while we concentrated on the merger. We are therefore in the process of developing a revised value for money strategy which will be agreed and implemented 2019/20.

Our value for money performance

Efficiencies achieved in 2018/19

In 2018/19, we exceeded our efficiency target of £154k delivering efficiencies of £167k. Although some of the efficiencies expected did not materialise or were lower than expected, we were able to find other efficiencies to exceed the overall target which is shown in the table below:

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

Value for Money – efficiencies achieved in 2018/19 (continued)

	Target savings £000s	Actual savings £000s
Transfer of hosting for TCHG and 'Love Living Homes' websites from an external provider to an in-house arrangement	8	8
Paper information leaflets for residents replaced with website videos and email communications	13	13
Rebuilding a repair reporting tool on the TCHG website and termination of an external licence arrangement	5	-
Switch to online rent statements and termination of associated printing and mailing costs of producing paper copies	11	12
TCHG Foundation placed in dormant state meaning current and ongoing Foundation activities and tasks will be delivered directly by TCHG with existing staff, ensuring no disruption to beneficiaries and outcomes	8	6
Termination of specific website maps usage, Countrywise Repairs Ltd printer improvements and transfer of some ICT support from external providers to in-house arrangements	20	5
In-house processing of more shared ownership and outright home sales (13 units sold without the need for an agent with more expected)	64	77
TCHG acting on behalf of other organisations to sell homes	14	17
Website for Lakewood home sales designed in house	1	1
Negotiation of a reduced increase in West Kent contract cleaning costs	7	6
Negotiation of a better rate for fire alarm and emergency lighting servicing costs	3	-
Rationalisation of voice telephone lines	-	2
Recovery of administration costs on leaseholder cyclical repairs and decorations	-	10
Introduction of faster direct debit cash receipts (tenant receipts) from our bureau	-	10
Total	154	167

Regulator of Social Housing – Value for Money metrics

In April 2018 the Regulator of Social Housing published seven metrics to measure economy, efficiency and effectiveness on a comparable basis across the sector. Our performance is set out in the table below.

Value for Money metrics	2017/18	2018/19	Target for 2018/19	Target for 2019/20	Peer # Average 2017/18
1 – Reinvestment % (Investment in properties as a % of total properties held)	2.1%	3.2%	4.8%	6.6%	5.9%
2A – New supply delivered (social housing units) (Social housing units developed as a % of social housing units owned)	0.5%	1.1%	0.8%	0.6%	1.9%
2B – New supply delivered (non-social housing units) (Non-social housing units developed as a % of total housing units owned)	0.0%	0.4%	0.6%	0.5%	0.1%
3 – Gearing % (Loans less cash as a % of the value of housing properties – different definition to loan covenant calculation used for table on page 8)	49.1%	47.7%	49.1%	51.7%	45.5%

Our peer-group is registered providers of social housing in south east England.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

Value for money (continued)

Regulator of Social Housing – Value for Money Metrics (continued)

Value for Money metrics	2017/18	2018/19	Target for 2018/19	Target for 2019/20	Peer # Average 2017/18
4 – EBITDA MRI interest cover % (Surplus adjusted for depreciation and adding major repairs, as a % of interest payable)	175.3%	191.0%	225.7%	181.9%	198.3%
5 – Headline social housing cost per unit (Social housing costs excluding depreciation and bad debts divided by social housing units owned)	£3,031	£3,180	£2,943	£3,203	£3,493
6A – Operating margin (social housing lettings) (Operating surplus (social housing lettings) as a % of turnover from social housing lettings)	45.6%	43.2%	43.5%	43.8%	45.6%
6B – Operating margin overall (Operating surplus as a % of turnover)	45.0%	40.3%	39.1%	39.1%	31.7%
7 – Return on capital employed (ROCE) % (Operating surplus as a % of total assets less current liabilities)	4.2%	3.8%	4.1%	3.6%	3.7%

Our peer-group is registered providers of social housing in south east England.

TCHG has historically maximised the delivery of new units and would have scored amongst the highest on metrics one and two during the Affordable Housing Programme 2011 to 2015. This did mean that our debt relative to the value of our housing stock (metric three – gearing) was higher than many of our peers. When the Government announced cash-terms rent reductions for the four Aprils 2016 to 2019, it was necessary for us to pause our development programme. More recently the Board has committed to increase the development programme having achieved cost savings. It is in the nature of development programmes that they cannot easily be switched on and off.

On metrics five and six, for 2018/19, additional major works maintenance expenditure increased the social housing costs per unit and reduced the operating margin.

The return on capital employed for metric seven is generally low for the whole sector, due to the sub market, regulated rents charged. This reflects our charitable social purpose.

Gender pay reporting

As TCHG has fewer than 250 employees, there is no legal requirement to report on TCHG's gender pay gap. The Board has decided that it will report voluntarily.

Summary gender pay gap

Category	**Gender pay gap 2018/19 %**	**Gender pay gap 2017/18 %**
Mean gender pay gap	29	31
Median gender pay gap	26	24

There was no bonus gender pay gap as TCHG did not pay bonuses in 2018/19.

The table shows that men earn more than women on both measures. Overall however, we are confident that men and women are paid equally for equivalent roles throughout TCHG.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

Gender pay reporting (continued)

Our gender pay-gap results show that:

- On average across TCHG men are paid more than women
- When comparing mean hourly rates, women earn 71p for every £1 that men earn
- When comparing median hourly rates, women earn 74p for every £1 that men earn.

Profile of the workforce

The gender pay gap can be explained when looking at the profile of the workforce. Our workforce is split 63% female and 37% male.

Women make up over 60% of the workforce indicating that we do not have a problem with attracting women to work for TCHG. It is the distribution of gender in each pay quartile within TCHG which explains the gender pay gap.

The data illustrates the dominance of women in roles in the lower, lower middle and upper middle quartiles. By contrast, they make up a significantly lower percentage of the workforce in the upper quartile, where the higher paid roles are found.

Pay quartile	Female %	Male %
Upper quartile	37	63
Upper middle	63	37
Lower middle	80	20
Lower quartile	71	29

We continue to be confident that men and women are paid equally for equivalent roles throughout the TCHG. We will continue to take steps to close our pay gap and ensure that women are represented at all levels within the organisation ensuring that there are no barriers preventing them from moving into any higher-level roles. Our continued commitments to address the pay gap are shown below.

Our commitments

We are committed to helping women achieve their potential throughout their careers and to reduce the gender pay gap by taking the following steps:

- **Providing extra support to those women who demonstrate the potential to grow into more senior level** roles as part of planned structured development programmes, e.g. succession planning, management training programme, Future Leaders programme.
- **Working with professional organisations** (e.g. the Chartered Institute of Housing, the Chartered Institute of Building, the Chartered Institute of Personnel and Development, Women in Social Housing - WISH) to promote female career development initiatives and help develop networking and mentoring opportunities.
- **Examining vacancies from a gender perspective** to ensure that role specifications, criteria, working patterns and selection processes are not excluding either gender from applying.

STRATEGIC REPORT FOR THE YEAR TO 31 MARCH 2019 (continued)

Gender pay reporting - our commitments (continued)

- **Reviewing flexible working practices** to ensure that there are no barriers in place for flexibility in higher-level roles. We will work to improve the flexibility of our employment practices to ensure these are more family friendly at every level and support the Group in attracting and retaining a diverse workforce at all levels.

Going concern

The Board has reviewed the approved 2019/20 budget and the 30-year Business Plan and has a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Equal opportunities

The Group ensures that in all of its activities it does not allow unlawful discrimination. It also promotes equality of opportunity and treatment for all sections of the community. In particular, the Group recognises its responsibility to persons with special needs and has set standards within its development and housing management programmes and employment policies to ensure that such needs can be readily met.

Health and safety

The Chief Executive provides an annual health and safety report to the Group's Board and an update at each meeting. The health and safety of the Group's employees and residents is paramount to the Board. The Group's policy is to provide and maintain safe and healthy working conditions, housing, equipment and systems of work for all those connected with the organisation and to provide such information, training and supervision as is needed for this purpose. There have been no material health and safety breaches in the year.

Subsequent event

On 9 May 2019 TCHG joined Peabody Group and became a wholly owned subsidiary of Peabody Trust.

Statement of compliance

In preparing this strategic report, the Board has followed the principles as set out in the Housing SORP 2018: Statement of Recommended Practice for registered social housing providers.

Approved by the Board and signed on its behalf by:

Francis Salway

Francis Salway
Chair
25 July 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOWN AND COUNTRY HOUSING GROUP

Opinion

We have audited the financial statements of Town & Country Housing Group ("the Association") and its subsidiaries (together "the Group") for the year ended 31 March 2019, which comprise the consolidated and Association Statement of comprehensive income, the consolidated and Association Statement of changes in reserves, the consolidated and Association Statement of financial position, the consolidated Statement 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, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2019 and of the Group's and the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 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 Group and 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 members use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the board members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOWN AND COUNTRY HOUSING GROUP

Carrying amount of properties developed for sale

As explained in the accounting policies, properties developed for sale, including shared ownership first tranches and properties developed for outright sale, are measured at the lower of cost and net realisable value resulting in an amount recognised in the balance sheet of £15,364,000. For completed properties at the balance sheet date, an assessment is needed of an anticipated selling price. For properties in development at the balance sheet date, an assessment is needed of an anticipated selling price and a determination of the expected costs to complete.

Due to the volume of properties under construction and the level of judgement involved in estimating both selling price and costs to complete we considered there to be a significant risk that the carrying amount of properties developed for sale is misstated and was therefore a key audit matter.

Our response to the key audit matter

Having obtained management's assessment of the net realisable value of properties developed for sale, we tested this on a sample basis.

Our samples were chosen from the populations of items that represented both developments under construction as well as completed developments at year-end.

For a sample of completed properties we agreed the amounts involved to supporting documentation where the property was sold post year-end. Where the property was not yet sold we obtained third-party housing market information to confirm that properties were held at the lower of cost and net realisable value.

For a sample of properties under development we obtained details of the expected costs to complete from the scheme budget for that development and agreed the budgeted contracted cost of the development to the latest contract documentation. We examined supporting documentation for anticipated sales proceeds and we compared the incurred expenditure to the balance sheet date to the estimated amount at that date.

We also assessed the accuracy of cost forecasting by looking at outturn costs compared to budget on a sample of schemes that completed in the year.

Key observations

Our work identified no misstatements or inappropriate application of judgement or estimation. Based on our procedures we noted no exceptions and found management's key assumptions to be reasonable.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £12,400,000, which represents 1.5% of total assets.

We also apply a specific materiality level for all items comprising operating profit (including related disclosures) as that term is defined for the purposes of the entities lending covenants. This therefore involves adjusting operating profit for depreciation, amortisation and impairment. The specific materiality level that we applied was £1,800,000, which is 5.0% of adjusted operating profit.

We used gross assets and adjusted operating profit as our chosen benchmarks to determine materiality and for specific materiality as these are considered to be the areas of the financial statements of greatest interest to the principal users of the financial statements and the areas which will have greatest impact on investor and lender decisions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOWN AND COUNTRY HOUSING GROUP

Materiality for the parent company was set at £12,175,000 (with a specific materiality set at £1,710,000).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality or specific materiality depending on the financial statement area being audited. In setting the level of performance materiality. We considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Group Audit & Risk Committee that misstatements in excess of £247,000 for areas considered using financial statement materiality and £27,000 for areas considered using specific materiality which were identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting component in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

Extent to which the audit is capable of detecting irregularities, including fraud

The extent to which the audit is capable of detecting irregularities is affected by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud usually are inherently more difficult to detect than irregularities that result from error.

As part of the audit we gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We considered the Association's compliance with laws and regulations that have a direct impact on the financial statements such as the Co-operative and Community Benefit Societies Act 2014 (and related Directions and regulations), the Housing and Regeneration Act 2008 and other laws and regulations application to a registered social housing provider in England. We also considered the risks of non-compliance with the other requirements imposed by the Regulator of Social Housing, and we considered the extent to which non-compliance might have a material effect on the group financial statements

We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries of the board and of management and enquiries of third parties, where information from that third party has been used by the Association in the preparation of the financial statements.

There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Board that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOWN AND COUNTRY HOUSING GROUP

Classification of components

A full scope statutory audit was carried out for each subsidiary that we considered to be a significant component of the group.

Audit work on all components was performed by BDO UK both for the purposes of reporting on the individual financial statements and for group/consolidation purposes. The only significant component for group purposes was the parent entity.

Other information

The board is responsible for the other information. Other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information 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 we are required by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 to report to you if, in our opinion:

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

Responsibilities of the board

As explained more fully in the board members responsibilities statement set out on page 4, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine 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 Group and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intend to liquidate the Group or 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOWN AND COUNTRY HOUSING GROUP

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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters

Following the recommendation of the audit committee, we were appointed by the board on 14 December 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the members of the Association, as a body, in accordance with in accordance with the Housing and Regeneration Act 2008 and 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

E. Kulczycki

Elizabeth Kulczycki, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
Gatwick
United Kingdom

Date: 13 August 2019.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC3051

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2019

CONSOLIDATED AND COMPANY STATEMENT OF COMPREHENSIVE INCOME (INCOME AND EXPENDITURE ACCOUNT)

	Note	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Turnover	4	64,686	59,679	58,506	60,264
Cost of sales	4	(7,619)	(3,395)	(2,395)	(3,395)
Operating expenditure	4	(31,023)	(29,435)	(31,842)	(30,075)
Operating surplus before gain on disposal of property		26,044	26,849	24,269	26,794
Gain on disposal of property	5	4,016	6,543	4,016	8,033
Operating surplus		30,060	33,392	28,285	34,827
Interest receivable	6	80	42	855	674
Interest and financing costs	7	(14,088)	(16,297)	(14,305)	(16,386)
Gain on revaluation of investment properties	12	130	640	130	640
Surplus before tax		16,182	17,777	14,965	19,755
Tax	10	(231)	65	(58)	-
Surplus for the year	8	15,951	17,842	14,907	19,755
Actuarial gain in respect of pension schemes	25	1,544	1,068	1,544	1,068
Total comprehensive income for the year		17,495	18,910	16,451	20,823
Surplus for the year attributable to:					
Non-controlling interest		93	64	-	-
The parent company		15,858	17,778	14,907	19,755
		15,951	17,842	14,907	19,755
Total comprehensive income for the year attributable to:					
Non-controlling interest		93	64	-	-
The parent company		17,402	18,846	16,451	20,823
		17,495	18,910	16,451	20,823

All amounts relate to continuing activities.
The accompanying notes 1 to 31 form part of these financial statements.

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2019

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	Note	Group	Group	Company	Company
		2019	2018	2019	2018
Fixed assets		£'000	£'000	£'000	£'000
Housing properties	11	758,499	746,589	758,661	746,757
Investment properties	12	23,130	23,000	23,130	23,000
Other property, plant and equipment	13	1,983	2,014	1,983	2,014
Intangible assets	14	413	539	326	420
Fixed asset investment	15	20	20	3,122	3,122
		784,045	772,162	787,222	775,313
Current assets					
Properties for sale	16	15,364	12,116	2,757	1,674
Debtors	17	3,025	7,939	15,113	17,546
Cash at bank and in hand		21,859	12,485	6,589	2,875
		40,248	32,540	24,459	22,095
Creditors: amounts falling due within one year	18	(24,484)	(11,439)	(23,024)	(10,457)
Net current assets		15,764	21,101	1,435	11,638
Total assets less current liabilities		799,809	793,263	788,657	786,951
Creditors: amounts falling due after more than one year	19	(388,756)	(398,391)	(375,844)	(389,275)
Defined benefit pension liability	24	(4,257)	(5,571)	(4,257)	(5,571)
Net assets		406,796	389,301	408,556	392,105
Capital and reserves					
Revenue reserve		200,881	183,479	219,684	203,233
Designated reserve		2,200	2,200	2,200	2,200
		203,081	185,679	221,884	205,433
Revaluation reserve		203,355	203,355	186,672	186,672
Non-controlling interest		360	267	-	-
Capital and reserves		406,796	389,301	408,556	392,105

The accompanying notes 1 to 31 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board and signed on its behalf on 25 July 2019 by:

Francis Salway
Chair

Valerie M. Marshall

Valerie Marshall
Board Member

Bob Heapy
Chief Executive and Company Secretary

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2019

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY AND RESERVES

	Revenue reserve	Designated reserve	Sub total	Revaluation reserve	Non-controlling interest	Total
Group	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	183,479	2,200	185,679	203,355	267	389,301
Surplus for the year	15,858	-	15,858	-	-	15,858
Surplus attributable to non-controlling interest	-	-	-	-	93	93
Actuarial gain in respect of pension schemes	1,544	-	1,544	-	-	1,544
At 31 March 2019	200,881	2,200	203,081	203,355	360	406,796
Company						
At 1 April 2018	203,233	2,200	205,433	186,672	-	392,105
Surplus for the year	14,907	-	14,907	-	-	14,907
Actuarial gain in respect of pension schemes	1,544	-	1,544	-	-	1,544
At 31 March 2019	219,684	2,200	221,884	186,672	-	408,556
Group						
At 1 April 2017	164,633	2,200	166,833	203,355	370	370,558
Surplus for the year	17,778	-	17,778	-	-	17,778
Surplus and dividends attributable to non-controlling interest	-	-	-	-	(103)	(103)
Actuarial gain in respect of pension schemes	1,068	-	1,068	-	-	1,068
At 31 March 2018	183,479	2,200	185,679	203,355	267	389,301
Company						
At 1 April 2017	182,410	2,200	184,610	186,672	-	371,282
Surplus for the year	19,755	-	19,755	-	-	19,755
Actuarial gain in respect of pension schemes	1,068	-	1,068	-	-	1,068
At 31 March 2018	203,233	2,200	205,433	186,672	-	392,105

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2019

CONSOLIDATED STATEMENT OF CASH FLOWS

Group	2019 £'000	2018 £'000
Surplus for the year before tax	16,182	17,777
Adjustment for non-cash items:		
Cost of housing property disposals	5,635	3,039
Depreciation and amortisation of fixed assets	6,353	6,308
Gain on revaluation of investment properties	(130)	(640)
Difference between pension charge and cash contributions	85	117
Adjustments for investing or financing activities:		
Interest payable	14,087	16,297
Interest receivable	(80)	(42)
Adjustments for working capital movements:		
(Increase) in properties for sale	(3,248)	(8,858)
Decrease/(Increase) in debtors	4,917	(3,546)
Increase in creditors	3,344	2,467
Net cash generated from operating activities	47,145	32,919
Cash flows from investing activities		
Purchase of fixed assets - housing properties	(25,249)	(14,967)
Purchase of fixed assets - other	(266)	(690)
Grants received	1,549	918
Net cash flows from investing activities	(23,966)	(14,739)
Cash flows from financing activities		
Interest paid	(13,918)	(16,517)
Interest received	80	42
Repayments of borrowings	-	(11,582)
Taxation	33	(163)
Net cash flows from financing activities	(13,805)	(28,220)
Net increase/(decrease) in cash and cash equivalents	9,374	(10,040)
Cash and cash equivalents at beginning of year	12,485	22,525
Cash and cash equivalents at end of year	21,859	12,485

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NOTES TO THE FINANCIAL STATEMENTS

1. Legal status

Town and Country Housing Group consists of:

- Town and Country Housing Group (TCHG) which is a registered provider of social housing (RP). The Company is registered with the Regulator of Social Housing (RSH) and with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014.
- Monson Homes Limited, a wholly owned commercial subsidiary.
- TCHG Capital PLC, a special-purpose funding vehicle.
- Countrywise Repairs Limited, a 51%-owned commercial maintenance company.
- TCHG Foundation (non-trading), a registered charity.
- TCHG Living Limited (dormant), registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014.

2. Accounting policies

General information and basis of accounting
The financial statements have been prepared under the historic cost convention, modified to include certain items at fair value, in accordance with Financial Reporting Standard 102 (FRS 102) "The Financial Reporting Standard applicable to the United Kingdom and Republic of Ireland". They comply with the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2018, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. TCHG is a public benefit entity, as defined in FRS 102, and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

In preparing the financial statements for the Group, advantage has been taken of the FRS 102 disclosure exemption of not preparing a statement of cash flows for the parent Company.

Basis of consolidation
The Group financial statements consolidate the financial statements of TCHG and all its subsidiaries at 31 March 2019 using the purchase method (acquisition accounting). Any non-controlling interest is shown in the statement of comprehensive income and the statement of financial position based on the Group's share of net assets and surpluses for the year. Intra-group transactions are eliminated on consolidation.

Turnover
Income is measured at the fair value of the consideration received or receivable.

The Group generates the following material income streams:

- Rental and service charge income
- First tranche sales of shared ownership properties
- Income from properties built for sale
- Amortisation of government grants

Rental income is recognised from the point when the properties under development reach practical completion and are let to tenants. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Revenue grants are recognised when the conditions for receipt of grant funding have been met.

Other income
Other income is measured at the fair value of the consideration received or receivable.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

Investment properties
The classification of properties as investment property or property, plant and equipment is based upon the intended use of the property. Properties held to earn commercial rentals or for capital appreciation or both are classified as investment properties. Properties that are used for administrative purposes or that are held for the provision of social housing are treated as property, plant and equipment. Mixed-use property is split between investment property and property, plant and equipment.
Investment properties are measured at fair value annually with any change recognised in surplus or deficit in the statement of comprehensive income.

Housing properties
Housing properties are split between the land and the structure and those major components which require periodic replacement. Replacement of components is capitalised and depreciated over the estimated useful life, which has been set taking into account professional advice, the Group's asset management strategy and the requirements of the Decent Homes Standard.

The Group changed its accounting policy from recording housing properties at valuation to being at historic cost during the transition to FRS102 at 1 April 2014. The Group took the transition option to measure its completed housing properties at fair value and use that fair value as the deemed cost of those assets at the transition date of 1 April 2014. The fair value of housing properties is the existing use value - social housing (EUV-SH) valuation prepared by an independent surveyor. The EUV-SH valuation incorporates amounts potentially realisable from a sale of stock to one or more registered providers in multiple lots designed to maximise the sale price. The principal assumptions used in the valuation were:

• Discount rate	4.75%
• Consumer price index (CPI)	2.0%
• Long term rental growth	CPI plus 1%
• Voids	1.25%
• Bad debts	1.0%
• Management costs	£250-350 per unit
• Maintenance costs	As per the 2016 stock condition survey indexed for 2019

Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of capital improvements, as well as directly incremental overhead costs and staff time associated with new developments, improvements and component works.

For mixed tenure schemes, costs are directly allocated to the tenure where this is appropriate, or they are allocated using an appropriate method (e.g. square metres of built units).

Major components of housing properties, which have significantly different patterns of consumption of economic benefits, are treated as separate assets and depreciated over their expected useful lives at the following annual rates:

Component	**Useful life**
Structure	135 years
Roof	60 years
Bathroom	30 years
Windows and doors	35 years
Kitchen	20 years
Heating system: boiler	15 years
Lift	30 years
Solar panels	25 years

Properties held on leases are amortised over the life of the lease or their estimated useful lives in the business, if shorter. Freehold land is not depreciated on the basis of its indefinite useful economic life.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies – Housing properties (continued)

Where there are improvements to housing properties that are expected to provide incremental future benefits, these are capitalised and added to the carrying amount of the property. Any residual amounts from replaced components are written off and charged as expenditure to the statement of comprehensive income. Any works to housing properties which do not replace a component or result in an incremental future benefit are charged as expenditure in the statement of comprehensive income.

Depreciation is charged on shared ownership properties over their estimated useful lives of 135 years using the straight-line method.

Leaseholders
Where the rights and obligations for improving a housing property reside with the leaseholder or tenant, any works to improve such properties incurred by the Group is recharged to the leaseholder and recognised in surplus or deficit in the statement of comprehensive income along with the corresponding income from the leaseholder or tenants.

Impairment of fixed assets – housing properties
The Group's housing properties are assessed for indicators of impairment at each reporting date. Where indicators are identified, then an assessment is undertaken to compare the carrying amount of assets or cash-generating units for which impairment is indicated to their recoverable amounts. An exercise is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sales proceeds are obtained to inform the options. The Group looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of the impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell or the value in use of an asset or cash-generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash-generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use.

The Group defines cash-generating units as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger cash-generating units. Where the recoverable amount of an asset or cash-generating unit is lower than its carrying value, impairment is recorded through a charge to the statement of comprehensive income.

Properties for outright sale
Completed properties for outright sale and properties under construction are carried at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises material, direct labour, direct development overheads and capitalised interest.

Shared ownership property sales
Shared ownership properties, including those under construction, are split between non-current assets and current assets. The split is determined by the percentage of the property to be sold under the first tranche disposal, which is shown on initial recognition as a current asset, with the remainder classified as a non-current asset within housing properties. Where this would result in a surplus on the disposal of the current asset that would exceed the anticipated overall surplus, the surplus on disposal of the first tranche is limited to the overall surplus by adjusting the costs allocated to the first tranche.

Proceeds from first tranche disposals (including Rent to HomeBuy properties that convert to shared ownership) are accounted for as turnover in the statement of comprehensive income of the period in which the disposal completes. The cost of sale is transferred from current assets to operating costs. Proceeds from subsequent tranche sales are treated as disposals of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies

Social Housing Grant and other government grants
Where grants are received from government agencies such as Homes England, local authorities, devolved government agencies, health authorities and the European Union which meet the definition of government grants, they are recognised when there is reasonable assurance that the conditions attached to them will be complied with and that the grant will be received.

Where grants are received for housing properties, once the property reaches practical completion, the grant is recognised in income evenly over the expected useful life of the property structure.

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

Recycling of grants
Where there is a requirement to either repay or recycle a grant received for an asset that has been disposed of, a provision is included in the statement of financial position to recognise this obligation as a liability. When approval is received from the funding body to use the grant for a specific development, the amount previously recognised as a provision for the recycling of the grant is reclassified as a creditor in the statement of financial position.

For shared ownership staircasing sales, when full staircasing has not taken place, the recycling of the grant may be deferred if the net sales proceeds are insufficient to meet the grant obligation relating to the disposal. On subsequent staircasing sales, the requirement to recycle the grant becomes an obligation if sufficient sales proceeds are generated to meet the obligation and a provision is recognised at this point.

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, any unamortised grant remaining within liabilities in the statement of financial position related to this asset is de-recognised as a liability and recognised as revenue in surplus or deficit in the statement of comprehensive income.

Disposal proceeds fund
Prior to April 2017 the net proceeds from property sales made under Right to Acquire and Social HomeBuy are credited to a disposal proceeds fund under the terms of the Social Housing Grant originally paid on such properties. Within the terms defined by the Homes England, the fund is to be used to provide replacement properties for rent.

Financial instruments
Financial liabilities that are classified as “basic financing transactions” in accordance with FRS 102 are initially recorded at the present value of future payments discounted at a market rate of interest. These are then subsequently measured at amortised cost.

Section 11 of FRS 102 sets out requirements for financial instruments to be classified as either basic or other. All of TCHG’s financial instruments are “basic”.

Financial instruments that are substantially modified are de-recognised and re-recognised at fair value. A substantial modification occurs when either FRS102’s qualitative characteristics are met or the discounted cash flows of the modified instrument differ by 10% or more from the existing discounted cash flows. A financial liability is otherwise de-recognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Whenever the terms of a loan agreement are modified but the modification is not assessed as being substantial, TCHG re-measures the financial instrument at the value of its discounted expected future cash flows after the modification. For variable rate loans, the discount applied is one that results in the carrying value remaining unchanged (after recognition of any transaction costs). For fixed rate loans, it is the original effective interest rate when the loan was first entered into.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Financial instruments (continued)

Financial assets
Investments in UK gilts are initially and subsequently measured at fair value.

Other financial assets are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

If there is objective evidence that there is an impairment loss, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced accordingly.

A financial asset is de-recognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities
Financial liabilities are initially recorded at transaction price and then at the end of the reporting period they are measured at amortised cost using the effective interest rate method.

Interest payable
Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are calculated using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument and is determined on the basis of the carrying amount of the financial liability at initial recognition. Under the effective interest method, the amortised cost of a financial liability is the present value of future cash payments discounted at the effective interest rate, and the interest expense in a period equals the carrying amount of the financial liability at the beginning of a period multiplied by the effective interest rate for the period.

Interest is capitalised on borrowings to finance developments to the extent that it accrues in respect of the period of development.

Arrangement fees and legal costs incurred in connection with loan facilities and bond finance are included in the transaction price of the facility and then recorded at amortised cost using the effective interest rate method.

Intangible assets
Intangible assets are stated at historic cost, less accumulated amortisation and any provision for impairment. Amortisation is provided on all intangible assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life, as follows:

Computer software	3 years

Other property, plant and equipment
Other property, plant and equipment is stated at historic cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all other property, plant and equipment, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold offices	50 years
Computer equipment	3 years
Office equipment and fixtures	5 years

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Leased assets
At inception, the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Operating leased assets
Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to surplus or deficit in the statement of comprehensive income on a straight-line basis over the period of the lease.

Investments
Investments that are publicly traded or whose fair value can be measured reliably are measured at fair value with changes in fair value recognised in surplus or deficit in the statement of comprehensive income. Other investments are measured at amortised cost less impairment.

Debtors and creditors
Debtors and creditors with no stated interest rate and receivable and payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the statement of comprehensive income in other operating expenses.

Recoverable amount of rental and other trade receivables
The Group estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair, it reviews the age profile of the debt, historic collection rates and the class of debt.

Pensions
Local Government Pension Scheme
The Group contributes to the Kent County Council Superannuation Scheme, a defined benefit final salary scheme. The assets of the scheme are invested and managed independently of the finances of the Group in respect of existing staff in the scheme.

Although this is a multi-employer scheme, it is possible for individual employers as admitted bodies to identify their share of the assets and liabilities of the pension scheme. For this scheme the amounts charged to operating surplus are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to revenue and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate Trustee-administered funds. Pension scheme assets are measured at fair value, and liabilities are measured on an actuarial basis using the projected unit credit method.

The actuarial valuations are obtained at least triennially and are updated at each statement of financial position date.

The Group closed membership of this scheme to new joiners during 2002/03.

2. Accounting policies – Pensions (continued)

Defined contribution scheme
The closure of the defined benefit final salary scheme to new joiners resulted in the Group entering into an arrangement with Aviva to provide those employees with a stakeholder pension scheme. This is a defined contribution scheme where the amount charged to surplus or deficit in the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date. Timing differences are differences between the Group's taxable surpluses and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable surpluses from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date that are expected to apply to the reversal of the timing difference.

Service charge sinking funds and service costs
Unutilised contributions to service charge sinking funds and over-recovery of service costs which are repayable to tenants or leaseholders or are intended to be reflected in reductions to future service charge contributions are recognised as a liability in the statement of financial position. The amount included in liabilities in respect of service charge sinking funds includes interest credited to the fund. Where there has been an under-recovery of leaseholders' or tenants' variable service charges and recovery of the outstanding balance is virtually certain, the balance is recognised in the statement of financial position as a trade receivable. Debit and credit balances on individual schemes are not aggregated as there is no right of set-off.

Reserves
Revenue reserve
The revenue reserve represents the accumulated results of the Group and Company. The Group has established a designated reserve for the future buy-out debt costs from a local government defined benefit pension scheme. The level of the reserve is adjusted periodically to reflect the future buy-out debt.

Revaluation reserve
A revaluation reserve is created from surpluses from asset revaluations. The revaluation reserve does not include revaluations from Investment Properties.

Designated reserve
The Group has established a designated reserve for the future buy-out debt costs from a local government defined benefit pension scheme. Periodic transfers are made to the reserve from revenue reserves to establish a reserve sufficient to meet the future buy-out debt cost.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible (within three months) into known amounts of cash and are subject to an insignificant risk of changes in value.

Value-added tax (VAT)
The Group charges VAT on some of its income and is able to recover part of the VAT (partial recovery) it incurs on expenditure. VAT is recognised as a cost to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. Income is recorded net of VAT and expenditure is recorded with VAT included; any partial recovery of VAT is recorded in income.

The balance of VAT payable or recoverable at the year end is included as a current liability or current asset.

3. Significant management judgements and key sources of estimation uncertainty

Significant management judgements and estimates

Costs to complete on a development scheme and the expected sales value of the properties upon completion.
There is judgement involved in assessing the cost to complete based on the anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, management then determine the recoverable amount of the properties developed for outright sale and/or land held for sale. This judgement is based on third party valuations for the estimated sales values based on economic conditions within the area of development and is re-assessed on a regular basis.

Estimation uncertainty
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Defined benefit pension scheme
The Group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors (with advice from independent actuaries) in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. The defined benefit pension scheme liability at 31 March 2019 is £4,257k (2018: £5,571k).

Fixed assets housing properties – useful lives
Housing property assets are broken down into components based on management's assessment of an appropriate proportion to apply. Individual useful lives are assigned to these components based upon a management assessment and after considering advice from independent surveyors. The carrying value of components is:

	2019 £m	2018 £m
Structure	353.5	352.9
Roof	20.7	19.6
Bathroom	6.8	6.5
Windows and doors	17.8	17.9
Kitchen	13.7	13.0
Heating system: boiler	11.9	11.7
Lift	1.5	1.5
Solar panels	1.6	1.7

TOWN AND COUNTRY HOUSING GROUP
Year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

4a. Turnover, cost of sales, operating expenditure and operating surplus

Group

	2019				2018			
	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Operating surplus £'000	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Operating surplus £'000
Social housing lettings (note 4b)	**52,580**	**-**	**(29,855)**	**22,725**	**52,608**	**-**	**(28,609)**	**23,999**
Other social housing activities								
Current asset property sales	3,203	(2,395)	-	808	5,281	(3,395)	-	1,886
	55,783	(2,395)	(29,855)	23,533	57,889	(3,395)	(28,609)	25,885
Activities other than social housing								
Lettings	1,731	-	(827)	904	1,457	-	(499)	958
Development and property sales	6,851	(5,224)	(93)	1,534	21	-	(134)	(113)
Other	321	-	(248)	73	312	-	(193)	119
	64,686	(7,619)	(31,023)	26,044	59,679	(3,395)	(29,435)	26,849

Company

	2019				2018			
	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Operating surplus £'000	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Operating surplus £'000
Social housing lettings (note 4b)	**52,580**	**-**	**(30,213)**	**22,367**	**52,608**	**-**	**(29,033)**	**23,575**
Other social housing activities								
Current asset property sales	3,203	(2,395)	-	808	5,281	(3,395)	-	1,886
Income from subsidiaries	124	-	-	124	174	-	-	174
	55,907	(2,395)	(30,213)	23,299	58,063	(3,395)	(29,033)	25,635
Activities other than social housing								
Lettings	1,731	-	(827)	904	1,457	-	(499)	958
Development and property sales	547	-	(554)	(7)	450	-	(543)	(93)
Other	321	-	(248)	73	294	-	-	294
	58,506	(2,395)	(31,842)	24,269	60,264	(3,395)	(30,075)	26,794

NOTES TO THE FINANCIAL STATEMENTS

4b. Income and expenditure from social housing lettings

Group

	General needs 2019 £'000	Housing for older people 2019 £'000	Intermediate 2019 £'000	Low-cost home ownership 2019 £'000	Total 2019 £'000	Total 2018 £'000
Income						
Rents receivable	42,958	2,679	1,794	2,223	49,654	50,005
Service charge income	1,516	588	8	428	2,540	2,517
Amortised government grant	108	-	-	278	386	86
	44,582	3,267	1,802	2,929	52,580	52,608
Expenditure						
Management	7,905	720	198	454	9,277	9,145
Service charge costs	2,159	167	20	307	2,653	2,786
Routine maintenance	4,211	118	33	20	4,382	4,504
Planned maintenance	3,955	69	4	-	4,028	4,365
Major repairs	1,598	951	17	6	2,572	1,473
Bad debts	160	10	25	45	240	226
Depreciation of housing properties	5,224	194	174	338	5,930	5,885
Impairment of housing properties	160	-	228	-	388	-
Write-off of housing components replaced in the year	378	-	7	-	385	225
	25,750	2,229	706	1,170	29,855	28,609
Operating surplus	18,832	1,038	1,096	1,759	22,725	23,999
Void losses	375	70	100	40	585	690

4b. Income and expenditure from social housing lettings (continued)

Company

	General needs 2019 £'000	Housing for older people 2019 £'000	Intermediate 2019 £'000	Low-cost home ownership 2019 £'000	Total 2019 £'000	Total 2018 £'000
Income						
Rents receivable	42,958	2,679	1,794	2,223	49,654	50,005
Service charge income	1,516	588	8	428	2,540	2,517
Amortised government grant	108	-	-	278	386	86
	44,582	3,267	1,802	2,929	52,580	52,608
Expenditure						
Management	7,904	720	198	454	9,276	9,284
Service charge costs	2,159	167	20	307	2,653	2,786
Routine maintenance	4,570	118	33	20	4,741	4,789
Planned maintenance	3,955	69	4	-	4,028	4,365
Major repairs	1,598	951	17	6	2,572	1,473
Bad debts	160	10	25	45	240	226
Depreciation of housing properties	5,224	194	174	338	5,930	5,885
Impairment of housing properties	160	-	228	-	388	-
Write-off of housing components replaced in the year	378	-	7	-	385	225
	26,108	2,229	706	1,170	30,213	29,033
Operating surplus	18,474	1,038	1,096	1,759	22,367	23,575
Void losses	375	70	100	40	585	690

NOTES TO THE FINANCIAL STATEMENTS

5. Gain on disposal of property

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Disposal proceeds of fixed assets	9,652	9,582	9,652	11,072
Carrying value and costs to sell	(4,843)	(2,847)	(4,843)	(2,847)
	4,809	6,735	4,809	8,225
Transferred to recycled capital grant fund	(793)	(192)	(793)	(192)
	4,016	6,543	4,016	8,033

6. Interest receivable - on loans, bank deposits, gilts and government liquidity funds

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Bank interest receivable	49	23	50	22
Government liquidity fund interest receivable	31	19	-	-
Interest on loan to subsidiary	-	-	805	478
Dividends from fixed asset investments	-	-	-	174
	80	42	855	674

7. Interest and financing costs - on loans, bank overdrafts and other loans

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
On bank loans, overdrafts and other loans	14,485	16,418	14,456	16,398
Interest on pension scheme net liability	139	169	139	169
Borrowing costs capitalised	(537)	(290)	(291)	(181)
	14,088	16,297	14,305	16,386

Interest on bank loans, overdrafts and other loans includes an amortised cost loan measurement charge of £535k (2018: £81k credit). Additionally 2018 included the cost of breaking fixed rate loans of £2,958k. The interest rate used to capitalised borrowing costs is 3.82% (2018: 3.60%)

8. Operating surplus is stated after charging

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Depreciation of housing properties	5,930	5,885	5,930	5,885
Amortisation of intangible assets	243	272	211	272
Depreciation of other property, plant and equipment	180	198	180	198
Write-off of housing components replaced in year	385	225	385	225
Amount of stock recognised as an expense	7,388	3,148	2,217	3,148
Operating lease rentals – plant and equipment	97	100	58	61
Auditor's remuneration (excluding VAT) - audit services	70	68	51	45
- other services	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

9. Employee information	**Group 2019**	**Group 2018**	**Company 2019**	**Company 2018**
Average number of full-time equivalent persons	195	186	139	135

The average number of full time equivalent persons (FTE's) is calculated by taking the average of the number of FTE's at the 1 April and at the 31 March.

Staff costs (for above persons)	**Group 2019**	**Group 2018**	**Company 2019**	**Company 2018**
Wages and salaries	6,884	6,561	5,204	4,925
Social security costs	678	660	511	497
Pension cost	589	613	552	583
	8,151	7,834	6,267	6,005

Directors' and senior executives' remuneration
The key management personnel are defined as the Board, the Chief Executive and the Executive Management Team.

The full-time equivalent number of staff, including the key management personnel falling into the following remuneration bandings (including salary, bonus and pension contributions), are as follows:

	2019 No.	**2018 No.**
£60k to £70k	3	4
£70k to £80k	5	4
£90k to £100k	2	1
£120k to £130k	1	2
£130k to £140k	1	2
£150k to £160k	1	-
£160k to £170k	-	1
£170k to £180k	1	-

Executive Management Team emoluments

	Group 2019 £'000	**Group 2018 £'000**
Emoluments (including benefits in kind)	568	522
Pension contributions	41	39

The highest-paid Director during the year was the Chief Executive (2018: Chief Executive), whose remuneration details (salary, bonus and other benefits), excluding pension contributions, are shown below. No bonus was paid in 2018:

	Salary 2019 £'000	**Other benefits 2019 £'000**	**Total 2019 £'000**	**Total 2018 £'000**
Highest-paid Director	165	7	172	161

The Chief Executive is a member of the defined contribution pension scheme, to which the Company makes a contribution. He is an ordinary member of the scheme and no special conditions apply. The Company's contributions to the scheme were £12k (2018: £12k).

NOTES TO THE FINANCIAL STATEMENTS

9. Employee information (continued)

Non-Executive Board Members' emoluments (Group, subsidiary boards and committees)

	£
Francis Salway (Chair)	16,642
Graham Hill	8,785
Mark Easton	7,766
Marianne Hay	6,657
Gaylene Kendall	6,572
Valerie Marshall	6,572
Kim Hill	5,548
Christopher Starke	5,548
Mark Dickinson	5,548
Andy Mackay	4,438
Melanie Forrester	4,310
Jenine Langrish (*retired* April 2018)	478
Christine Pointer (*retired* April 2018)	410
Sanaya Robinson (*retired* April 2018)	148
	79,422

10. Taxation

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Current tax				
UK corporation tax on surplus for the year	112	(65)	3	-
Deferred tax	119	-	55	-
Tax charge/(credit) on surplus on ordinary activities	231	(65)	58	-

Factors affecting the tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK, as explained below:

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Surplus for the year, before tax	16,182	17,777	14,965	19,755
Surplus on ordinary activities multiplied by the standard rate of corporation tax of 19% (2018: 19%)	3,075	3,378	2,843	3,754
Effects of:				
Fixed asset timing differences	119	13	56	13
Surpluses exempt from corporation tax	(2,963)	(3,456)	(2,841)	(3,767)
Total tax charge/(credit)	231	(65)	58	-

Factors that may affect future tax charges

TCHG is a charitable housing association and is not liable to corporation tax on its charitable activities.

As at 31 March 2019, TCHG Living had tax losses of £29.9m (2018: £29.9m). These losses may be set against certain profits arising in that company in future accounting periods. A deferred tax asset of £5.1m (2018: £5.1m) has not been recognised due to uncertainties as to the extent and timing of its recovery.

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets - housing properties

Group	Properties held for letting				Properties under construction			Total
	General needs	Intermediate	Rent to HomeBuy	Shared ownership & leasehold	General needs	Intermediate	Shared ownership & leasehold	
Deemed / historic cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	682,643	22,878	2,209	43,659	8,304	1,995	3,645	765,333
Additions	-	-	-	1,706	8,627	2,757	8,075	21,165
New components (replacements)	4,498	38	-	-	-	-	-	4,536
Schemes completed	7,232	2,213	-	6,038	(7,232)	(2,213)	(6,038)	-
Property disposals	(2,907)	-	-	(1,715)	-	-	-	(4,622)
Component replacements	(3,246)	(60)	-	-	-	-	-	(3,306)
Transfer to current assets	-	-	-	(2,688)	-	-	-	(2,688)
Transfer of tenure	-	-	(1,041)	666	-	-	-	(375)
At 31 March 2019	688,220	25,069	1,168	47,666	9,699	2,539	5,682	780,043
Depreciation and impairment								
At 1 April 2018	(16,701)	(367)	(166)	(1,510)	-	-	-	(18,744)
Depreciation charge for the year	(5,419)	(166)	(8)	(337)	-	-	-	(5,930)
Depreciation on property disposals	117	-	-	52	-	-	-	169
Depreciation on component disposals	2,888	54	-	-	-	-	-	2,942
Transfer of tenure	-	-	70	(51)	-	-	-	19
At 31 March 2019	(19,115)	(479)	(104)	(1,846)	-	-	-	(21,544)
Net book value								
At 31 March 2019	669,105	24,590	1,064	45,820	9,699	2,539	5,682	758,499
At 31 March 2018	665,942	22,511	2,043	42,149	8,304	1,995	3,645	746,589

The net book value of leasehold land and buildings included above is £5.9m (2018: £5.8m). Additions to housing properties in the course of construction during the year included capitalised interest of £0.5m (2018: £0.3m) at an average interest rate during the year of 3.82% (2018: 3.60%).

The deemed/historic cost includes cumulative capitalised interest of £22.7m (2018: £22.2m).

11. Fixed assets - housing properties (continued)

Company

	Properties held for letting				Properties under construction			Total
	General needs	Intermediate	Rent to HomeBuy	Shared ownership & leasehold	General needs	Intermediate	Shared ownership & leasehold	
Deemed / historic cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	684,280	22,878	2,209	44,088	6,381	1,995	3,645	765,476
Additions	-	-	-	-	8,621	2,757	8,075	19,453
New components (replacements)	4,498	38	-	-	-	-	-	4,536
Schemes completed	7,402	2,273	-	6,249	(7,402)	(2,273)	(6,249)	-
Property disposals	(2,907)	-	-	(1,715)	-	-	-	(4,622)
Component replacements	(3,246)	(60)	-	-	-	-	-	(3,306)
Purchased from subsidiary	-	-	-	1,706	-	-	-	1,706
Transfer to current assets	-	-	-	(2,688)	-	-	-	(2,688)
Transfer of tenure	-	-	(1,041)	666	-	-	-	(375)
At 31 March 2019	690,027	25,129	1,168	48,306	7,600	2,479	5,471	780,180
Depreciation and impairment								
At 1 April 2018	(16,679)	(367)	(166)	(1,507)	-	-	-	(18,719)
Depreciation charge for the year	(5,419)	(166)	(8)	(337)	-	-	-	(5,930)
Depreciation on property disposals	117	-	-	52	-	-	-	169
Depreciation on component disposals	2,888	54	-	-	-	-	-	2,942
Transfer of tenure	-	-	70	(51)	-	-	-	19
Reclassification	-	-	-	-	-	-	-	-
At 31 March 2019	(19,093)	(479)	(104)	(1,843)	-	-	-	(21,519)
Net book value								
At 31 March 2019	670,934	24,650	1,064	46,463	7,600	2,479	5,471	758,661
At 31 March 2018	667,601	22,511	2,043	42,581	6,381	1,995	3,645	746,757

The net book value of leasehold land and buildings included above is £5.9m (2018: £5.8m). Additions to housing properties in the course of construction during the year included capitalised interest of £0.5m (2018: £0.2m) at an average interest rate during the year of 3.82% (2017: 3.89%).

The deemed/historic cost includes cumulative capitalised interest of £22.7m (2018: £22.2m).

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets - housing properties (continued)
Improvements to properties - Group and Company

	2019 £'000	2018 £'000
Replacement of components	4,536	4,132
Improvements taken to statement of comprehensive income	2,572	1,473
	7,108	5,605

Valuation: Group and Company
For the purposes of our loan covenants, the Group's properties have been valued by professional external valuers, Savills (UK) Limited, (Savills) Chartered Surveyors of 37-39 Perrymount Road, Haywards Heath, West Sussex, RH16 3BN as at 31 March 2019 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors (RICS) using the following bases:

	Valuation	
	2019 £'000	2018 £'000
• Social housing – existing use value (EUV-SH)	605,724	597,998
• Intermediate rent – market value subject to tenancies (MVST)	29,747	30,930
• Rent to HomeBuy – market value subject to tenancies (MVST)	2,263	3,549
• Shared ownership – market value subject to tenancies (MVST)	53,817	47,893
	691,551	680,370

12. Fixed assets - investment properties - Group and Company

	2019 £'000	2018 £'000
Valuation at 1 April	23,000	22,360
Surplus on revaluation	130	640
Valuation at 31 March	23,130	23,000

The Group's market rent properties (included in investment properties above) are fair valued annually at 31 March. The valuation (fair value) is in accordance with the Appraisal and Valuation Manual of RICS using the Market Value Vacant Possession basis (MVVP). The valuation was undertaken by the Group's professional external valuers, Savills. The valuation was £21,450k (2018: £21,320k) and is based on research of comparable MVVP's on a property by property basis in the locations covered by the portfolio. The Group's other investment properties (two commercial properties) were valued in 2015/16 at £1,680k (2018: £1,680k) using a rent capitalisation method.

Savills have over 400 valuers who are RICS registered and annually undertake thousands of property valuations for Registered Providers, Banks and building societies, property companies, developers, investors and fund managers.

NOTES TO THE FINANCIAL STATEMENTS

13. Other plant, property and equipment - Group and Company

	Freehold offices & premises	Computer equipment	Office equipment & fixtures	Total
Cost	£'000	£'000	£'000	£'000
At 1 April 2018	2,399	932	1,095	4,426
Additions	-	81	68	149
Disposals	-	-	(397)	(397)
At 31 March 2019	2,399	1,013	766	4,178
Depreciation				
At 1 April 2018	(738)	(833)	(841)	(2,412)
Charge for the year	(29)	(62)	(89)	(180)
Disposals	-	-	397	397
At 31 March 2019	(767)	(895)	(533)	(2,195)
Net book value				
At 31 March 2019	1,632	118	233	1,983
At 31 March 2018	1,661	99	254	2,014

14. Intangible assets

	GROUP Computer software	COMPANY Computer software
Cost	£'000	£'000
At 1 April 2018	1,917	1,798
Additions	117	117
At 31 March 2019	2,034	1,915
Accumulated amortisation		
At 1 April 2018	(1,378)	(1,378)
Charge for the year (operating expenditure)	(243)	(211)
At 31 March 2019	(1,621)	(1,589)
Net book value		
At 31 March 2019	413	326
At 31 March 2018	539	420

15. Fixed asset investment

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Investment in subsidiaries				
Countrywise Repairs Limited (51% owned)	-	-	102	102
Monson Homes Limited (100% owned)	-	-	3,000	3,000
	-	-	3,102	3,102
Investment in MORhomes plc	20	20	20	20
	20	20	3,122	3,122

Countrywise Repairs (incorporated in England) is a joint venture subsidiary which carries out repairs and maintenance services to the Group's properties.

Monson Homes Limited (incorporated in England) develops homes for TCHG and for itself for outright sale.

MORhomes plc is a social housing treasury vehicle constituted as a non traded public company with listed debt instruments.

NOTES TO THE FINANCIAL STATEMENTS

16. Current assets - properties for sale

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Completed properties	7,318	107	1,930	107
Properties under construction	8,046	12,009	827	1,567
	15,364	12,116	2,757	1,674
Capitalised interest included in the above £'000:	281	127	35	18

17. Debtors

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Due within one year				
Rent debtors	1,374	1,878	1,374	1,878
Less: provision for bad and doubtful debts	(343)	(445)	(343)	(445)
	1,031	1,433	1,031	1,433
Amounts owed by subsidiary undertakings	-	-	66	104
Prepayments	849	809	836	712
Outstanding insurance settlements	9	142	9	142
Sales ledger debtors	99	161	99	143
VAT receivable	29	231	4	-
Other debtors	1,008	5,163	568	5,012
	3,025	7,939	2,613	7,546
Due after one year				
Amounts owed by subsidiary undertakings	-	-	12,500	10,000
	3,025	7,939	15,113	17,546

18. Creditors: amounts falling due within one year

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Accrued loan interest and commitment fees	2,373	2,341	2,373	2,341
Trade creditors	1,833	2,066	977	1,443
Accruals	2,976	2,434	2,499	2,011
Amounts owed to subsidiary undertakings	-	-	373	833
Rent received in advance	2,028	1,772	2,028	1,764
Retentions on contracts	1,211	1,581	776	849
Other creditors	53	93	44	86
VAT payable	-	-	38	30
Corporation tax payable	57	-	3	-
Other taxation and social security payable	188	189	148	137
Recycled capital grant fund (note 21)	956	424	956	424
Disposal proceeds fund (note 22)	-	192	-	192
Social Housing Grant in advance	-	347	-	347
Housing loans	12,809	-	12,809	-
	24,484	11,439	23,024	10,457

NOTES TO THE FINANCIAL STATEMENTS

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

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Housing loans				
Within two to five years	56,087	56,567	56,087	56,567
In five years or more	234,912	246,705	234,912	246,705
Total housing loans	290,999	303,272	290,999	303,272
Loans from subsidiary undertaking – due after more than five years	-	-	67,321	70,821
Bond – due after more than five years	80,000	80,000	-	-
Deferred capital grant (note 20)	15,132	13,583	15,132	13,583
Recycled capital grant fund (note 21)	984	751	984	751
Leaseholder and tenant monies in respect of future major repairs	1,173	721	1,173	721
Deferred tax	183	64	183	127
Retentions	285	-	52	-
	388,756	398,391	375,844	389,275

The transaction value of housing loans (excluding arrangement fees) as at 31 March 2019 was £271,898k (2018: £271,898k).

At 31 March 2019, 7,488 properties with a net book value of £611,212k were charged to lenders as security for housing loans.

The Company has separate bank accounts totalling £665k which are maintained to match leaseholder sinking funds. These are included within the balances shown as cash at bank and in hand of £6,589k (Company as at 31 March 2019).

During the year, the average interest rate (including margins) for the Group and Company was 3.81% (2018: 3.64%). Interest is paid quarterly on the bank loans and every six months on the bond. The fixed rates of interest charged during the year varied from 1.59% to 5.67% and variable rates of interest ranged from 1.08% to 1.13%. The weighted average interest rate for fixed rates of interest at 31 March 2019 was 4.48% (2018: 4.46%). The weighted average interest rate for floating rates of interest at 31 March 2019 was 1.09% (2018: 0.85%). The weighted average period for which interest rate was fixed at 31 March 2019 was 21.0 years (2018: 22.0 years). The benchmark for determining the interest rate payments on the floating liability was in all cases the London Interbank Offered Rate.

20. Deferred capital grant - Group and Company

	2019 £'000	2018 £'000
At 1 April	13,583	12,665
Grants received	1,935	1,004
Released to statement of comprehensive income	(386)	(86)
At 31 March	15,132	13,583

NOTES TO THE FINANCIAL STATEMENTS

20. Deferred capital grant - Group and Company (continued)

Grant received or receivable at 31 March

	2019 £'000	2018 £'000
Social Housing Grant – revenue reserves	161,136	161,906
Other grant – revaluation reserve	7,397	7,027
Social Housing Grant – deferred creditor	15,604	13,754
Recycled capital grant fund	1,940	1,175
Disposals proceed fund	-	192
Released to statement of comprehensive income	(472)	(247)
At 31 March	185,605	183,807

21. Recycled capital grant fund (RCGF) - Group and Company

	HE 1 2019 £'000	HE 1 2018 £'000	GLA 2 2019 £'000	GLA 2 2018 £'000	Total 2019 £'000	Total 2018 £'000
At 1 April	1,175	1,239	-	176	1,175	1,415
Grants recycled	793	192	-	-	793	192
Use of grant – new build	(28)	(256)	-	-	(28)	(256)
Grant repaid	-	-	-	(176)	0	(176)
	1,940	1,175	-	-	1,940	1,175
Due within one year	956	424	-	-	956	424
Due within two years	192	560	-	-	192	560
Due within three years	792	191	-	-	792	191
At 31 March	1,940	1,175	-	-	1,940	1,175

1 Homes England
2 Greater London Authority

22. Disposal proceeds fund - Group and Company

	2019 £'000	2018 £'000
At 1 April	192	225
Use of grant – new build	(192)	(33)
	-	192
Due within one year	-	192
At 31 March	-	192

All of the fund relates to activities within areas covered by Homes England.

23. Controlling party

TCH is controlled by its parent undertaking, Peabody Trust an entity incorporated in England and Wales. Copies of its financial statements can be obtained from the registered office: 45 Westminster Bridge Road, London SE1 7JB

NOTES TO THE FINANCIAL STATEMENTS

24. Pensions

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for qualifying employees. The total expense charged to the statement of comprehensive income in the period ended 31 March 2019 was £249k (2018: £235k).

Defined benefit scheme

The Group participates in the Kent County Council Superannuation Fund, a funded defined benefit final salary scheme with assets and liabilities held in a separately administered fund. The Group closed its membership to new entrants in 2003. The fund is subject to the regulations of the Local Government Superannuation Scheme. Contributions to the scheme are determined by a qualified actuary on the basis of the valuations, using the projected unit method.

Pension benefits depend upon age, length of service and salary level.

A full actuarial valuation of the defined benefit scheme was carried out at 31 March 2016 and updated at 31 March 2019 by a qualified independent actuary. Contributions to the scheme are made by the Group on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees.

There were no changes to the scheme during the year and no amounts owing at the year end.

Reconciliation of present value of plan liabilities

	2019	2018
	£'000	£'000
At 1 April	25,236	25,697
Current service cost	305	352
Interest cost	636	686
Actuarial losses/(gains) from change in financial assumptions	877	(926)
Actuarial gain from change in demographic assumptions	(1,399)	-
Estimated benefits paid	(633)	(639)
Contributions by scheme participants	60	66
At 31 March	25,082	25,236

NOTES TO THE FINANCIAL STATEMENTS

24. Pensions (continued)

Reconciliation of fair value of plan assets	2019 £'000	2018 £'000
At 1 April	19,665	19,353
Interest income on fund assets	497	518
Return on assets less interest	1,022	142
Administration expenses	(10)	(10)
Contributions by employer including unfunded	224	235
Contributions by fund participants	60	66
Estimated benefits paid	(633)	(639)
At 31 March	20,825	19,665
Present value of defined benefit obligation	(25,082)	(25,236)
Net pension scheme liability	(4,257)	(5,571)
Amounts recognised in surplus for the year:		
Current service cost	305	352
Administration expenses	10	10
Interest costs	139	168
	454	530
Analysis of actuarial gain/(loss) recognised in other comprehensive income:		
Actual return on fund assets in excess of interest cost	1,022	142
Changes in financial assumptions	(877)	926
Change in demographic assumptions	1,399	-
	1,544	1,068
Composition of plan assets		
Equities	14,281	13,122
Gilts	137	150
Other bonds	1,896	1,880
Property	2,501	2,473
Cash	363	652
Absolute return fund	1,647	1,388
Total plan assets	20,825	19,665
Principal actuarial assumptions used at the balance sheet date		
Discount rates	2.40%	2.55%
Future salary increases	2.90%	2.85%
Future pension increases	2.40%	2.35%
Inflation assumption - Consumer Price Index (CPI)	2.40%	2.35%

Mortality rates (life expectancy in years from age 65 years)	2019 Males	2019 Females	2018 Males	2018 Females
Retiring today	22.0	24.0	23.1	25.2
Retiring in 20 years	23.7	25.8	25.3	27.5

NOTES TO THE FINANCIAL STATEMENTS

25. Financial commitments

Capital commitments are as follows:	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Contracted for but not provided for:				
Construction of properties for rent	130	2,316	130	2,316
Construction of properties for sale	11,727	10,107	17	307
	11,857	12,423	147	2,623
Approved by the Board but not contracted for:				
Construction of properties for rent	15,114	16,934	-	-
Construction of properties for sale	7,645	12,381	-	-
Approved by the Board but not contracted for	22,759	29,315	-	-
	34,616	41,738	147	2,623

The above commitments will be financed primarily by cash and borrowings and Social Housing Grant. At 31 March 2019, the Group had funding facilities (including bond proceeds) in place totalling £457m, with £105m undrawn.

26. Operating leases - Group and Company

Minimum lease payments and receipts under non-cancellable operating leases:

	2019 £'000	2018 £'000
Amounts payable as lessee		
Plant and machinery:		
Within one year	15	14
Between one and five years	-	7
	15	21
Land and buildings:		
Within one year	20	20
Between one and five years	-	20
	20	40
Amount receivable as lessor 1		
Land and buildings:		
Within one year	262	236
Between one and five years	875	819
	1,137	1,055

1 - Amounts receivable as lessor are rents receivable from the unsold equity in shared ownership properties, and rents receivable from commercial properties.

27. Accommodation in management - Group and Company

The following numbers of units were in management at the end of the year:

At 31 March 2019	Owned & directly managed No.	Owned & managed by others No.	Total owned No.
Social housing			
General needs	6,490	24	6,515
Affordable	917	-	916
Affordable sheltered	117	-	117
Sheltered	358	-	358
Intermediate	268	-	268
Rent to HomeBuy	14	-	14
Shared ownership	638	-	638
	8,802	24	8,826
Non-social housing			
Market rented	136	-	136
All housing	8,938	24	8,962

At 31 March 2018	Owned & directly managed No.	Owned & managed by others No.	Total owned No.
Social housing			
General needs	6,482	24	6,506
Affordable	895	-	895
Affordable sheltered	110	-	110
Sheltered	375	-	375
Intermediate	251	-	251
Rent to HomeBuy	28	-	28
Shared ownership	619	-	619
	8,760	24	8,784
Non-social housing			
Market rented	136	-	136
All housing	8,896	24	8,920

	2019 No.	2018 No.
Leaseholders	376	356

28. Called-up share capital-non-equity

	2019 £	2018 £
At 1 April	11	11
Issued during the year	-	1
Surrendered during the year	-	(1)
As at 31 March	11	11

29. Related parties

Key management personnel

Details of remuneration of key management personnel are shown in note 9.

Tenant Board Members

Two members of the Board (Kim Hill and Melanie Forrester) are tenants of TCHG. Their tenancy agreements pre-date their appointment to the Board, and their terms are standard, with rents and service charges calculated in accordance with our normal policies. In aggregate, the annual rent and service charges payable by the two members in the year totalled £13,790 (2018: £10,821). At 31 March 2019, one rent account was in credit and the other had a nil balance. The aggregate balance on the accounts was a credit of £1,308 (2018: credit of £1,301). The credit balances are unsecured and represent pre-payment of rent and service charges. They will be applied to future debits to their rent accounts.

South East Consortium (SEC)

TCHG is a member of the SEC, a not-for-profit organisation which generates procurement efficiencies through the collective buying power of its members, principally housing associations and councils. SEC is run by a board of directors drawn from senior staff of its members, including Colin Lissenden. He receives no remuneration from SEC for this role. SEC charges a membership fee, and also charges a commission to suppliers on purchases made by its members. TCHG paid a membership fee of £3k in 2018/19 (2018: £3k). There was no balance due at 31 March 2019 (2018: Nil).

Inter-company

The Group has transactions and balances with four subsidiaries – TCHG Living, MHL, CWR and Foundation – in order to recharge overhead costs within the Group. These charges are based on a calculation of the actual costs of delivering support services including a reasonable proportion of overheads. A consistent basis has been used in 2018/19 to that used in prior years. Total amounts recharged were £599k (2018: £605k).

Monson Homes Limited (MHL) constructs and develops housing schemes on behalf of the Group. MHL charges TCHG for its actual costs in procuring construction services plus a mark-up of 4% or 10% (depending upon the degree of management required). In 2018/19, the amounts charged by MHL on this basis totalled £9,291k (2018: £5,068k). MHL has a loan from TCHG at LIBOR plus 2% with a revolving facility of £60m, it is secured by a floating charge over all of MHL's assets and is repayable in 2027. At 31 March 2019 the the amount loaned was £12.5m (2018: £10.0m). The amount due to MHL at 31 March 2019 was £279k (2018: £91k).

Countrywise Repairs Limited (CWR) is a 51%-owned subsidiary with Wates Living Space Limited owning the remainder. CWR undertakes property repairs for the Group. The amounts charged to TCHG in 2019 were £5,159k (2018: £5,131k). The amount due to CWR from TCHG and vice versa (unsecured inter-company trade debtor/creditor) at 31 March 2019 was £100k (2018: £642k).

TCHG has entered into a loan agreement with TCHG Capital PLC (a special-purpose vehicle for raising bond finance) to borrow the monies raised from an £80m bond issue. A total of £67m (2018: £71m) had been drawn at 31 March 2019. TCHG Capital PLC's shares are held by an independent trustee with TCHG having an option to purchase them. TCHG meets all of TCHG Capital's net interest and running costs so that it achieves a break-even position. TCHG Capital PLC's results are included in the consolidated TCHG financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30. Financial instruments

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

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Financial assets				
Measured at amortised cost				
- Loan due from subsidiary	-	-	12,500	10,000
Measured at undiscounted amount receivable				
- Amounts due from subsidiaries	-	-	66	111
- Rent arrears and other receivables	2,149	6,899	1,708	6,730
- Cash and cash equivalents	21,859	12,485	6,589	2,875
	24,008	19,384	20,863	19,716
Financial liabilities				
Measured at amortised cost:				
- Loan/bond payable	383,808	383,272	303,807	303,272
- Loan from subsidiary over five years	-	-	67,321	70,821
Measured at undiscounted amount payable				
- Amounts owed to subsidiaries	-	-	373	833
- Trade and other creditors	9,275	9,014	7,497	7,221
	393,082	392,286	378,998	382,147

Interest rate and liquidity risk of financial liabilities

Interest rate risk

The Group borrows at both fixed and floating rates of interest. It does not borrow in foreign currencies. The Group's policy is to keep between 70% and 90% of its net borrowings at fixed rates of interest. At 31 March 2019, 80.5% of the Group's net borrowings were at fixed rates.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. The Group's policy is that no more than 10% of fixed rates should mature in any one year.

Interest expense through the statement of comprehensive income

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Interest expense for financial liabilities at amortised cost	14,088	16,297	14,305	16,386

30. Financial instruments (continued)

Interest income through the statement of comprehensive income

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Interest income for financial assets at amortised cost	-	-	806	479
Interest income for financial assets at undiscounted amount receivable	80	42	49	195
	80	42	855	674

31. Subsequent event

On 9 May 2019 TCHG joined Peabody Group and became a wholly owned subsidiary of Peabody Trust.