Paragon Community Housing Limited
(formerly Elmbridge Housing Trust Limited)

Consolidated Financial Statements

Year ended 31 March 2016

Exempt Charity and Community Benefit Society incorporated under the
Co-operative and Community Benefit Societies Act 2014
Registration number (FCA): 31033R

Homes and Communities Agency number: LH4262

Contents

Board members, executives, advisors and bankers

Board of management

Chair

John Cudd

Other Members

Ebele Akojie
Alfons Dankis
(resigned 25 September 2015)
David Edwards
Richard Harris
David Hunter
Dilip Kavi
Jen Laney
(resigned 25 September 2015)
Ruth Mitchell
Joan Mulcahy
(resigned 25 September 2015)
Christine Pockson
Paul Powici
Gemma Saffhill
Mark Whitehead
(resigned 25 September 2015)

Auditors

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

Principal Solicitors

Devonshires
30 Finsbury Circus
London EC2M 7DT

Bankers

Royal Bank of Scotland
Floors 8 and 9
280 Bishopsgate
London EC2M 4RB

Executive management

Chief Executive

Dilip Kavi

Finance Director

Paul Rickard
(resigned 10 May 2016)
Malcolm Wilson
(joined 10 May 2016)

Business Development Director

Chris Whelan

Director of Customer Services

Ian Watts

Corporate Services Director

Marion Hall

Company Secretary and Registered Office

Marion Hall
Case House,
85-89 High Street
Walton-on-Thames
Surrey KT12 1DZ

Chairman's statement

In a sector that thrives on change, this last year has been an exceptional one. The summer budget caused waves across the sector. This will see a reduction in social rents of 1% year-on-year until 2020. Whilst this will be a challenge financially, this also opens up opportunities for organisations, like Paragon, who are financially robust and committed to their mission.

The demand for our services and new homes remains strong and we are proud to continue delivering these much needed resources. This year we delivered 235 new homes and by starting a further 411 homes, remain fully committed to delivering 1,000 new homes by 2019; homes that are of outstanding quality, affordable to heat, and above all, suitable for our customers' needs. In addition to providing new homes for 864 new customers, 1,685 people moved into our existing homes.

The year saw not just external change but significant internal change. We simplified pension arrangements and migrated all employees to a single provider on a defined contribution basis, to manage the future pension liabilities. We re-organised the Group by transferring Richmond Upon Thames Churches Housing Trust and the parent company, Paragon Community Housing Group, into Elmbridge Housing Trust, to form one registered provider called Paragon Community Housing. This has a smaller board with the skills necessary to take the organisation forward in this new environment.

During the year we disposed of our last care home, completing our corporate objective of removing Paragon from the care sector, something which was not our core business.

We have continued to expand beyond our traditional areas of operation increasing the level of development activity in adjacent boroughs, particularly in South West London. We are refreshing our risk parameters to ensure that the organisation is financially and reputationally safe as opportunities are being pursued. We are actively seeking out suitable partners to develop and improve customer services and deliver government policy to provide more new affordable homes. The coming year will see a small investment in homes for sale and market rent, which in turn will support delivery of our affordable housing commitments.

Welfare reform continues to be rolled out. We are managing this actively and have been working on a range of approaches to help customers deal with this through financial and digital inclusion and employment initiatives. We have also looked at how we deliver our services, bringing more of these in-house, strengthening delivery, improving efficiency, and increasing customer satisfaction. Our Handyman service regularly achieves 100% customer satisfaction.

As a result of our bond, which raised £250m in January 2015 and is being used in part to forward-fund our development aspirations, we have not needed to raise new funding. We have strong liquidity, one of many risk mitigations we have in place across the organisation.

Whilst we do not know what the future holds, with significant external influences such as "Brexit" creating uncertainty, what we do know is that Paragon is financially strong, enabling it to respond positively to adverse economic and political conditions. We will continue to take strides forward, continuously improving and delivering over and above our corporate plan in a challenging operating environment.

I must again thank my colleagues on the Board and staff throughout the organisation who commit themselves so wholeheartedly towards making Paragon the great place it is, making a difference to customers' lives and ensuring every customer matters.

John Cudd
Chair – Paragon Community Housing

Every customer matters

It has been another year of achievement for Paragon. We completed the re-organisation, aligning the legal structure with the operational structure. This has embedded a smaller board, with skills and succession plans that make the streamlined governance structure fit for the challenges and opportunities that lay ahead.

Financial performance
Once again we maintained throughout the year our top governance and viability rating with our regulator and our A2 credit rating from Moody's Investor Services. This reflected our financial strength, capacity, and flexibility; able to adapt and embrace the changes facing the sector. Our performance remained strong and we achieved an operating surplus of £23.5m with an operating margin of 33.2%, both further improvements on last year. However, the 'Brexit' vote has meant that, along with the rest of the sector, our outlook has now been downgraded by Moody's from stable to negative.

Despite the continued economic pressures facing our customers, gross arrears were held reasonably steady at 3.82% (allowing for delayed housing benefit payments from local authorities) and net arrears at 1.44%.

Development
We are committed to the delivery of 302 units under the 2015-18 HCA and GLA development funding programmes, but our ambitions go beyond this. In spite of the current challenges, we remain a strong organisation with considerable financial capacity. It is important that we use this to improve the provision of services and increase the number of homes for current and future customers. Our ambition to deliver 1,000 new homes by 2019 remains undiminished.

Investing in our homes
We have continued to invest significantly in our homes, maintaining the momentum created over the last few years. We have invested in our homes in a targeted but comprehensive way, based on 100% stock data and a thorough understanding of our assets.

We have provided new kitchens or bathrooms to 262 homes, replaced 297 of our oldest and least efficient boilers and installed new double glazed windows to a further 204 homes. We have also completed a programme to ensure every home is fitted with a carbon monoxide detector. We are helping our tenants live safely, in a positive environment that is affordable to heat.

Corporate plan
The Corporate plan is being delivered on target. The three overarching objectives are:

1. We remain dedicated to improving customer satisfaction
2. We will be more effective and efficient, to provide better homes and services
3. We will grow to provide more homes and better services

Customer satisfaction is on a positive trend. We have reviewed every cost element of the business, generating over £3m in savings for next year, and started more developments this year than in any other.

Everyone at Paragon knows and is playing their part in delivering the Corporate plan and shares my excitement for the future to deal with the challenges that come our way and embrace the opportunities these represent. These opportunities will enable us to grow and become even more efficient and effective, and deliver even more to improve neighbourhoods and communities and live our values.

Dilip Kavi

Dilip Kavi
Chief Executive

Strategic report

The Board of Management presents its Strategic report for the year. In approving the financial statements, the directors approve this report in their capacity as company directors.

Business model

We remain focused on being a provider of affordable housing. Following the reorganisation of the Group on 31 October 2015 the business has been transferred into one registered provider, Paragon Community Housing Limited (Paragon).

We have two non-registered subsidiary businesses providing specifically-related but separate activities. Funding is secured from capital markets through Paragon Treasury PLC and on-lent to Paragon whilst elements of development are supported by Paragon Design & Construction Services Limited.

We have sold the last of our care homes, which was a strategic goal for the last couple of years.

Governance

The board of nine non-executive directors and the Chief Executive is responsible for setting the strategic direction and overseeing financial management.

Paragon has adopted the National Housing Federation (NHF) 2015 Code of Governance and is fully compliant with the code. Paragon complies with the Social Housing Regulator's Governance and Viability Standard. The Regulator confirmed in March 2016 that Paragon has maintained V1 and G1 status, the highest available.

Paragon operates a number of committees as detailed on pages 12 and 13. The most important committee from a risk management and internal control perspective is the Audit and Risk Committee (ARC) which meets three or four times a year. The committee comprises four board members and is responsible for recommending the appointment of auditors, setting their terms of reference and monitoring their performance. It receives reports from the internal auditors, reviews the statutory accounts with the external auditors prior to their submission to the Board for approval and reviews internal controls.

Paragon maintains a risk register, updated for each meeting of the ARC, which sets out the main areas of risk, and the effectiveness of the internal control mechanisms developed to mitigate such risk. A business assurance map has been produced in conjunction with the internal auditors and presented to ARC. This is reviewed annually along with the business risk appetite.

Financial and non-financial key performance indicators

We report to the Board on a number of key performance indicators including profitability, as measured through our operating surplus and margin and non-financial measures such as customer satisfaction and re-let times.

Our turnover for the year was £70.7m, which was in line with last year and through lower operating costs and cost of sales, our operating surplus rose to £23.5m, a 14% increase on last year.

Generally, performance has improved in most areas, notably in lettings and responsive and planned maintenance. Customer satisfaction with individual services remains high, but overall satisfaction has largely stayed at the same levels. Details are provided in the Report of the board of management.

Developments during the reporting period and financial position at the year end

We actively continue to develop high quality and much needed new homes. During the year we completed 235 homes, have a further 411 homes in the pipeline and our aspiration is to deliver 1,000 by 2019.

Strategic report

Our revenue reserves, as restated for FRS 102 increased by £19.8m to £104.4m (2015 - £84.6m). Borrowing totalled £357.7m (2015 - £361.8m) and cost of fixed assets including our housing assets and investment properties stood at £669.3m (2015 - £613.0m).

Further details of financial performance are included in the Report of the board of management and the financial statements. We will also be publishing a comprehensive Value for money statement in September 2016.

Principal risks and uncertainties

The principal risks and uncertainties continue to revolve around the operating environment and political risk, as the withdrawal of the previous 10-year rent settlement has illustrated. We also remain exposed to the political reform of the welfare system, although we have invested heavily in this area and implemented additional controls to limit any adverse impact.

Paragon, like other registered providers, is subject to economic risk such as house and land prices, labour and material supply constraints, and underlying economic drivers such as interest rates and inflation. All of these are monitored regularly and early warning triggers and mitigation strategies are in place and reviewed regularly as circumstances change.

The impact of the recent vote to leave the European Union is being assessed and as potential impacts on the business emerge, specific strategies will be developed, but we are confident that we are well placed to respond positively.

Future prospects

Despite the challenging and uncertain environment in which we operate, we remain optimistic about the future. Paragon is strong financially and the Board is seeking to strengthen its position through alliances within and outside the housing sector, to enable it to deliver its core objectives and improve services to tenants and deliver more new homes. The changes to the sector will also give rise to opportunities and Paragon, with its strong financial position and robust governance, is well placed to take advantage of these. We will however remain focused on our core services and existing business model.

Approval

This Strategic report was approved by order of the Board on 15 September 2016.

John Cudd
Chair

Report of the board of management

The Board of management presents its operating report and audited financial statements for the year ended 31 March 2016.

Business model and developments during the year

Paragon Community Housing Limited (**Paragon**) is a Community Benefit Society (**CBS**), registered as a provider of social housing with the Homes and Communities Agency (**HCA**).

During the year we simplified our business operating model for our provision of social housing. On 31 October 2015, Richmond Upon Thames Churches Housing Trust Limited (**Richmond**) and Paragon Community Housing Group Limited (**PCHG**) undertook statutory transfers of engagements under the Co-operative and Community Benefit Societies Act 2014, to Elmbridge Housing Trust Limited (**Elmbridge**). At the same time, Elmbridge was renamed Paragon Community Housing Limited.

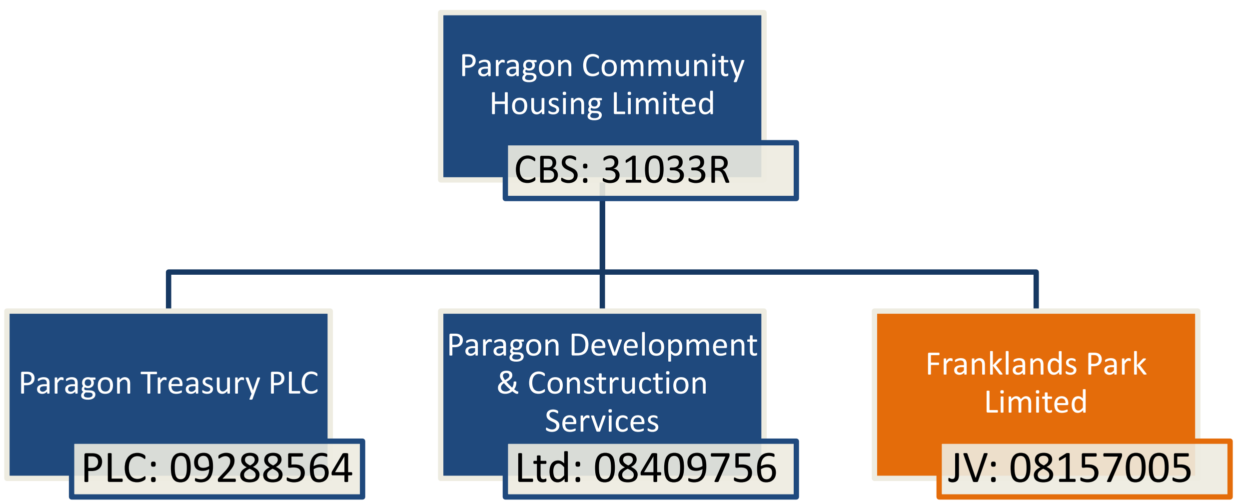
Paragon continues to operate in all of the communities we were operating in previously, which primarily is in South West London and Surrey, but the transfers of engagements have enabled us to simplify our governance structure.

Paragon is the parent company of two wholly owned subsidiaries, Paragon Development & Construction Services Limited, (**PDCSL**) and Paragon Treasury PLC (**PTP**).

The main activities of PDCSL are to support the development and construction activities of Paragon. PTP is a special purpose funding vehicle, used to secure funding for Paragon. PTP obtains finance directly from capital markets and on-lends this to Paragon. All associated expenses are borne by Paragon.

In these financial statements amounts denoted as being "Association" refers to the combination of PCHL (previously Elmbridge), PCHG and Richmond. Amounts denoted as "Group" refer to the combination of the Association with PDCSL and PTP.

The following diagram illustrates our corporate structure with the relevant company numbers, showing the three businesses constituting the group and our joint venture (JV), Franklands Park, an estate management company jointly owned with Accent Peerless:



Report of the board of management

Paragon owns or provides management services to 10,699 units (2015 – 10,516 units) as detailed in note 5 to the financial statements, with a further 540 units (2015 – 600 units) in the course of construction at the end of the year. As the sector increasingly encompasses shared ownership and properties sold under the Right to Buy, the number of leaseholders and service charge-paying freeholders has increased during the year.

Governance

Board members and Executive Management Team

The Board comprises nine non-executive directors and the Chief Executive. Non-executive directors are appointed for a term of three years or less and serve a maximum of nine years.

All board members and executive management team members who held office through the year are detailed on page 3.

Each board member holds one fully paid up share of £1 except the Chief Executive. There are six shareholders who are not board members.

The Board reviews its combined strengths and weaknesses on a regular basis and board members are selected in order to provide the best possible range of relevant skills and experience.

Other members of the Executive Management Team attend meetings of the Board but are not members.

Paragon has insurance to indemnify board members and officers against liability when acting on behalf of Paragon.

The Board is committed to the highest standards of governance and is responsible for setting the strategic direction and overseeing financial management of the business.

The Board is collectively responsible for ensuring the success of Paragon and its compliance with all legal and regulatory obligations. It has responsibility for setting Paragon's values and objectives, ensuring that high standards of integrity and probity are maintained and for the management oversight of Paragon and its constituent parts.

A governance review undertaken by an independent and suitably experienced consultant resulted in a reduction in the number of non-executive members to form a smaller board. This was in preparation for the Group reorganisation. The review also resulted in the adoption of a governance action plan and succession plan.

This was followed by a training programme, designed to inform board members of changes to government policy and what to expect from the social housing regulator's in-depth assessment of Paragon which took place in January 2016.

Training sessions by external consultants were run on market rent and safeguarding. There was board member attendance at the NHF conferences for Audit Committees and Board Members.

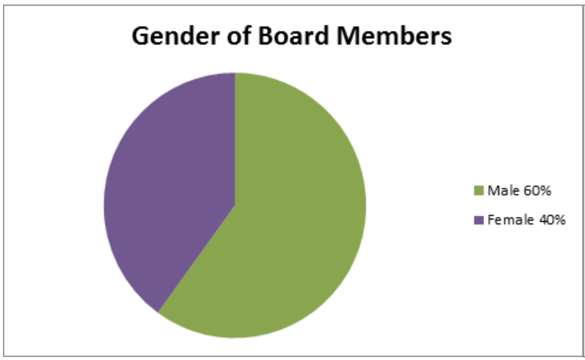
Board appraisals were conducted in April 2016. The theme arising was that the smaller Board was well-led, operating effectively and as a united team and working well with the Executive Management Team. Subsequently an external consultant has been commissioned to help to recruit new board members in anticipation of retirements in 2016/17.

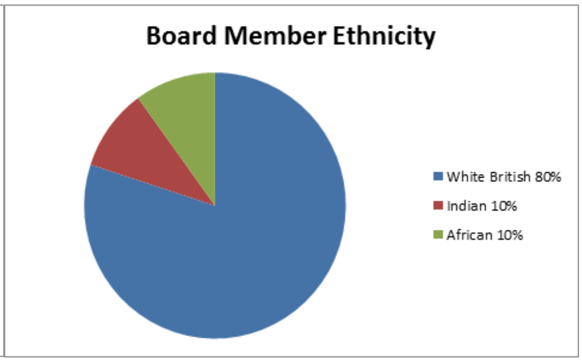
Board members are paid a fee for their services. The Nomination and Remuneration Committee has sole responsibility for determining the level of fees and it has taken advice from suitably qualified and experienced independent advisors on each occasion when fees have been reviewed. These reviews are always benchmarked against levels for comparable organisations and designed to ensure that Paragon is able to recruit and retain high calibre board members.

Report of the board of management

Between the Group reorganisation on 31 October 2015 and the year-end there were three board meetings. The board members and their attendance at those three meetings are as follows:-

Member	Attendance	Member	Attendance	Member	Attendance
John Cudd (Chair)	3/3	David Hunter	3/3	Paul Powici	3/3
Ebele Akojie	3/3	Dilip Kavi (CEO)	3/3	Gemma Saffhill	3/3
David Edwards	3/3	Ruth Mitchell	3/3		
Richard Harris	1/3	Christine Pockson	3/3		





The Board meets regularly to fulfil its stewardship role. It paid particular attention to the following activities during 2015/16:

- the re-organisation of the Group, including the governance review and selection of a smaller board with suitable skills for the future
- the restructure of pension arrangements, ceasing accrual in defined benefits and aligning all staff on a top quartile defined contribution arrangement
- the impact of the summer 2015 Budget announcements and identification of mitigating actions and future strategy
- the disposal of our last care home, identified as a long-standing risk and non-core activity.

The Board also:

- reviewed and approved the Business plan, to ensure consistency with our overarching plan
- approved the Budget and Annual operating plan
- approved the Financial statements for 2014/15
- received Annual reports from the committees
- reviewed the Asset and liability register
- led on the Value for money strategy.

Report of the board of management

The Board has commissioned professional advisors for different business areas. The Board has delegated certain activities to the ARC, the Nomination and Remuneration Committee, the Investment Committee and the Customer Services Committee. The Board has delegated various decision-making and operating authorities to the Executive Management Team in order to allow management to run the business, within the approved parameters, and established internal controls.

Prior to the reorganisation of Paragon Community Housing Group, each business had separate board meetings and members' attendance was as follows:

Paragon	**Attendance**	**Elmbridge**	**Attendance**	**Richmond**	**Attendance**
John Cudd (Chair)	2/2	David Edwards (Chair)	2/2	Alfons Dankis (Chair - Resigned 25 September 2015)	2/2
Ebele Akojie	1/2	Richard Harris	1/2	David Hunter	2/2
Alfons Dankis (Resigned 25 September 2015)	2/2	Ruth Mitchell	2/2	Jen Laney (Resigned 25 September 2015)	2/2
David Edwards	2/2	Joan Mulcahy (Resigned 25 September 2015)	1/2	Paul Powici	2/2
Dilip Kavi (CEO)	2/2	Gemma Saffhill	2/2		
Christine Pockson	2/2				
Mark Whitehead (Resigned 25 September 2015)	0/2				

Paragon operates four committees which are sub-committees of the board.

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

Paragon maintains a risk register, updated for each meeting of the ARC, which sets out the main areas of risk identified and monitored by the Board and the effectiveness of the internal control mechanisms developed to mitigate such risk. A business assurance map has been produced in conjunction with the internal auditors and presented to ARC. This is reviewed annually.

Report of the board of management

Amongst other duties, it is responsible for:

i. advising the Board on matters of internal control and risk management
ii. approving internal and external audit arrangements, including recommending the appointment of auditors, agreeing their terms of reference and monitoring their performance
iii. reviewing the outcome of internal and external audit activities
iv. reviewing with the external auditors the annual statutory financial statements and recommending these for approval by the Board.

The **Investment Committee** is constituted to:

i. review and recommend the overall Development strategy for approval
ii. approve associated policies
iii. approve new development, and stock disposals, that fall within the approved development strategy
iv. monitor and advise the Board on development performance
v. assess funding requirements and recommend funding
vi. approve the Treasury management strategy and policy and monitor their implementation.

The functions of the **Nomination and Remuneration Committee** are:

i. Board and committee membership
ii. Executive Management Team recruitment, appraisal and remuneration
iii. review of the Employee remuneration policy.

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

i. pursue improvements in the quality, consistency and timeliness of repairs and housing services to all customers
ii. steer absolute and relative comparisons of service costs in order to achieve value for money
iii. consider learning points from customers' complaints
iv. oversee initiatives that lead to higher customer satisfaction rates
v. promote the work of the Resident Council.

Membership of the four committees and member attendance at the meetings was as follows:

Audit and Risk Committee	**Attendance**	**Investment Committee**	**Attendance**
Ebele Akojie (Chair)	3/3	David Hunter (Chair)	3/3
Joan Mulcahy * (Resigned 25 September 2015)	1/1	David Edwards	2/3
Paul Powici	3/3	Mark Whitehead * (Resigned 25 September 2015)	0/1
David Hunter	3/3	Gemma Saffhill	3/3

Report of the board of management

Audit and Risk Committee	Attendance	Investment Committee	Attendance
Alfons Dankis * (Resigned 25 September 2015	0/1	Joan Mulcahy * (Resigned 25 September 2015)	1/1
Heather Kerswell * (Resigned 14 July 2015)	1/1	John Cudd (Joined 1 November 2015)	0/1
Christine Pockson (Joined 17 November 2015)	2/2	Alfons Dankis * (Resigned 25 September 2015)	1/1
		Richard Harris	3/3

Nomination and Remuneration Committee	Attendance	Customer Services Committee	Attendance
Christine Pockson (Chair)	1/1	Richard Harris (Chair)	3/3
John Cudd	1/1	Ruth Mitchell	3/3
David Edwards	1/1	Sam Thompson	3/3
Paul Powici	1/1	Dave Hobbs	2/3
		Jen Laney *[1] (Resigned 25 September 2015)	1/1

Note: * Resigned when the smaller board was formed for the Group reorganisation

***[1]** Resigned at the end of her nine year term

Report of the board of management

Board members' responsibilities

The board members are responsible for preparing the Report of the board and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law and social housing legislation require the board members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these financial statements, the board members are required to:

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

The board members are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Association's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Association and enable them 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 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are also responsible for safeguarding the assets of the Group and Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring that the Report of the Board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2014.

Financial statements are published on the group and Association's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group and Association's website is the responsibility of the board members. The board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Board's report on internal control

The Board has overall responsibility for maintaining a sound system of internal control and reviewing its effectiveness. The Board recognises that such a system can provide only reasonable and not absolute assurance against material misstatements or loss.

The system of internal control is designed to manage risk and fraud and provide reasonable assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the company's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which is embedded within the normal management and governance arrangements and it is a continuous process.

Report of the board of management

The Board gains additional assurance on the effectiveness of internal controls from the Audit and Risk Committee (ARC) and this responsibility is reflected in its terms of reference. The process adopted by the Board in reviewing the effectiveness of the system of internal controls, together with some of the key elements of the control framework includes:

- **Risk management**
  - The responsibility for the identification, evaluation, monitoring and reporting of key risks between the Board, ARC, Executive Management Team (EMT) and other employees is clearly defined in the Risk strategy approved by the ARC.
  - There is a formal and ongoing process of management risk review in each area of Paragon's activities and this links directly to the corporate plan, business plan and employee targets and work plans.
  - The ARC is responsible for changes to the risk register and monitors the process for managing risk. EMT monitors key risks and reports to the ARC on existing and emerging risks. The Board takes ownership of risk by monitoring the risk register and receiving regular updates on specific risks. The Board can mandate ARC to amend the risk register, but the ARC takes formal responsibility for the version control of the register.

- **Fraud management**
  - Governance regulations are in place approved by the Board, which detail the actions to be taken on detected or attempted fraud or corruption. These are reviewed annually.
  - The whistle-blowing policy covers employees wishing to report an act of fraud or corruption and these reports are recorded in the whistle-blowing register which is reviewed at each ARC meeting.
  - Further actions for dealing with fraud or corruption by board members or employees are contained in the NHF Code of conduct 2012 for board members and the disciplinary policy and procedure respectively.
  - All instances of attempted or perpetrated fraud or corruption are reported to the ARC and recorded in the fraud register which is reviewed at each meeting of the Committee. There is an Integrity and bribery policy which sets out how employees should manage any conflicts of interest, hospitality and compliance with the Bribery Act 2010.

- **Information and financial reporting systems**
  - Financial reporting procedures include a long term financial plan, detailed annual budgets, detailed treasury reports, value for money reporting and regular management accounts which are reviewed by the Board.
  - Key performance indicators and business objectives which are set as part of the performance management framework are regularly reviewed by the Board to assess progress and outcomes.

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

Report of the board of management

The ARC receives the annual review of the system of internal control from the internal auditors and takes account of any changes needed to maintain the effectiveness of the management and control process for risk and fraud.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by Paragon and for preventing, detecting, investigating and insuring against fraud. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board.

Disclosure of information to auditors

At the date of making this report, each of the Board Members, as set out on page 3, confirms the following:

- So far as each board member is aware, there is no relevant information needed by Paragon's auditors in connection with preparing their report of which the 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 information needed by the auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Board is not aware of any relevant information of which the auditors are unaware.

Material concerns

The Board has identified no material control issues or problems during 2015/16. No material concerns have been raised by the HCA or by any other stakeholder to which Paragon submits reports or information.

External auditors

A resolution to re-appoint BDO LLP will be proposed at the forthcoming annual general meeting.

The Report of the board was approved by the Board on 15 September 2016 and signed on its behalf.

John Cudd
Chair

Operational review and financial highlights

Corporate objectives:

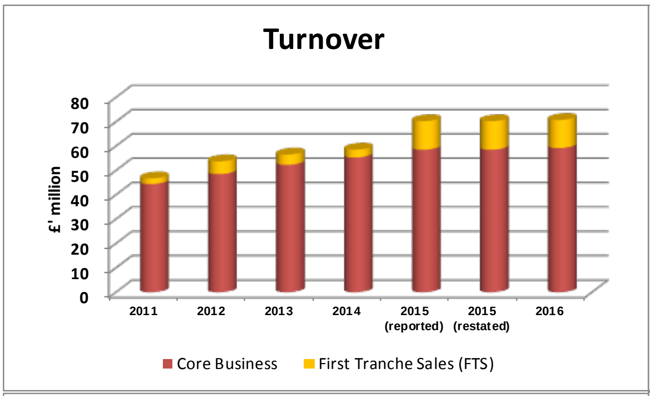
1. We remain dedicated to improving customer satisfaction
2. We will be more effective and efficient, to provide better homes and services
3. We will grow to provide more homes and better services

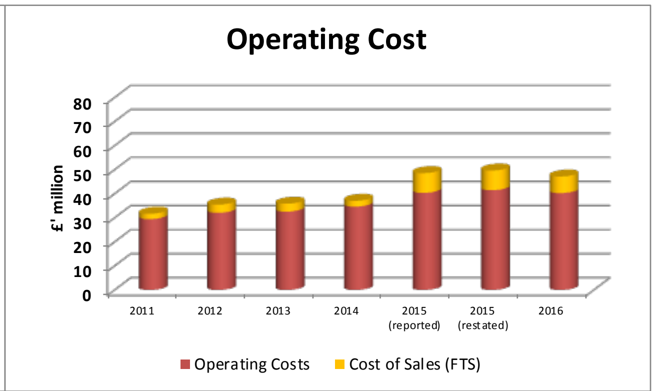
Each of these objectives is split in to three goals and then further broken down into deliverable actions. Further detail is included within these financial statements and on our website.

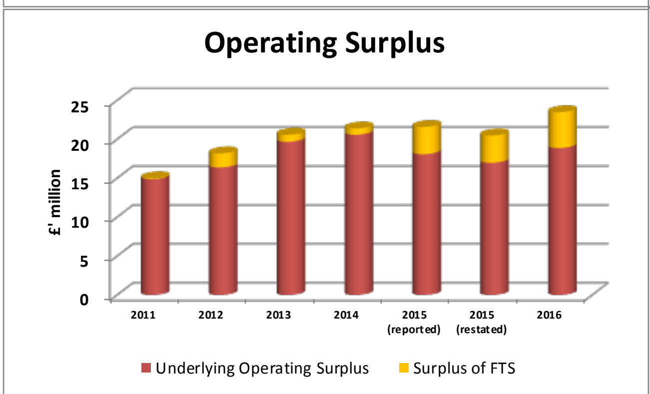
Financial highlights

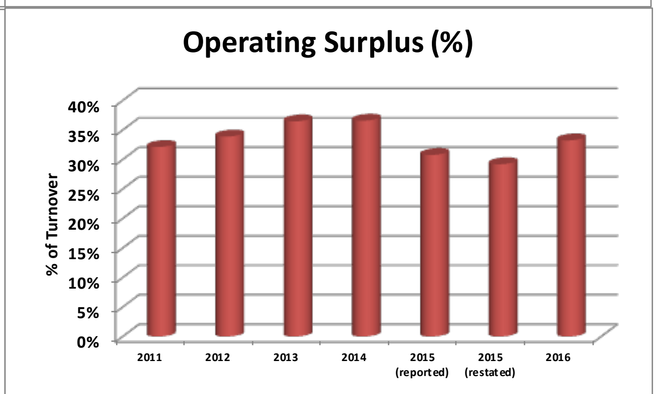
Paragon has delivered another strong financial performance to 31 March 2016. This performance is primarily derived from reductions achieved in operating costs and lower financing charges.

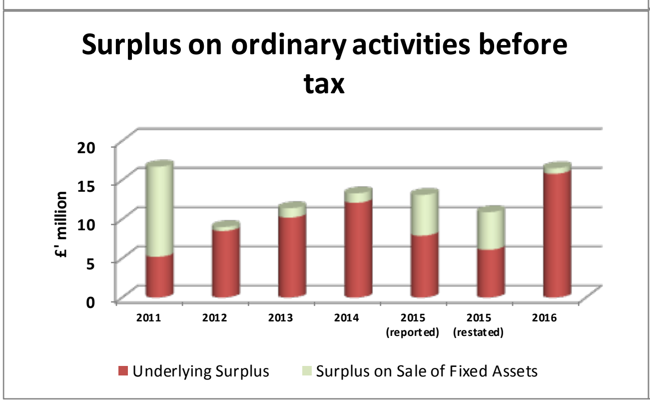
Turnover in our core business, excluding shared ownership first tranche sales, has remained flat as a consequence of growth in social housing lettings being offset by a reduction in income from residential care home units which have now been sold. This disposal also accounts for part of the reduction in operating costs.

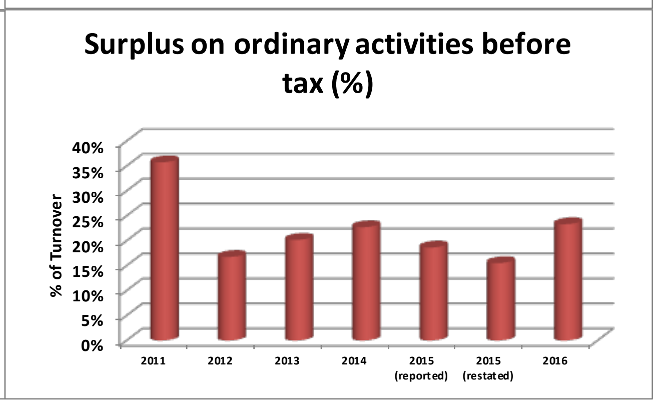












Operational review and financial highlights

	2011	2012	2013	2014	2015 (reported)	2015 (restated)	2016
Turnover							
Core Business	**44.4**	**48.5**	**52.3**	**55.3**	**58.5**	**58.5**	**59.2**
First Tranche Sales (FTS)	**2.3**	**5.2**	**4.2**	**3.2**	**11.7**	**11.7**	**11.5**
Cost of Sales	(2.2)	(3.4)	(3.3)	(2.4)	(8.2)	(8.2)	(6.9)
Operating Costs	(29.5)	(32.1)	(32.6)	(34.7)	(40.4)	(41.5)	(40.3)
Operating Surplus	**15.0**	**18.2**	**20.6**	**21.4**	**21.6**	**20.5**	**23.5**
Operating Surplus (%)	*32.1%*	*33.9%*	*36.5%*	*36.6%*	*30.8%*	*29.2%*	*33.2%*
Surplus on Sale of Fixed Assets	11.5	0.5	1.2	1.2	5.2	4.8	0.7
Net Interest Charges	(9.8)	(9.7)	(10.4)	(9.3)	(13.7)	(14.6)	(8.4)
Revaluation of Investment Properties						0.2	0.7
Surplus on ordinary activities before tax	**16.7**	**9.0**	**11.4**	**13.3**	**13.1**	**10.9**	**16.5**
Surplus on ordinary activities before tax (%)	*35.8%*	*16.8%*	*20.2%*	*22.7%*	*18.7%*	*15.5%*	*23.3%*

Statement of financial position

During the year to 31 March 2016 the total number of units managed or owned by Paragon increased by a net 183 units, from 10,516 to 10,699.

Expenditure on new homes totalled £62.5m.

From this year the assets are shown at deemed cost on the Statement of financial position which at 31 March 2016 for the housing properties was £663.8m, up from £607.5m at 31 March 2015. Properties under construction at cost were £70.1m at 31 March 2016.

Cash and equivalents were £67.9m at 31 March 2016, down £41.9m on the previous year. This cash was used to fund new developments, with no new loans being drawn during the year.

Statement of comprehensive income

Turnover has increased by £0.5m to £70.7m, however operating costs have reduced by £1.2m and cost of sales by £1.3m, resulting in an operating surplus of £23.5m, up £2.9m on 2014/15. The operating surplus is 33% of turnover, up from 29% in 2014/15.

Operating costs have been a major focus of the business this year and Paragon has reduced these by 3% from £41.5m to £40.3m over the year.

Our focus on providing ever greater value for money and our aim of working more efficiently has been widely promoted in our Value for money self-assessment. This resulted in lower operational expenditure.

The use of outside contractors for responsive repairs and maintenance work has been reduced and instead has been delivered through our contract with Willmott Dixon. Operational costs were further reduced compared to 2014/15, as fewer voids required decoration and could be re-let quicker. The required internal and external decoration programme reduced from 5,292 properties in 2014/15 to 2,094 in 2015/16.

Net interest charges reduced in 2015/16 to £8.9m as a consequence of the refinancing in 2014/15. Last year's charges were £14.8m, including one-off break costs of £4.4m and other refinancing costs of £1.2m.

The surplus on disposal of assets at £0.7m is £4.1m less than in 2014/15, due to £2.0m less in sales proceeds and payments to Elmbridge Borough Council under the Right to Buy sharing agreement of £1.7m, up significantly from £0.1m in 2014/15. This agreement is part of the original transfer process agreed with the Council.

Operational review and financial highlights

Operating review

The 2015/16 financial year was one of change, with some significant government announcements, not least of which was the reduction in social rents over the next four years. This backdrop of change has provided significant opportunities as well as challenges:

- Customer satisfaction continued to be a priority and a customer journey mapping exercise was undertaken to provide ways of improving the customer experience. A reduction in void times and an improvement in the Responsive Repairs Service have resulted in improved customer satisfaction. The next step is to develop the Paragon customer experience by looking at how we communicate with customers and ensuring that this is consistent.
- Satisfaction with individual services has improved, with five of the eight services meeting their target. Satisfaction with the overall service generally stayed static, although this still benchmarks well with peers. The steps taken above and a restructure of the Housing Service will help to address this.
- The Responsive Repairs and Voids Service have performed better than in the previous two years. Overall satisfaction in April 2016 reached 93%. 96.8% of emergency repairs are attended to within 4 hours and completed within 24 hours. The average variation for void turnaround times is -0.4 days (negative figures means ahead of target). One area of the service that requires improvement is the completion of routine repairs. 88.9% were completed in 21 days against a target of 97%. The focus now is to improve on the small number of repairs completed just outside the target. Excellent joint working with Willmott Dixon has seen the commencement of the property MOT service and the outcomes of the customer journey mapping work becoming a reality. Value for money improvements are expected, with reduced repair volumes and void times and increased customer satisfaction.
- The Gas Servicing and Repair Service is performing well. 100% properties have a valid Landlord Gas Safety Record and the service achieved 96% customer satisfaction. The internal audit on the service did not make any recommendations for improvement.
- With planned and major works, we completed 2,719 separate improvements, including external and internal decorations, new roofs, kitchens, bathrooms, boilers and window replacements. The total spend was £11m. There were good levels of customer satisfaction. A new cyclical decorations and associated repairs service was procured for the next five years with two suppliers. This will ensure a good quality consistent service is delivered with clarity over costs.
- The core modules of Keystone, a new asset management database system, were implemented. This will enhance business planning, increase efficiency in our management of planned maintenance contracts and rationalise our management of compliancy.
- The approach to compliance was developed by improving services and widening the scope of in-house services for water, fire and electrical testing, servicing and works. This has made large financial savings as part of our approach to deliver value for money.
- Income recovery and financial inclusion continues to be a priority and is performing well. At 31 March 2016 net arrears (excluding housing benefit (HB) owing) stood at 1.44%, a slight increase on 2014/15 and ahead of target. Gross arrears (including HB owing) stood at 3.82% against a target of 3.50%. This is set against an increasingly challenging environment due to welfare reform. The Welfare Benefits Team assisted 460 customers, collecting £397,000 in backdated HB and a further £700,000 in other benefits.
- The Housing Service has been restructured. A new customer advice centre is in place to manage the majority of initial housing queries and this will be developed over time. A new lettings service has been created in response to the customer journey mapping exercise and a need to reduce void times.

Operational review and financial highlights

- A new neighbourhood co-ordinator team will carry out estate and property inspections and positively engage with customers. This will be supported by a tenancy solutions team, to help vulnerable customers sustain their tenancies and enforce tenancy conditions when necessary.
- The Lettings Service has improved with the number of voids reduced to 21 at 31 March 2016 (target: <75). The overall letting time (including new homes) is better than target at 24.8 days (target: <30 days). The re-let time for minor works voids is still over target at 34.7 days (target: 26 days). Reducing this to 21 days or less is a priority for 2016/17.
- One of the key pressures for the coming year is responding to welfare benefit cuts, by ensuring that residents have the means to afford their rent and running costs, before any formal offer or sign up takes place. This will ensure that re-let times are not affected and tenancies are sustainable.
- The Estates Services Team moved into Property Services to help improve the customer experience. The Super-caretaking Service now provides a flexible, mobile service across all sites. A new cleaning contract with Pinnacle PSG commenced in July 2015 and still requires improvements in customer satisfaction. Customer satisfaction with the grounds maintenance service provided by Quadron is 69% and this will benefit from the introduction of neighbourhood co-ordinators in early 2016/17 that will be able to identify issues with the service more quickly.
- Resident scrutiny of services has continued, with inspections of the leasehold, responsive repairs and decent homes services and a review of communication with customers. Actions from these inspections are monitored by the Customer Services Committee.

Capital programmes

Our new homes have been well-received in the local and national press, with exceptional feedback from residents. We pride ourselves on our design and ability to deliver complex and technically demanding schemes that are of excellent quality and which maximise the development potential of sites. We need these skills to ensure that we are competitive in areas where land values are high.

The changes to the sector in this past year have not diminished our appetite for delivering more new, much needed, high quality homes.

We ended the Respond consortium arrangements with effect from April 2015, as they no longer delivered the original objectives and placed an increased administrative burden on Paragon as lead partner, which went against our continuous drive to improve value for money. We have maintained bidding links with Transform Housing and Support, who provide specialist supported housing in Surrey and South London.

The benefits of operating outside the Respond consortium are now being seen, with reduced costs and greater freedom, whilst also allowing access to opportunities that deliver improved returns across a wider operating base. Our Development strategy has been reviewed to reflect this change and the new operating environment, in order to make our business more responsive.

We have been successful in strengthening our development presence in London with over 264 homes under development at the year-end. Our work in Surrey also remains an important part of our development programme and at the year-end we had 231 units on site including 28 units for market rent.

We have invested in our Sales Team to enable us to offer better services and deliver our growing shared ownership sales programme. This year saw us deliver 84 new shared ownership sale completions with receipts of £11.5m. Given the need to generate cross-subsidy to support the development of affordable rented homes, the strength of our shared ownership sales programme is of particular significance. The year also saw a strong performance on shared ownership staircasing with £3.1m of receipts.

Operational review and financial highlights

We entered into contracts with the HCA and GLA in relation to the 2015/18 Affordable Homes Programmes but have done so in a measured way that gives us significant control over risk and exposure. We have contractually committed to deliver 302 homes with these agencies. To support this commitment we have already completed 63 of these contracted units, with a further 411 units commenced from which the balance of our programme obligations will be met.

Engagement with the HCA and GLA in relation to funding and bidding opportunities beyond the initial 2015/18 allocations will continue, albeit at a considered level and for appropriate projects that deliver the desired outcomes in terms of quality and financial performance.

Although the cost of raising new loan finance has been significantly reduced through the bond, with grant rates having declined drastically, we recognise the need to increase capacity and support the new delivery of rented housing through rent conversions of existing social housing stock and active asset management. We continuously review the performance of our property assets and where these are not delivering the appropriate social or financial returns, we progress tenure change options, or disposal to create capacity for new investment elsewhere. We recognise that parameters used in the approval process for new developments need to be more commercially-based and we need to generate cross subsidy from market sales and market renting. The Investment Committee is selective in its scheme approvals in relation to the affordable rent capital programmes.

Our development company, PDCSL will play an increasingly important part in helping to deliver homes under the new GLA and HCA programmes. This company will be the main new homes delivery vehicle and its use will significantly reduce development costs, by supporting effective recovery of VAT on new developments.

Risk register

The following is an extract of the August 2016 Risk register together with the movement in the last year. The register is regularly reviewed and updated for both existing and new risks. For example, whilst pensions remained a risk throughout 2015/16, this has now been removed from the register, as our pension schemes were restructured at the same time as the Group reorganisation. The cessation of future accruals will mitigate future liabilities in relation to the defined benefit schemes. Similarly, recruitment and retention has now been added to the register.

Separately, we undertake an annual risk assessment of the organisation against the Regulator’s Sector Risk Profile. The results and actions arising from this are presented to the Board and shared with the Regulator.

Paragon dynamic risk report

Risk is measured as a combination of likelihood and impact on strategy, operations, finances or stakeholder concerns. The likelihood and impact are combined to give an overall risk rating:

Major	Red	High risk – constant monitoring by Executive Team
Moderate	Amber	Tolerable risk – periodic monitoring by Senior Managers
Minor	Green	Acceptable risk – acceptable level of risk but monitored periodically
↑ = increased risk ↔ = no change ↓ = reduced risk/ improved mitigation		

Operational review and financial highlights

Risk – causes and outcomes	**Mitigating actions**	**Residual Risk**	**Change since 2015**
Failure to deliver capital programmes Failure to deliver may lead to reputational damage and impact on the financial plan.	Sites have been identified for all of the 302 units in the 2015-18 programmes. Paragon is no longer exposed to risk as part of consortium arrangements.		↓
FRS 102 The implementation of FRS 102 significantly changes the presentation of performance and some accounting policies.	The 2016 consolidated financial statements have been produced in compliance with FRS 102. There is a residual treasury issue in relation to demonstrating covenant compliance, as covenants are currently defined under UK GAAP rather than FRS 102.		↓
Health and Safety Failure to comply with health and safety requirements generally and particularly to deal with outstanding actions to address identified fire risks could lead to the safety of residents, contractors or employees being compromised and reputational damage.	Fire Risk Assessments are up to date and high risk actions have been completed. Lifts are serviced and inspected in accordance with our policy. Health and safety is reviewed by the internal auditors. The most recent review of the Gas service found substantial assurance. The Health and Safety Committee, which includes a board member, monitors performance.		↓
Customer satisfaction Good customer satisfaction is a key goal and satisfaction levels are below target. This is also a reputational risk.	Customer satisfaction has improved overall. Repairs complaints have fallen as performance and satisfaction have improved. Satisfaction with housing management is good but cleaning and grounds maintenance less so. Leaseholder satisfaction is improving. The Handyman Service is rated as excellent.		↔
Business continuity A disaster impacting the office or infrastructure could lead to a breakdown of operational services and major disruption to customers and the business.	Business continuity and IT recovery plans are in place and both have been tested successfully. The alternative office resource for disaster recovery worked well during the test.		↓
Data quality Issues with data quality can affect the production of some business intelligence information. This creates inefficiencies which can impact on customer services.	The Business Intelligence Team is driving the improvement of data integrity. Data integrity is included in the internal audit plan. A review in 2016 found substantial assurance.		↓
Political risk This risk arose from the significant and material change in the operating environment for housing			↑

Operational review and financial highlights

associations since the General Election and the 2015 budget announcements:			
1% annual rent reduction from 1 April 2016 for four years.	Rent reduction Paragon has demonstrated that it is able to manage the rent reduction. Substantial savings have been identified to ensure that financial strength is maintained.		
Extension of the Right to Buy to all housing association tenants (vRtB).	vRtB The pilot undertaken by other housing associations suggests this will be popular and may generate substantial receipts. It is not possible to quantify these currently.		
Further £12bn in welfare cuts.	Welfare reform The impact been mitigated through resource investment, financial plan adjustments and good communications. The lower benefit caps will put pressure on the mitigations in place, so further steps will be taken as necessary. The emerging issue is for single people under 35 who will have access to benefits curtailed.		
Pay to Stay.	Pay to Stay This may generate income but the implementation is not clear. No additional income has been included so far.		
ONS decision to reclassify housing association borrowings as public debt.	ONS reclassification This won't affect Paragon in the short/medium term. The Government has said the decision will be reversed but timescales are not clear and are linked to the relaxation of the HCA's regulatory powers due to come into effect in September/October 2016.		
Brexit.	Brexit Moody's have changed the sector's outlook from stable to negative and Paragon is now rated A2 negative. Uncertainties over the next 2 to 5 years may lead to modest falls in house prices and a reduction in growth which could impact on shared ownership sales. In order to provide assurance about this uncertainty, the Business plan has been stress tested against adverse changes in the economy, house prices and the financial markets.		
These risks should be manageable and some may present opportunities but in aggregate they significant create uncertainty so this risk has been rated as high.			

Operational review and financial highlights

Recruitment and retention There have been recruitment and retention issues in some of the teams. This has impacted on customer service and the management of key projects.	Action is being taken in relation to staff recruitment and development in response to issues identified and this is being monitored at board and committee level.		New
Sector restructuring Merger activity is creating 'super' RPs around London, whose size will exceed 100,000 homes. This is changing the nature of the market and competition.	Paragon and asra Housing Group have announced that they are exploring the merits of a merger, to achieve economies of scale, improve value for money and development capacity.		New

The Risk register reflects those key risks identified and monitored by the Board and EMT.

Stress testing and scenario analysis

As part of the annual business planning round we tested the Business plan using the following:

- Variable testing – flexing key variables based on historic movements
- Stress testing – flexing each variable to establish the level at which it would 'break' the plan
- Scenario testing – testing specific potential scenarios that involve a combination of variables such as a deflationary environment
- Perfect storm – testing an extreme set of adverse variables

The results of these tests demonstrated that Paragon is equipped to be able to deal with all but the most serve economic and operational adverse conditions without major impact on its operations. However we are aware that we must not be complacent and have identified mitigating actions that could be implemented in the event of an extreme adverse scenario.

Mitigations

Despite Paragon's financial capacity and headroom, we regularly monitor a series of early warning triggers that could prompt the implementation of mitigating actions.

The nature of the event and its impact will determine the mitigating response, for example whether this is liquidity or performance. Mitigations include a reduced repairs programme – we have quantified the level of maintenance spend that could be deferred without breaching contracts or compromising our legal obligations. Other key mitigations include immediate reductions in non-core services, and the disposal of identified assets.

We maintain a separately identified pool of unencumbered and unrestricted properties that could be sold within a very short timeframe.

All of these mitigations have been planned with the financial savings modelled and timings prepared, supported by our Asset and liability register.

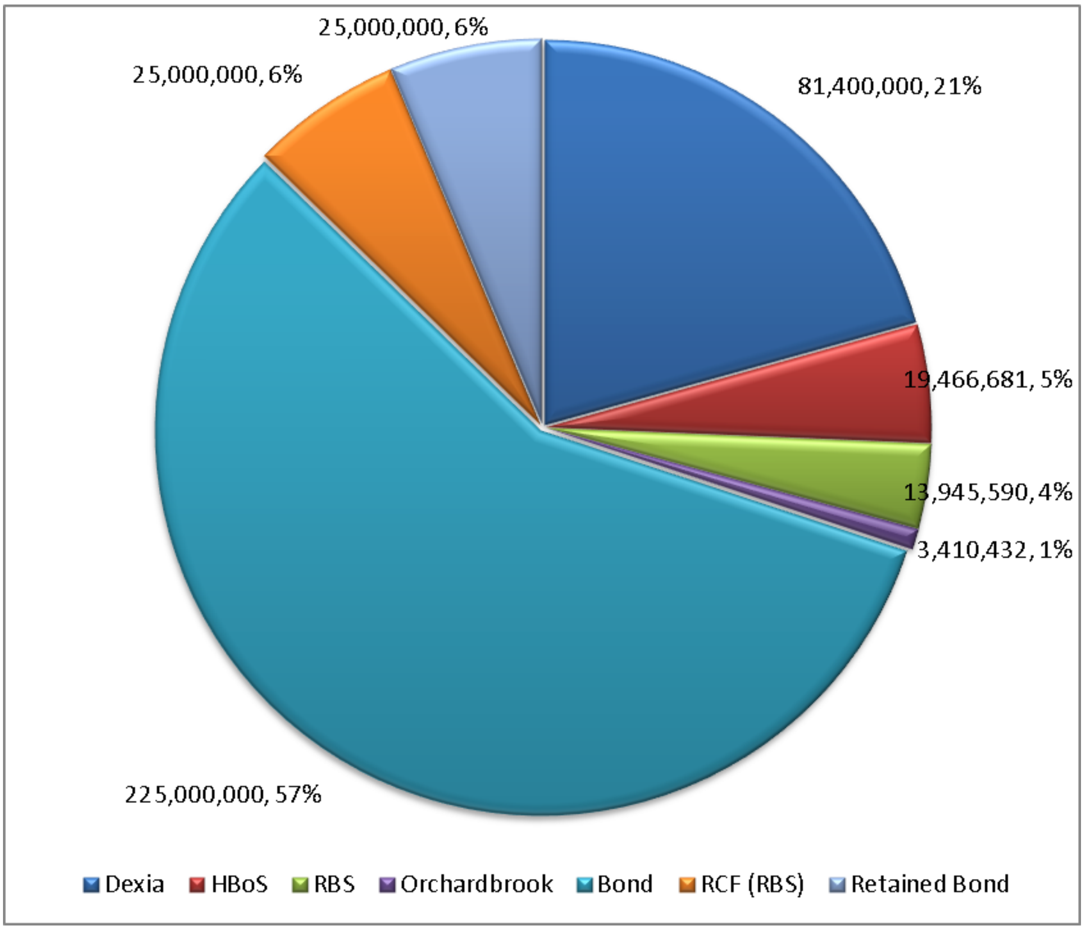
Operational review and financial highlights

Debt position and Treasury management policy

Following the bond issue and refinancing exercise in January 2015, there has been no further increase in borrowing. Term facilities are fully drawn and liquidity is maintained, with a mixture of cash and £25m Revolving credit facility (RCF); with a further £25m retained bond available for future drawdowns. £0.6m capital loan repayments and a further £35.8m of amortising facilities will be repaid during the next five years. This will be financed from the proceeds of the bond.

All loan facilities are secured by Paragon property, with uncharged units available to securitise a further £120m of new facilities. Paragon does not have any financial instruments that require it to put aside cash or security to meet any shortfall in their value when compared to the open market price. 92% of loans were fixed at 31 March 2016, reducing to 89% by 2020.

The pie chart below shows the composition of total loan facilities by counterparty of which there is a £25m RCF facility available to be drawn down and a further £25m retained bond.



We continue to update our Treasury management policy on at least an annual basis, reflecting changes within the organisation and the external environment and to reflect the latest guidance and best practice.

The policy is approved by the Board and addresses funding, the level of fixed rate debt, liquidity management, security, counterparty risk and covenant compliance.

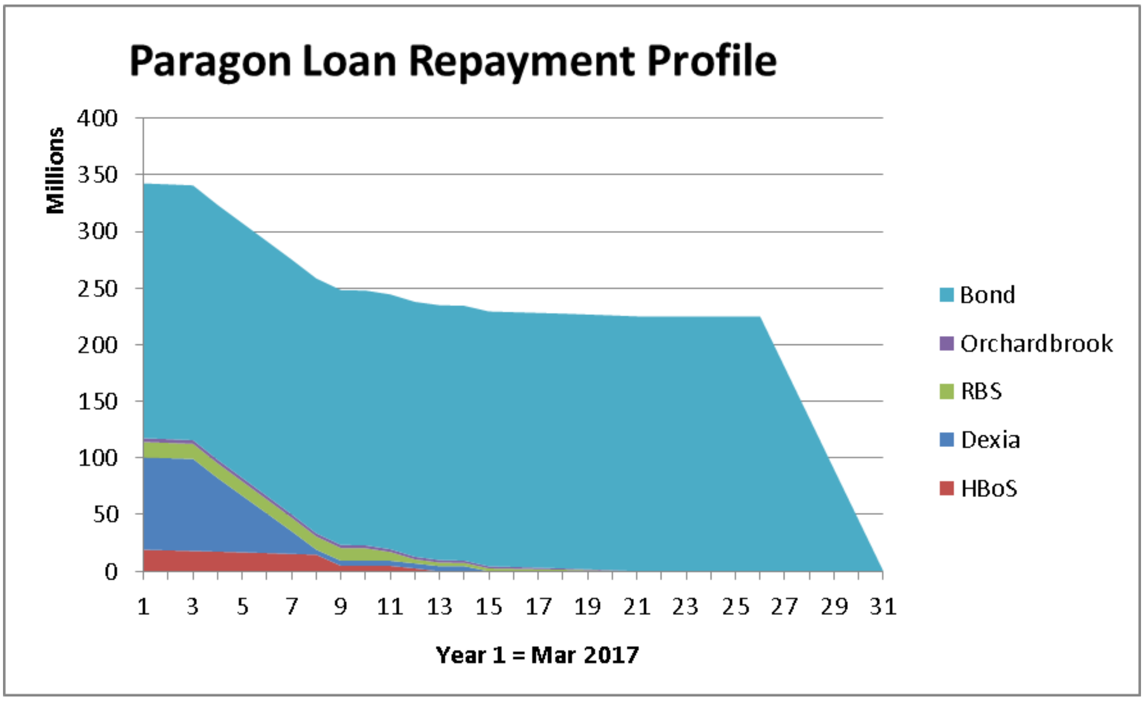
During the year, we also introduced the use of short-term money market funds. This was to more effectively manage our liquidity position, which is larger than the historic position, primarily due to our bond issue in January 2015.

Operational review and financial highlights

As at 31 March 2016 we had three key bank funders: Dexia, Lloyds and RBS. All covenants were complied with during the year. The loan portfolio now totals £393.2m and is fully secured, of which £50m remains undrawn (including £25m of retained bond funding).

	2016	2015
	£m	£m
Fixed	275.8	286.0
Cancellable	42.6	42.6
Variable	24.8	15.1
Total drawn	343.2	343.7
Total facility	393.2	393.7

Our Business plan is fully funded and we have no expectation of raising additional funds in the next 12 months. We anticipate releasing the retained bond over the next 2-3 years, though this is subject to our development pipeline. The retained bond can be sold on the secondary markets at any point up to 21 January 2020.



Of our total debt, £0.75m is repayable in 2017 and there is no significant refinancing risk with only 10% of the debt repayable in the next 5 years.

Our interest rate hedging policy means that we maintain a proportion of fixed rate and variable rate within limits specified in the Treasury management policy.

The Treasury management policy sets a target range for fixed rate debt of 75-90% +/-10%. As at 31 March 2016 our fixed element was 92%, which remains relatively steady over the next five years:

Operational review and financial highlights

The vast majority of the fixed rate debt is as a result of the bond but we have also fixed £42.6m (12%) through embedded cancellable derivatives. We do not use standalone derivatives and were therefore not subject to any margin calls during the year. There is no intention to use stand-alone derivatives in the next 12 months.

Credit rating

In December 2015 our credit rating was confirmed at A2 (stable) by Moody's Investor Services. After the Brexit referendum result, Moody's changed the credit rating from stable to negative in line with the rating for other registered providers. The next rating review is due in the autumn of 2016.

Cash flows

Cash inflows and outflows during the year are shown in the Consolidated statement of cash flows (page 40). The cash inflow from operating activities for the year to 31 March 2016 was £29.2m (2015 - £29.4m). There was £0.6m of loans repaid during the year.

Current liquidity

The Group has cash of £67.9m (2015 - £109.8m) and additional available funds of £50m (2015 - £50m).

Value for money

The second objective in our corporate plan is to be a more effective and efficient organisation providing better homes and services. One of the main goals identified to deliver this is *'achieving better value for money'*. High importance is placed on Value for money (VfM) across the business at both a strategic and operational level.

The changes experienced by the sector over the past year have required us to reappraise our plans and address the new challenges facing the business, including increasing our focus on VfM. Our recent announcement of a potential merger with asra Housing Group is in part driven by the need to deliver further VfM to achieve more for less.

VfM is also a key area of attention for the Regulator. The Homes and Communities Agency (HCA) requires all registered providers to produce an annual self-assessment of their performance against the HCA's VfM Standard. In June 2016 this standard was updated and the importance of the VfM self-assessment was reaffirmed.

Paragon's VfM self-assessment can be found on our website www.paragonchg.co.uk and the HCA's VfM Regulatory Standard can be found at www.gov.uk/government/organisations/homes-and-communities-agency

We believe that to be a truly effective landlord, we need to consider VfM in everything we do, ranging from governance, to the use of IT systems to deliver cost-effective services. We compare our performance with similar organisations to gain a better understanding of areas for improvement, both in quality and cost of service delivery.

In identifying whether the organisation delivers VfM we traditionally look at:

I) How effective we have been in delivering outcomes;
II) Efficiency in service delivery; and
III) Economic factors

An effective landlord

We measure our effectiveness through a number of measures, the principle ones being:

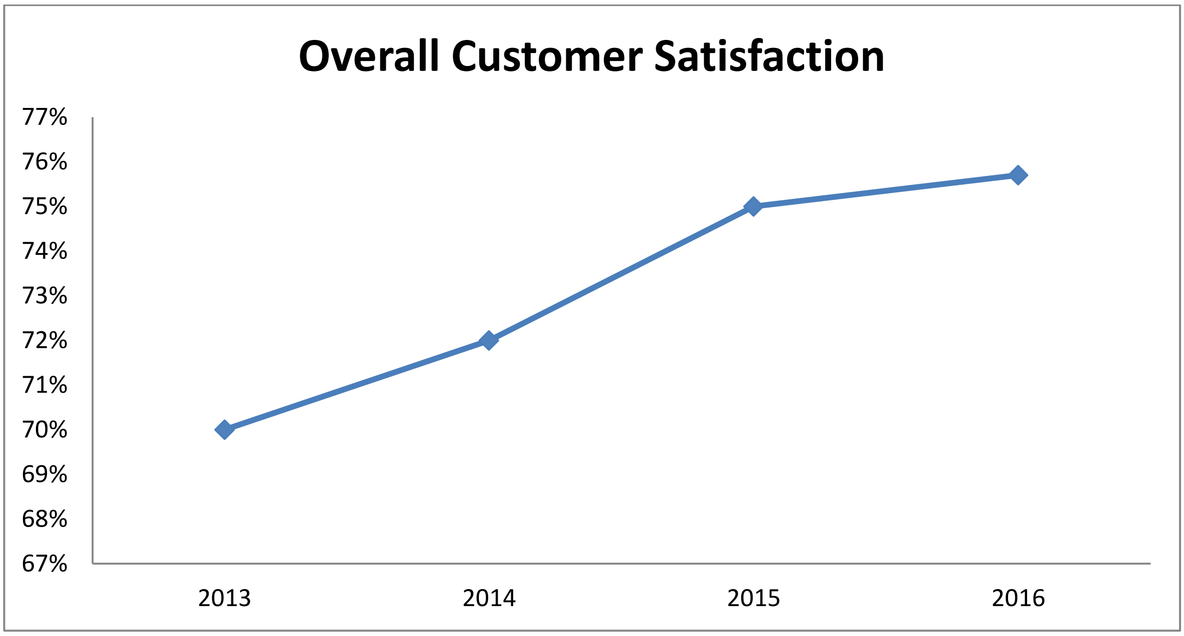
- Customer satisfaction
- Numbers of people housed
- New homes completed

Customer service

'Every customer matters' is the title of the corporate plan, so improving and monitoring customer satisfaction is an important goal for the business. The graph shows that overall satisfaction with services has shown a steady improvement since 2013 and reached 75.7% in 2015/16, over 5% higher than in 2013.

This reflects a variance between different tenure types, with sheltered housing residents' satisfaction at 85% and general need housing, at 74%. Home owners are monitored separately and stood at 57.1% in 2015/16, a small fall of 1% from 2014/15, but still above the levels of two years ago. Though this benchmarks reasonably well, work is being undertaken to identify the reasons for the home owner's relative dissatisfaction, with a view to identifying particular aspects of the service that can be improved. Key areas for improvement are communication and use of the website, and estate services such as cleaning and grounds maintenance.

Value for money



Satisfaction scores for individual services have been higher than our peers (see table below) and satisfaction with the repairs and maintenance service have improved dramatically by 6% over the year, with the impact of the customer journey mapping exercise which looked to redesign processes from a customer perspective.

KPI	Paragon average 2015/16	Paragon value 2014/15	Peer group value 2014/15
Satisfaction with repairs and maintenance	85.5%	79.5%	73.9%
Satisfaction with neighbourhood	87.2%	87.8%	84.9%
Satisfaction rent provides VfM	82.1%	78.6%	78.0%
Satisfaction service charges provide VfM	72.0%	70.9%	68.3%

Value for money

Number of people housed

Demand for Paragon properties across all tenures has remained strong and the table below provides information on lettings by type and category:

	Total	1st lets	General needs re-lets	Sheltered re-lets	Keyworker lets	Temporary Accommodation lets	Other lets*
No. of lets 15/16	618	193	261	103	13	35	13
Variance to lets 14/15	+16	+75	-44	-8	-14	+10	-3
% stock turnover 15/16	8.32%		4.38%	9.8%	10.57%	N/A	N/A
Variance to 14/15	-0.23%		-0.92%	-0.8%	-12.33%		
			(GN stock total 5956)	(SH stock total 1050)	(KW stock total 123)		

The reduction in stock turnover by almost 1% (17% in numbers) of re-lets of general needs properties, highlights the shortage of affordable accommodation and the reluctance of tenants to move. This low turnover can result in continued under-occupation of homes, particularly by older tenants who are not impacted by government policy. In VfM terms, this means that we are unable to make the best use of available assets. To counter this we work with local authorities on incentive schemes to encourage some tenants to downsize and free up much-needed family-sized homes.

In terms of re-letting properties, the average time across all lettings reduced by over 10 days to 25 days. The number of empty homes at 31 March 2016 was 21, a reduction of 35 from 31 March 2015. This demonstrates that we are letting homes more efficiently to meet the high demand, against a background of fewer homes available to re-let.

New homes completed

To be a truly effective landlord, we need to add to our housing stock, replacing homes lost through the Right to Buy and addressing the shortage of affordable homes in and around London.

In 2015/16 235 new homes were completed. Over the past three years we have completed 627 homes: 388 homes for rent and 239 shared ownership homes and we have 411 new homes on site.

An efficient landlord

Paragon's rental income is subject to strong regulation, and the Government requires a 1% reduction in rents for four years from 1 April 2016 for a significant number of our homes. Therefore improving efficiency in service delivery and rent collection is a high priority. We seek to maximise our income from rents and service charges. We are investing in new software to improve the collection of service charges. In addition we are working with local partners to ensure that tenants are placed in the best position to be able to pay their rent, by providing support to those who need it to claim the benefits they are entitled to, manage their finances effectively and gain training and employment where appropriate.

Last year we collected 99.4% of the rent due, the same percentage as in 2014/15. After taking into account HB payments due from local authorities, arrears were 1.44%, well below our peer group average. Rents lost due to empty homes in management fell by 45% to 0.77% of the rent collectable, down from 1.42% at March 2015.

Value for money

Expenditure on the main operational areas remains a focus for seeking efficiencies. The trend over the past three years on the main areas of expenditure is as follows:

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Management costs	9.9	11.5	12.3	14.9
Leaseholder Services	5.4	4.8	5.7	4.4
Maintenance	5.9	6.1	6.7	5.9
Planned maintenance	4.0	3.9	7.1	7.0
Interest charges	10.8	9.5	14.7	8.8

Note: 2014/15 and 2015/16 numbers can be found in note 4 to the accounts

The management costs increase between 2014/15 and 2015/16 includes a charge of £1.6m in respect of the restatement of the SHPS pension scheme liability. The pension arrangements were simplified in the year, with all employees migrated to a single provider on a defined contribution basis, to manage future pension liabilities.

£1.2m of management and overhead savings have been identified in our 2016/17 budget and discussions have commenced with asra Housing Group about a potential merger which could yield further savings.

An economic landlord

In considering VfM, we look at economic indicators, such as how the management cost per home is changing within the context of the services offered, customer satisfaction and in comparison with similar landlords.

The table below shows our self-assessment of performance against key indicators produced by HouseMark a national housing sector benchmarking organisation.

Operation	Paragon 2016	Paragon 2015*	Peer group median 2015	Peer group median 2014
Operating margin	33.4%	29.3%	30.8%	30.0%
Current rent arrears	1.44%	1.52%	2.62%	2.92%
Lost rent due to empty units**	1.66%	1.95%	0.78%	0.90%

***The operating surplus for 2015 is the restated profit following the adoption of FRS 102.

**Lost rent due to empty units relates to all units owned, including commercial units and garages.

This shows that operating margins remain strong and above the peer group median. The improvement in turnaround times for new lettings has contributed to reduced rent losses for empty homes.

Value for money

Operation	Paragon 2015*	Peer group median 2015	Peer group median 2014
Housing management costs per unit	£646	£568	£520
Total responsive maintenance cost per unit-revenue	£1,055	£901	£876
Total overhead costs as % of direct revenue costs	25.0%	28.0%	27.8%

*Benchmark figures for 2016 will not be available until the autumn

The benchmark figures above show that housing management costs per unit are higher than our peers, in part due to the costs incurred operating in the London environment. The housing management service has now been restructured and the costs reviewed, so that costs per unit for 2016 have reduced to £507.6 which benchmarks well with the peer group.

Return on assets

It is important that Paragon protects the quality of its assets by keeping them well maintained and desirable for future customers, in order to maximise the return on our asset base. This will create capacity to build more affordable homes.

The table below sets out our gross yield for 2016.

Tenure	EUV £m	MV-VP £m	Rental Income £m	Gross Yield 2016	Operating Profit £m	Operating Margin 2016	Operating margin 2015
General needs	437	1,860	36	1.9%	11	30%	36%
Affordable rent	113	361	7	2.0%	4	60%	52%
Supported & Housing for Older People	92	375	8	2.2%	2	19%	16%
Keyworker & Other	12	27	1	4.2%	0	22%	48%
Shared Ownership	55	196	3	1.6%	2	64%	21%
Social housing lettings	**709**	**2,819**	**56**	**2.0%**	**19**	**34%**	**32%**

EUV - Existing Use Value
MV-VP - Market Value - Vacant Possession

Gross yield achieved by assets is calculated using rental income over market value. This is the first year that all of the stock has been valued at market value vacant possession, and prior year comparator numbers are not available. The yield of 2% achieved by the social housing assets is in line with the sector and will be a key indicator as part of monitoring improvements to VfM.

Value for money

The small market rented portfolio’s yield of 4.2% is in line with yields being achieved in outer London but as this portfolio grows we will expect to see these assets making a higher return.

The reduction in rents over the next four years has been considered in our EUV valuation and has had no material impact on the valuation.

Operating margins for our social housing are improving and are better than the median for comparable associations, but we recognise that we need to continue to improve margins.

Independent auditor's report to the members of Paragon Community Housing Limited

We have audited the financial statements of Paragon Community Housing Limited for the year ended 31 March 2016 which comprise the consolidated and association statement of comprehensive income, the consolidated and association statement of financial position, the consolidated and association statement of changes in reserves, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102, the financial reporting standard applicable to the UK and the Republic of Ireland.

This report is made solely to the association's members, as a body, in accordance with the Housing and Regeneration Act 2008 and Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and auditors

As explained more fully in the statement of board member responsibilities, the board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent association's affairs as at 31 March 2016 and of the group's and parent association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of 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.

Independent auditor's report to the members of Paragon Community Housing Limited

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 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 returns adequate for our audit have not been received from branches not visited by us; 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.

BDO LLP

BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom
Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated and Association statement of comprehensive income for the year ended 31 March 2016

	Note	Group 2016 £'000	Group (as restated note 37) 2015 £'000	Association 2016 £'000	Association (as restated note 37) 2015 £'000
Turnover	3	70,672	70,231	70,812	69,909
Cost of sales	3	(6,888)	(8,161)	(6,888)	(8,161)
Operating costs	3	(40,309)	(41,483)	(40,297)	(41,488)
Operating surplus	3,6	23,475	20,587	23,627	20,260
Surplus on disposal of fixed assets	10	713	4,759	713	4,759
Other interest receivable and similar income	11	389	200	389	200
Interest and financing costs	12	(8,850)	(14,795)	(8,850)	(14,795)
Movement in fair value of investment properties	16	745	181	745	181
Gift aid		-	-	422	-
Surplus before taxation		16,472	10,932	17,046	10,605
Taxation on surplus	13	-	-	-	-
Surplus for the financial year		16,472	10,932	17,046	10,605
Actuarial gain/(loss) on defined benefit pension scheme	28	1,128	(568)	1,128	(568)
Total comprehensive income for year		17,600	10,364	18,174	10,037

All amounts relate to continuing activities.

The notes on pages 41 to 83 form part of these financial statements.

Consolidated and Association statement of financial position as at 31 March 2016

	Note	Group 2016 £'000	Group (as restated note 37) 2015 £'000	Association 2016 £'000	Association (as restated note 37) 2015 £'000
Fixed assets					
Tangible fixed assets – housing properties	14	663,759	607,494	659,293	607,682
Tangible fixed assets – other	15	1,033	1,020	1,033	1,020
Investment properties	16	4,525	4,479	4,525	4,479
Investments – other	17	-	-	13	13
		669,317	612,993	664,864	613,194
Current assets					
Stocks	18	16,817	10,234	16,817	10,177
Debtors	19	5,212	6,725	4,445	5,546
Cash and cash equivalents		67,924	109,814	67,612	109,013
		89,953	126,773	88,874	124,736
Creditors: amounts falling due within one year	20	(28,058)	(26,118)	(22,185)	(24,515)
Net current assets		61,895	100,655	66,689	100,221
Total assets less current liabilities		731,212	713,648	731,553	713,415
Creditors: amounts falling due after more than one year	21	(377,139)	(376,065)	(377,139)	(376,065)
Net assets excluding pension liability		354,073	337,583	354,414	337,350
Pension liability	28	(706)	(1,816)	(706)	(1,816)
Net assets		353,367	335,767	353,708	335,534
Capital and reserves					
Called up share capital	29	-	-	-	-
Income and expenditure reserve		104,364	84,603	104,705	84,370
Revaluation reserve		249,003	251,164	249,003	251,164
		353,367	335,767	353,708	335,534

The notes on pages 41 to 83 form part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 15 September 2016.

John Cudd	Marion Hall	Dilip Kavi
Chair	Company Secretary	Board Member

Consolidated statement of changes in reserves for the year ended 31 March 2016

	Income and expenditure reserve (as restated note 37) £'000	Revaluation reserve £'000	Total (as restated note 37) £'000
Balance at 1 April 2015	84,603	251,164	335,767
Surplus for the year	16,472	-	16,472
Actuarial gains on defined benefit pension scheme	1,128	-	1,128
Reserves transfers: Transfer from revaluation reserve to income and expenditure reserve	2,161	(2,161)	-
Balance at 31 March 2016	104,364	249,003	353,367

Consolidated statement of changes in reserves for the year ended 31 March 2015

	Income and expenditure reserve (as restated note 37) £'000	Revaluation reserve £'000	Total (as restated note 37) £'000
Balance at 1 April 2014	71,958	253,445	325,403
Surplus for the year	10,932	-	10,932
Actuarial losses on defined benefit pension scheme	(568)	-	(568)
Reserves transfers: Transfer from revaluation reserve to income and expenditure reserve	2,281	(2,281)	-
Balance at 31 March 2015	84,603	251,164	335,767

Association statement of changes in reserves for the year ended 31 March 2016

	Income and expenditure reserve (as restated note 37) £'000	Revaluation reserve £'000	Total (as restated note 37) £'000
Balance at 1 April 2015	84,370	251,164	335,534
Surplus for the year	17,046	-	17,046
Actuarial gains on defined benefit pension scheme	1,128	-	1,128
Reserves transfers:			
Transfer from revaluation reserve to income and expenditure reserve	2,161	(2,161)	-
Balance at 31 March 2016	104,705	249,003	353,708

Association statement of changes in reserves for the year ended 31 March 2015

	Income and expenditure reserve (as restated note 37) £'000	Revaluation reserve £'000	Total (as restated note 37) £'000
Balance at 1 April 2014	72,052	253,445	325,497
Surplus for the year	10,605	-	10,605
Actuarial losses on defined benefit pension scheme	(568)	-	(568)
Reserves transfers:			
Transfer from revaluation reserve to income and expenditure reserve	2,281	(2,281)	-
Balance at 31 March 2015	84,370	251,164	335,534

Consolidated statement of cash flows
for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000 (as restated note 37)
Cash flows from operating activities			
Surplus for the financial year		16,472	10,932
Adjustments for:			
Depreciation of fixed assets – housing properties	4	5,974	5,049
Accelerated depreciation on replaced components	4	229	295
Depreciation of fixed assets – other	4	573	512
Amortised grant	4	(54)	(16)
Interest payable and finance costs	12	8,850	14,795
Interest received	11	(389)	(200)
Movement in fair value of investment properties	16	(745)	(181)
Impairment reversal	14	(138)	(570)
Surplus on the sale of fixed assets – housing properties	10	136	(4,759)
Surplus on sale of fixed assets - other	10	(849)	-
Decrease/(increase) in trade and other debtors		1,513	(1,701)
Increase in stocks		(6,583)	(954)
Increase in trade and other creditors		4,233	6,207
Cash from operations		29,222	29,409
Taxation paid	13	-	-
Net cash generated from operating activities		29,222	29,409
Cash flows from investing activities			
Proceeds from sale of fixed assets net of selling cost – housing	10	7,805	11,690
Proceeds from sale of fixed assets net of selling cost – other	10	1,697	-
Purchase of fixed assets - housing properties	14	(67,987)	(48,699)
Purchases of fixed assets – other	15	(586)	(1,058)
Received grant	22	2,413	1,995
Interest received		389	200
Net cash from investing activities		(56,269)	(35,872)
Cash flows from financing activities			
Interest paid	12	(14,090)	(15,064)
Debt issue costs incurred		(140)	-
New loans – other	25	-	224,959
Repayment of loans – bank	25	(613)	(127,158)
Net cash used in financing activities		(14,843)	82,737
Net (decrease)/increase in cash and cash equivalents		(41,890)	76,274
Cash and cash equivalents at beginning of year		109,814	33,540
Cash and cash equivalents at end of year		67,924	109,814

The notes on pages 41 to 83 form part of these financial statements.

Notes forming part of the financial statements

1. Accounting policies

The association is registered with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and is registered with the Homes and Communities Agency as a social housing provider. It is a public benefit entity.

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Paragon Community Housing Limited, includes the Co-operative and Community Benefit Societies Act 2014 (and related group accounts regulations), FRS 102 ‘the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland’, the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014, ‘Accounting by Registered Social Housing Providers’ 2014, the Accounting Direction for Private Registered Providers of Social Housing 2015.

FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015. Information on the impact of first-time adoption of FRS 102 is given in note 36.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies.

Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent company would be identical;
- No cash flow statement has been presented for the parent company.

The following principal accounting policies have been applied:

1.1 Basis of consolidation

The consolidated financial statements present the results of Paragon Community Housing Limited and its subsidiaries (‘Group’) as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. A list of subsidiary undertakings of the association is included in note 17.

1.2 Business combinations

The financial statements incorporate the results of business combinations using the merger accounting method, as described in note 34. The results and cash flows of all the combining entities are included in the financial statements of the newly formed entity from the beginning of the financial period in which the merger occurred (and in the comparative numbers). In the Statement of financial position, the assets and liabilities of the parties to the combination are not adjusted to fair value. In substance the Group is unchanged.

In accordance with the transitional exemption available in FRS 102, the parent has chosen not to apply the standard retrospectively to business combinations that occurred before the date of transition to FRS 102, being 1 April 2014.

Notes forming part of the financial statements

1. Accounting policies

1.3 Income

Turnover is measured at the fair value of the consideration received or receivable. Paragon generates the following material income streams:

- Rental income receivable (after deducting lost rent from void properties available for letting),
- First tranche sales of low-cost home ownership housing properties developed for sale,
- Service charges receivable,
- Revenue grants,
- Proceeds from the sale of land and property.

Rental income is recognised from the point when properties under development reach practical completion and are formally let. Income from first tranche sales and from asset disposals is recognised at the point of legal completion of the sale.

1.4 Supported housing activities

Paragon receives supporting people grants from a number of London Boroughs and County Councils. The grants received in the period as well as costs incurred by Paragon in the provision of support services have been included in the Statement of comprehensive income. Any excess of cost over the grant received is borne by Paragon where it is not recoverable from tenants.

1.5 Service charges

Paragon adopts both the variable and the fixed methods for calculating and charging service charges to its tenants and leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

1.6 Management of units owned by others

Management fees receivable and reimbursed expenses are shown as income and included in management fees receivable. Costs of carrying out the management contracts and rechargeable expenses are included in operating costs.

1.7 Schemes managed by agents

Income is shown as rent receivable and management fees payable to agents are included in operating costs.

1.8 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, except that a change attributable to an item of income, or expense recognised as other comprehensive income, or to an item recognised directly in equity, is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

Notes forming part of the financial statements

1. Accounting policies

1.8 Current and deferred taxation

Deferred balances are recognised in respect of all timing differences that have originated, but not reversed by the Statement of financial position date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits
- Any deferred tax balances are reversed, if and when all conditions for retaining associated tax allowances have been met and
- Where timing differences relate to interests in subsidiaries, associates, branches and joint venture and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

1.9 Value Added Tax

Paragon charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by Paragon and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of comprehensive income.

1.10 Finance costs

Finance costs are charged to the Statement of comprehensive income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Loan issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.11 Pension costs

Paragon participates in a defined contribution scheme. During the year pension arrangements were restructured. From 31 October 2015, all employees were migrated to a single provider on a defined contribution basis and ceasing any accruals in the defined benefit scheme. Contributions to the Paragon's defined contribution pension scheme are charged to the Statement of comprehensive income in the year in which they become payable.

The company participates in two defined benefit schemes, the Social Housing Pension Scheme (SHPS) and the Surrey County Council Pension Fund (SCCPF). For the SHPS, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The income and expenditure charge represents the employer contribution payable to the scheme for the year. For the SCCPF, there is a stated policy for charging the net defined benefit assets, liabilities, income and costs are recognised by the company's in accordance with that policy. The difference between the fair value of the assets held in Paragon's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Statement of financial position as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that Paragon is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Notes forming part of the financial statements

1. Accounting policies

1.12 Holiday pay accrual

A liability is recognised to the extent of any unused holiday entitlement which has accrued at the reporting date and is carried forward to future periods. This is measured at the undiscounted salary cost of future holiday entitlement so accrued at the reporting date.

1.13 Tangible fixed assets – housing properties

Housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost, less depreciation and impairment (where applicable).

The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing development. Directly attributable costs of acquisition includes capitalised interest calculated, on a proportional basis, using finance costs on borrowing which has been drawn in order to finance the relevant construction or acquisition. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Expenditure on major refurbishment to properties is capitalised where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the net rental income, a reduction in future maintenance costs, or a subsequent extension in the life of the property. All other repair and replacement expenditure is charged to the Statement of comprehensive income.

Mixed developments are held within property plant and equipment (PPE) and accounted for at cost, less depreciation. Commercial elements of mixed developments are held as investment properties.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in PPE and held at cost less any impairment, and are transferred to completed properties when ready for letting.

1.14 Deemed cost on transition to FRS 102

Paragon has changed its accounting policy from recording housing properties at valuation to being recorded at historic cost. Paragon has taken the transition option to elect to measure items of PPE at fair value and use that fair value as the deemed cost of those assets at that date. For these items there is a revaluation reserve and any unamortised grant is released to reserves as this constitutes a revaluation that triggers the performance method to be used.

To determine the deemed cost at 1 April 2014, the Paragon engaged independent valuation specialist Savills UK Limited to value housing properties on an EUV-SH basis.

1.15 Depreciation of housing property

Housing land and property is split between land, structure and other major components that are expected to require replacement over time.

Land is not depreciated on account of its indefinite useful economic life.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefit is expected to be consumed.

The cost of all other housing property and components is depreciated over the useful economic lives of the assets on the following basis:

Housing properties are split between the structure and the major components which require periodic replacement. The costs of replacement or restoration of these components are capitalised and depreciated over the determined average useful economic life as follows:

Notes forming part of the financial statements

1. Accounting policies

1.16 Depreciation of housing property (continued)

Description	Useful economic life (years)
Structure	100
Windows	30
Central heating/boilers	12
Kitchens	20
Bathrooms	30
Rewiring	50
Roof and enveloping works	100

Leasehold properties are depreciated over the length of the lease, except where the expected useful economic life of properties is shorter than the lease. In these instances the lease and building elements are depreciated separately over their expected useful economic lives.

Any difference between historical cost depreciation and depreciation calculated on deemed cost is transferred between the revaluation reserve and income and expenditure reserve.

1.17 Shared ownership properties and staircasing

Under low-cost homeownership arrangements, Paragon disposes of a long lease on low-cost homeownership housing units for a share ranging between 30% and 40% of value. The buyer has the right to purchase further proportions and up to 100% based on the market valuation of the property at the time each purchase transaction is completed.

Low-cost homeownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover. The remaining element, ‘staircasing element’, is classed as PPE and included in completed housing property at cost and any provision for impairment. Sales of subsequent tranches are treated as a part disposal of PPE. Such staircasing sales may result in capital grant being deferred or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

Any impairment in the value of such properties is charged to the Statement of comprehensive income.

1.18 Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure, costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

1.19 Tangible fixed assets – other

Other tangible fixed assets, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Paragon adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to Paragon. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Statement of comprehensive income during the period in which they are incurred.

Notes forming part of the financial statements

1. Accounting policies

1.20 Depreciation of other tangible fixed assets

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range is as follows:

Description	Economic useful life (years)
Leasehold land and buildings	Lease term
Plant and machinery	4-10
Fixtures and fittings	4
IT equipment	3
Motor vehicles	3

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

1.21 Government grants

Grants received in relation to completed assets that are presented at deemed cost at the date of transition have been accounted for using the performance model as required by Housing SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of comprehensive income in the year it was receivable and is therefore included within brought forward reserves.

Grant received since the transition date in relation to newly acquired or existing housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the Statement of financial position and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected of 100 years.

Where Social Housing Grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate, once performance related conditions have been met.

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

1.22 Recycled capital grant fund

On the occurrence of certain relevant events, primarily the sale of dwellings, the HCA and GLA can direct the association to recycle capital grants or to make repayments of the recoverable amount. Paragon adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the HCA and GLA with interest. Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated will not be used within one year is disclosed in the Statement of financial position under 'creditors due after more than one year'. The remainder is disclosed under 'creditors due within one year'.

Notes forming part of the financial statements

1. Accounting policies

1.23 Disposal proceeds fund

Receipts from right to acquire (RTA) sales are required to be retained in a ring fenced fund which can only be used for providing replacement housing. The sales receipts less eligible expenses are credited to the disposal proceeds fund. Any sales receipts less eligible expenses held within the disposal proceeds fund, which it is anticipated will not be used within one year is disclosed in the Statement of financial position under 'creditors due after more than one year'. The remainder is disclosed under 'creditors due within one year'.

1.24 Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business. Investment properties are measured at cost on initial recognition. Subsequently they are carried at fair value determined annually by professionally qualified valuers, and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of comprehensive income.

1.25 Impairment of fixed assets

The housing property portfolio for Paragon is assessed for indicators of impairment at each Statement of financial position date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. Paragon looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value, less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets, or cash generating units concerned, or the present value of future cash flows to be derived from them, appropriately adjusted to account for any restrictions on their use.

Paragon 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 an impairment is recorded in the Statement of comprehensive income.

1.26 Stock

Stock represents work in progress and completed shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche. Stock is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

1.27 Debtors and creditors

Debtors and creditors with no stated interest rate and receivable or 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.

Paragon estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair it reviews the age profile of the debt and the class of debt.

Notes forming part of the financial statements

1. Accounting policies

1.28 Concessionary loans

Concessionary loans are those loans made or received by Paragon that are made:

- to further its public benefit objectives,
- at a rate of interest which is below the prevailing market rate of interest,
- not repayable on demand.

These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment. Any associated grant is recognised as deferred income until the loan is redeemed.

Paragon has rent and service charge agreements that are considered to be concessionary loans. Paragon has made arrangement with individuals and households for arrears payments of rent and service charges. These arrangements are effectively loans granted at nil interest rate.

1.29 Loans and short term deposits

All loans and short term deposits held by Paragon are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price, less any transaction costs (historical cost). It was management policy under the transitional rules of FRS 102, to designate all external loans at fair value as at 1 April 2014. On refinancing in January 2015, the loans were derecognised and the new loans recognised at transaction price and subsequently measured at amortised cost. All other basic financial instruments are measured at amortised cost when the adjustment is considered material, using the effective interest rate method so that the amount recognised is at a constant on the carrying amount. If the adjustment is not material the financial instruments are stated on the Statement of financial position at historical cost. Loans that are payable or receivable within one year are not discounted.

1.30 Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

1.31 Cash and cash equivalents

Cash and cash equivalents in Paragon's Statement of financial position consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

1.32 Leased assets: lessee

All leases held by Paragon are classified as operating leases. Their annual rentals are charged to the Statement of comprehensive income on a straight-line basis over the term of the lease. Paragon has not entered into any lease reverse premiums or similar incentives within the operating lease agreements.

1.33 Leasehold sinking funds

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

1.34 Pension backfunding liability

The company has recognised pension backfunding liabilities in relation to agreed future contributions towards the defined benefit pension schemes. The liabilities have been measured at the best estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of the time value of money is material the amount expected to be required to settle the obligation is recognised at the present value using a discount rate. The unwinding of the discount is recognised as a finance cost in the Statement of comprehensive income in the period it arises.

Notes forming part of the financial statements

1. Accounting policies

1.35 Contingent liabilities

A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation exists which could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made.

A contingent liability exists on grant repayment which is dependent on the disposal of related property.

1.36 Reserves

The revaluation reserve is created from surpluses on asset revaluation on transition to FRS 102 (from 1 April 2014).

Notes forming part of the financial statements

2. Judgments in applying accounting policies and key sources of estimation

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

- In accordance with the Housing and Planning Act 2016, Paragon's has reduced social housing rents by one percent per annum starting from 1 April 2016 and this will continue to reduce by one percent each year until 2019/20. Despite Paragon's cost efficiency savings program and changes to the business, compliance with the new rent regime has resulted in a loss of net rental income. This is a trigger for impairment.

  Whether there are indicators of impairment of the Paragon's tangible assets. Factors taken into consideration in reaching such a decision include the change in political and other macro-economic environment with direct or indirect impact on the social housing property and the expected future financial performance of the asset.

  As a result, Paragon estimated the recoverable amount of its housing properties:

  - Determined the level at which recoverable amount is to be assessed i.e. cash generating unit (CGU) at individual scheme level.
  - Calculated the carrying amount of the cash generating unit and
  - Compared the carrying amount to the recoverable amount to determine if an impairment loss has occurred.

  The members have considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on Depreciated Replacement Cost (DRC). We calculated the Depreciated Replacement Cost (DRC) for each social housing property scheme, using appropriate construction costs and land prices. Construction costs are calculated using current standard build costs used in appraising development schemes both in the London region and outside the London region. The depreciation applied to the costs takes into account the physical deterioration of the asset and any obsolescence of the original design.

  Comparing the recoverable amount of the each social housing property scheme to the carrying amount of each scheme, it was concluded that no impairment charge was required against its social housing properties.

- The anticipated costs to complete on a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, they then determine the recoverability of the cost of properties for sale. This judgment is also based on the members' best estimate of sales value based on economic conditions within the area of development.

- The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.

- The underlying assumptions in relation to the pension backfunding liabilities, such as discount rates and estimated future payments. Variations in these assumptions have the ability to influence the value of the liability recorded and annual expense.

- Whether leases entered into by Paragon either as a lessor or a lessee are operating or lease or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

- The appropriate allocation of costs for mixed tenure developments. If the cost is not identifiable to a specific tenure, an allocation of costs is made based on proportion of floor area.

Notes forming part of the financial statements

2. Judgments in applying accounting policies and key sources of estimation

- The allocation of costs relating to shared ownership between current and fixed assets. The allocation is calculated based on the average first tranche sales percentage for the year. There are separate calculations for properties held within the London and outside the London region.

- The exemptions to be taken on transition to FRS 102.

- The categorisation of housing properties as investment properties or property, plant and equipment based on the use of the asset.

- The definition of a cash generating unit when indicators of impairment require there to be an impairment review.

- The accounting for the business combination on 31 October 2015 adopted the merger accounting method. There have been no adjustments of assets and liabilities to fair value.

Other key sources of estimation uncertainty are:

- Tangible fixed assets (see note 14 and 15)
  Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as condition of the asset and future use of the asset are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

  For housing property assets, the assets are broke down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

- Investment properties (see note 16)
  Investment properties are professionally valued annually using a yield methodology. This uses market rental values capitalised at a market capitalisation rate but there is an inevitable degree of judgment involved in that each property is unique and value can only ultimately be reliably tested in the market itself. Key inputs into the valuations were:
  - Rental and other trade receivables (debtors) (see note 19)
  - Yields (9.5-10%)
  - Location and condition of the property
  - Redevelopment opportunities

- Rental and other trade receivables (see note 19)
  The estimate for receivables relates to the recoverability of the balances outstanding at year end. A review is performed on an individual debtor basis to consider whether each debt is recoverable.

  Other areas of estimation uncertainty include:
- Apportionment of costs on a property basis for disposal of properties. The allocation of costs not assigned to a specific property is based on proportion of floor area of the property.
- Basis of capitalisation for projects. Costs capitalised include direct staff costs and associated costs of development. Indirect central costs incurred are capitalised and estimated based on the costs that would not have been incurred had there been no development. Decisions on whether to capitalise costs include, whether income will be generated or increase and if the life of the assets is extended.
- When a project becomes unfeasible. Feasibility of a project is reviewed on a monthly basis with reference to hurdle tests (using net present value and profit margin calculations) at a tenure and location level.
- The estimates for variable forward interest rates used for the amortised cost calculations of basic financial instruments used the current LIBOR rate.

Notes forming part of the financial statements

3. Turnover, cost of sales, operating costs and operating surplus

Group	**2016 Turnover £'000**	**2016 Cost of sales £'000**	**2016 Operating costs £'000**	**2016 Operating surplus/ (deficit) £'000**
Social housing lettings (note 4)	58,852	-	(39,930)	18,922
Other social housing activities				
Development services	192	-	(96)	96
Management services	48	-	(175)	(127)
First tranche low cost home ownership sales	11,456	(6,888)	-	4,568
	11,696	(6,888)	(271)	4,537
Non-social housing activities				
Other	124	-	(108)	16
Total	70,672	(6,888)	(40,309)	23,475

Group	**2015 Turnover £'000**	**2015 Cost of sales £'000**	**2015 Operating costs £'000**	**2015 Operating surplus/ (deficit) £'000**
Social housing lettings (note 4)	56,366	-	(39,666)	16,700
Other social housing activities				
Development services	992	-	(689)	303
Management services	1,064	-	(1,071)	(7)
First tranche low cost home ownership sales	11,675	(8,161)	-	3,514
	13,731	(8,161)	(1,760)	3,810
Non-social housing activities				
Other	134	-	(57)	77
Total	70,231	(8,161)	(41,483)	20,587

Notes forming part of the financial statements

3. Turnover, cost of sales, operating costs and operating surplus

Association	**2016 Turnover £'000**	**2016 Cost of sales £'000**	**2016 Operating costs £'000**	**2016 Operating surplus/ (deficit) £'000**
Social housing lettings (note 4)	58,852	-	(39,930)	18,922
Other social housing activities				
Development services	192	-	(96)	96
Management services	188	-	(163)	25
First tranche low cost home ownership sales	11,456	(6,888)	-	4,568
	11,836	(6,888)	(259)	4,689
Non-social housing activities				
Other	124	-	(108)	16
Total	70,812	(6,888)	(40,297)	23,627

Association	**2015 Turnover £'000**	**2015 Cost of sales £'000**	**2015 Operating costs £'000**	**2015 Operating surplus/ (deficit) £'000**
Social housing lettings (note 4)	56,366	-	(39,666)	16,700
Other social housing activities				
Development services	583	-	(607)	(24)
Management services	1,151	-	(1,158)	(7)
First tranche low cost home ownership sales	11,675	(8,161)	-	3,514
	13,409	(8,161)	(1,765)	3,483
Non-social housing activities				
Other	134	-	(57)	77
Total	69,909	(8,161)	(41,488)	20,260

Notes forming part of the financial statements

4. Income and expenditure from social housing lettings

Group and Association	General needs	Affordable rent	Shared owner-ship	Supported and housing for older people	Key worker and other	Total 2016	Total 2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover from lettings							
Rents net of identifiable service charges	34,764	7,296	2,034	6,341	1,002	51,437	47,552
Charges for support services	1	-	-	164	-	165	395
Service charge income	1,376	2	1,149	1,660	142	4,329	4,433
Amortised government grants	11	37	6	-	-	54	16
Net rents receivable	36,152	7,335	3,189	8,165	1,144	55,985	52,396
Placement fees	-	-	-	-	831	831	2,137
Other income	222	67	853	894	-	2,036	1,833
Income from social housing lettings	36,374	7,402	4,042	9,059	1,975	58,852	56,366
Expenditure on lettings							
Management	(9,884)	(1,289)	(903)	(2,290)	(544)	(14,910)	(12,332)
Service charge costs	(1,882)	(97)	(646)	(1,580)	(206)	(4,411)	(5,654)
Care and support costs	(4)	-	(24)	(238)	(534)	(800)	(1,650)
Routine maintenance	(3,750)	(551)	(68)	(1,264)	(289)	(5,922)	(6,739)
Planned maintenance	(5,528)	(183)	(19)	(1,238)	(55)	(7,023)	(7,120)
Rent losses from bad debts	(117)	(30)	-	(23)	(16)	(186)	(209)
Depreciation on housing properties	(3,865)	(835)	(354)	(844)	(76)	(5,974)	(5,049)
Depreciation on replaced components	(215)	(2)	-	(12)	-	(229)	(295)
Depreciation on other fixed assets	(540)	-	-	(33)	-	(573)	(512)
Impairment	138	-	-	-	-	138	570
Other costs	(40)	-	-	-	-	(40)	(676)
Operating costs for social housing lettings	(25,687)	(2,987)	(2,014)	(7,522)	(1,720)	(39,930)	(39,666)
Operating surplus on social housing letting activities	10,687	4,415	2,028	1,537	255	18,922	16,700
Rent losses from voids	690	130	-	204	128	1,152	1,103

Notes forming part of the financial statements

5. Units of housing stock

Group and Association	2016 Number	2015 Number
General needs housing:		
- Social	5,104	5,198
- Affordable	811	588
Low cost home ownership	618	633
Supported housing	39	35
Housing for older people	1,050	1,051
Total social housing units	7,622	7,505
Keyworker accommodation	123	108
Temporary housing	36	25
Registered care homes	-	38
Market rent	12	11
Commercial units	13	15
Garages and parking spaces	1,556	1,553
Total owned	9,362	9,255
Accommodation managed for others	41	42
Leasehold and improvements for sale	1,060	992
Total managed accommodation	10,463	10,289
Accommodation managed by others	236	227
Total owned and managed accommodation	10,699	10,516
Units under construction	540	600

6. Operating surplus

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Is stated after charging/(crediting):				
Depreciation – housing properties (note 14)	5,974	5,049	5,974	5,049
Depreciation – accelerated on replaced components (note 14)	229	295	229	295
Depreciation – other fixed assets (note 15)	573	512	573	512
Auditors' remuneration (excluding VAT):				
- in their capacity as auditors	67	46	59	45
- in respect of other services	26	32	26	32
Operating lease charges for land and buildings	313	309	313	309
Impairment reversal of housing properties	(138)	(570)	(138)	(570)
Defined benefit pension cost	150	298	150	298
Defined contribution pension cost	316	121	316	121
Pension deficit reduction payment	654	347	654	347

Notes forming part of the financial statements

7. Employees

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Staff costs (including Executive Management Team) consists of:				
Wages and salaries	7,140	8,396	7,140	8,396
Social security costs	694	749	694	749
Cost of defined benefit scheme	150	298	150	298
Cost of defined contribution scheme	316	121	316	121
Pension deficit reduction payment	654	347	654	347
	8,954	9,911	8,954	9,911

The average number of employees (including Executive Management Team) expressed as full time equivalents (calculated based on a standard working week of 35 hours) during the year was as follows:

	Group 2016 Number	Group 2015 Number	Association 2016 Number	Association 2015 Number
Housing and administration	164	152	164	152
Development	12	12	12	12
Support and care	33	92	33	92
	209	256	209	256

8. Directors' emoluments and expenses

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Executive Management Teams' emoluments	683	603	683	603
Amounts payable to non-executive directors	85	107	85	107
Contributions to pension schemes	53	40	53	40
	821	750	821	750

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments was £148,000 (2015 - £148,000). Pension contributions of £16,000 (2015 - £14,000) were made to a defined benefit scheme on his behalf and after 31 October 2015 a defined contribution scheme. As a member of the SHPS pension scheme, the pension entitlement of the Chief Executive is identical to those of other members in the scheme.

Three (2015 – 2) of the directors accrued benefits under Paragon's defined contribution pension scheme until 31 October 2015 and then joined the other two directors in the defined contribution scheme following the restructure of the pensions schemes (2015 – 2). Non-executive directors do not accrue any benefits under any pension scheme.

Notes forming part of the financial statements

8. Directors' emoluments and expenses

The remuneration paid to staff (including Executive Management Team) earning over £60,000 upwards:

	Group 2016 No.	Group 2015 No.	Association 2016 No.	Association 2015 No.
£60,000 - £69,999	6	3	6	3
£70,000 - £79,999	-	3	-	3
£80,000 - £89,999	1	-	1	-
£90,000 - £99,999	-	1	-	1
£100,000 - £109,999	-	2	-	2
£110,000 - £119,999	3	1	3	1
£120,000- £129,999	-	-	-	-
£130,000 - £139,999	1	-	1	-
£140,000 - £149,999	1	1	1	1

9. Board members

Non-Executive Board member	Remuneration £	Member of: Audit & Risk Committee	Investment Committee	Remuneration Committee	Customer Services Committee	Board
Non-Executive board members during the year:						
E Akojie	7,000	■				■
J Cudd	12,000		■	■		■
A Dankis	2,625	■	■			■
D Edwards	7,000		■	■		■
R Harris	7,000		■		■	■
D Hunter	7,000	■	■			■
J Laney	1,750				■	■
R Mitchell	5,750				■	■
J Mulcahy	2,625	■	■			■
C Pockson	7,000	■		■		■
P Powici	7,000	■		■		■
G Saffhill	4,500		■			■
M Whitehead	4,083		■			■
	75,333					

Previous Non-Executives paid during the year:

H Kerswell	1,875	Resigned Paragon/Elmbridge board March 2015
M Durrance	250	Resigned Elmbridge board March 2015
K Howard	250	Resigned Richmond board March 2015
T Lees	583	Resigned Paragon/Richmond board March 2015
	78,291	

Total expenses of £5,011 were reimbursed to nine Non-Executive Board members during the year.

Notes forming part of the financial statements

10. Surplus on disposal of fixed assets

Group and Association	Shared ownership 2016 £'000	Other housing properties 2016 £'000	Investment properties 2016 £'000	Total 2016 £'000	Total 2015 £'000
Disposal proceeds	3,120	4,853	1,697	9,670	11,690
Amounts payable to Elmbridge Borough Council under RTB sharing agreement	-	(1,656)	-	(1,656)	(103)
Cost of disposals	(1,748)	(2,183)	(848)	(4,779)	(3,474)
Selling costs	(24)	(144)	-	(168)	(270)
Grants recycled	(365)	(1,989)	-	(2,354)	(3,084)
	983	(1,119)	849	713	4,759

11. Interest receivable and similar income

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Interest receivable and similar income	389	200	389	200

Notes forming part of the financial statements

12. Interest payable and financing costs

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Bank loans and overdrafts	1,962	7,903	1,962	7,903
Other loans	372	376	372	376
Other loans from group undertakings	-	-	8,227	1,576
Bond interest	8,227	1,576	-	-
Refinancing costs	-	1,203	-	1,203
Break costs	-	4,419	-	4,419
Recycled capital grant fund	19	8	19	8
Disposal proceeds fund	4	3	4	3
Other finance costs	311	484	311	484
Net interest on net defined benefit liability	58	53	58	53
	10,953	16,025	10,953	16,025
Interest capitalised on construction of housing properties (note 14)	(2,103)	(1,230)	(2,103)	(1,230)
	8,850	14,795	8,850	14,795

13. Taxation on surplus on ordinary activities

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
UK corporation tax:				
Current tax on surplus for the year	-	-	-	-
Taxation on surplus on ordinary activities	-	-	-	-

The tax assessed for the year differs to the standard rate of corporation tax in the UK applied to surplus before taxation. The differences are explained below:

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Surplus on ordinary activities before taxation	16,472	10,932	17,046	10,605
Current tax at 20% (2015 - 21%)	3,294	2,296	3,409	2,227
Effects of:				
Exemption for charitable activities	(3,294)	(2,296)	(3,409)	(2,227)
Capital allowances in excess of depreciation	-	-	-	-
Total current tax charge (see above)	-	-	-	-

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

Group	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation					
At 1 April 2015	517,469	41,668	56,367	11,923	627,427
Additions:					
- construction costs	1,480	35,266	30	25,677	62,453
- replacements components	4,172	-	-	-	4,172
Completed schemes	35,932	(35,932)	8,143	(8,143)	-
Transfer (to)/from properties held for sale	(157)	573	(17)	(763)	(364)
Disposals					
- stair-casing sales	-	-	(1,758)	-	(1,758)
- on replaced components	(460)	-	-	-	(460)
- other	(2,226)	-	-	-	(2,226)
At 31 March 2016	556,210	41,575	62,765	28,694	689,244
Depreciation					
At 1 April 2015	(19,306)	-	(339)	-	(19,645)
Charge for the year (note 6)	(5,620)	-	(354)	-	(5,974)
Eliminated on disposals:					
- stair-casing sales	-	-	10		10
- replaced components	231	-	-	-	231
- other	43	-	-	-	43
At 31 March 2016	(24,652)	-	(683)	-	(25,335)
Impairment					
At 1 April 2015	(150)	(138)	-	-	(288)
Reclassification	150	(150)	-	-	-
Released in the year	-	138	-	-	138
At 31 March 2016	-	(150)	-	-	(150)
Net book value at 31 March 2016	531,558	41,425	62,082	28,694	663,759
Net book value at 31 March 2015	498,013	41,530	56,028	11,923	607,494

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

Association	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation					
At 1 April 2015	517,469	41,668	56,367	12,111	627,615
Additions:					
- construction costs	1,480	32,867	30	23,422	57,799
- replacements components	4,172	-	-	-	4,172
Completed schemes	35,932	(35,932)	8,143	(8,143)	-
Transfer (to)/from properties held for sale	(157)	573	(17)	(763)	(364)
Disposals					
- stair-casing sales	-	-	(1,758)	-	(1,758)
- on replaced components	(460)	-	-	-	(460)
- other	(2,226)	-	-	-	(2,226)
At 31 March 2016	556,210	39,176	62,765	26,627	684,778
Depreciation					
At 1 April 2015	(19,306)	-	(339)	-	(19,645)
Charge for the year (note 6)	(5,620)	-	(354)	-	(5,974)
Eliminated on disposals:					
- stair-casing sales	-	-	10		10
- replaced components	231	-	-	-	231
- other	43	-	-	-	43
At 31 March 2016	(24,652)	-	(683)	-	(25,335)
Impairment					
At 1 April 2015	(150)	(138)	-	-	(288)
Reclassification	150	(150)	-	-	-
Released in the year	-	138	-	-	138
At 31 March 2016	-	(150)	-	-	(150)
Net book value at 31 March 2016	531,558	39,026	62,082	26,627	659,293
Net book value at 31 March 2015	498,013	41,530	56,028	12,111	607,682

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
The net book value of housing properties may be further analysed:				
Freehold	574,118	542,561	569,652	542,749
Long leasehold	89,641	64,470	89,641	64,470
Short leasehold	-	463	-	463
	663,759	607,494	659,293	607,682
If housing property had been accounted for under the historic cost account rules, the properties would have been measured as follows:				
Historic cost	440,241	380,047	435,775	380,235
Accumulated depreciation	(38,172)	(33,300)	(38,172)	(33,300)
Impairment	(150)	(288)	(150)	(288)
	401,919	346,459	397,453	346,647
Interest capitalisation:				
Interest capitalised in the year	2,103	1,230	2,103	1,230
Cumulative interest capitalised	15,960	13,857	15,960	13,857
Rate used for capitalisation	4.07%	3.84%	4.07%	3.84%
Work to properties:				
Improvements to existing properties capitalised	5,517	5,320	5,517	5,320
Major repairs expenditure included in the statement of comprehensive income	7,023	7,120	7,023	7,120
	12,540	12,440	12,540	12,440
Total Social Housing Grant received or receivable to date is as follows:	180,534	178,126	180,534	178,126
Capital grant – Housing Properties	5,296	3,591	5,296	3,591
Recycled Capital Grant Fund	899	728	899	728
Disposal Proceeds Fund	-	-	-	-
Revenue grant – I&E	106	106	106	106
Revenue grant - reserves				
	186,835	182,551	186,835	182,551

Notes forming part of the financial statements

14. Tangible fixed assets - housing properties

Impairment

Paragon considers each scheme to represent a cash generating unit (CGU) when assessing for impairment in accordance with the requirements of FRS 102 and SORP 2014. This has been determined based on an assessment of how schemes are appraised for development purposes, how decisions are made about assets and how results are reported.

During the current year, Paragon has recognised no impairment loss (2015 - £nil) in respect of general needs and shared ownership housing stock. On 8 July 2015, the Summer Budget included the announcement that the government will reduce rents in social housing in England by 1% a year for four years from April 2016. The government indicated this will result in a 12% reduction in average rents by 2020/21, compared to current forecasts. As such, this triggered an indicator of impairment and a full review was performed. See note 2 for details of judgments and key estimates as part of the impairment review. There were no units impacted by the impairment loss calculation.

During the year, impairment charges of £138,000 (2015 - £570,000) were reversed. In both years, the amounts previously recognised related to land on general needs schemes under construction. The value of the land has increased and therefore the impairment previously recognised has been reversed.

Properties held for security

Paragon Community Housing Limited had property with a net book value of £550,000,000 pledged as security at 31 March 2016 (2015 - £594,000,000).

Valuation

On transition to FRS 102, Paragon Community Housing Limited took the option of carrying out a one off valuation on its housing properties and using that amount as deemed cost. To determine the deemed cost at 1 April 2014, Paragon engaged Savills (UK) Limited to value housing properties on an Existing Use Value for Social Housing (EUV-SH) basis. Housing properties will subsequently be measured at cost.

This valuation has been undertaken by Savill's affordable housing division, whom are widely recognised as one of the leading teams of specialist valuers and property advisers in the social housing sector. They act for many registered providers, all existing lenders, lawyers and rating agencies in the sector (without exception), and have driven a high proportion of statutory accounts valuations, bond issuances (and their revaluations) and a cross section of land/consultancy projects.

The valuation was carried out as a desktop exercise on a EUV-SH basis using discounted cashflows. The property portfolio was grouped by a number of key parameters to determine the valuation including:

- Location
- Age
- Tenure Type
- Spread
- Construction
- Rental streams less key deductions for expected maintenance and management costs
- Usage categories
- Property type

The resultant cash flow was calculated over 35 years with the net income in the final year capitalised into perpetuity with an assumption of CPI plus 1% rent increase per annum with a discount rate of 5% to 5.75%.

Notes forming part of the financial statements

15. Tangible fixed assets - other

Group and Association	Leasehold office premises £'000	IT equipment £'000	Motor vehicles £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost						
At 1 April 2015	561	1,280	88	428	422	2,779
Additions in year	-	397	60	84	45	586
At 31 March 2016	561	1,677	148	512	467	3,365
Depreciation						
At 1 April 2015	(220)	(838)	(35)	(315)	(351)	(1,759)
Charge for year (note 6)	(35)	(403)	(46)	(68)	(21)	(573)
At 31 March 2016	(255)	(1,241)	(81)	(383)	(372)	(2,332)
Net book value						
At 31 March 2016	306	436	67	129	95	1,033
At 31 March 2015	341	442	53	113	71	1,020

Notes forming part of the financial statements

16. Investment properties

Group and Association	Market rent £'000	Commercial £'000	Total £'000
At 1 April 2015	4,053	426	4,479
Additions	149	-	149
Disposals	(741)	(107)	(848)
Revaluations	735	10	745
At 31 March 2016	4,196	329	4,525

The group's investment properties are valued annually on 31 March at fair value, determined by a professionally qualified valuer. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors' appraisal and valuation manual. In valuing investment properties, a discounted cash flow methodology was adopted. Details on the assumptions made and the key sources of estimation uncertainty are given in the accounting policies.

The surplus on revaluation of investment property arising of £745,000 has been credited to the Statement of comprehensive income for the year.

If investment property had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Historic cost	795	763	795	763
Accumulated depreciation	(35)	(19)	(35)	(19)
	760	744	760	744

Notes forming part of the financial statements

17. Investments – other

Association	2016 £'000	2015 £'000
Cost		
At 1 April and 31 March	13	13

The following are the wholly owned subsidiary undertakings of the association at the year-end. All the undertakings are incorporated under Companies Act legislation and registered in England.

Subsidiary undertakings	Type of entity	Principal activity
Paragon Development & Construction Services Limited	Company limited by shares	Design and build services
Paragon Treasury Plc	Plc	Group borrowing vehicle

18. Properties for sale

Group	First tranche shared ownership properties 2016 £'000	First tranche shared ownership properties 2015 £'000
Work in progress	15,545	6,701
Completed properties	1,272	3,533
	16,817	10,234

Association	First tranche shared ownership properties 2016 £'000	First tranche shared ownership properties 2015 £'000
Work in progress	15,545	6,644
Completed properties	1,272	3,533
	16,817	10,177

Notes forming part of the financial statements

19. Debtors

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Due within one year:				
Rent and service charge arrears	3,305	2,735	3,305	2,735
Less: Provision for doubtful debts	(894)	(853)	(894)	(853)
	2,411	1,882	2,411	1,882
Amounts owed by group undertakings	-	-	141	281
Other debtors	2,173	4,449	1,265	2,989
Prepayments and accrued income	628	394	628	394
	5,212	6,725	4,445	5,546

20. Creditors: amounts falling due within one year

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Loans and borrowings (note 25)	3,787	4,131	3,787	4,131
Trade creditors	792	1,833	792	1,833
Rent and service charge received in advance	2,019	1,493	2,019	1,493
Amounts owed to group undertakings	-	-	612	281
Taxation and social security	139	196	139	196
Other creditors	8,109	7,545	1,624	6,033
Deferred capital grant (note 22)	54	54	54	54
Recycled capital grant fund (note 23)	509	501	509	501
Disposal proceeds fund (note 24)	222	-	222	-
Accruals and deferred income	11,731	9,839	11,731	9,467
Pension backfunding liability (note 27)	696	526	696	526
	28,058	26,118	22,185	24,515

Notes forming part of the financial statements

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

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Loans and borrowings (note 25)	353,939	357,678	353,939	357,678
Deferred capital grant (note 22)	9,073	6,665	9,073	6,665
Recycled capital grant fund (note 23)	4,787	3,089	4,787	3,089
Disposal proceeds fund (note 24)	677	728	677	728
Sinking fund balances	2,799	3,121	2,799	3,121
Other creditors	338	310	338	310
Pension backfunding liability (note 27)	5,526	4,474	5,526	4,474
	377,139	376,065	377,139	376,065

22. Deferred capital grant

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
At 1 April	6,719	4,380	6,719	4,380
Grants received during the year	1,961	1,996	1,961	1,996
Transfers between the recycled capital grant fund	501	359	501	359
Released to income during the year (note 4)	(54)	(16)	(54)	(16)
At 31 March	9,127	6,719	9,127	6,719

Deferred capital grants are government grants received from the HCA and local authorities.

Notes forming part of the financial statements

23. Recycled Capital Grant Fund

Group and Association Funds pertaining to activities within areas covered by	HCA 2016 £'000	GLA 2016 £'000	HCA 2015 £'000	GLA 2015 £'000
At 1 April	126	3,464	76	1,286
Inputs to fund:				
- Grants recycled	217	1,970	78	2,501
- Interest accrued	1	19	-	8
Recycling of grant:				
- New build	-	(501)	(28)	(331)
At 31 March	344	4,952	126	3,464
Amounts 3 years or older where repayment may be required	344	4,952	126	3,464

Withdrawals from the recycled capital grant fund were used for the purchase and development of new housing schemes for letting and for approved works to existing properties.

24. Disposal Proceeds Fund

Group and Association Funds pertaining to activities within areas covered by	HCA 2016 £'000	GLA 2016 £'000	HCA 2015 £'000	GLA 2015 £'000
At 1 April	728	-	220	-
Inputs to fund:				
- Grants recycled	167	-	505	-
- Interest accrued	4	-	3	-
At 31 March	899	-	728	-
Amounts 3 years or older where repayment may be required	899	-	728	-

Notes forming part of the financial statements

25. Loans and borrowings

Maturity of debt:

Bank loans	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
In more than one year but not more than two years	3,400	3,742	3,400	3,742
In more than two years but not more than five years	39,714	25,471	39,714	25,471
In more than five years	84,948	102,592	84,948	102,592
Total (note 21)	128,062	131,805	128,062	131,805
In one year or less, or on demand (note 20)	3,742	4,090	3,742	4,090
	131,804	135,895	131,804	135,895

Other loans	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
In more than one year but not more than two years	50	45	50	45
In more than two years but not more than five years	188	169	188	169
In more than five years	3,127	3,196	225,639	225,659
Total (note 21)	3,365	3,410	225,877	225,873
In one year or less, or on demand (note 20)	45	41	45	41
	3,410	3,451	225,922	225,914

Bonds	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
In more than five years	222,512	222,463	-	-
Total (note 21)	222,512	222,463	-	-

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Total loans and borrowings	357,726	361,809	357,726	361,809

Paragon has total committed loan facilities of £393,224,000 (at transaction price) raised through the debt and capital markets, together with loans provided by various banks. Loans are secured by specific charges on Paragon's housing properties. The loans bear interest rates ranging from 3.6% to 10.8% or at variable rates calculated at a margin above the London Inter Bank Offer Rate. At 31 March 2016 Paragon had undrawn loan facilities of £25,000,000 (2015 - £25,000,000), plus a retained bond of £25,000,000 (2015 - £25,000,000). Of the total loan facilities of £393,224,000, £318,423,000 was at fixed rates at 31 March 2016. The weighted average interest cost for the year on Paragon borrowings was 3.93% (2015 – 3.84%).

Notes forming part of the financial statements

26. Financial instruments

The Group's and association financial instruments may be analysed as follows:

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Financial assets:				
Financial assets measured at historic cost				
- Tenant receivables	2,411	1,882	2,411	1,882
- Other financial assets	2,173	4,449	1,406	3,270
- Cash and cash equivalents	67,924	109,814	67,612	109,013
Total financial assets	72,508	116,145	71,429	114,165
Financial liabilities:				
Financial liabilities measured at amortised cost				
- Loans payable	(357,726)	(361,809)	(357,726)	(361,809)
Financial liabilities measured at historical cost				
- Trade creditors	(792)	(1,833)	(792)	(1,833)
- Other financial liabilities	(23,116)	(21,011)	(17,243)	(19,408)
Total financial liabilities	(381,634)	(384,653)	(357,761)	(383,050)

Financial assets comprise cash and cash equivalents, tenant debtors, amounts owed by group undertakings and other debtors. Financial liabilities comprise bank loans, trade creditors, accruals, amounts owed to group undertakings, sinking fund balances, taxation and social security and other creditors.

Financial assets and liabilities measured at amortised cost are the bank loans. All other financial instruments are measured at transactional value.

Risks arising on financial instruments

The main risk arising from Paragon's financial instruments are credit risk, liquidity risk, interest rate risk and market risk.

Credit risk

Credit risk is managed by the Treasury team in accordance with the Board approved Treasury Management Policy. Paragon considers the security of principal sums invested to rank above seeking the highest possible return on the investment. Repayment of interest and capital to Lenders is made on a punctual basis. Paragon monitors available resources on a regular basis, through a review of its business plan. It is considered that Paragon has sufficient resources to cover these repayments and therefore the risk of being unable to meet its obligations to the lenders is considered to be low.

The housing loans are secured by specific charges on housing properties and repayable at varying rates of interest.

Notes forming part of the financial statements

26. Financial instruments

Liquidity risk

Liquidity risk is managed by the Treasury team in accordance with the Board approved Treasury Management Policy. Paragon has a policy to maintain sufficient cash to cover the 3 months net cash requirement and sufficient liquidity to cover the next 18 months net liquidity requirement.

The maturity profile of the debt has been established to reflect the long-term nature of Paragon's assets and to reduce risk by staggering the repayment of the principle of the loan.

At the year end 89.6% of Paragon's borrowings were due to mature in more than five years.

To date all payments have been made on time.

Interest rate risk

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

Interest rate risk is managed by the Treasury team in accordance with the Board approved Treasury Management Policy.

Paragon's interest rate strategy is reviewed annually and focused on achieving the prescribed balance between fixed and variable debt at an acceptable level of risk and cost.

Covenant compliance and sensitivity analysis of interest rates are monitored on a regular basis.

Market risk

Paragon's treasury management function is responsible for developing and implementing an appropriate financial strategy to ensure it has the required level of liquidity to fund the capital investment programme and day to day activities of the business.

Close monitoring of financial covenants against the business plan to assess risk scenarios is completed on a regular basis.

Notes forming part of the financial statements

27. Pension backfunding liability

Paragon participates in two funded multi-employer defined benefit schemes, the Social Housing Pension Scheme (SHPS) and the Surrey County Council Pension Scheme Fund (SCCPF). From the 31 October 2015 accruals were ceased in the defined benefit schemes and all employees were migrated to a single provider on a defined contribution basis. Paragon has recognised liabilities relating to any agreement to fund any defined benefit scheme deficits as detailed below:

Group and Association	**SHPS deficit contribution £'000**	**SCCPF deficit contribution £'000**	**Total £'000**
At 1 April 2015	4,014	986	5,000
Charged to the statement of comprehensive income			
- Remeasurement (note a)	1,646	-	1,646
Unwinding of discount	73	34	107
Contribution paid	(446)	(85)	(531)
At 31 March 2016	5,287	935	6,222

Note a - The discount rate used in calculating the SHPS pension deficit contribution liability changed from 1.92% at 31 March 2015 to 2.06% at 31 March 2016 and as a result the liability decreased by £33,000. However, changes to the schedule of future contributions payable have increased the liability by £1,679,000. The discount rate and the contributions schedule for the SCCPF remained unchanged in 2016 from 2015 at 3.69%.

Social Housing Pension Scheme (SHPS)

The SHPS is a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for Paragon to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

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

Notes forming part of the financial statements

27. Pension backfunding liability

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123,000,000, liabilities of £4,446,000,000 and a deficit of £1,323,000,000. To eliminate this funding shortfall, the trustees and the participating employers have agreed that the additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit Contributions

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

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011. This valuation was certified on 17 December 2012 and showed assets of £2,062,000,000 liabilities of £3,097,000,000 and a deficit of £1,035,000,000. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 contributions.

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

The discount rates applied are the equivalent single discount rates which, when used to discount the future recovery plan contribution due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

Surrey County Council Pension Fund (SCCPF)

Under the terms of the transfer agreement with Elmbridge Borough Council (EBC), Paragon makes additional payments each year as its contribution to the past service deficit as at 31 March 1998.

The additional payments are £85,000 in respect of former and current employees, payable until March 2030.

These additional payments are adjusted annually on 1 April in line with the amount specified in the Pensions Increase (Review) Order. By making these payments to EBC the Council accepts responsibility for meeting Paragon's payments due to the Pension Fund in respect of that past service deficit.

As the scheme is in deficit and as Paragon has agreed to a payment to EBC to contribute to funding the deficit Paragon recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost. The discount rate applied is the effective interest rate for Paragon's bond.

Notes forming part of the financial statements

28. Pensions

Two pension schemes are operated by Paragon. Pension arrangements were restructured in the year and from 31 October 2015 all employees were migrated to a single provider on a defined contribution basis, and accruals ceased in the defined benefit schemes.

Defined contribution pension scheme

A defined contribution scheme is operated by Paragon on behalf of its employees. The assets of the scheme are held separately from those of the association in an independently administered fund. The pension charge represents contributions payable by Paragon to the fund and amounted to £316,000 (2015 - £121,000). Contributions totalling £71,000 (2015 - £22,000) were payable to the fund at the year end and are included in creditors.

Defined benefit pension scheme

The Surrey County Council Pension Fund (SCCPF) is a multi-employer scheme administered by Surrey County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme. The most recent comprehensive actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 March 2016. Paragon's contribution to the LGPS was £104,000 (2015 - £137,000) at a rate of 23.6% fixed until 31 March 2017.

	2016 **£'000**	**2015** **£'000**
Reconciliation of present value of plan liabilities		
At the beginning of the year	13,134	11,316
Current service cost	64	92
Interest cost on defined benefit obligations	416	483
Actuarial losses		
- Changes in financial assumptions	(1,149)	1,632
- Other experience	(218)	(130)
Benefits paid	(355)	(281)
Plan participants' contributions	13	22
At the end of the year	11,905	13,134
Reconciliation of fair value of plan assets		
At the beginning of the year	11,318	10,076
Interest income on plan assets	358	430
Actuarial gains/(losses)		
- Return on assets excluding amounts included in net interest	(239)	934
Plan participants' contributions	13	22
Employer Contributions	104	137
Benefits paid	(355)	(281)
At the end of the year	11,199	11,318
Composition of plan assets		
Equities	8,399	8,602
Bonds	1,792	1,811
Property	784	679
Cash	224	226
Total plan assets	11,199	11,318
Equities	75%	76%
Bonds	16%	16%
Property	7%	6%
Cash	2%	2%

Notes forming part of the financial statements

28. Pensions

	2016 £'000	2015 £'000
Amounts recognised in the statement of financial position		
Fair value of plan assets	11,199	11,318
Present value of plan liabilities	(11,905)	(13,134)
Net pension scheme liability	(706)	(1,816)

	2016 £'000	2015 £'000
Amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	64	92
Past service cost	-	-
Interest cost on defined benefit obligations	416	483
Interest income on plan assets	(358)	(430)
	122	145

	2016 £'000	2015 £'000
Analysis of actuarial gain/(loss) recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	(239)	934
Changes in assumptions underlying the present value of the scheme liabilities	1,149	(1,632)
Other experience relating to scheme liabilities	218	130
	1,128	(568)

	2016	2015
Principal actuarial assumptions used at the reporting date		
Discount rate	3.5%	3.2%
Salary increase rate	3.7%	3.8%
Pension increase rate	2.2%	2.4%

Mortality rates	Males	Females
Current Pensioners	22.5 years	24.6 years
Future Pensioners*	24.5 years	26.9 years

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

For the SHPS, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The income and expenditure charge represents the employer contribution payable to the scheme for the year. Information on the SHPS is given in note 27.

Notes forming part of the financial statements

29. Share capital

Association	2016 £'000	2015 £'000
Shares of £1 each issued and fully paid:		
At 1 April	31	42
Shares issued in the year	15	-
Shares cancelled in the year	(31)	(11)
At 31 March	15	31

The share capital of the association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that share is cancelled and the amount paid thereon becomes the property of the association. Therefore, all shareholdings relate to non-equity interests.

30. Contingent liabilities

The association has securitised bond borrowings of its subsidiary, Paragon Treasury Plc. At the reporting date the liabilities covered by these securities totalled £250,000,000 (2015 - £250,000,000).

Paragon receives grant from the Homes and Communities Agency and from the Greater London Authority, which is used to fund the acquisition and development of housing properties and their components. Grant of £171,408,000 received in respect of housing properties held at 31 March 2014 was transferred from the revaluation reserve to the revenue reserves in respect of adoption of 'deemed' cost. Paragon has a future obligation to recycle such grant once the properties are disposed of. At 31 March 2016, the value of grant received in respect of these properties that had not been disposed of was £186,731,000.

31. Operating lease commitments

The group and the association had minimum lease payments under non-cancellable operating leases as set out below:

Amounts payable as lessee	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Not later than one year	313	306	313	306
Later than one year and not later than five years	1,252	1,224	1,252	1,224
Later than five years	2,348	2,601	2,348	2,601
Total	3,913	4,131	3,913	4,131

Notes forming part of the financial statements

31. Operating lease commitments

Amounts payable as lessor	**Group 2016 £'000**	**Group 2015 £'000**	**Association 2016 £'000**	**Association 2015 £'000**
Not later than one year	2,839	2,418	2,839	2,418
Later than one year and not later than five years	10,988	9,364	10,988	9,364
Later than five years	99,267	84,483	99,267	84,483
Total	113,094	96,265	113,094	96,265

32. Capital commitments

	Group 2016 £'000	**Group 2015 £'000**	**Association 2016 £'000**	**Association 2015 £'000**
Construction commitments contracted but not provided for	58,356	58,375	58,356	58,375
Construction commitments approved by the Board but not contracted for	13,233	5,571	13,233	5,571
	71,589	63,946	71,589	63,946

Capital commitments for the Group and Association will be funded as follows:

	Group 2016 £'000	**Group 2015 £'000**	**Association 2016 £'000**	**Association 2015 £'000**
Social Housing Grant	4,098	4,285	4,098	4,285
Drawdown of loans	25,067	39,461	25,067	39,461
Sales of properties	42,424	20,200	42,424	20,200
	71,589	63,946	71,589	63,946

Notes forming part of the financial statements

33. Related party disclosures

Other related parties

The Board included one tenant member, Jennifer Laney, who holds a tenancy agreement on normal terms and cannot use their position to their advantage. Rents received from tenant and leaseholder Board members during the year were £3,040 (2015 - £6,044). Rent arrears of tenant and leaseholder Board members as at 31 March 2016 were £nil (2015 - £417). Jennifer Laney was no longer a member of the Board from October 2015. The rent arrear balance is subject to the same bad debt provision and debt recovery process as all other rent arrears.

Provision of management and other services

The association acts as a Corporate Trustee for five separate charities which were merged into Quintus Housing Trust on 1 October 2007. The association became Corporate Trustee to Quintus Housing Trust on 1 October 2007.

Transactions with non-regulated entities

Paragon Community Housing Limited provides management and administration services to Paragon Development and Construction Limited (PDCSL). The most significant element is staff as PDCSL does not have their own employees. Costs are apportioned as follows:

Department:	By reference to:
Finance	Turnover
Development	Planned number of units in development
Human Resources	Number of staff
Chief Executive	Turnover
Corporate Services	Turnover

The total management and administration costs apportioned in the year were £141,000 (2015 - £87,000) and the amounts owing at the year end from PDCSL were £141,000 (2015 - £281,000).

Sales from PDCSL to Paragon Community Housing Limited totalled £3,768,000 (2015 - £5,922,000) for the year.

Paragon Treasury Plc has secured funding through the capital markets and on-lends these funds to other Paragon Community Housing Limited. All intra-group transactions have taken place in the normal course of business. The total interest recharged in the year to Paragon Community Housing Limited was £8,227,000 (2015 - £1,551,000). Amounts owing to Paragon Treasury Plc at 31 March 2016 were £222,511,000 (2015 - £222,463,000).

34. Business combinations

Merger of Elmbridge Housing Trust Limited, Richmond Upon Thames Churches Housing Trust Limited and Paragon Community Housing Group Limited

During the year we simplified our business operating model. On 31 October 2015 a merger was effected whereby Richmond Upon Thames Churches Housing Trust Limited (Richmond) and Paragon Community Housing Group Limited (Paragon) undertook a statutory transfer of engagements under the Co-operative and Community Benefit Societies Act 2014, to Elmbridge Housing Trust Limited (Elmbridge) by which the whole of the stock, property and other assets of Richmond and Paragon transferred to Elmbridge.

Richmond and Elmbridge are registered providers of social housing, Richmond operating primarily in the London Boroughs of Richmond and Kingston and Elmbridge primarily operating in the Borough of Elmbridge in Surrey. Paragon, also a registered provider of social housing, was the non-asset owning holding parent company of both Richmond and Elmbridge and provided the businesses with a range of services, including board and governance support, finance, human resources, information technology, design and communications and development.

Notes forming part of the financial statements

34. Business combinations

Upon merger of the three businesses Elmbridge was renamed Paragon Community Housing Limited.

These transfers of engagements were for no consideration and the combination of the three entities has been accounted for under the merger accounting method for both the Association and the Group.

Under the merger accounting method the carrying values of the assets and liabilities of the parties to the combination are not required to be adjusted to fair value. The results and cashflows of all the combining entities have been brought into the financial statements of the combined entity from the beginning of the year in which the merger occurred.

The comparative information has been restated to include the comprehensive income for all the combining entities for the reporting period ending 31 March 2015 and their Statement of financial position as at that date.

No adjustments were required to achieve uniformity of accounting policies in the combining entities.

The principal components of the current year's total comprehensive income are shown below indicating:
- the amounts relating to the newly formed Paragon Community Housing Limited for the period after merger
- the amounts relating to each party to the merger up to the date of merger,

Also shown below is the aggregate carrying value of the Net Assets of each party to the merger,

2016	**Turnover £'000**	**Operating surplus/ (deficit) £'000**	**Surplus/ (deficit) for the reporting period £'000**	**Total comprehensive income for the year £'000**	**Net Assets £'000**
Pre-Merger					
Paragon	7,516	(5)	-	-	-
Elmbridge	24,949	10,209	7,348	7,348	209,217
Richmond	16,125	5,822	5,735	5,735	139,400
Consolidation *	(7,425)	-	-	-	-
	41,165	16,026	13,083	13,083	348,617
Post-Merger	29,647	7,601	3,963	5,091	5,091
Total for the year	70,812	23,627	17,046	18,174	353,708

2015	**Turnover £'000**	**Operating surplus/ (deficit) £'000**	**Surplus/ (deficit) for the reporting period £'000**	**Total comprehensive income for the year £'000**	**Net Assets £'000**
Paragon	12,479	-	-	-	-
Elmbridge	42,668	13,830	6,657	6,089	201,869
Richmond	27,154	6,430	3,948	3,948	133,665
Consolidation *	(12,392)	-	-	-	-
Total for the year	69,909	20,260	10,605	10,037	335,534

(*) The turnover of Paragon Community Housing Group Limited includes management fees charged to Elmbridge Housing Trust Limited and Richmond Upon Thames Housing Trust Limited. The management fees charged to these two businesses are shown within the consolidation adjustments row and have been removed on consolidation of the results of the three entities which are party to the business combination.

Notes forming part of the financial statements

35. Post balance sheet event

The European Referendum was held on 23 June 2016 and the subsequent vote to leave the European Union has resulted in economic and political uncertainty which has resulted in Moody's outlook for Paragon being downgraded from stable to negative along with the rest of the sector. This has not impacted on our rating which remains at A2.

During July 2016, Paragon Community Housing Limited announced it is exploring the merits of a merger with asra Housing Group (asra). Paragon and asra provide homes in London, the South East and the Midlands. Both organisations have a strong development record, with asra committed to building 700 new homes by 2019 and Paragon 500 new homes over the same period. Both organisations have common goals of providing customer service excellence and being recognised a first call housing provider. Both would bring strengths to the alliance. If the partnership goes ahead, the new group will provide 24,000 homes and be among the largest housing associations in the country. Paragon and asra are investigating whether the merger will enable them to provide an improved localised service for tenants and facilitate the development of more homes. The potential merger is subject to the due diligence process and the consent from a number of stakeholders.

36. First time adoption of FRS 102

Group	**Note**	**Reserves as at 1 April 2014 £'000**	**Surplus for year ended 31 March 2015 £'000**	**Reserves as at 31 March 2015 £'000**
As previously stated under former UK GAAP		347,594	63,103	410,697
Prior year adjustment – correction of error (note 37)		(1,035)	49	(986)
As restated under former UK GAAP		346,559	63,152	409,711
Presentation of gains and losses on revaluation of investment property	(a)	3,137	181	3,318
Deemed cost	(b)(c)	(53)	(52,599)	(52,652)
Holiday pay accrual	(d)	(50)	(1)	(51)
Adjustment relating to financial instruments	(e)	(20,059)	(486)	(20,545)
Recognition of SHPS liability	(f)	(4,131)	117	(4,014)
As stated in accordance with FRS 102		325,403	10,364	335,767

Notes forming part of the financial statements

36. First time adoption of FRS 102

Association	Note	Reserves as at 1 April 2014 £'000	Surplus for year ended 31 March 2015 £'000	Reserves as at 31 March 2015 £'000
As previously stated under former UK GAAP		347,688	62,776	410,464
Prior year adjustment – correction of error (note 37)		(1,035)	49	(986)
As restated under former UK GAAP		346,653	62,825	409,478
Presentation of gains and losses on revaluation of investment property	(a)	3,137	181	3,318
Deemed cost	(b)(c)	(53)	(52,599)	(52,652)
Holiday pay accrual	(d)	(50)	(1)	(51)
Adjustment relating to financial instruments	(e)	(20,059)	(486)	(20,545)
Recognition of SHPS liability	(f)	(4,131)	117	(4,014)
As stated in accordance with FRS 102		325,497	10,037	335,534

a. FRS 102 requires that changes in the fair value of investments properties be recognised in the Statement of comprehensive income for the period. Under previous UK GAAP these properties were included at historic cost within Property, plant and equipment. This change has increased the reported surplus for the year ended 31 March 2015 and the measurement of investment property on the balance sheet. This has the effect of moving property with a value of £1,161,000, re-valued up to £4,298,000, into the investment property category at 1 April 2014. For the year ended 31 March 2015 a fair value increase of £181,000 has been recognised.

b. Section 35 of FRS 102 allows first-time adopters to elect to measure property plant and equipment (PPE), at its fair value at the date of transition and use that fair value as its deemed cost at that date. Section 17 of FRS 102 states that any gain in revaluation must be recognised within comprehensive income and the revaluation reserves, any losses must be offset by any gains recognised in the revaluation reserve and then must be recognised within surplus/deficit before taxation.

   Adoption of the deemed cost option has resulted in a net decrease in fixed assets at 1 April 2014 of £53,000. There were £32,894,000 of revaluation gains credited to revenue reserve and a £32,947,000 reduction to revaluation reserves. This was primarily related to the reclassification of grant to revenue reserve which has been largely been set off by reclassification of revaluation losses to revenue reserves of £130,015,000. For the year ended 31 March 2015, depreciation has increased by £1,318,000 and amortised grant of £16,000 has been recognised. The revaluation in the year ended 31 March 2015 has been reversed under deemed cost with a reduction of £51,551,000 to reserves. There was a reversal of £254,000 of depreciation charges for the year related to properties previously classified within other fixed assets under UK GAAP.

Notes forming part of the financial statements

36. First time adoption of FRS 102

c. Social housing grant can no longer be offset against housing property within fixed assets and under section 24 of FRS 102, where properties are held at deemed cost, the related social housing grant will be recognised initially under the performance model with subsequent grants measured using the 'accrual model' with the grant amortised over the life of the structure and components of the property.

   Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once performance related conditions have been met.

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

   The effect on the 1 April 2014 balance sheet is the movement of £4,381,000 social housing grants (relating to assets held at historic cost) to creditors with £171,407,000 of social housing grants transferred from the revaluation reserve to the revenue reserve. Movements to the long-term creditor grants during 2014/15 are shown in note 22.

d. FRS 102 requires holiday pay to be accrued as a liability specifically. A liability has been recognised of £50,000 as at 31 March 2014 and £51,000 as at 31 March 2015, reflecting the value of holiday pay entitlement which had not been taken as at that date by employees.

e. Section 11 of FRS 102 requires basic financial instruments to be measured at amortised cost. It was management policy to manage all external loans by reference to fair value as at 1 April 2014 and therefore they were carried at fair value. For the 1 April 2014 balance sheet, the fair value measurement increased creditors by £20,059,000. For the 31 March 2015 balance sheet, the amortised cost measurement decreased creditors by £742,000 and refinancing costs increased creditors by £1,228,000. For the year ended 31 March 2015, interest payable and finance costs increased by £486,000.

f. On transition an additional £4,131,000 of pension liability has been recognised as required under SORP 2014, to reflect agreed schedules of additional contributions towards reducing deficits on the SHPS, with an equivalent amount debited to revenue reserves. Where such contractual arrangement are in place, the Group must recognise a liability for contributions payable, when under the old SORP these would have been accounted for in the year the payments fell due.

g. FRS 102 requires the recognition in the Statement of comprehensive income, a net interest cost (or income) on defined benefit pension schemes. This is calculated by multiplying the net pension liability (or asset) by the market yields on high-quality corporate bonds. The effect of this, when compared to previous UK GAAP, has been to reduce the reported surplus for the year ended 31 March 2015, because previous UK GAAP led to the recognition of finance income calculated by reference to the expected returns on the pension plan's specific assets, be they equities, properties or bonds. The change has had no effect on reported equity as the measurement of the net defined pension scheme liability (or asset) has not changed. Instead, the decrease in reported surplus of £175,000 is mirrored by a decrease in actuarial losses which are presented within other comprehensive income.

37. Prior year adjustment

The prior year adjustment is the recognition of a liability which had not been recognised under UK GAAP, for the committed contributions to the past service deficit on the Surrey County Council Pension Scheme, in line with terms of the transfer agreement with Elmbridge Borough Council. A liability has been recognised of £1,035,000 as at 31 March 2014, with an equivalent amount debited to revenue reserve. Previously payments were accounted for when they fell due. See note 27 and 36 for further details of the liability and prior year adjustment.