

**TOWER HAMLETS COMMUNITY
HOUSING LIMITED**

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended

31 MARCH 2017

Registered No. 3595080

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD

Nick Abbey - Chair
Ken Beech - Vice Chair (resigned 27 July 2017)
Carlo Gibbs
Charles Moran
Clare Harrisson - Councillor
Faisal Butt
Louise Ingham (Resigned 17 May 2017)
Philip Sullivan (Resigned 9 September 2016)
Ruediger Kloss
Stuart Madewell
Mark Thrasher

EXECUTIVE MANAGEMENT TEAM

Philip Sullivan (Chief Executive) from 1 April 2017
Rosemary Farrar (Interim Chief Executive) from 9 September 2016
resigned 31 March 2017 and (Interim Director of Finance) resigned
22 September 2016
Michael J Tyrrell (Chief Executive) resigned 9 September 2016
John Higgins (Interim Director of Resources) from 22 September
2016
Pam Bhamra (Director of Operations)
Tamsin Burns (Head of Human Resources) from 15 August 2016

SECRETARY

Joy Walton (resigned 31 May 2017)
Philip Sullivan (appointed 15 June 2017)

BANKERS

Barclays Bank
Level 27
1 Churchill Place
London
E14 5HP

Santander Corporate Banking (UK) Plc
Santander House
2 Triton Square
Regent's Place
London NW1 3AN

AUDITOR

Mazars LLP
Tower Bridge House
London E1W 1DD

REGISTERED OFFICE

285 Commercial Road
London E1 2PS

STATUTORY REGISTRATIONS

Company
No. 3595080
Registered Charity
No. 1078394
Registered Provider of Social Housing
No. L4260

TOWER HAMLETS COMMUNITY HOUSING LIMITED

CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2017

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TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT

The Board is pleased to present its report and the audited financial statements for the year ended 31 March 2017.

CHAIR STATEMENT

Tower Hamlets Community Housing Limited (THCH) was downgraded on 30 March 2016 for Governance to G3, a non-compliant grade, mainly due to lack of sufficient controls in our business and in particular in relation to two development projects.

In September 2016 we received another Regulatory Notice following our identification of our failure to meet our statutory duty under The Regulatory Reform (Fire Safety) Order 2005. There were a number of high risk actions which we should have addressed promptly but which we failed to do within appropriate timescales. We apologised to our residents for this failure which put them at risk and assured them we had taken steps to ensure this will not happen again. We employed health and safety consultants to ensure that our processes and reporting were robust and that all high and very high risks were addressed. At the end of March 2017 we had no very high or high risk actions outstanding.

Following the tragic events in June 2017 at Grenfell Tower, THCH along with all other housing associations and local authorities with blocks of flats have been taking proactive fire safety management actions. We identified one building with cladding of a similar material to Grenfell Tower. We have worked closely with our residents and the Fire Service to effectively manage the risk whilst we put in place a long term solution.

Our long serving Chief Executive, Mike Tyrrell, retired in September 2016 and Rosemary Farrar was appointed as Interim Chief Executive while we carried out the permanent recruitment. Mike had done much to ensure that we met our obligations to residents arising from stock transfers since 2000 and we wish him well for the future. We are delighted to have appointed Philip Sullivan as the new CEO; Philip took up his appointment on 1 April 2017. Philip has over 20 years of experience in the Social Housing sector and is a Fellow of the Royal Institution of Chartered Surveyors and a Member of the Chartered Institute of Housing.

In September we launched our "Fit for the Future" programme to ensure that THCH would deliver Value for Money and that processes would be put in place to ensure we could achieve a compliant governance rating.

We commissioned a survey of our stock to ensure we had a clear understanding of the investment needed and that the financial plan could support this. The survey has allowed us to identify those areas where investment is most needed and would have the greatest impact. This will inform our approach to reinvestment in our stock going forward.

Following consultation with residents and in order to reduce our overheads (which we know are higher than those of similar organisations), we closed our area offices in both Bethnal Green and Shadwell and renovated our head office in Commercial Road to accommodate staff in one location. We reviewed our staffing structure and made a number of changes to ensure the structure would support the delivery of our Fit for the Future programme. This has resulted in a reduction in the number of staff employed by THCH.

Despite the pressures and strain of going through a restructure and changing work practices our staff continued to work hard to ensure that the high standard of our service to residents was not adversely affected. The thanks of the Board are due to them for their perseverance.

We believe we have made the necessary changes to ensure that THCH is Fit for the Future and are confident that we will regain compliant governance in 2017/18 and that our failures on health and safety will not be repeated. We are grateful to the HCA for their constructive approach to us while we have carried out considerable changes to our business, and to all our stakeholders who have remained supportive throughout. In particular, we appreciate greatly the support we have continued to receive from the London Borough of Tower Hamlets.

My personal thanks must go to my Board colleagues for their diligence, good humour and considerable contribution of their time during this past year.

Nick Abbey, Chair Tower Hamlets Community Housing

TOWER HAMLETS COMMUNITY HOUSING LIMITED

AN OVERVIEW OF OUR STRATEGY

Business

The principal activity of THCH is the provision of good quality, affordable housing for people on low incomes who are in housing need.

All surpluses generated by THCH are invested either in the improvement of existing housing stock or in the provision of new housing stock for renting at rent levels well below market.

THCH is a company limited by guarantee and is both registered as a charity with the Charity Commission and with the Homes and Communities Agency (HCA) as a Registered Provider of Social Housing.

Objectives

In 2016/17 THCH adopted three new corporate objectives;

- Getting back to 'Good'
- Unlocking our potential
- Growth for the future

A comprehensive action plan has been developed to ensure we deliver these objectives going forward.

Strategy

In order to deliver our objectives, we employ a range of strategies which will underpin our approach including:

- Better asset management focusing on both sustainability and financial performance
- Embedding controls with a clear focus on meeting Health & Safety requirements
- Maximising use of ICT to reduce operating costs
- Reviewing and improving our estate services for residents
- Identifying opportunities to build new homes within our portfolio

Development activity during 2016/17

During the year THCH completed the Commercial Road scheme delivering 9 affordable homes. This increase was sadly outstripped by the number of affordable homes lost under Right-to-Buy (7) and shared owners stair casing (3).

During 2016/17 we started work on a new development strategy with the main focus of maximising the use of land already in our ownership and have identified a number of sites we will be investigating further in 2017/18, ensuring local residents' views are reflected in our plans. We expect to finalise the strategy early in 2017/18.

Future Prospects

Our main focus for 2017/18 is to

- Ensure the changes we made in 2016/17 are embedded
- Improve our governance rating with the HCA
- Finalise our development strategy, with the first few schemes designed and with a planning consent and
- Underpinning our future plans via our funding strategy

Our financial plan has sufficient head room to accommodate both the reinvestment in our existing properties and the development of new properties.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

Risk Management

THCH views risk management as integral to good business practice. The Board accepts its responsibilities for ensuring that major risks to which THCH is exposed are identified and that there are systems to mitigate them. There is a continuous process for identifying, evaluating, and managing the significant risks faced by THCH not all of which are within its control.

The Board has identified the following as principal risks to the organisation:

Risks to income		
Further rent reductions through government rent policy	The government's rent reduction of 1% a year currently extends to 2020. It is unclear as to what regime will apply thereafter	Our business plan projects no increase in income beyond CPI after 2020. Plan has been stress tested and a number of mitigating actions identified
Welfare Benefits Changes	Welfare reform which will reduce the entitlement of our residents to receive benefits is likely to reduce the level of our rent collection and erode our financial health.	Our business plan includes provisions for higher bad debts than current performance. We have invested in software which highlights earlier potential problems to allow us to take action sooner
Housing Market Remains Very Volatile – sales risk	The housing market is very volatile and the full effects of Brexit are as yet not fully understood. This may affect values of properties in future pipeline.	We will be looking at various options to manage this risk and not place our social assets at risk
Risks to expenditure		
Increase in Cost of Providing Pensions & Funding Pensions Deficits	THCH still has a small number of staff in the defined benefit schemes which currently have a large deficit. There is an increasing risk of the loss crystallising as the last THCH member in the LGPS scheme reaches retirement.	THCH now only offers defined contribution pension schemes to new staff. An alternative strategy is currently being explored to defer the crystallisation of the 'last man standing' loss in the LGPS.
Interest Rate Increase / economic uncertainty	The current economic market post Brexit is very unstable and interest rate changes are expected.	THCH has adopted a new treasury strategy and currently has a significant proportion of its debt on fixed interest rates reducing its exposure to changes in the market
ICT not supporting delivery of high quality cost effective services	THCH has historically not optimised the use of its ICT to support the reducing cost base and improve communications with residents. This has resulted in many labour intensive policies and procedures.	We are currently reviewing the usage of our main corporate systems to establish an improvement programme to ensure we are maximising the benefit of our systems both in terms of cost effectiveness and resident engagement

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

Failure to deliver efficiency savings – erosion of operating margin	THCH has been operating at a cost base which is relative high. This coupled with relatively low margins significantly reduced THCH's ability to absorb financial shocks.	We have reduced our staffing complement, and invested in IT to support better management of our stock. Our budget for 2017/18 shows considerable progress against our VFM targets set in September 2016.
Failure to follow development procedures	THCH has been placed on a regulatory G3 as a result of the failure to operate adequate internal controls and in particular for the development process. We are therefore suffering reputational risk in addition to risk of cost overruns, poor appraisals and long term erosion of value.	We have revised our procedures to address the weaknesses noted before. We are currently considering the most appropriate way to structure the development team to deliver our new development programme going forward.
Contract Management	THCH has been placed on a regulatory G3 as a result of the failure to operate adequate internal controls and in particular for contract management. There is a risk to service quality and a financial impact if there is a major contract failure.	We have revised procedures and processes, improving contractor management through post inspection regime and regular review meetings covering KPIs and quality of service
Regulatory		
Failure to comply with the Statutory Health & Safety obligations	Failure to control properly gas safety, fire safety and to manage asbestos in our properties.	Regular checks are carried out and the Board is made aware of the controls to meet our requirements. We have restructured and re-staffed the Asset team and have revised procedures and controls. We have also undertaken an internal audit of all procedures, contracts and controls and carried out the necessary management actions arising from the audit.
Failure to deliver under the Voluntary Undertaking	THCH has been rated G3 by the regulator and has made a voluntary undertaking to improve governance arrangements in order to meet the minimum standards through an agreed plan of action.	We have closely monitored progress against the plan and agreed further actions to provide assurance that changes are truly embedded in THCH

Investment powers and policy

The Board has no specific investment restrictions. THCH has an investment policy and currently only holds funds in the form of cash. Cash balances held are only sufficient to cover short-term requirements. This is supplemented by a revolving credit facility from our main lender. Therefore, with the exception of the subsidiary undertaking, investment in less liquid assets is not considered appropriate at this time.

Value for Money

The HCA's Regulatory Framework includes a specific standard for Value for Money. The standard requires us to

- have a robust approach to making decisions on the use of resources to deliver the provider's objectives, including an understanding of the trade-offs and opportunity costs of its decisions
- understand the return on its assets, and have a strategy for optimising the future returns on assets – including rigorous appraisal of all potential options for improving value for money including the potential benefits in alternative delivery models - measured against the organisation's purpose and objectives
- have performance management and scrutiny functions which are effective at driving and delivering improved value for money performance
- understand the costs and outcomes of delivering specific services and which underlying factors influence these costs and how they do so.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

How we will ensure that we deliver better value for money

We are a charitable housing provider with a strong community ethos that prides itself on its high levels of resident satisfaction, providing a mix of quality, affordable housing and has a proud history of regeneration and of delivering innovative housing developments.

We manage more than 3,000 homes in the western side of Tower Hamlets, covering Spitalfields, Bethnal Green, Stepney, Shadwell and Wapping. The majority of homes were transferred from Tower Hamlets Council in 2000, but THCH has since added a range of commercial and residential properties including properties for private sale, shared ownership and for social rent.

At THCH we are committed to delivering and demonstrating Value for Money in all that we do. The Board takes a lead on this, and has the commitment of the Strategic Management Team and all staff to achieve it. This hasn't always been something that we've been able to demonstrate, however, the roll out of our Fit for the Future programme in 2016/17 has brought Value for Money to the fore of what we do.

In late 2016/17 we introduced three new Corporate Objectives. These are:

- Getting back to good
- Unlocking our potential, and
- Growth for the future

An action plan has been developed to help ensure we meet these objectives going forward and each of the actions has a specific Value for Money target.

We recognise that we have more we can do to fully embed a Value for Money culture at THCH. We have, however, made improvements in 2016/17 and we are embracing changes that will mean we deliver progress in the future. We have extended our sources of benchmarking and adopted the Sector Scorecard. We now benchmark with a peer group of 12 similar London based organisations through Housemark and by comparing ourselves to Placeshapers, a network of more than 100 community based housing organisations.

Our Value for Money Strategy will now involve us in:

- Creating capacity by maximising our income and minimising our cost base where possible.
- Optimising the use of our assets to deliver our Corporate Objectives.
- Prioritising our resources in consultation with our customers.
- Having a culture where our staff strive for an efficient business that delivers services our residents want.

We are regulated by the Homes and Communities Agency which has a standard setting out its requirements in respect of Value for Money. We are determined to meet this current and any future standard and to evidence this to our residents and other stakeholders.

2016/17 Fit For The Future

During 2016/17 we implemented a major transformational programme at THCH, Fit for the Future. This was driven by the need for us to improve areas of our business that had led to our G3 (non compliant) regulatory judgment, including our internal assurance framework.

Importantly, we recognise that, when compared to our peers, our costs were too high. Fit for the Future was aimed at providing a step change so that THCH could reduce costs whilst maintaining good quality services and investing in our homes and our communities.

Actions taken to reduce future costs and increase efficiency in 2016/17 included:

- A restructuring of the staff team resulting in a 15% reduction in staffing levels.
- Closing two area offices and refurbishing the Head Office to accommodate all office based staff.
- Comprehensive reviews of our IT systems to ensure that they are modern and efficient.
- A review of our service offer for residents.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

There have been significant one off costs associated with implementing Fit for the Future, for example redundancy costs and costs to refurbish the Head Office. These one off costs totalled £1.4m. We will realise, based on our 2017/18 budget, ongoing annual savings in excess of £450k as a result of Fit for the Future and recover our investment within the next 3 years.

Our Past Performance

Positive numbers are savings, negative numbers are overspends.

	Value for money target	Target 16/17 £000	Delivered 16/17 £000	RAG*	Evidence	Budgeted/ Target 17/18 £000
1	Reduce cost of housing management provision in salaries and office overheads through the Fit for the Future programme	260	-207	●	Comparison to budget for 16/17	433
2	Increase income generation from commercial units	100	0	●	Comparison to budget in 16/17	30
3	Spend on reactive maintenance to be no greater than 50% total spend on properties - reduce reactive repairs expenditure	522	58	●	Reduction in 17/18 budget compared to 16/17	299
		<50%	44%	●		39%
4	Carry out a stock appraisal programme and review cyclical maintenance profile	160	Nil	●	To be delivered on retendering of contracts in 18/19	160
5	Reduce overheads to no more than 15% turnover by exploring ways of sharing central services	300	65	●	Budget for 16/17	223
6	Review service charges provided to tenants and leaseholders to reduce charges billed by 5%	300	Nil	●	Reduction in charge for 2017/18	£211
7	Modernise service offer to residents to ensure resident satisfaction does not fall	>=84%	84%	●	To be tested in 2017/18	84%

**RAG status uses a simple colour coding to visually highlight the status of each action. Red highlights an overspend, amber is neutral and green highlights a saving.*

The following notes relate to the related numbered actions in the table above:

1. The target was based on delivering a more streamlined staffing structure to support the delivery of our Fit for the Future programme. We were reliant on interim managers for a number of key posts including members of the Senior Management Team during 16/17 which resulted in an over spend against our budget (excluding redundancy costs) in 2016/17. The new structure has meant that we will be delivering services with a £433k reduction in our salary bill when compared to the budget for 15/16.
2. We vacated our two area offices at the end of December 2016 and commenced marketing them as commercial lets in January 2017. We are currently in the process of letting them and estimate that we will secure an increase of £25k in 2017/18 rising in subsequent years to meet our target of £100k.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

3. We recognised that our repairs expenditure was out of line with the sector and what is considered best practice. We took steps in 2016/17 to shift focus on delivering planned maintenance reducing our spend on repairs to less than 50% of total repairs and maintenance expenditure. We achieved our objective of reducing our repairs spend to below 50% of total repairs and maintenance spend. While we achieved the target in terms of proportion of spend we only reduced our repairs expenditure by £58k against budget. We aim to improve on this in 17/18 through a target of 3.5 repair jobs per property in 17/18 increasing the saving to £299k against the budget for 2015/16. We will be looking for the number of repairs per home to fall further to 3 in 18/19. This reduction will be supported by our increased focus on delivering planned maintenance and programmed component replacements (e.g. kitchens, bathrooms, etc.).
4. We commissioned Savills to carry out a stock survey of our properties covering 100% externals and 10% internals. This has allowed us to develop our programme for planned maintenance and look at how we can more efficiently procure planned maintenance. We will be re-procuring these services in 18/19 and do not expect to be able to deliver against this target until re-procurement is completed.
5. We targeted reducing our overheads to 15% of Turnover, which were based on savings of £300k. Despite the additional costs incurred in 2016/17 through using external consultants to support management through the changes required for Fit for the Future we managed to save £65k from our overheads in 2016/17. In budgeting for 2017/18 we identified additional savings bringing the total to £223k when compared to the 2015/16 budget. We are still in the process of embedding the changes in 2017/18 and expect overheads to fall further in 2018/19 when these costs are stripped out.
6. We carried out a review of our method of recharging management and administration of service charges. We simplified our recharges which reduced the overall recharge for administration and management by £211k and provided a more transparent calculation going forward. We are carrying out an estate services review and will consult with residents on services in 2017/18 together with plans to tackle common problems like bulk rubbish.

Comparing Our Performance

Indicator	15/16 year end (Quartile)	16/17 year end (Quartile)	Target for 17/18 (Quartile)	Housemark peer group* - comparative performance 15/16
% of General Needs & Affordable Rent arrears	4.7% (gross) 3.1% (net)	6.0% (gross) 3.6% (net)	<5.5 % (gross) <3.1% (net)	Top Quartile- 3.76% (gross) Median - 4% (gross)
% rent collection	102.5% (Q1)	101% (Q1)	100.5% (Q2)	Top quartile – 100.99% Median 99.91%
Average re-let days	23.8 days Q2	25 days (Q2)	21 days (Q1)	Top quartile - 22.8 days Median - 26.14 days
Empty property rent loss	0.34% Q1	0.30% (Q1)	0.2% (Q1)	Top quartile - 0.54% Median - 0.63%
Emergency repairs completed within target	96%	91%	98%	This indicator is not benchmarked via Housemark
Overall satisfaction with service ("Star" survey)	84%(Q1)	84%(Q1)	84%(Q1)	Top quartile – 84% Median - 81%
Satisfaction with repairs service ("Star" survey)	71%(Q3)	71%(Q3)	75%(Q2)	Top quartile - 77.5% Median - 71.7%

***THCH's Housemark Peer Group consists of 12 other Registered Providers in London with less than 4,000 homes**

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

During 16/17 we made considerable improvement in the content and presentation of performance information to our Board and Committees enabling them to better identify trends and direction of travel against all key indicators. We appointed a Performance & Policy Manager to give this area the focus and robustness that it needed and undertook intense interrogation of operational data to give confidence to our Board that our KPI's were accurate.

There is on-going work in 2017/18 to continue data cleansing and upgrade our business reporting tools. This will provide our Service Heads with more timely information to monitor, analyse and act on performance blockages.

Operational performance fell against most indicators in 16/17. We made significant changes to our operating model in the year as part of our Fit For the Future plans and this impacted on our service levels. We undertook process mapping across all key service areas which has helped identify where improvements could be made to manage these services more efficiently and we will be seeking to deliver this in 17/18. New responsive maintenance contractors started in July 2016 and a performance dip with the outgoing contractor impacted on service in the first half of the year for both repairs and voids. We did establish a more robust approach to contract management, the benefits of which we expect to see realised in 17/18.

Business Health

Our three Corporate Objectives, getting back to good, unlocking our potential and growth for the future, all require us to have a strong underlying business health.

Key to this is our operating surplus from our core business (social housing). The table below shows how we performed in this area in 2016/17. It also compares this to how we performed in the previous two years and how we are forecasting (in our Financial Plan) we will perform in the next two years.

We also want to know how we're performing against other similar organisations and so we have included peer group median performance from Placeshapers and our Housemark benchmarking group for the year 2015/16.

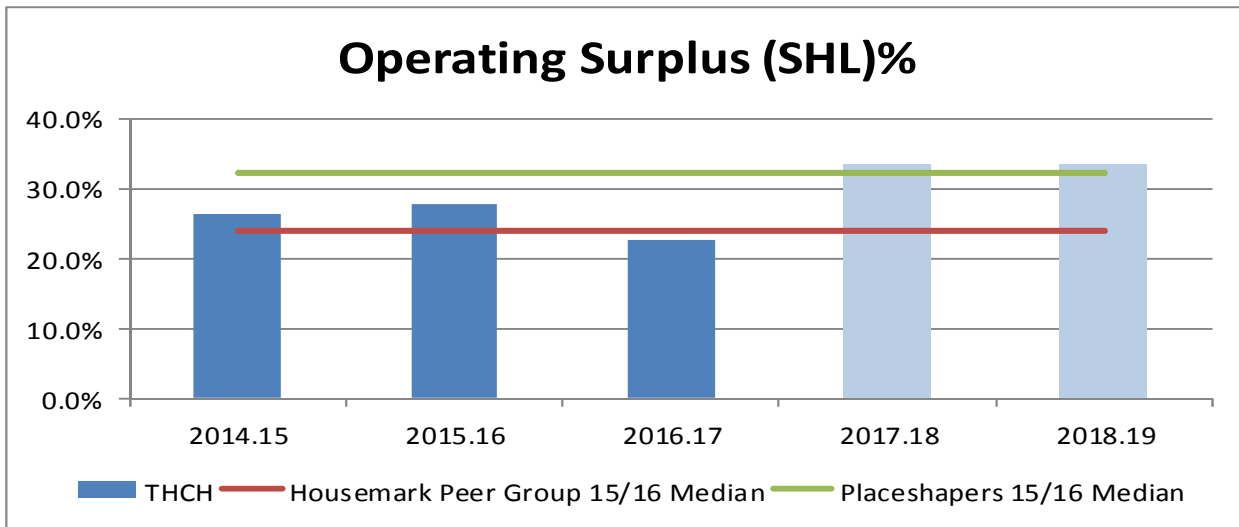
	2014/15	2015/16	2016/17	2017/18	2018/19
Operating Surplus	20.3%	20.0%	23.4%	24.7%	26.4%
Operating Surplus (SHL)%	26.3%	27.7%	23.3%	33.4%	33.4%
EBITDA-MRI	143.5%	188.8%	228.2%	166.6%	156.1%

Operating Margin (SHL) is our Operating Surplus from Social Housing Activity (note 3b).

EBITDA-MRI is our Earning Before Interest Taxation, Depreciation, Amortisation less Major Repairs Investments as a percentage of our interest payable, It is a measure of our ability to meet our loan interest obligations from the cash we generate from our operations.

With a minimum interest covenant target of 110%, THCH is able to withstand a substantial drop in its surplus before any risk of breaching this covenant.

BOARD REPORT AND STRATEGIC REPORT (continued)



Our operating surplus in 2016/17 reduced by 5.1% from the previous year to 22.6%, below both of our benchmark groups. We recognise that the reason why our operating surplus reduced was due to the one off costs associated with our Fit for the Future transformation work.

The Board and Senior Management Team believe that we should have an Operating Surplus (SHL) of 30% which would be above our Housemark peer group and more closely aligned to the Placeshapers group. This is to ensure we have sufficient flexibility in any given year to increase investment in our stock (including financing for new homes) or respond to an unforeseen event

We're projecting an operating surplus in excess of 30% for the next two years, which we consider acceptable. However, we plan to take steps to protect this position by reviewing:

- Our overheads: to identify ways that these could be reduced by £160k. This would reduce our overheads to 15%.
- Our landlord services: to remove, in consultation with tenants, discretionary services. This will include a review of rechargeable repairs and other services such as pest control. We aim to reduce spend by £20k on discretionary services when compared to 2016/17.
- Our rent collection policy: to explore how we can maximise income and reduce rent arrears. We aim to reduce our net rent arrears by 0.5% which equates to £85k.

We also plan to:

- Generate £25k new income in 2017/18 from renting our local offices vacated in 2016/17 and increase this to £100k in 2018/19.
- Reduce the use of interim staff and, in doing so, reduce our spend on salaries by £93k
- Improve our empty property turnaround performance from 25 days to 21 days and reduce rent lost as a result.

EBITDA is a measure of how easily we can meet the cost of interest that we pay to the bank. At the end of 2016/17 this stood at 228% and included property sales. We can comfortably meet our interest costs and the Board and Strategic Management Team believe that there is an opportunity to use some of this capacity to finance the building of new homes. We will hence be considering a Development Strategy during 2017/18.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

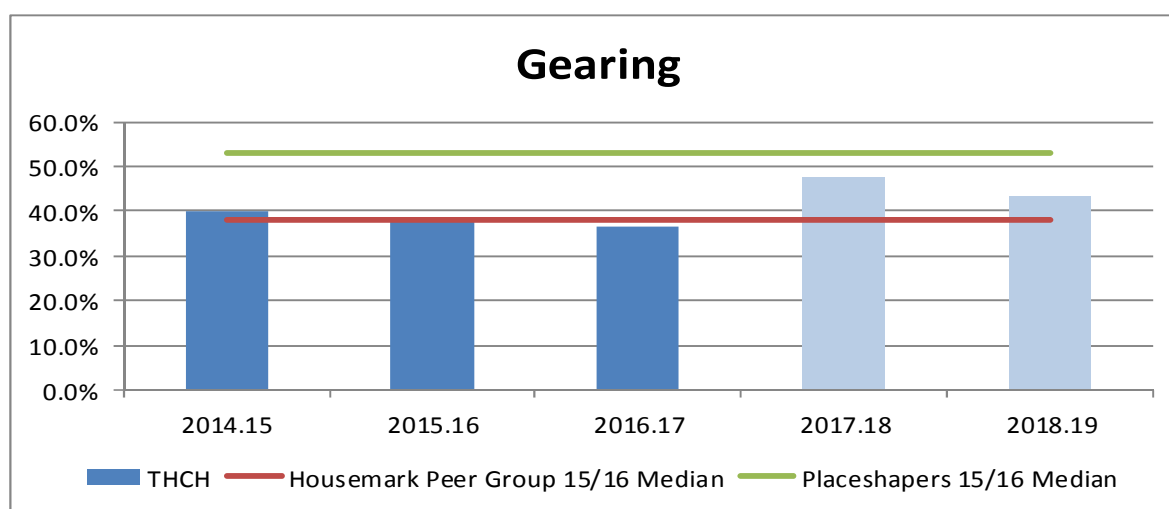
Development Capacity And Growth

THCH has a new Corporate Objective, *Growth for the Future*. An important element of this is to build more homes to replace the ones that we’re losing through the preserved Right to Buy. We also want to build new homes to help meet the very high level of unmet local housing need. Our approach will necessitate more assurance being gained on new developments as our previous failures in this area have exposed the business to unnecessary risk.

Development	2014/15	2015/16	2016/17	2017/18	2018/19
Homes Developed	-	60	27	-	-
Homes Developed as % of Stock	0.0%	1.9%	0.8%	0.0%	0.0%
Gearing	39.9%	38.5%	37.0%	47.4%	43.4%

THCH is well positioned to borrow further funds to meet its future business plan objectives before the minimum gearing covenant target of 60% is reached.

We completed one scheme in 2016/17 which delivered 27 new homes, including 9 affordable homes. We currently have no developments on site so will not be delivering new homes in 2017/18. We are finalising a revised development strategy with the aim of increasing year on year completion to over 100 new homes per annum.



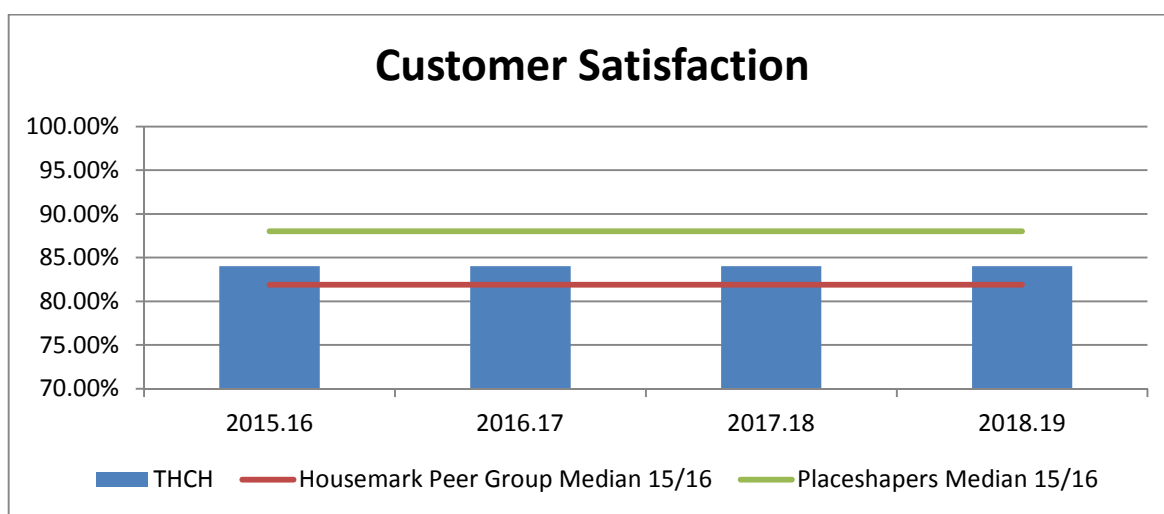
TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

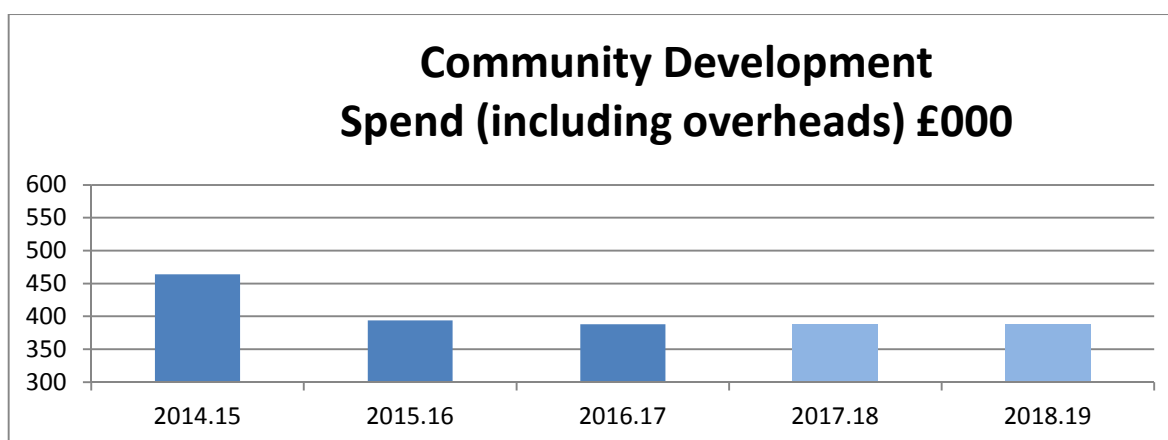
THCH's level of debt relative to the value of our homes (our gearing) is relatively low when compared to our benchmark groups. The graph below shows what we anticipate happening to our gearing if we do build more homes over the next two years. We're content with this increased level of gearing as it means that we'll be "sweating our assets" to build more homes for people in housing need. This will help us achieve our new Corporate Objective and meet our charitable purpose.

Outcomes Delivered

	2014/15	2015/16	2016/17	2017/18	2018/19
Overall customer satisfaction	N/A	84.0%	84.0%	84.0%	84.0%
£ Spent/ £ from Operations					
New Homes	1.77	1.54	.32	1.50	2.36
Community Development	.06	.08	.06	.06	.06



Our overall customer satisfaction level (84%) compared to our peer group (79.7) is relatively high. We will continue to deliver good services with the priority of maintaining the current satisfaction level. We will assess what additional steps would be required to improve satisfaction levels and whether the costs associated with this are justified having regard to our current relatively good performance. We feel that key to this will be increasing satisfaction with our repairs service from 71% in 2016/17 to 75% in 2017/18.



TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

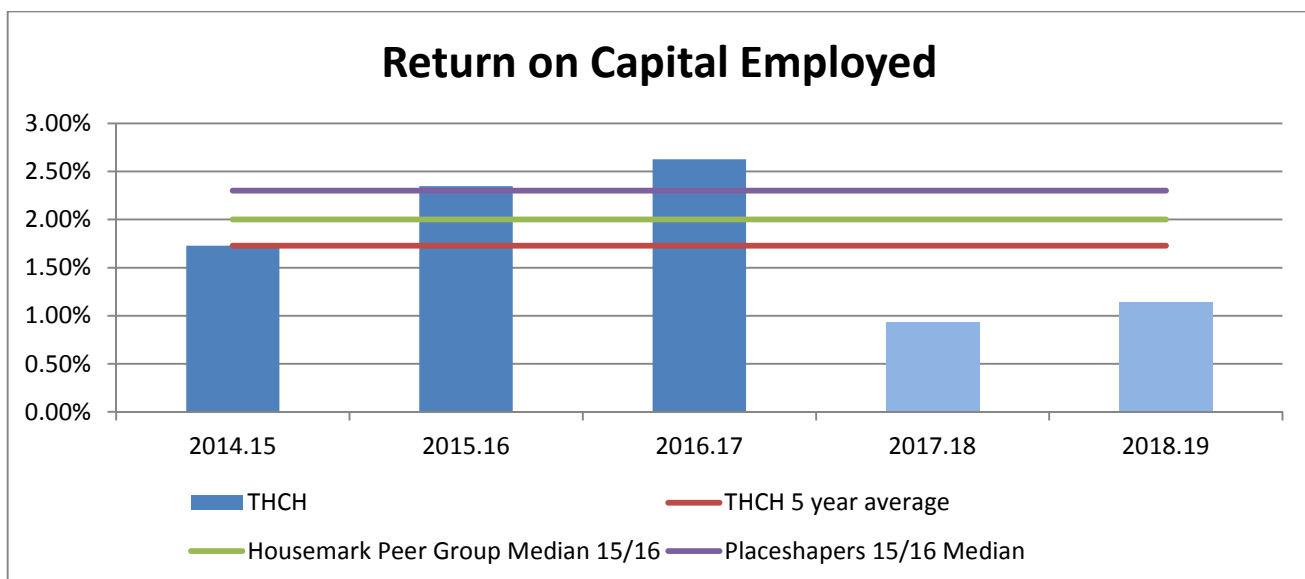
As a community based housing association we see investment in our communities as our core purpose. Whilst we have reduced spend on community development work between 2014 and 2016, we now plan to maintain current investment levels. We are, however, through our new Community Investment Strategy, re-focusing how we spend our resources in this area with more emphasis on outcomes and community led activity. Our investment in community development activity is closely aligned to a strategic priority for our key stakeholder, the London Borough of Tower Hamlets.

Effective Asset Management

In 2016/17 we invested in the Asset Performance Evaluation model to assist us with identifying those properties that are performing poorly either financially or in terms of sustainability. As part of this work we have also identified the benefit THCH provides to our community through rents which are 29% of market rents for the area. Based on a net rent roll of £12.4m this would equate to a public benefit of £30.4m through provision of housing through social and affordable rents.

We currently receive over 50% of our income from housing benefit, consequently the taxpayer benefits through funding lower housing benefit based on our rent levels which are 43% of the Local Housing Allowance (LHA) for Tower Hamlets. Comparing our rent roll to LHA we save over £7.4m in terms of the local housing benefit bill. This will increase in 2017/18 with 1% reduction in rents and assuming no change in the level supported by Housing Benefit.

	2014/15	2015/16	2016/17	2017/18	2018/19
Return on Capital Employed	1.73%	2.35%	2.63%	0.93%	1.14%
Occupancy	99.9%	99.8%	100.0%	100.0%	100.0%
Repairs:Maintenance	92.4%	81.3%	79.0%	63.5%	56.7%



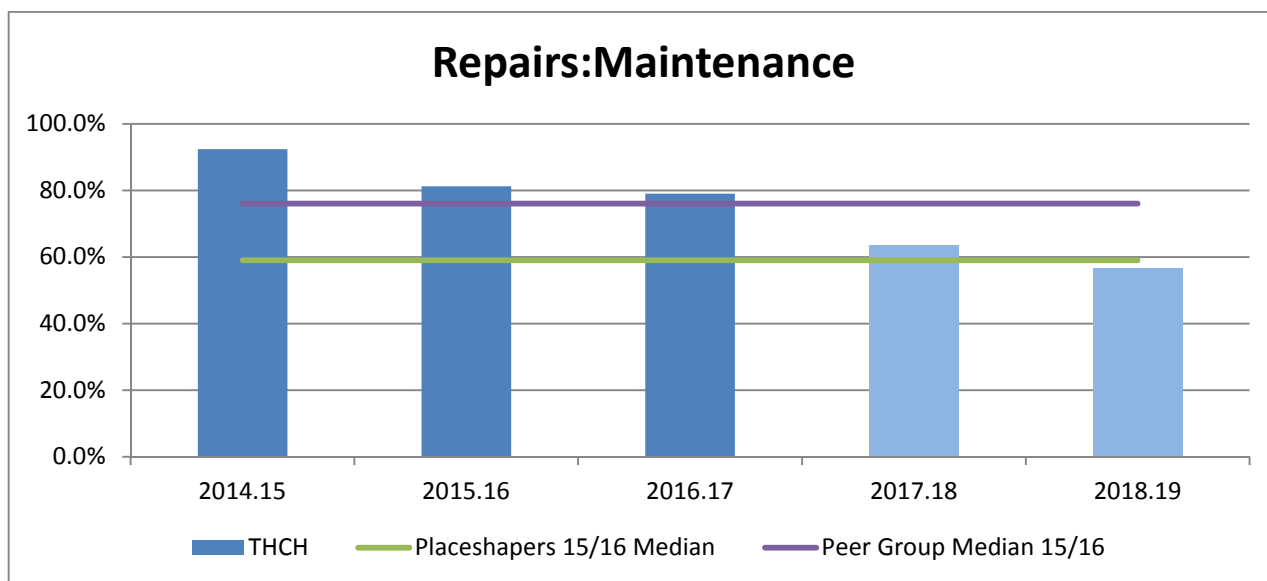
Our Return on Capital Employed (how much money we generated as a percentage of our debt and reserves) is impacted at THCH by the level of outright sales. It was hence high in 2016/17 due to sales income that we received. We intend increasing our ROCE without the need for sales. This is linked to steps we will take to reduce our costs and maximise our income in order to increase our operating margin. So, whilst our ROCE reduces in 2017/18 as we are not assuming any sales income, it increases again in 2018/19.

During 2016/17 we identified sites within our existing asset base that could be used for building new homes. During 2017/18 we will progress at least two schemes on these sites, ensuring we realise their added value for new homes.

The occupancy level of our homes is exceptionally high. We feel it should remain at this level due to the demand for our homes and the need for us to not have properties available to let sitting empty.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)



The repairs and maintenance spend in the table above shows the ratio of how much we spend on responsive repairs compared to planned repairs. We believe that this ratio should be 66% so for every £100 we spend, £40 would be on responsive repairs and £60 on planned. We haven't achieved this in previous years. However, through effective contract management and by driving efficiency through our service delivery model (for example we are exploring the option of consolidating repair contracts) we are seeking to achieve this target in 2017/18.

Operating Efficiencies

	2014/15	2015/16	2016/17	2017/18	2018/19
Headline Social Housing Cost per home	£3.55k	£3.22k	£3.65k	£3.08k	£3.19k
Rent Collected	101.1%	99.9%	99.3%	100.5%	100.5%
Overheads as % of Adjusted Turnover	16.1%	16.7%	18.9%	17.3%	15.8%

The following table provides a breakdown of what makes up our social housing cost per home. The total per home number at the bottom of the table below is the headline number in the above table. Our total cost per home is significantly lower than our Housemark peer group. We recognize, however, that this is for a variety of reasons and believe that there remain opportunities for us to reduce our costs.

We will continue to reduce our total cost per home in the coming two years by reducing our management and repairs costs whilst continuing with similar levels of investment in planned and major works. We believe this will ensure the long term sustainability of our asset base.

	2014/15	2015/16	2016/17	2017/18	2018/19
THCH homes	3,106	3,166	3,193	3,193	3,193
Per home	£000	£000	£000	£000	£000
Management Costs	0.84	0.75	0.80	0.60	0.62
Service Charges	1.12	0.93	1.10	1.01	1.05
Repairs	0.76	0.69	0.77	0.58	0.55
Maintenance	0.66	0.69	0.76	0.67	0.63
Major Repairs	0.16	0.16	0.22	0.24	0.34
Other	-	0.00	-	-	-
Total	3.548	3.220	3.643	3.085	3.188
Housemark Peer group 15/16 Median	N/A	5.940			

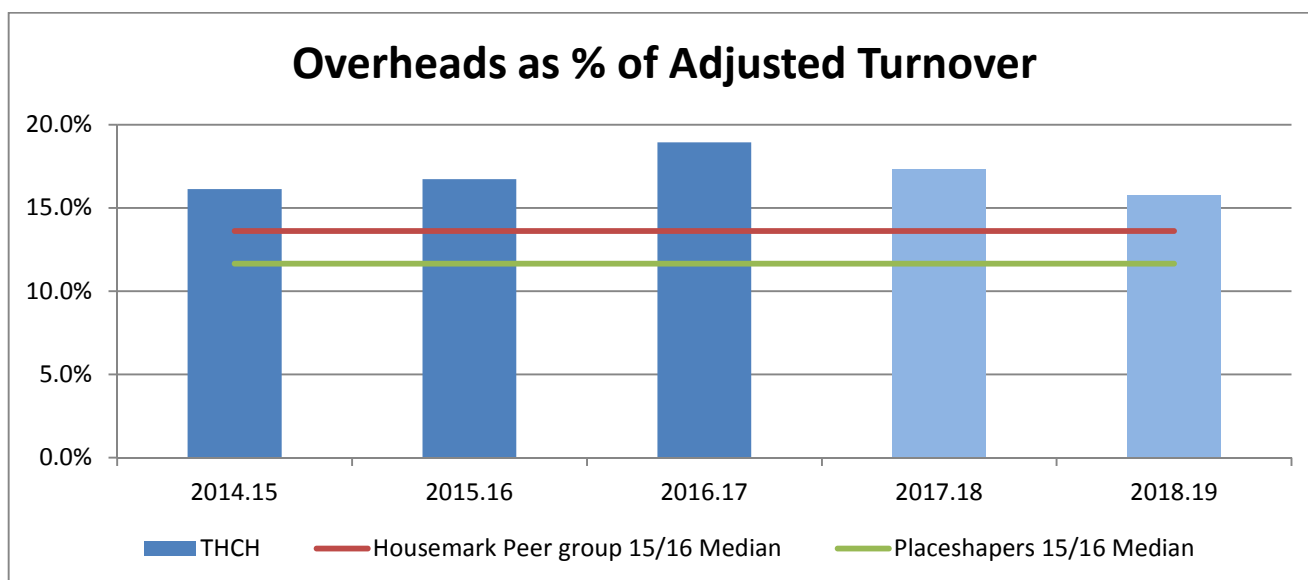
TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

A more detailed comparison with our Housemark peer group shows the following:

	2015.16 £/home	Housemark Peer Group Quartile 2015/16	2016.17 £/home	Housemark Peer Group Quartile 2015/16
Management Costs	745	1	795	1
Service Charges	931	3	1,097	4
Repairs	690	1	772	2
Maintenance	687	4	757	4
Major Repairs	162	1	221	1
Other	4	1	-	1
Total	3,220	1	3,643	1

The table below shows that overheads as a percentage of our turnover have been higher for the past two years compared to our peers and the Placeshapers median. They also increased in 2016/17. We recognize that our overheads increased in 2016/17 due to one off costs associated with our Fit for the Future transformation programme. Despite this, our projected overheads for the next two years remain higher than our benchmark groups. An action in the 2017/18 value for money plan is to seek to find £160k of savings that can be realised in 2018/19.



OUR 2017/18 ACTIONS

Getting Back to Good:

- Review landlord services and, in consultation with tenants, remove discretionary services. This will include a review of rechargeable repairs and other services such as pest control. We aim to reduce spend by £20k on discretionary services when compared to 2016/17.
- Review our rent collection policy to explore how we can maximise income and reduce rent arrears. We aim to reduce our net rent arrears by 0.5% in 2017/18 which equates to £85k.
- Reduce the use of interim staff and, in doing so, reduce our spend on salaries by £93k
- Deliver the value for money targets for each of the Corporate Plan actions under *Getting Back to Good*

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

Unlocking Our Potential

- Review our overheads to identify ways that these could be reduced by £160k. This would reduce our overheads to 15%.
- Generate £25k new income in 2017/18 from renting our local offices vacated in 2016/17 and increase this to £100k in 2018/19.
- Improve our empty property turnaround performance from 25 days in 2016/17 to 21 days in 2017/18 and reduce void loss as a result.
- Increase satisfaction with our repairs service from 71% in 2016/17 to 75% in 2017/18.
- Achieve a ratio of responsive repairs compared to planned repairs of less than 66%
- Continue to instil a value for money culture within the staff team, for example through one to one performance review meetings and celebrating successes through staff briefings
- Deliver the value for money targets for each of the Corporate Plan actions under *Unlocking our Potential*

Growth for the Future

- Progress at least two new development sites from within existing asset base
- Review services provided that are charged to residents via a service charge to ensure that they are good value for residents and that we are charging for all relevant services
- Review, in conjunction with our residents, how we deliver estate services ensuring that we can evidence good value for money
- Deliver the value for money targets for each of the Corporate Plan actions under *Growth for the Future*

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

Financial Review

The group's financial performance over the past five years is summarised below:

	2017	2016	2015	2014**	2013**
Statement of comprehensive income	£'000	£'000	£'000	£'000	£'000
Social housing lettings	17,138	16,693	16,142	15,620	14,938
Non social housing activities	549	480	508	472	602
Housing property sales	8,911	4,647	5,552	5,871	19,607
Gift on stock acquisition	-	-	-	4,002	-
Amortisation of Grant	60	60	-	-	-
Total turnover	26,658	21,880	22,202	25,965	35,147
Operating costs - social housing lettings	(13,929)	(12,719)	(12,213)	(10,934)	(12,610)
Operating costs - non social housing activities	(425)	(138)	(139)	(99)	(125)
Cost of sales	(6,065)	(4,657)	(5,338)	(5,808)	(13,139)
Total operating costs	(20,419)	(17,514)	(17,690)	(16,841)	(25,874)
Operating surplus	6,239	4,366	4,512	9,124	9,273
Gain/(loss) on disposal of property, plant & equipment	1,334	2,616	2,482	1,142	462
Net interest receivable	(3,238)	(2,973)	(4,086)	(3,743)	(3,812)
Taxation	3	-	4	23	(79)
Actuarial (loss)/gain in respect of pension schemes	406	816	(1,122)	94	(614)
Revaluation (loss)/gain on investment properties	2,031	-	-	-	-
Surplus/(deficit) transferred to reserves	6,775	4,825	1,790	6,640	5,230
Statement of financial position					
Housing properties - cost less depreciation	154,245	153,591	155,764	147,811	144,801
Investment properties	7,135	4,420	4,481	-	-
Estate renewal challenge fund	-	-	-	(15,621)	(15,688)
Social housing grant	-	-	-	(29,396)	(29,579)
Other grants	-	-	-	(21,900)	(19,448)
Other property plant and equipment	4,459	4,728	4,643	4,642	5,409
Investments	-	-	-	-	89
Fixed assets	165,839	162,739	164,888	85,536	85,584
Net current assets/(liabilities)	8,762	8,077	3,559	2,255	2,964
Total assets less current liabilities	174,601	170,816	168,447	87,791	88,548
Loans	56,614	59,065	61,524	62,879	71,299
Disposals proceeds fund	1,284	2,204	1,709	922	4
Recycled capital grant fund	933	732	486	195	11
Grants	6,552	5,539	5,306	-	-
Pension scheme liability	2,461	2,912	3,618	1,822	1,900
Total liabilities	67,844	70,452	72,643	65,818	73,214
Total net assets	106,757	100,364	95,804	21,973	15,334
Reserves	106,757	100,364	95,804	21,973	15,334
Social housing properties owned (no)	2,077	2,078	2,039	2,122	2,080
Surplus/(deficit) as % of turnover	25.4%	22.05%	8.06%	25.57%	14.88%
Rent losses (voids & bad debts as % of turnover)	0.15%	0.18%	0.15%	0.17%	0.26%
Rent arrears (arrears as % of turnover)	4.05%	4.94%	4.49%	2.46%	2.41%
Gearing (loans as % of grant and reserves)	49.96%	55.77%	60.85%	70.74%	89.07%
Reserves per social housing properties owned	51,400	48,298	46,986	10,355	7,372
Debt per social housing properties owned	27,258	28,424	30,174	29,632	34,278

**Audited accounts using old UK GAAP

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

Overview

The results for the year ended 31 March 2017 show steady performance with a steady increase in operating profitability. Operating costs and turnover have increased which resulted in operating surplus increasing by 43% to £6.2m (£4.4m 2015/16). The operating profit percentage held steady at 23% (20% 2015/16).

The net surplus for the year before gains/ losses on pension and investment properties was £4.3m (£4.0m 2015/16) which was 16% of turnover and a slight decrease of the 2015/16 percentage of 18% of turnover due to higher operating expenditure and a lower surplus from Right to Buy sales.

The results for the year are stated using the international accounting standards under the Financial Reporting Standard 102 as all registered housing providers are required to report their financial results for 2016/17 following the new Statement of Recommended Practice (SORP) which incorporates the required changes.

Turnover

Turnover has increased by 22% to £26.7m (£21.9m 2015/16), Social housing lettings turnover increased by 3% rent inflation for the year to £17.2m and housing property sales increased by 92% to £8.9m (£4.6m 2015/16) in line with the planned development programme.

Capital Investment

The underlying value of housing assets increased by 0.4% to £154.2m (£153.6m 2015/16) as a result of completed properties. The Board agreed to carry out a once only revaluation of the association's assets as at 1st April 2014 based on the value of future income generated. This is referred to as the 'deemed cost' adjustment for FRS102. The total increase in the value of properties as a result of this revaluation exercise was £17.3m.

Cash Flow and loan finance

The cash flow movements in the year are shown on page 28 of the accounts. Cash balances increased by £9m at the end of the year but loans decreased by £2.5m to £57m as a result of receipts from property sales and a slow down of investment in new housing. In March 2015, the loan facility was refinanced in order to move away from the strictures of the LSVT loan conditions. The current loan funding is provided by a £90m loan facility from Santander UK plc.

Accounting Policies

The association's accounting policies are set out on pages 29 to 34 of the financial statements. 2015 was the first year that the association had reported under the requirements of the new housing SORP which meets the requirements of FRS102 to align our financial reporting with international financial reporting standards. The policies that are most critical to the financial results relate to accounting for housing properties and include capitalisation of costs, the treatment of housing grant and depreciation.

The application of accounting principles requires the use of estimates, assumptions and judgements that may affect reported results, assets and liabilities. As THCH owns most of the properties that it manages, its accounting policies on depreciation are critical to both the level of reported results and carrying value of housing properties in the balance sheet.

As stated under Note 1 to the accounts, housing properties are stated at 'deemed' cost, which is cost as at 1st April 2014 adjusted for inflation less depreciation and less provision for any impairment in value. Freehold housing properties are depreciated on a straight line basis over 100 years. Freehold land is not depreciated. Housing properties in the course of construction are stated at cost less provision for any diminution in value.

CORPORATE RESPONSIBILITY

THCH has a strong tradition of corporate responsibility. From its inception, THCH has had a commitment to quality of service with particular emphasis on the provision of a local service to tenants. Through a schedule of regular meetings at all levels including Board, residents and staff, THCH is able to manage its operations responsibly, identify risks, and ensure that it has the ability to carry out the work required to meet its objectives. While 2016/17 was a year of considerable change, closure of area offices and staff reorganisation, we retained our focus and commitment to delivering quality services to our residents.

Employees

THCH employed 71 (2016: 80) staff during the year (FTE's) and has a stable workforce. THCH has well-established and effective communication arrangements for any significant issues affecting its employees. This includes a monthly staff newsletter, quarterly staff briefings, electronic mail and staff consultations on any major issues. Where necessary, consultation with staff and their union representatives also takes place. Equally, Health and Safety issues are dealt with in a structured way, with professional advice and support being sought wherever in-house resources are limited.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

Pensions

THCH operates two defined benefit schemes. One scheme is the LBTH's pension scheme which is for transfer staff and is closed to new employees. The other is the Social Housing Pension Scheme which is administered by TPT Retirement Solutions. More details about the schemes are given under Note 29 to the accounts.

The Board

There are ten board members on the Board with a nine year limit for individual member tenure. There may be up to 6 resident members, up to 6 independent members and 2 local authority members from LBTH.

The Board is non-executive in its function and is responsible for the overall direction of THCH. The members of the Board are listed on page 1 of the financial statements.

Operational responsibility for THCH is delegated to the Senior Management Team that reports to the Board through the Chief Executive. The Board meets four times a year and is attended by the Senior Management Team.

The Board has a number of committees, which operate within defined terms of reference as follows:

Audit and Risk Committee

This committee meets four times a year and deals with internal and external audit issues and provides a means of detailed review of risk and of internal control activities.

Operations Committee

This committee meets four times a year and reviews management performance against key indicators and the review of existing policies and the establishment of new policies.

Nominations and Remuneration Committee

This committee meets on an ad hoc basis to consider Board and senior executive pay and is responsible for all appointments to the Board and its committees including the appointment of Chair of the Board.

Related party disclosures

One of the directors is a tenant of THCH. Tenancies are on normal commercial terms and the directors cannot use their position to their advantage. One of the directors is a leaseholder of THCH. Leaseholders are on leases which are on normal commercial terms and the directors cannot use their position to their advantage.

One director who served in the year was nominated by LBTH and was a serving councillor. All agency services are covered by an arm's length contract which was negotiated to ensure that neither party subordinated its own separate interests. LBTH pays tenants' housing benefit under the terms of current legislation and most of this is paid directly to THCH.

Compliance with the HCA Governance and Viability Standard

The Board confirms that THCH has not complied with the requirements of the revised Governance and Viability Standard applicable for the year from 1 April 2016. In March 2016 the HCA downgraded THCH's governance rating from G2 to G3 due to continuing non-compliance and in particular due to weaknesses in internal controls and risk management. In 2016/17 we took steps to address the weaknesses as part of our voluntary undertaking. We have completed this undertaking and are now reviewing the controls and risk assurance to ensure that the changes made have been embedded. We are confident that we will be in a position in 2017/18 to get back to G2 (compliant) governance rating and will continue our work to get back to G1.

Compliance with the National Housing Federation's Code of Governance

The Board complies with the principles set out in the National Housing Federation's Code of Governance published in 2015. In matters of risk assessment and systems of internal control, the Board is working with management to ensure that improvements are made to deliver to the standard required.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

Internal controls assurance

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

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable assurance against material misstatement or loss. The process for identifying, evaluating and managing the significant risks faced by the association is on-going and has been in place throughout the period commencing 1 April 2016 up to the date of approval of this board report and financial statements.

Key elements of the control framework include:

- an organisational structure with clearly defined lines of responsibility and delegation of authority;
- standing orders and financial regulations setting out clearly the system of delegation;
- electronic procedure manuals for all staff;
- policies that are regularly reviewed by the Board, supported by detailed procedures designed to ensure proper implementation of policy;
- a risk strategy, supported by detailed risk management action plans, approved by the Board. Our risk strategy is currently under review in order to ensure that it accurately reflects the challenges we are currently facing due to regulatory, economic and political risks;
- a robust strategic business planning process with a supporting detailed budget and financial forecast;
- formal recruitment and development policies for all staff together with a formal appraisal process to manage staff development and performance;
- clear procedures for managing fraud risk across the association. No instances of financial fraud have been identified during the year;
- a programme of regularly reporting to the Board on the Association's financial position, including compliance with loan covenants and requirements for new finance. No instances of non-compliance with covenants have been reported;
- a Board-approved Treasury Management Policy, and an annual Treasury Management Strategy which is reported against on a quarterly basis; and
- Anti-Fraud Policy and Procedures supported by a Whistle blowing Procedure.

The Board has reviewed the effectiveness of the systems of internal control for the year ended 31 March 2017 and up to the date of approving these financial statements. This was substantially achieved by a monitoring process to ensure that there are appropriate control procedures in place for all THCH's financially significant business activities and that these procedures are being followed.

THCH complies with the HCA requirements on fraud. In particular, THCH has a clear Anti-Fraud Policy that was approved by the Board which has been distributed to all staff. The policy is supported by an Anti-Fraud Procedure which meets the latest standards and best practice. THCH Anti-Fraud Policy and Procedures require a register to be maintained of all actual or attempted fraud. All such cases are reported to the Audit Committee and the Board. All cases in excess of £5,000 are reported to the HCA. There has been no case of actual, or attempted, fraud in the last financial year.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND STRATEGIC REPORT (continued)

Statement of responsibilities of the Board for the board report and financial statements

The Board is responsible for preparing the board report and financial statements in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law and registered social housing legislation require the Board to prepare financial statements for each financial period which give a true and fair view of the state of affairs of THCH and of the surplus or deficit of THCH for that period.

In preparing the financial statements the Board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that THCH will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of THCH and its assets and liabilities and to enable them to ensure that the financial statements comply with the Companies Act 2006, and Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2015. It has general responsibility for taking reasonable steps to safeguard the assets of THCH and to prevent and detect fraud and other irregularities.

The Board is responsible for ensuring that the board report is prepared in accordance with the SORP.

Disclosure of information to the auditor

We, the board members who held office at the date of approval of these financial statements as set out above each confirm, so far as we are aware, that:

- There is no relevant audit information of which the company's auditor is unaware; and
- We have taken all steps that we ought to have taken as directors to make ourselves aware of any relevant audit information and to establish that the auditor is aware of that information.
- In approving the Annual report we also approve the Strategic report included therein, in our capacity as company directors.

POST BALANCE SHEET EVENTS

None at this time.

GOING CONCERN

The Board has a reasonable expectation that THCH has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 27th July at 285 Commercial Road, London E1 2PS

PUBLIC BENEFIT REPORTING

During the year ended 31 March 2017, THCH continued to undertake activities which meet its objectives. The Board has complied with its duty to report on public benefit under section 4 of the Charities Act 2011. As a public benefit entity THCH has applied the public benefit entity 'PBE' prefixed paragraphs of FRS102.

Approved by the Board of Management and signed on behalf of the Board

Nick Abbey.
Chair
27 July 2017

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

We have audited the financial statements of Tower Hamlets Community Housing Limited for the year ended 31st March 2017 which comprise the Group and the parent Association's Statements of Comprehensive Income, the Group and the parent Association's Statements of Financial Position, the Group Statement of Cash Flows, the Group and the parent Association's Statements of Changes in Reserves 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 in the UK and Republic of Ireland".

Respective responsibilities of The Board and the auditor

As explained more fully in the Statement of the Board's Responsibilities set out on page 22, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the parent Association's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the parent 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 parent Association and the parent Association's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and parent Association's affairs as at 31st March 2017 and of the Group and parent Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Opinion on the other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Lee Cartwright
(Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
London
E1 2PS

Date:

TOWER HAMLETS COMMUNITY HOUSING LIMITED

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 March 2017

	Notes	GROUP		ASSOCIATION	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Turnover					
Excluding housing property sales		17,747	17,233	17,743	17,371
Housing property sales		8,911	4,647	1,170	4,647
Total turnover	3a	26,658	21,880	18,913	22,018
Cost of sales	3a	(6,065)	(4,657)	(1,139)	(4,657)
Operating expenditure	3a	(14,354)	(12,857)	(14,352)	(12,849)
Operating surplus		6,239	4,366	3,422	4,512
Surplus/(loss) on disposal of property, plant and equipment	9	1,334	2,616	1,334	2,616
Interest receivable	7	6	5	151	232
Exceptional Gift Aid income	10	-	-	2,600	-
Interest and financing costs	8	(3,244)	(2,978)	(3,360)	(3,200)
Surplus before tax		4,335	4,009	4,147	4,160
Taxation	11	3	-	-	-
Surplus for the year		4,338	4,009	4,147	4,160
Actuarial (loss)/gain in respect of pension schemes	29	406	816	406	816
Revaluation (loss)/gain on investment properties	16	2,031	-	2,031	-
Total comprehensive income for the year		6,775	4,825	6,584	4,976

The financial statements were approved by the Board on 27 July 2017 and signed on their behalf by:

N Abbey
(Chair)

Philip Sullivan
(Chief Executive)

TOWER HAMLETS COMMUNITY HOUSING LIMITED

STATEMENT OF FINANCIAL POSITION as at 31 March 2017

	Notes	GROUP		ASSOCIATION	
		2017	2016	2017	2016
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible fixed assets - housing properties	12	154,245	153,591	154,245	153,591
Intangible fixed assets	13	282	205	282	205
Other property, plant and equipment	14	4,177	4,523	4,177	4,523
Investment properties	16	7,135	4,420	7,135	4,420
Investment	17	-	-	11	11
		<u>165,839</u>	<u>162,739</u>	<u>165,850</u>	<u>162,750</u>
CURRENT ASSETS					
Inventories	18,19	1,855	8,568	1,479	2,413
Trade and other debtors	20	2,532	2,304	5,130	8,325
Cash and cash equivalents		10,886	2,120	8,276	2,120
		<u>15,273</u>	<u>12,992</u>	<u>14,885</u>	<u>12,858</u>
CREDITORS: amounts falling due within one year	21	<u>(6,511)</u>	<u>(4,915)</u>	<u>(6,115)</u>	<u>(4,582)</u>
NET CURRENT ASSETS		<u>8,762</u>	<u>8,077</u>	<u>8,770</u>	<u>8,276</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>174,601</u>	<u>170,816</u>	<u>174,620</u>	<u>171,026</u>
CREDITORS: amounts falling due after more than one year	22	(66,206)	(68,445)	(66,206)	(68,445)
Pension scheme liability	29	(1,638)	(2,007)	(1,638)	(2,007)
		<u>(67,844)</u>	<u>(70,452)</u>	<u>(67,844)</u>	<u>(70,452)</u>
TOTAL NET ASSETS		<u>106,757</u>	<u>100,364</u>	<u>106,776</u>	<u>100,574</u>
CAPITAL AND RESERVES					
Non-equity share capital	26	-	-	-	-
Restricted reserves – Mitali fund		89	87	89	87
Income and expenditure reserve		91,289	84,750	91,308	84,960
Revaluation reserve		15,379	15,527	15,379	15,527
TOTAL CAPITAL AND RESERVES		<u>106,757</u>	<u>100,364</u>	<u>106,776</u>	<u>100,574</u>

The financial statements were approved by the Board 27 July 2017 and signed on their behalf by:

N Abbey
(Chair)

Philip Sullivan
(Chief Executive)

TOWER HAMLETS COMMUNITY HOUSING LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES for the year ended 31 March 2017

	Revenue Reserve £'000	Revaluation Reserve £'000	Restricted Reserves £'000	2017 Total £'000	2016 Total £'000
Balance as at 1 April 2016	84,750	15,527	87	100,364	95,804
Surplus/(deficit) from statement of comprehensive income	6,775	-	-	6,775	4,825
Unrealised surplus/(deficit) on revaluation of housing properties	(382)	-	-	(382)	(265)
Transfer from revaluation reserve to revenue reserve	(458)	458	-	-	-
Increased depreciation due to deemed cost uplift	606	(606)	-	-	-
Transfer of restricted expenditure from unrestricted reserve	(2)	-	2	-	-
Balance at 31 March 2017	91,289	15,379	89	106,757	100,364

TOWER HAMLETS COMMUNITY HOUSING LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Net cash generated from operating activities	1	15,464	3,861
Cash flow from investing activities			
Purchase of tangible fixed assets		(4,058)	(1,665)
Proceeds from the sale of tangible fixed assets		2,359	4,560
Grants received		-	-
Interest received		2	5
		<u>(1,701)</u>	<u>2,900</u>
Cash flow from financing activities			
Interest paid		(2,548)	(3,224)
New secured loans		-	3,000
Repayments of borrowings		(2,451)	(5,500)
		<u>(4,999)</u>	<u>(5,724)</u>
Net change in cash and cash equivalents		8,766	1,037
Cash and cash equivalents at beginning of year		2,120	1,083
Cash and cash equivalents at end of the year		<u>10,886</u>	<u>2,120</u>

Note 1

Cash flow from operating activities

Surplus for the year	6,775	4,009
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	2,383	2,576
Decrease/(increase) in stock	5,778	(1,557)
Decrease/(increase) in trade and other debtors	(228)	(523)
Increase/(decrease) in trade and other creditors	1,890	(1,168)
Pension costs less contributions payable	(451)	(755)
Carrying amount of tangible fixed asset disposals	1,157	2,136
Gain/Loss on investment properties	(2,031)	-
Proceeds from the sale of tangible fixed assets	(2,359)	(4,560)
Government grants utilised in the year	-	730
Interest payable	2,552	2,978
Interest received	(2)	(5)
Cash generated from operating activities	<u>15,464</u>	<u>3,861</u>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2017

1 Accounting policies

The following accounting policies are applied consistently in dealing with items which are considered to be material in relation to the accounts of the Group.

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council, the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2015. Tower Hamlets Community Housing Limited (THCH) is a public benefit entity, as defined in FRS102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

Basis of consolidation

THCH is required to prepare group accounts. The group accounts comprise those of the Association together with its subsidiary (THCH New Homes). The group financial statements have been prepared by consolidating the result of the entities which comprise the Group.

Going concern

After reviewing the Group's forecasts and projections, the Board have a reasonable expectation the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Tangible fixed assets - housing properties

Housing properties are stated at deemed cost for assets held at 31 March 2014, the date of transition to FRS 102, less accumulated depreciation and any accumulated impairment losses. Cost includes the cost of acquiring land and buildings, directly attributable development costs and borrowing costs directly attributable to the construction of new housing properties during the development up to the date of practical completion.

Depreciation is charged on a straight line basis, over their useful economic lives. Freehold land is not depreciated.

Major components

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

Structure	100 years
Flat roofs	15 years
Pitched roofs	70 years
Landscaping	50 years
Windows	30 years
Kitchens	20 years
Bathrooms	30 years
Heating systems	30 years
Lifts	20 years
Boilers	15 years

Properties held on long leases are depreciated over their estimated useful economic lives or the lease duration if shorter.

Shared ownership properties developed for sale and freehold land are not depreciated. Housing properties in the course of construction are stated at cost less provision for any diminution in value.

Improvements

Improvements that are expected to provide incremental future benefits to housing properties are capitalised and added to the carrying amount of the property. Works to housing properties which do not replace a component or result in an incremental future benefit are charged as expenditure in the Statement of Comprehensive Income.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2017

1 Accounting policies (continued)

Leaseholders

Where the rights and obligations for improving a housing property reside with the leaseholder, works to improve such properties incurred by the Association is recharged to the leaseholder and recognised as expenditure in the Statement of Comprehensive Income along with the corresponding income from the leaseholder or tenant.

Impairment of social housing properties

Properties held for their social benefit are not held solely for the cash inflows they generate and are held for their service potential.

An assessment is made at each reporting date as to whether an indicator of impairment exists. If such an indicator exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is made. Where the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in the Statement of Comprehensive Income. The recoverable amount of an asset is the higher of its value in use and fair value less costs to sell. Where assets are held for their service potential, value in use is determined by the present value of the asset's remaining service potential plus the net amount expected to be received from its disposal. Depreciated replacement cost is taken as a suitable measurement model.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply.

Intangible assets and other tangible fixed assets

Other property, plant and equipment are included at historic cost less depreciation and provision for impairment. Depreciation is provided on a straight line basis over the useful life shown below:

Computer software	4 years
Computer equipment	3 years
Office furniture and equipment	4 years
Motor vehicles	4 years
Office buildings	50 years
Community centres	50 years

Investment Properties

Investment properties are stated at market value and were last valued by independent surveyors on 31 March 2017.

Changes in valuation are recognised in the Statement of Comprehensive Income.

Social Housing Grant and other Government grants

Government grants

Government grants are accounted for under the accruals model with grants relating to expenditure on tangible fixed assets being credited to the Statement of Comprehensive Income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grant is included in creditors as deferred income. Grants received in relation to assets that are presented at deemed cost at the date of transition have been accounted for using the performance model as required by FRS102. 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.

Government grants are defined as grants received from government agencies such as the Homes and Communities Agency, local authorities, devolved government agencies, health authorities and the European Commission.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2017

1 Accounting policies (continued)

Non-government grants

Grants received from non-government sources are recognised using the performance model. Under the performance model, grants relating to expenditure on tangible fixed assets are credited to the Statement of Comprehensive Income when the future performance condition has been satisfied. Grants received before the future performance condition has been satisfied are recognised as a liability in the Statement of Financial Position. Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

Recycling of grants

On disposal of an asset for which government grant was received, if there is an obligation to repay or recycle, the grant is recognised as a liability in the Statement of Financial Position. If there is no obligation to repay or recycle the grant is recognised as income in the Statement of Comprehensive Income.

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

Finance costs

Finance costs on a mortgage loan financing a development are capitalised up to the date of practical completion of the scheme. Finance costs are allocated to periods over the term of the debt at a constant rate on the carrying amount.

Right to buy properties

The gain or loss on disposal of right to buy housing properties is recognised in the Statement of Comprehensive Income at the date of completion.

Right to acquire properties

THCH is required to credit a Disposal Proceeds Fund with the net proceeds of Right to Acquire property sales. Net proceeds comprise the sales proceeds and grant towards the discount, less permitted deductions. The purpose of the fund is to provide replacement properties for rent, at no greater cost than properties provided through the approved development programme. If unused within a three year period it may be repayable to the HCA with interest. Unused proceeds held within the Disposal Proceeds Fund are disclosed in the Statement of Financial Position within creditors.

Shared ownership properties

Properties developed for shared ownership sale are split between the proportion expected to be sold which is shown as a current asset and the remainder, together with any applicable grant, included in fixed assets. Proceeds from first tranche sales are included within turnover and the related portion of the cost of the asset recognised as operating costs.

Subsequent tranches are dealt with in the same way as other property sales, and shown as a separate item after operating surplus in the Statement of Comprehensive Income.

Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Cyclical maintenance and internal decorations

The costs of repairs, cyclical maintenance and internal decorations are recognised when work is performed.

Operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are recognised as expense in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

1 Accounting policies (Continued)

VAT

Since a large proportion of THCH's income, including its rents, is exempt for VAT purposes whilst the majority of its expenditure is subject to VAT that cannot be reclaimed, expenditure is shown inclusive of irrecoverable VAT. VAT recovered is included within other income.

Capitalisation of interest and development overheads

Interest on loans financing development is capitalised using the weighted average cost of capital when the development is in progress and ceases at the date of practical completion. Development overheads are capitalised to the extent that they are directly attributable to bringing the properties into their intended use and are incremental as a result of the specific scheme.

Turnover

Turnover comprises rental income (net of losses from voids), revenue grants and income from services charges. All income is recognised on a receivable basis. It also includes sales proceeds from first tranche shared ownership sales.

Agencies

The transactions incurred directly by agencies managing THCH's properties are not consolidated in the financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into cash and are subject to an insignificant risk of changes in value.

Restricted Reserves (Mitali Fund)

The restricted reserves relate to the acquisition of 54 homes from Mitali Housing Association. The funds can only be paid to or on behalf of THCH residents. For the first three years, the Fund is limited to residents living in a former Mitali Housing Association property and its use is restricted to employment, education and community cohesion projects only.

Revaluation Reserves

The difference between historical cost depreciation and depreciation charged on the deemed cost balance is transferred from the revaluation reserve to the revenue reserves annually.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets carried at amortised cost

Financial assets carried at amortised cost comprise rent arrears, trade and other receivables and cash and cash equivalents. Financial assets are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

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

A financial asset is derecognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and reward are transferred.

If an arrangement constitutes a financing transaction, the financial asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

1 Accounting policies (Continued)

Financial liabilities carried at amortised cost

These financial liabilities include trade and other payables and interest bearing loans and borrowings.

Non-current debt instruments which meet the necessary conditions in FRS 102, are initially recognised at fair value adjusted for any directly attributable transaction cost and subsequently measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the Statement of Comprehensive Income. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Long term contracts

Turnover from long-term contracts represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only partially been completed at the Statement of Financial Position date, turnover is calculated by reference to the value of work performed to date plus the applicable margin as defined in the contract.

Surpluses are recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the Statement of Comprehensive Income, turnover and related costs as contract activity progresses.

Stocks and work in progress

Costs incurred in respect of the development of properties are accrued and carried forward as work in progress at the lower of cost and net realisable value. Work in progress includes the appropriate element of capitalised interest, financing costs and development overheads.

Taxation

THCH has charitable status and is therefore not subject to Corporation Tax on surpluses derived from charitable activities. Surpluses on non-charitable activities are taxable at UK tax rates. THCH New Homes Limited is not a charitable company and its activities are liable to Corporation Tax.

Gift aid payments

Gift aid payments are charged as distributions of reserves in accordance with the guidance included in the Institute of Chartered Accountants technical release 'Guidance on donations by a company to its parent charity'.

Pension costs

Defined Benefit Schemes:

THCH operates two defined benefit (final salary) contributory pension schemes. One is administered independently by London Borough of Tower Hamlets and the other by The Pensions Trust.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each Statement of Financial Position date.

Multi-employer defined benefit pension scheme – Social Housing Pension Scheme

The Group participates in an industry wide multi-employer defined benefit pension scheme where the scheme assets and liabilities cannot be separately identified for each employer. This is accounted for as a defined contribution scheme as there is insufficient information available to account for the scheme as defined benefit. For this multi-employer scheme, there is a contractual agreement between the scheme and the Group that determines how the deficit will be funded and a liability is recognised in the Statement of Financial Position and the resulting expense in surplus or deficit in the Statement of Comprehensive Income for the present value of the contributions payable that arise from the agreement to the extent that they relate to the deficit.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

1 Accounting policies (Continued)

Local Government Pension Scheme

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

Defined contribution scheme

The Group participates in a defined contribution scheme where the amount charged to surplus or deficit in the Statement of Comprehensive Income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the year end and is carried forward to future periods.

2. Significant management judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The following are management judgements and sources of estimation uncertainty in applying the accounting policies of the Group that have the most significant effect on the amounts recognised in the financial statements.

Impairment of social housing properties

The Group have to make an assessment as to whether an indicator of impairment exists. In making the judgement, management considered the detailed criteria set out in the SORP.

Defined benefit pension scheme

The Group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

3a. Turnover, operating surplus, and surplus before taxation by class of business

GROUP	2017	2017	2017	2016	2016	2016
	Turnover £'000	Costs £'000	Operating surplus £'000	Turnover £'000	Costs £'000	Operating surplus £'000
Social Housing Lettings (Note 3b)	17,198	(13,186)	4,012	16,697	(12,037)	4,660
Development activity	-	(320)	(320)	-	(232)	(232)
Community Development	35	(423)	(388)	56	(450)	(394)
	17,233	(13,929)	3,304	16,753	(12,719)	4,034
Non Social Housing Activities						
Restructure costs	-	(252)	(252)	-	-	-
Commercial rent	514	(173)	341	460	(138)	322
Revenue grant	-	-	-	20	-	20
	17,747	(14,354)	3,393	17,233	12,857	4,376
1 st tranche sales	544	(484)	60	2,319	(2,319)	-
Long term contracts	626	(655)	(29)	2,328	(2,338)	(10)
Housing property sales	7,741	(4,926)	2,815	-	-	-
	8,911	(6,065)	2,846	4,647	(4,657)	(10)
	26,658	(20,419)	6,239	21,880	(17,514)	4,366
ASSOCIATION						
	2017	2017	2017	2016	2016	2016
	Turnover £'000	Costs £'000	Operating surplus £'000	Turnover £'000	Costs £'000	Operating surplus £'000
Social Housing Lettings (Note 3b)	17,194	(13,184)	4,010	16,835	(12,029)	4,806
Development activity	-	(320)	(320)	-	(232)	(232)
Community Development	35	(423)	(388)	56	(450)	(394)
	17,229	(13,927)	3,302	16,891	(12,713)	4,180
Non Social Housing Activities						
Restructure costs	-	(252)	(252)	-	-	-
Commercial rent	514	(173)	341	460	(138)	322
Revenue grant	-	-	-	20	-	20
	17,743	(14,352)	3,391	17,371	(12,849)	4,522
1 st tranche sales	544	(484)	60	2,319	(2,319)	-
Long term contracts	626	(655)	(29)	2,328	(2,338)	(10)
	1,170	(1,138)	31	4,647	(4,657)	(10)
	18,913	(15,491)	3,422	22,018	(17,506)	4,512

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

3b. Income and expenditure from lettings

GROUP	2017 £'000	2017 £'000	2017 £'000	2016 £'000
	General Needs	Shared Ownership	Total	Total
Income from lettings				
Rent receivable net of void loss	12,431	381	12,812	12,583
Non-residential rent receivable	732	-	732	623
Service charges receivable	3,295	95	3,390	3,259
Rents receivable	16,458	476	16,934	16,465
Grants amortised	60	-	60	60
Other housing income	197	7	204	172
Turnover from social housing lettings	16,715	483	17,198	16,697
Expenditure on letting activities				
Management	(2,481)	(75)	(2,556)	(2,359)
Services	(3,400)	(104)	(3,504)	(2,949)
Routine maintenance	(2,484)	-	(2,484)	(2,185)
Programmed repairs	(2,436)	-	(2,436)	(2,176)
Rent losses from bad debts	(130)	-	(130)	(47)
Depreciation of housing properties	(2,010)	(66)	(2,076)	(2,309)
Scheme costs written off	-	-	-	(12)
Total expenditure on lettings	(12,941)	(245)	(13,186)	(12,037)
Operating surplus on social housing lettings	3,774	238	4,012	4,660
Rent losses from voids	39	-	39	48

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

3b. Income and expenditure from lettings (continued)

ASSOCIATION	2017 £'000 General Needs	2017 £'000 Shared Ownership	2017 £'000 Total	2016 £'000 Total
Income from lettings				
Rent receivable net of void loss	12,454	382	12,836	12,582
Non-residential rent receivable	732	-	732	623
Service charges receivable	3,267	95	3,362	3,234
Rents receivable	16,454	477	16,930	16,439
Grants amortised	60	-	60	60
Other housing income	196	7	203	336
Turnover from social housing lettings	16,710	484	17,194	16,835
Expenditure on letting activities				
Management	(2,478)	(75)	(2,553)	(2,350)
Services	(3,401)	(104)	(3,505)	(2,950)
Routine maintenance	(2,484)	-	(2,484)	(2,185)
Programmed repairs	(2,436)	-	(2,436)	(2,176)
Rent losses from bad debts	(130)	-	(130)	(47)
Depreciation of housing properties	(2,010)	(66)	(2,076)	(2,309)
Scheme costs written off	-	-	-	(12)
Total expenditure on lettings	(12,939)	(245)	(13,184)	(12,029)
Operating surplus on social housing lettings	3,771	239	4,010	4,806
Rent losses from voids	39	-	39	48

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

4. Directors' emoluments

The emoluments of the Chief Executive and senior management team were:

	GROUP		ASSOCIATION	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Gross salary	225	211	225	211
Employer's pension contributions	29	48	29	48
Compensation for loss of office	185	-	185	-
	<u>439</u>	<u>259</u>	<u>439</u>	<u>259</u>

In addition to this an amount was paid to Interim Directors in the year ended 31 March 2017 of £342k including VAT.

Board members

Emoluments due to THCH Board members in the year to 31 March 2017 were:

Nick Abbey (Chair)	10	6	10	6
	<u>10</u>	<u>6</u>	<u>10</u>	<u>6</u>

The total expenses reimbursed to the Board not chargeable to United Kingdom income tax was:

	<u>3</u>	<u>-</u>	<u>3</u>	<u>-</u>
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The emoluments of the highest paid director, who was also the Chief Executive, were:

Gross salary (excluding pension contributions)	<u>178</u>	<u>116</u>	<u>178</u>	<u>116</u>
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The Chief Executive is a member of the London Borough of Tower Hamlets pension scheme on standard terms. This is a defined benefit final salary scheme and contributions made on his behalf for the year totalled £25,154 (2016: £41,000).

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

5. Employee information

The total full time equivalent numbers of persons (excluding Board members) employed during the year was:

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	Numbers	Numbers	Numbers	Numbers
Office staff	19	36	19	36
Housing management	31	21	31	21
Handypersons, caretakers and concierge	21	23	21	23
Total number	71	80	71	80

Staff costs (including the Chief Executive, senior management team and temporary staff):

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Wages and salaries	3,467	3,087	3,467	3,087
Social security	247	246	247	246
Pension costs	252	295	252	295
Compensation for loss of office	618	130	618	130
	4,584	3,758	4,584	3,758

6. Remuneration (including compensation for loss of office)

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	Numbers	Numbers	Numbers	Numbers
£60,000 to £69,999	-	4	-	4
£70,000 to £79,999	-	-	-	-
£80,000 to £89,999	1	-	1	-
£90,000 to £99,999	3	2	3	2
£100,000 to £109,999	1	1	1	1
£110,000 to £119,999	1	-	1	-
£120,000 to £129,999	-	-	-	-
£130,000 to £139,999	-	-	-	-
£140,000 to £149,999	-	-	-	-
£150,000 to £159,999	-	1	-	1
£160,000 to £169,999	-	-	-	-
£170,000 to £179,999	1	-	1	-
	7	8	7	8

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

7. Interest receivable

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Bank interest receivable	5	4	4	4
Intercompany interest receivable	-	-	146	227
Leaseholder interest receivable	1	1	1	1
	<u>6</u>	<u>5</u>	<u>151</u>	<u>232</u>

8. Interest and financing costs

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Interest payable	3,283	3,265	3,399	3,487
Amounts capitalised	(116)	(247)	(116)	(247)
Finance costs in pension scheme	70	(50)	70	(50)
Interest on disposal proceeds fund	7	10	7	10
	<u>3,244</u>	<u>2,978</u>	<u>3,360</u>	<u>3,200</u>

9. Surplus from sale of fixed assets

GROUP	2017	2017	2017	2016
	£'000	£'000	£'000	£'000
	Shared Ownership	Other	Total	Total
Proceeds of sale	911	1,593	2,504	4,560
Cost of housing properties sold	(320)	(460)	(780)	(1,462)
Other direct costs of sale	(5)	(409)	(414)	(32)
Depreciation on disposal	6	19	25	27
Transfer to disposal proceeds fund	(1)	-	(1)	(477)
	<u>591</u>	<u>743</u>	<u>1,334</u>	<u>2,616</u>

ASSOCIATION	2017	2017	2017	2016
	£'000	£'000	£'000	£'000
	Shared Ownership	Other	Total	Total
Proceeds of sale	911	1,593	2,504	4,560
Cost of housing properties sold	(320)	(460)	(780)	(1,462)
Other direct costs of sale	(5)	(409)	(414)	(32)
Depreciation on disposal	6	19	25	27
Transfer to disposal proceeds fund	(1)	-	(1)	(477)
	<u>591</u>	<u>743</u>	<u>1,334</u>	<u>2,616</u>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

10. Surplus for the year

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
The surplus for the year is stated after charging/(crediting):				
Depreciation:				
Housing properties	2,064	2,271	2,064	2,271
Other fixed assets	186	245	186	245
Exceptional items:				
Gift aid paid to/(repaid) the Association	-	-	2,600	-
Auditors' remuneration (excluding VAT):				
As auditors	33	45	30	39
Other fees	-	19	-	19
Operating lease charges:				
Office equipment	216	137	216	137

11. Taxation

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
UK Corporation tax credit	-	-	-	-
Surplus on ordinary activities before tax	4,335	4,009	4,147	4,160
Surplus on ordinary activities at standard rate of UK corporation tax of 20% (2016: 20%)	867	842	829	874
Effect of:				
Inter-company trading income	3	32	-	-
Charitable trading exempt from corporation tax	(873)	(874)	(829)	(874)
Gift aid donation carried back	-	-	-	-
Losses carried forward	-	-	-	-
Tax credit for year	3	-	-	-

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

12. Housing properties

GROUP and ASSOCIATION	General Needs In Development £'000	General Needs Completed £'000	Shared Ownership Completed £'000	Freehold Interests £'000	Garages Parking Spaces & Storage Sheds Completed £'000	2017 Total £'000	2016 Total £'000
Cost							
At 1 April 2016	1,172	144,697	9,452	156	2,468	157,945	157,890
Transfer to completed homes	(680)	680	-	-	-	-	-
Additions	775	883	29	-	-	1,687	2,914
Disposals	-	(481)	(321)	-	-	(802)	(1,528)
Abortive costs	-	-	-	-	-	-	(5)
Transfer from/to current assets	810	-	(346)	-	-	464	(1,326)
Transfers from subsidiaries	-	436	899	-	-	1,335	-
At 31 March 2017	2,077	146,215	9,713	156	2,468	160,629	157,945
Depreciation							
At 1 April 2016	-	4,257	87	2	8	4,354	2,127
Charge for year	-	1,993	66	1	4	2,064	2,271
Disposal of components	-	(9)	-	-	-	(9)	(17)
Depreciation on disposal	-	(18)	(7)	-	-	(25)	(27)
At 31 March 2017	-	6,223	146	3	12	6,384	4,354
Net Book Value							
At 31 March 2017	2,077	139,992	9,567	153	2,456	154,245	-
At 31 March 2016	1,172	140,440	9,365	154	2,460	-	153,591

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

12. Housing properties (Continued)

The total amount of interest capitalised at 31 March 2017 was £116,371 (2016:£247,000)

	2017	2016
	£'000	£'000
Costs incurred in the year on existing properties include the following:		
Amounts capitalised – component replacements and void works	706	513
Amounts charged to the Statement of Comprehensive Income	2,179	1,681
	<u>2,885</u>	<u>2,194</u>

13. Intangible Fixed Assets

	Computer Software £'000	2017 Total £'000	2016 Total £'000
Cost			
At 1 April 2016	1,133	1,133	903
Additions	201	201	229
At 31 March 2017	<u>1,334</u>	<u>1,334</u>	<u>1,133</u>
Depreciation			
As 1 April 2016	928	928	821
Charge for the year	124	124	107
At 31 March 2017	<u>1,052</u>	<u>1,052</u>	<u>928</u>
Net book value			
At 31 March 2017	<u>282</u>	<u>282</u>	<u>-</u>
At 31 March 2016	<u>205</u>	<u>-</u>	<u>205</u>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

14. Other Fixed Assets

GROUP and ASSOCIATION	Office Buildings £'000	Community Centres £'000	Computer Equipment £'000	Office Furniture & Equipment £'000	Community Equipment £'000	Motor Vehicles & Estate Equipment £'000	2017 Total £'000	2016 Total £'000
Cost								
At 1 April 2016	2,470	2,000	764	327	50	125	5,736	5,636
Additions	295	-	54	174	-	-	523	99
Reclassification of offices	180	(180)	-	-	-	-	-	-
Movement of offices to investment properties	(710)						(710)	-
At 31 March 2017	2,235	1,820	818	501	50	125	5,549	5,735
Depreciation								
At 1 April 2016	53	54	624	302	-	120	1,153	1,012
Charge for year	32	27	69	54	-	4	186	141
Reclassification of offices	7	(7)	-	-	-	-	-	-
Movement of offices to investment properties	(26)						(26)	-
At 31 March 2017	66	74	693	356	-	124	1,313	1,153
Grants								
At 1 April 2016	-	-	9	-	50	-	59	59
Net book value								
At 31 March 2017	2,169	1,746	116	145	-	1	4,177	-
At 31 March 2016	2,416	1,946	131	25	-	5	-	4,523

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

15. Analysis of accommodation

GROUP and ASSOCIATION

Housing accommodation	Social Rent	Affordable Housing	Shared Ownership	Rented Homes	Leaseholder	Total
At 1 April	1,965	44	69	2,078	1,088	3,166
Additions	2	4	3	9	18	27
RTB/ Staircasing	(7)	-	(3)	(10)	10	-
At 31 March	<u>1,960</u>	<u>48</u>	<u>69</u>	<u>2,077</u>	<u>1,116</u>	<u>3,193</u>

16. Investment properties

GROUP and ASSOCIATION

	2017 £'000	2016 £'000
Opening balance	4,420	4,481
Movement of offices to investment property	684	-
Movement at fair value	2,031	(61)
Investment properties - fair value	<u>7,135</u>	<u>4,420</u>

17. Fixed asset investments

ASSOCIATION

	2017 Total £'000	2016 Total £'000
As at 1 April	11	11
Additions	-	-
As at 31 March	<u>11</u>	<u>11</u>

The company holds 100% of the share capital of the following subsidiary:

Company	Country of incorporation	Shares held	
		Class	%
THCH New Homes Ltd	England	Ordinary	100

The aggregate amount of capital and reserves and the results of the subsidiary for the financial year were as follows:

Principal activity	Capital and reserves as at 31 March 2017 £'000	Profit for the period ended 31 March 2017 £'000
Home development	<u>35</u>	<u>191</u>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

18. Shared Ownership Properties developed for sale

GROUP and ASSOCIATION	2017 In Development £'000	2017 Completed £'000	2017 Total £'000	2016 Total £'000
Properties for sale	1,479	-	1,479	2,413

19. Stock and work in progress

GROUP	2017 £'000	2016 £'000
Housing properties for sale In development	376	6,155

20. Debtors

	GROUP		ASSOCIATION	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Rental debtors	1,080	1,081	1,080	1,081
Less: provision for bad debts	(731)	(666)	(731)	(666)
	349	415	349	415
Leasehold debtors	374	264	374	264
Other debtors	303	250	301	245
Amounts recoverable under long term contracts	181	360	181	360
Amount due from subsidiary undertakings	-	-	2,600	6,026
Prepayments and accrued income	1,325	1,015	1,325	1,015
	2,532	2,304	5,130	8,325

21. Creditors: Amounts falling due within one year

	GROUP		ASSOCIATION	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade creditors	196	269	196	269
Other creditors including other taxes and social security	931	732	931	732
Accruals and deferred income	3,193	2,727	2,797	2,394
Government grants (Note 25)	1,080	1,172	1,080	1,172
Disposal Proceeds Fund (Note 23)	927	4	927	4
Recycled Capital Grant Fund (Note 24)	184	11	184	11
	6,511	4,915	6,115	4,582

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

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

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Housing Loan - Santander	56,614	59,065	56,614	59,065
Disposals proceeds fund (Note 23)	1,284	2,204	1,284	2,204
Recycled capital grant fund (Note 24)	933	732	933	732
Government grants (Note 25)	6,552	5,539	6,552	5,539
SHPS pension provision	823	905	823	905
	<u>66,206</u>	<u>68,445</u>	<u>66,206</u>	<u>68,445</u>

THCH has in place total facilities of £90m with Santander Corporate Banking Services plc. THCH has drawn down £11.5m of this facility at variable rates of interest and £45.07m (£45.5m less £0.37m loan issue costs) of the facility is for fixed periods between 5 and 20 years. The facility includes a revolving credit facility for £18m which ceases to be a revolving facility one month prior to 25 March 2025 (maturity date). The loans are secured on the properties of THCH.

The Social Housing Pension Scheme

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

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

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

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

Deficit contributions

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

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

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

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

The Social Housing Pension Scheme (continued)

Present values of provision

	31 March 2017 £'000	31 March 2016 £'000	31 March 2015 £'000
Present value of provision	823	905	776

Reconciliation of opening and closing provisions

	Period Ending 31 March 2017 £'000	Period Ending 31 March 2016 £'000
Provision at start of period	905	776
Unwinding of the discount factor (interest expense)	17	14
Deficit contribution paid	(120)	(96)
Remeasurements - impact of any change in assumptions	21	(5)
Remeasurements - amendments to the contribution schedule	-	215
Provision at end of period	823	904

Income and expenditure impact

	Period Ending 31 March 2017 £'000	Period Ending 31 March 2016 £'000
Interest expense	17	14
Remeasurements – impact of any change in assumptions	21	(5)
Remeasurements – amendments to the contribution schedule	-	216
Contributions paid in respect of future service*	1,891	2,008
Costs recognised in income and expenditure account	38	32

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes.

Assumptions

	31 March 2017 % per annum	31 March 2016 % per annum	31 March 2015 % per annum
Rate of discount	1.33	2.06	1.92

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

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

23. Disposal proceeds fund

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At 1 April	2,208	1,709	2,208	1,709
Grant recycled	(4)	492	(4)	492
Allowable expenses	-	(3)	-	(3)
Interest accrued	7	10	7	10
At 31 March	<u>2,211</u>	<u>2,208</u>	<u>2,211</u>	<u>2,208</u>

24. Recycled capital grant fund

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At 1 April	743	486	743	486
Grant transferred to fund	374	257	374	257
Allowable expenses	-	-	-	-
Administration allowance	-	-	-	-
At 31 March	<u>1,117</u>	<u>743</u>	<u>1,117</u>	<u>743</u>

25. Deferred income – Government grants

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At 1 April	(6,710)	(6,761)	(6,710)	(6,761)
Grants receivable	(982)	(10)	(982)	(10)
Amortisation to Statement of Comprehensive Income	60	60	60	60
At 31 March	<u>(7,632)</u>	<u>(6,711)</u>	<u>(7,632)</u>	<u>(6,711)</u>
Amortisation within one year	(1,080)	(1,172)	(1,080)	(1,172)
Amortisation after one year	(6,552)	(5,539)	(6,552)	(5,539)

The total amount of grants received before amortisation at the year end is £7.7m

26. Non-equity share capital

THCH is a company limited by guarantee and has no issued share capital. In the event of a winding up the members of the company are liable to subscribe for £1 each to satisfy their guarantee to the company.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

27. Capital commitments

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Capital expenditure contracted for	-	1,936	-	1,702

Group capital expenditure contracted for relates to housing development schemes which are funded by property sales income, grants and the balance by undrawn loan facilities.

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Capital expenditure that has been authorised by the Board but has not yet been contracted for	33,060	-	33,060	-

28. Operating leases

At 31 March 2017 THCH had total operating lease commitments as follows:

	GROUP		ASSOCIATION	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Office equipment				
Due in one year	216	215	216	215
Due between one and five years	354	567	354	567
Due after five years	-	-	-	-
	570	782	570	782

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

29. Pension scheme (continued)

THCH participates in two defined benefit final salary schemes, the London Borough of Tower Hamlets Pension Scheme and the Social Housing Pension Scheme.

Summary of liability:

	2017	2016
	£'000	£'000
LBTH LGPS	1,638	2,008
SHPS	823	904
Total liability	<u>2,461</u>	<u>2,912</u>

The disclosures required by Financial Reporting Standard 17 are as follows:

London Borough of Tower Hamlets Pension Scheme

This fund is a defined benefit scheme administered by the London Borough of Tower Hamlets under regulations governing the Local Government Pension Scheme (LGPS). The fund's assets are held separately from the assets of THCH.

Contributions to the scheme are determined by a qualified actuary on the basis of valuations, using the projected unit method. A full actuarial valuation was carried out at 31 March 2013 and updated to 31 March 2017 by a qualified independent actuary. The major assumptions used by the actuary were as follows:

Assumptions	31 March	31 March
	2017	2016
	%	%
Rate of inflation	2.4	2.2
Rate of salary increases (inflation and promotion)	2.2	3.7
Expected return on assets	3.5	3.5
Discount rate	2.6	3.5

The expected rates of return are summarised as follows:

	31 March	31 March
	2017	2016
	%	%
Equities	3.5	3.5
Bonds	3.5	3.5
Property	3.5	3.5
Cash	3.5	3.5

The fair value of employer assets is summarised as follows:

	2017	2016
	£'000	£'000
Equities	5,742	5,791
Bonds	2,333	1,278
Property	808	937
Cash	90	511
Share of fair value of scheme assets	<u>8,973</u>	<u>8,517</u>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

29. Pension scheme (continued)

The fair value of the above assets and liabilities attributable to Tower Hamlets Community Housing Limited at 31 March was:

	2017	2016
	£'000	£'000
Share of fair value of assets	8,973	8,517
Share of liabilities	(10,611)	(10,525)
Share of scheme deficit	<u>(1,638)</u>	<u>(2,008)</u>

The amounts recognised in the financial statements are as follows:

Recognition in the income and expenditure account	2017	2016
	£'000	£'000
Current service cost	106	198
Expected return on pension scheme assets	(297)	(412)
Interest cost on pension scheme liabilities	367	362
Total	<u>176</u>	<u>148</u>

Reconciliation of defined benefit obligation	2017	2016
	£'000	£'000
Opening defined benefit obligation	10,525	11,269
Interest cost	367	362
Current service cost	106	198
Contributions by members	-	51
Actuarial loss/gain	(210)	(1,202)
Estimated benefits paid	(208)	(204)
Losses/(gains) on curtailments	31	51
Share of scheme liabilities	<u>10,611</u>	<u>10,525</u>

Reconciliation of fair value of employer assets	2017	2016
	£'000	£'000
Opening fair value of employer assets	8,517	8,427
Expected return on assets	297	412
Contributions by members	31	51
Contributions by the employer	140	217
Actuarial gain/(losses)	196	(386)
Benefits paid	(208)	(204)
Share of scheme assets	<u>8,973</u>	<u>8,517</u>

Amounts for the current and previous accounting periods	2017	2016
	£'000	£'000
Fair value of employer assets	8,973	8,517
Present value of defined benefit obligation	(10,611)	(10,525)
Deficit	<u>(1,638)</u>	<u>(2,008)</u>
Experience gains/(losses) on assets	196	(386)
Experience (losses)/gains on liabilities	1,751	87

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

29. Pension scheme (continued)

London Borough of Tower Hamlets Pension Scheme (continued)

	Assets	Obligations	Net (liability)/
	£(000)	£(000)	asset
			£(000)
Fair Value of employer assets	8,517	-	8,517
Present value of funded liabilities	-	10,525	(10,525)
Present value of unfunded liabilities	-	-	-
Opening position as at 31 March 2016	8,517	10,525	(2,008)
Service Cost			
Current service cost*		106	(106)
Past service cost(including curtailments)		-	-
Effect of settlements	-	-	-
Total Service Cost	-	106	(106)
Net Interest			
Interest income on plan assets	297		297
Interest cost on defined benefit obligation		367	(367)
Impact of asset ceiling on net interest	-	-	-
Total net interest	297	367	(70)
Total defined benefit cost recognised in Profit or (Loss)	297	473	(176)
Cashflows			
Plan participants' contributions	31	31	-
Employer contributions	140	-	140
Contributions in respect of unfunded benefits	-	-	-
Benefits paid	(208)	(208)	-
Unfunded benefits paid	-	-	-
Expected closing position	8,777	10,821	(2,044)
Remeasurements			
Changes in demographic assumptions	-	(143)	143
Changes in financial assumptions	-	1,684	(1,684)
Other experience	-	(1,751)	1,751
Return on assets amounts included in net interest	196	-	196
Changes in asset ceiling	-	-	-
Total remeasurements recognised in Other Comprehensive Income (OCI)	196	(210)	406
Exchange differences	-	-	-
Effect of business combinations and disposals	-	-	-
Fair Value of employer assets	8,973	-	8,973
Present value of funded liabilities	-	10,611	(10,611)
Present value of unfunded liabilities	-	-	-
Closing position as at 31 March 2017	8,973	10,611	(1,638)

*The current service cost includes an allowance for administration expenses of 0.6% of payroll

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017 (Continued)

30. Financial instruments

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

	GROUP		ASSOCIATION	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Financial assets				
Cash	10,886	2,120	8,276	2,120
Measured at undiscounted amount receivable:				
Rent arrears and other debtors net of bad debt provision (see note 20)	349	415	349	415
Amounts due from related undertakings (see note 18)	-	-	2,600	6,026
	<u>11,235</u>	<u>2,535</u>	<u>11,225</u>	<u>8,561</u>
Financial liabilities				
Measured at amortised cost				
Loans payable (see note 22)	56,614	59,065	56,614	59,065
Measured at undiscounted amount payable				
Trade and other creditors (see note 21)	1,127	1,001	1,127	1,001
	<u>57,741</u>	<u>60,066</u>	<u>57,741</u>	<u>60,066</u>

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	2017 £'000	2016 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	6	5
Total interest expense for financial liabilities at amortised cost	3,283	3,265

31. Subsidiary undertakings

On 20 March 2007, THCH formed a commercial subsidiary company, THCH New Homes Limited, in which THCH holds a 100% shareholding interest. The main purpose of the company is to undertake market sale developments. The company's transactions with third parties are included in the group accounts.

THCH New Homes Limited is registered with Companies House under Number 6171492.

32. Related party transactions

During the year THCH provided loans of £210,000 (2016: £2,472,000) to THCH New Homes Limited and charged £23,039 (2016: £164,000) for services provided. THCH New Homes Limited repaid all loans to THCH to the amount of £210,000 during the year.

At the end of the year, the amount owed by the company to THCH was £2,600,000 (2016: £6,026,000).

THCH will continue to support THCH New Homes Limited by funding its capital commitments.

During the year, THCH New Homes Limited recorded a Gift Aid donation of £2,600,000 to THCH (2016: £nil). The Board has authorised this payment which is to be made by December 2017.