

ARCHES HOUSING LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

REGISTERED NUMBER: 21451R

Arches Housing Limited

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Arches Housing Limited
The Board, Executives and Advisors at 27 June 2016

Board of Management

Kay Dickinson – Chair	(appointed as Chair 26 September 2016)
Dennis Creaghan - Chair	(resigned 26 September 2016)
Tony Jervis – Deputy Chair	(appointed Deputy Chair 26 September 2016)
Anne Hawkins – Chair of Audit & Risk Committee	(resigned 24 April 2017)
Brian Thomas – Tenant	(resigned 19 April 2017)
Christine Woods - Tenant	(co-opted 23 January 2017)
Iain Campbell	
Shamsa Latif	
Ken Torres	
Andrew Liles	(co-opted 23 January 2017)
Mohammed Jamil	(co-opted 23 January 2017)

Secretary and registered office

B Summerson
122 Burngreave Road
Sheffield
S3 9DE

Auditor

Mazars LLP
45 Church Street
Birmingham
B3 2RT

Solicitors

Taylor & Emmet
20 Arundel Gate
Sheffield
S1 2PP

Bankers

Co-operative Bank plc
84-86 West Street
Sheffield
S1 3SX

Arches Housing Limited

Strategic Report

During the year Arches' Board and staff have worked hard to review and re-affirm the organisation's mission, vision, values and strategic priorities:

An organisation with a business head and a social heart

Arches exists to bring affordable homes to diverse communities across the Sheffield City Region, contributing to people's wellbeing by providing safe, secure, warm homes that meet their needs.

Our Strategic Priorities:

Putting customers at the heart of what we do.

- Designing services around our customers.
- Involving residents in key decisions that affect them.
- Responding to evolving expectations.
- Being sensitive to the different needs of our diverse client base.
- Ensuring there is effective 2-way communication.
- Doing what we say and getting things right first time.

Providing homes that people want to live in.

- Understanding what people want from their homes.
- Investing in maintaining and improving our homes to agreed standards.
- Letting homes to tenants who want to live there.
- Working with our residents to ensure we have sustainable tenancies.
- Completing repairs and maintenance work promptly and getting it right first time.
- Contributing to local partnership working to improve neighbourhoods.

Playing our part in increasing the number of affordable homes in the Sheffield City Region.

- Taking advantage of local and national initiatives and programmes.
- Developing strong partnerships which help to secure development opportunities.
- Making the most of opportunities by taking a flexible approach.

Maintaining a sustainable and balanced business model

- Maximising the potential of our assets so that we make a surplus, to reinvest in existing and new homes.
- Ensuring VFM is at the forefront of our decision-making.
- Making the most of our resources, without taking unnecessary risks.
- Making sure we collect all the money due to us.
- Understanding our costs and how they compare with others.
- Continually looking for more efficient ways of doing things.

Being a well-run organisation

- Having a strong Board and leadership team.
- Making Arches a great place to work.
- Embedding sound governance and business processes.
- Being 'risk aware'.

Our Values:

Innovation - we challenge ourselves to do things better, thinking outside of the box to bring better outcomes for our customers;

Integrity - We work in a professional and ethical manner;

Customers - At the heart of Arches and all we do;

Empathy - We care and plan for the needs of our diverse staff and customer base;

Responsibility - We take our commitments seriously, providing value services and delivering on our promises;

Passion - We are driven by our shared personal beliefs and commitment to the provision of quality affordable housing.

Arches Housing Limited

Strategic Report

Business Model

Arches is a relatively small, traditional housing association in today's housing market terms, though officially "large" by HCA classification. Historically positioned as a specialist Black and Minority Ethnic (BME) provider we have grown over the years organically and our plan is to continue to grow and develop in this way. We aim to drive performance in order to generate surpluses that can be reinvested into both improving our existing homes and increasing the numbers of new homes we are able to provide.

The year has been one of reflection, renewal and building for the future - we gained a new Chair and Vice Chair who together have led Arches through a structured process of building a robust corporate infrastructure, from our less formal, but successful beginnings. The achievements of the year include:

- Reviewing and refreshing Board level Governance arrangements;
- Creating and appointing to a new Executive Leadership Team, ensuring continuity for the future;
- Refreshing our guiding principles;
- Restructuring Corporate roles into a cohesive Corporate Services function, able to support the association in its plans for the future;
- Taking the first steps into a strategic partnership with other registered providers for the provision of gas servicing, associated repairs and out of hours call, to improve value for money;
- Reviewing a number of key business processes and beginning the task of collecting more robust and complete information on which to build sound business investment decisions;
- Formulation of an aspirational asset standard for Arches' homes.

Summary Results

Statement of Comprehensive Income (£'m)	2016/17	2015/16
Turnover	5.9	6.1
Operating Surplus	2.2	1.9
Surplus for the year before taxation	1.5	1.2

Statement of Financial Position (£'m)	2016/17	2015/16
Fixed Assets	53.7	51.3
Net Current Assets	(0.1)	2.1
Long term creditors - debt	18.9	19.4
Long term creditors - grant	24.0	24.8
Long term creditors - pension deficit	0.5	0.6
Reserves	10.1	8.7

Accommodation (units)	2016/17	2015/16
Total owned and managed	1,156	1,137

Ratios (%)	2016/17	2015/16
Operating Margin (excluding sales)	36.6	31.8
Interest Cover	327.0	314.0
Gearing*	41.6	44.0

**This gearing ratio is the total loans repayable as a % of our tangible net worth. Tangible net worth in this case is the public sector grant on our balance sheet and our capital and reserves.*

Despite reduced turnover in 2016/17 (£0.2m reduction), we increased our annual surplus (by £0.3m) and our holding of fixed assets (by £2.4m), increasing our homes by a net of 19 properties.

The reduction in turnover from the previous year was largely a result of reduced sales of Shared Ownership initial tranches (£0.2m), where we made two sales in 2016/17 as opposed to six in 2015/16. The 1% rent reduction on social rented housing rents was overshadowed by increases from newly developed properties (the full year impact of 28 properties that came into management in 2015/16, as well as 28 conversions to affordable rents as a part of that year's development programme and the

Arches Housing Limited Strategic Report

part year impact of 18 properties that came into management during 2016/17), as well as increases to shared ownership rents.

Operating expenditure for the year reduced by £0.4m from 2015/16, this was mainly due to book adjustments, with 2015/16 carrying an additional charge of £0.2m for the 2014 tri-annual pension fund revaluation and £0.1m for impairment due to FRS102 changes.

Cash flow

Cash has reduced by £0.7m from £0.8m at 31st March 2016 to £0.1m at 31st March 17. This is a result of positive operating cash flows of £3.0m, capital spend of £3.9m and £0.2m from financing activities.

Capital Structure and Treasury Policy

During the year Arches' Board reviewed and revised the approach to appraising major investment in new housing stock and created a series of "Golden rules", the key one for treasury being that we should aim to have sufficient funding in place to cover all committed developments for the next 18-24 months. At the same time, the Board decided to pause its decision-making on new schemes whilst a stock condition survey could be instructed to provide information in terms of the investment required in existing stock. In addition, as a part of investing in the Corporate infrastructure, we are looking to engage a retained treasury advisory service to help us make informed decisions and to review our Treasury Policy and Strategy to take advantage of current market trends and achieve best value.

As at 31st March 2017 Arches had total borrowings of £19.4m (£19.8m in 2016), with all facilities fully drawn. This is sufficient to finance all of our committed development schemes to conclusion.

Once the results of the stock condition survey are known in July 2017, the balance between reinvestment in current homes and developing new ones will be determined along with the Treasury strategy to support this.

Loan Covenant Compliance

The Association's loan covenants primarily consist of interest cover and gearing. All covenants within the year have been met. Covenants are monitored monthly and also through the long term financial plan. The plan shows that we are able to operate within our covenants under a number of scenarios.

Going Concern

Arches is affected by uncertainty from the regulatory environment, government policy, and economic factors. These include a 1% reduction in social rents each year until and including 2019/20, the impact of Brexit, welfare reform and potential inflationary pressures on costs. Despite all of this, the Association continues to deliver growth in annual surpluses and our long term financial plan aims to address these factors and retain headroom to deal with negative impacts as they hit. Stress testing of the financial plan informs us of the combination of factors that could present extreme circumstances for the Association and our risk management activities provide a thorough review of all of our strategic risks (including financial ones) and prepares us to mitigate the impact should they occur.

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

Investing in the future

During the coming year we intend to continue developing our corporate infrastructure so we can clarify our strategic capabilities and put in place a clear and specific plan for delivery. Activities planned include:

- A full review of our Governance arrangements and their documentation, as well as implementation of a clear scheme of delegations via a new Standing Orders document;
- A full stock condition survey against our new Arches' Home Standard, so that we can determine the speed at which we can deliver fully against this aspirational standard;

Arches Housing Limited Strategic Report

- Implementation of the Insight asset performance tool, so that we can make evidence based decisions on the best strategies to employ in the management of different segments of our stock;
- Compilation and submission of a bid for the Homes and Communities Agency's (HCA) Shared Ownership and Affordable Housing Programme (SOAHP) 2016/21 funding;
- Assessment of the performance of the Northern Shared Services cost sharing arrangement in delivering value for money in our gas services and the potential to roll this arrangement out to the rest of our responsive maintenance services;
- Re-structure of the front-line teams to more robustly support the delivery of our new strategic priorities and completion of the recruitment to the new Corporate Services team structure;
- Implementation of the Covalent Performance and Risk management software to strength both business performance management arrangements and assurance to the Board.

Our aim is to play our part, proportionately in the delivery of new homes in the Sheffield City Region, as well as ensuring services to existing tenants meet our standards of provision.

Key Performance Indicators

Key operational performance indicators that we use to monitor delivery of our aspirations are:

Key Performance Indicators	2016/17	2015/16
Rent Collected (%)	100.6	99.2
Current Arrears (%)	2.9	4.0
Former Arrears (%)	0.7	1.0
Void Rent Loss (%)	0.4	0.5
Average re-let times (days)	19.1	20.0

As can be seen, our performance improved in all areas in 2016/17. We are further strengthening and improving our approach to performance reporting and also introducing regular monthly surveys of customer satisfaction, sampling 50 residents each month. This is still in its infancy, but the first 100 residents surveyed reported overall satisfaction levels of 78%, an improvement from the last full survey result of 76%, which was carried out in 2014.

Value for Money

We aim to embed the principles of Value for Money in all of our processes and over the last few years the association has set specific challenging targets for cash releasing gains. The board recognises the importance of utilising our assets and reducing social housing costs to improve returns in order to help us to maximise our investment in new affordable homes and to invest in our existing stock.

Return on Assets

In recent years we have focussed on investing in new stock and our performance has been well above the 2% per annum target that we set.

Homes added to our portfolio:

<u>Year</u>	<u>New Homes Added</u>	<u>New Homes % of existing stock</u>
2011-2012	25	2.6%
2012-2013	19	1.9%
2013-2014	111	11.1%
2014-2015	10	0.8%
2015-2016	32	2.8%
2016-2017	26	2.3%

During 2016/17 we took the strategic decision to preserve surpluses achieved to date, progressing only with development schemes where commitments had already been made. At the same time we:

- Reviewed and revised the assumptions and criteria used to appraise major capital schemes to ensure that management and Board were fully sighted on the financial and value for money impact of significant investment decisions;

Arches Housing Limited Strategic Report

- Commissioned a 100% stock condition survey on our homes, to be carried out against our newly developed Arches Home Standard;
- Began implementing the Insight Asset Performance Model.

This work will be concluded during the coming financial year and we will then be able to determine the balance between investing our surpluses in the improvement of existing homes and the development of new social housing.

The new homes we built last year will yield rents of £120,000 giving a return on investment of 4.7% which is higher than the current deposit interest of less than 1%.

Cash releasing savings initiatives undertaken during the year

In 2016-17 we set ourselves a number of cost saving targets, as outlined below:

	Target £'000	Achievement £'000	Note
Staff benefit reductions	37	33	1
Staff reduction	11	14	
Savings in gas servicing	10	(3)	2
Reduction in telephone calls and charges	7	5	
Reducing court costs	7	1	3
Assisted gardening scheme	2	4	
Changes in tenant participation	2	7	4
Stopping office cash collection	2	1	
Void maintenance spend reduction	25	26	
Void Rent loss	3	2	
	106	90	

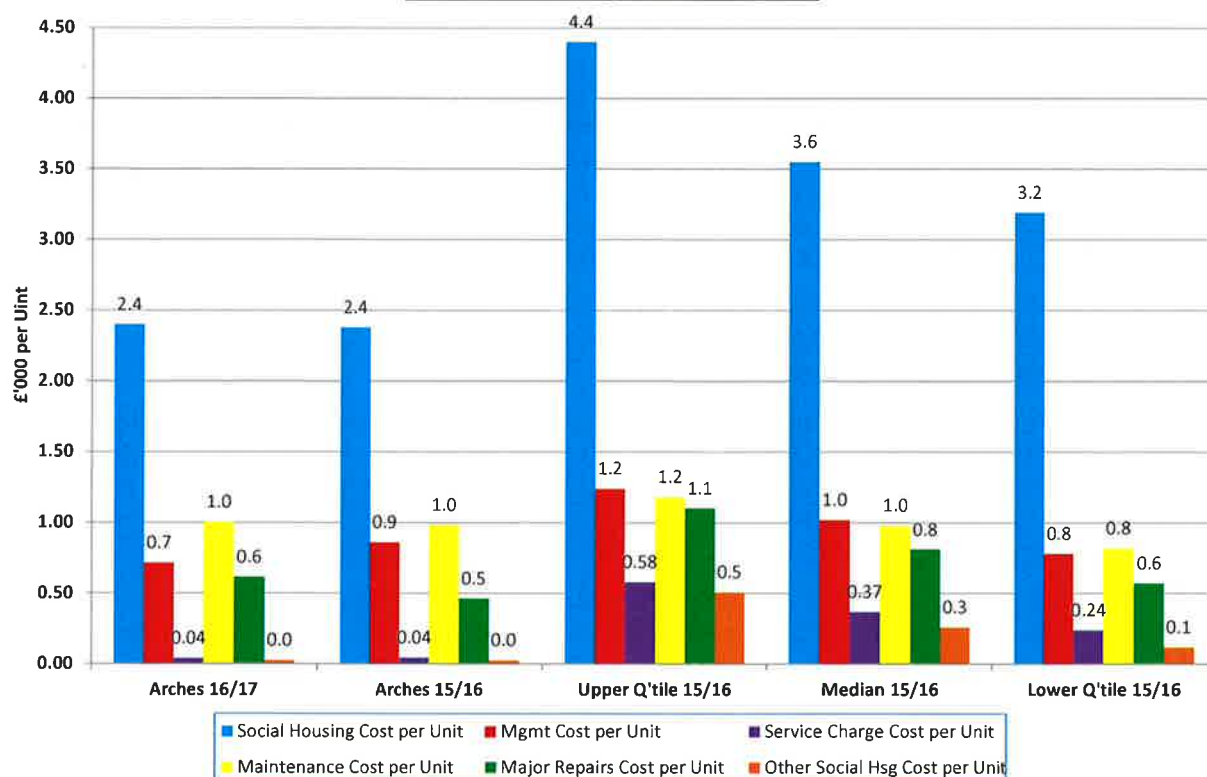
Notes

1. The target was slightly missed because new members of staff joined who were entitled to the reduced value nursery vouchers and the training saving reduction proved too severe;
2. The savings anticipated from entering into the cost sharing arrangement with Northern Shared Services have not yet materialised, this is because the service levels delivered under this arrangement are in excess of previous levels demanded – further work will take place on this in the coming year;
3. It was hoped that changes to internal processes would result in far less referrals to court for current tenants in arrears, however the cost per application increased by 30% unexpectedly and the number of referrals did not reduce as much as expected;
4. Greater savings than originally anticipated were achieved by means of moving more publications to email, rather than printing and posting them.

Unit Cost Analysis

In June 2016 the HCA launched its 2014/15 unit cost analysis of Registered Providers and updated these again in February 2017 as a part of the Global Accounts for the sector. The regulator has stated that it regards a focus on the delivery of VfM as a leading indicator of good governance and that Boards should have a good understanding of their unit costs. The following graph outlines Arches' 2016/17 unit costs in the context of 2015/16 sector comparatives (these are generally not collated until the spring of year following the close of Arches' accounts):

Social Housing Cost Per Unit



From this it should be noted that Arches' results overall (and in all but maintenance costs) are in the lowest quartile of results for the sector, with maintenance costs sitting on the sector median. A significant achievement during the year is the reduction in management costs per unit from £900 per unit to £700 per unit between 2015/16 and 2016/17, in what has been a year of significant change and investment in the corporate infrastructure. These savings have been reinvested into major repairs on our homes, with a specific drive on increasing the number of homes with showers in their bathrooms.

During the year the NHF and a group of Registered Providers formed an Efficiency Working Group and formulated a set of 15 measures split across five categories: business health, development (capacity and supply), outcomes delivered, effective asset management, and operating efficiencies, which have been carefully chosen to build a meaningful picture of associations. Arches have volunteered to pilot these measures (known as the Sector Scorecard) and during the coming year will be taking part in the National pilot exercise. The HCA have indicated they will be revising their approach to regulating on VFM by reference to these measures and therefore our analysis of value for money in future statements is likely to be changing along these lines.

2017-18 Targets

Whilst we will continue to focus on cost reductions and greater efficiency of internal processes, we have not set specific cost reduction targets for the coming year. This is because we intend during the year to have a major overhaul of how we drive and embed value for money processes throughout the organisation. These new processes will be aimed at gaining full engagement of the workforce and be delivered by a more of a programme based approach.

Internal Control

The Board has overall responsibility for the system of internal control and risk management and for reviewing its effectiveness.

The internal control framework is designed to manage and reduce, rather than eliminate the risk of failing to achieve business objectives. It can only provide the board with reasonable, and not absolute assurance, against material misstatement or loss.

Arches Housing Limited Strategic Report

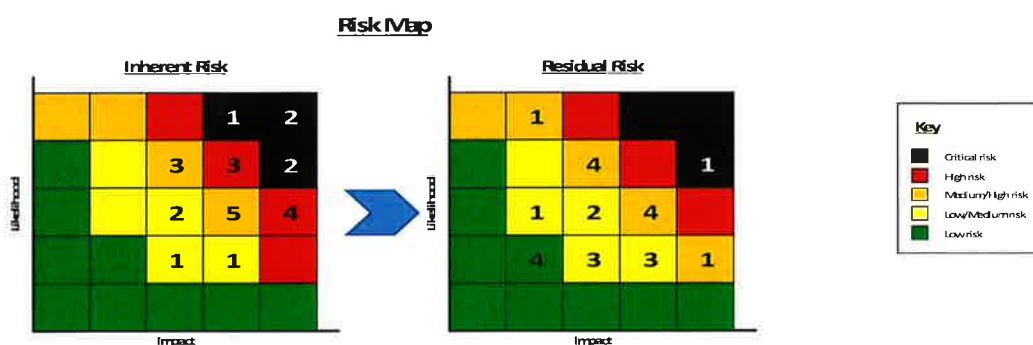
The key features of the association's system of internal control include:

- Adopting and working towards full compliance with the NHF's Code of Governance 2015;
- Audit and Risk Committee assurance – this committee meets regularly with members of the Executive team and the internal and external auditors to review specific reporting and internal control matters to satisfy themselves that the internal control systems are operating effectively. The Audit and Risk committee also reviews any follow up actions to correct identified weaknesses. All board members receive the minutes of the Audit and Risk committee minutes.
- Internal audit assurance - the internal audit function has a direct reporting line to the Audit & Risk committee. The internal audit programme is designed to review the key areas of risk and adherence to relevant law.
- External audit assurance – the work of the external auditors provide some further independent assurance of the internal control environment, as described in their audit report. The association also receives a management letter from the external auditors identifying any internal control weaknesses. In accordance with best practice, the Audit and Risk committee and the board consider this letter.
- The preparation and monitoring of budgets and long term financial plans. The board reviews performance on this throughout the year and the reports ensure variances are identified and acted upon.
- A process for approving all investment decisions – all major investment decisions are subject to review and recommendation by the Investment Committee for approval by the board.

Risks and Uncertainties

During the year we have revisited our methodology for appraising and managing risk, with a new risk register format and a complete re-think of the major risks associated with our new strategic priorities. The risk register is reviewed at each meeting of the Audit and Risk committee and Critical and high risks are reported quarterly to the Board.

Our major risks are assessed as being related to the economic environment as outlined above in the going concern section, but also insufficient capacity and capability within the staff group and inability to attract and retain staff. There are also risks around governance and compliance, but the risk maps below demonstrate that our mitigating actions and contingency plans effectively manage all but one risk out of the Critical/High residual risk areas of the map. This one remaining risk is relating to the potential for inaccuracies to exist within our housing management system and there are substantial actions planned in this area within the 2017/18 delivery plan.



Governance

The Board of Arches Housing Limited is committed to upholding the highest standards of corporate governance and has adopted the NHF Code of Governance 2015. During the year under review, the association complied with all elements of the code with the exception of the areas identified below:

Arches Housing Limited Strategic Report

Delegations – although there were terms of reference for the board and its committees, some of these terms of reference were out of date and did not reflect the actual committee structure now in place. In addition the association had no standing orders, which should have set out matters specifically reserved for the board and specific delegations from the board. There was also no formal documented procedure for urgent decisions to be taken between meetings. These governance arrangements are now in place.

Chief Executive – the Chief Executive's contract of employment had not been reviewed and updated since 2014, however this has now been reviewed by our solicitor and advice received and acted upon.

Board member induction and training – new board members received informal induction, by attendance at meetings prior to them becoming elected members. There was no formal induction programme or on-going training in place. This will be rectified over the coming months as a part of the governance review that we are undertaking in the 2017/18 delivery plan.

Work with shareholders – there is currently no regular review of policies for admission to shareholding or support for shareholders so that they can play an effective role in the election of board members and there is no strategy for regularly communicating the work of the Association to shareholders (who are not board members) and ascertaining their views. Again this will be rectified over the coming months as a part of the governance review that we are undertaking in the 2017/18 delivery plan.

Board

A board of eight non-executive members currently governs the association, with day to day management delegated to the executive team. Each member holds one fully paid up £1 share in the association.

The role of Arches' board is to direct and determine strategic direction and business critical policies and meet all legal and regulatory requirements.

Delegation

The board delegates certain governance responsibilities to committees, which have their own approved terms of reference:

Audit and Risk Committee

The role of this committee is to oversee arrangements for considering how the organisation ensures financial viability, maintains a sound system of internal controls, manages risk and maintains an appropriate relationships with its auditors.

Investment Committee

The purpose of this committee is to examine in detail investment proposals, both in terms of new development and investment in existing stock and make recommendations to the Board. It is also to scrutinise new funding proposals and make recommendations to the board.

Chief Executive's Performance Committee

The role of this committee is to oversee the annual performance review process for the Chief Executive, including setting objectives and targets and reviewing performance against these; to make recommendations to the Board on all matters relating to the Chief Executive's remuneration and contract; and to lead the process to recruit a new Chief Executive as necessary.

Nominations Committee

The role of this committee is to oversee succession planning and recruitment to the board, ensuring that a suitable skill mix is maintained at all times.

Attendance

A register of attendance for the board and committees is maintained to ensure that members are able to commit sufficient time to allow them to be effective in their roles. Attendance for the board for 2016/17, taking account of their appointment and resignation dates is set out below:

Attendance							
Kay Dickinson	88%	Shamsa Latif	63%	Tony Jervis	75%	Brian Thomas	100%
Denis Creaghan	75%	Ken Torres	63%	Anne Hawkins	88%	Iain Campbell	88%
Christine Woods	100%	Andrew Liles	100%	Mohammed Jamil	100%		

Arches Housing Limited

Statement of responsibilities of the Board of Management

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

Co-operative and Community Benefit Society law requires the board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), including FRS 102. The financial statements are required by law to give a true and fair view of the state of affairs of the association and of the income and expenditure of the organisation for that period.

In preparing these 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 UK Accounting Standards and the Statement of Recommended Practice has been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the association will continue in business.

The board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of Corporate and Financial information included on the Association's website. Legislation in the United Kingdom concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board certifies substantial compliance with the Homes and Communities Agency's (HCA's) Governance and Viability Standard. However, as a result of the strengthening of the Board and Executive team during the year, there were some areas identified that required attention. These related to a small number of properties not having the required asbestos, water and fire safety arrangements in place. Immediate action was taken to rectify these issues and we are now fully compliant in all areas. We have received legal advice stating that none of these issues constituted a breach of the HCA's consumer standards.

By order of the Board:



B Summerson
Secretary

24 July 2017

Arches Housing Limited

Independent auditor's report to the members of Arches Housing Limited

We have audited the financial statements of Arches Housing Limited for the year ended 31 March 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement 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 auditor

As explained more fully in the Statement of the Board's Responsibilities set out on page 8, 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 Association's members, as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 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 Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and its 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 Association's affairs as at 31 March 2017 and of the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

- the Association has not kept proper books of account; or
- a satisfactory system of control over transactions has not been maintained; or
- the financial statements are not in agreement with the books of account; or

Arches Housing Limited

Independent auditor's report to the members of Arches Housing Limited

- we have not received all the information and explanations we require for our audit.

Mazars LLP

Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street
Birmingham
B3 2RT

Date: *24 July 2017*

Arches Housing Limited
Statement of Comprehensive Income
For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	3	5,891	6,056
Operating expenditure	3	(3,735)	(4,129)
Operating surplus		2,156	1,927
Surplus/ (deficit) on disposal of property, plant and equipment	5	14	(20)
Interest receivable	7	24	18
Interest and financing costs	6	(739)	(733)
Surplus before tax		1,455	1,192
Taxation		-	-
Surplus for the year	8	1,455	1,192
Total comprehensive income for the year		1,455	1,192

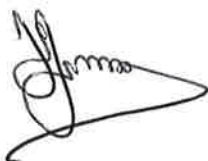
Arches Housing Limited
Statement of Financial Position
At 31 March 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	11	37	43
Housing properties	12	53,196	50,796
Other property, plant and equipment	13	434	445
		<u>53,667</u>	<u>51,284</u>
Current assets			
Stock and work in progress	14	179	39
Debtors	15	310	295
Investments	16	2,023	3,407
Cash		139	848
		<u>2,651</u>	<u>4,589</u>
Creditors: Amounts falling due within one year	17	<u>(2,784)</u>	<u>(2,448)</u>
Net current assets		<u>(133)</u>	<u>2,141</u>
Total assets less current liabilities		<u>53,534</u>	<u>53,425</u>
Creditors: Amounts falling due after more than one year	18	<u>(43,345)</u>	<u>(44,691)</u>
Net assets		<u>10,189</u>	<u>8,734</u>
Capital and reserves			
Share capital	20	-	-
Revenue reserve		<u>10,189</u>	<u>8,734</u>
Total reserves		<u>10,189</u>	<u>8,734</u>

The financial statements of Arches Housing Limited were approved by the Board and signed on its behalf by:



Kay Dickinson
Chair
24 July 2017



Tony Jervis
Deputy Chair



Brian Summerson
Company Secretary

Arches Housing Limited
Statement of Changes in Reserves
For the year ended 31 March 2017

	Income and expenditure reserve 2017 £'000	Income and expenditure reserve 2016 £'000
At 1 April	8,734	7,542
Total comprehensive income for the year	1,455	1,192
At 31 March	<u>10,189</u> =====	<u>8,734</u> =====

Arches Housing Limited**Statement of Cash Flows**

For the year to 31 March 2017

		2017		2016	
	Note	£'000	£'000	£'000	£'000
Net cash generated from operating activities	21		3,026		4,072
Cash flows from investing activities					
Purchase of property, plant and equipment		(4,514)		(3,984)	
Proceeds from sale of property, plant and equipment		341		741	
Grants received		259		591	
Interest received		23		29	
		<u> </u>		<u> </u>	
Net cash flows from investing activities			(3,891)		(2,623)
Cash flows from financing activities					
Interest paid		(765)		(759)	
Decrease/ (Increase) in deposits		1,384		(327)	
New loans		-		-	
Repayments of borrowings		(463)		(329)	
		<u> </u>		<u> </u>	
Net cash flows from financing activities			156		(1,415)
Net increase in cash and cash equivalents			<u> </u> (709)		<u> </u> 34
Cash and cash equivalents at beginning of year			848		814
Cash and cash equivalents at end of year			<u> </u> <u> </u> 139		<u> </u> <u> </u> 848

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

General information and basis of accounting

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 and comply with the Statement of Recommended Practice for registered social housing providers 2014 (SORP), the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2015. Arches Housing is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

Property, plant and equipment - housing properties

Housing properties are stated at cost, or deemed cost for assets held at valuation at the date of transition to FRS 102, less accumulated depreciation and 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. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Depreciation is charged so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis, over their useful economic lives. Freehold land is not depreciated.

New build	50 years
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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	50 years
Roofs	60 years
Doors and windows	30 years
Kitchens	20 years
Bathrooms	30 years
Heating systems	30 years
Boilers	15 years
Electrical wiring	40 years

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

Improvements

Where there are improvements to housing properties that are expected to provide incremental future benefits, these are capitalised and added to the carrying amount of the property. Any 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.

Leaseholders

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

Non-housing property, plant and equipment

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

Freehold offices	50 Years
Furniture, fixtures & fittings	3 years
Computer equipment	3 years

Intangible assets

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

Computer software	3 years
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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 surplus or deficit 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 and included in surplus or deficit in the Statement of Comprehensive Income.

Social Housing Grant and other Government grants

Government grants are recognised using the accrual model and are classified either as a grant relating to revenue or a grant relating to assets. Grants relating to revenue are recognised in income on a systematic basis over the period in which related costs for which the grant is intended to compensate are recognised. Where a grant is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised as revenue in the period in which it becomes receivable.

Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset. Grants received for housing properties are recognised in income over the expected useful life of the housing property structure. Where a grant is received specifically for components of a housing property, the grant is recognised in income over the expected useful life of the component.

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

Donation or acquisition of land or other asset at below market value

Where a donation of land and/or other assets is received or land and/or other assets are acquired at below market value from a government source, this is accounted for as a non-monetary government grant. The difference between the fair value of the asset donated or acquired and the consideration paid for the asset is recognised as a government grant and included in the Statement of Financial Position as a liability.

Where a donation of land and/or other assets is received or acquisitions of land and/or other assets at below their market value from a third party that does not meet the definition of a government source the transaction is recognised as an asset in the Statement of Financial Position at fair value, taking account of any restrictions on the use of the asset and income equivalent to the difference between any amounts paid or payable for the asset and the fair value of the asset is recognised in surplus or deficit in the Statement of Comprehensive Income as a donation when future performance-related conditions are met.

Recycling of grants

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

For shared ownership staircasing sales, when full staircasing has not taken place, the recycling of the grant may be deferred if the net sales proceeds are insufficient to meet the grant obligation relating to the disposal 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.

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, any unamortised grant remaining within liabilities in the Statement of Financial Position related to this asset is derecognised as a liability and recognised as revenue in surplus or deficit in the Statement of Comprehensive Income.

Leased assets

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

Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

Payments under operating leases are charged to surplus or deficit in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Interest payable

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

Taxation

The Association has Charitable status for taxation purposes and is not recognised for VAT.

Pensions

SCHEME: The Pensions Trust – Social Housing Pension Scheme

Arches 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.

For this multi-employer scheme, there is a contractual agreement between the scheme and the Association 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.

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.

Turnover

Turnover represents rent and service charges receivable (net of rent and service charge losses from voids) and disposal proceeds of current assets such as properties developed for outright sale or shared ownership first tranche sales at completion together with revenue grants from local authorities and the Homes and Communities Agency and charitable fees and donations. Service charge income is recognised when expenditure is incurred as this is considered to be the point at which the service has been performed and the revenue recognition criteria met.

Supported housing and other managing agents

Where the Association has ownership of a supported housing or other scheme but also has an agreement with a third party to manage the scheme (including Supporting People funded schemes or services), where there has been a substantial transfer of the risks and benefits attached to the scheme to the third party, any scheme revenue and expenditure is excluded from these financial statements.

Shared ownership property sales

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

Proceeds from first tranche disposals are accounted for as turnover in the Statement of Comprehensive Income of the period in which the disposals occur and the cost of sale is transferred from current assets to operating costs. Proceeds from subsequent tranche sales are treated as disposals of fixed assets.

Investments

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

Service charge sinking funds and service costs

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

Financial instruments

Financial assets and financial liabilities are recognised when Arches 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.

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.

Financing transactions – rent arrears

For rent arrears where the arrangement constitutes, in effect, a financing transaction because of extended credit arrangements the arrears are derecognised as a financial asset and a new financial asset measured at the present value of the future payments discounted at an appropriate market rate of interest. The present value adjustment is recognised in surplus or deficit in the Statement of Comprehensive Income.

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 known amounts of cash and are subject to an insignificant risk of changes in value.

2. Significant management judgements and key sources of estimation uncertainty

FRS 102

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.

Significant management judgements

The following are management judgements in applying the accounting policies of the Association that have the most significant effect on the amounts recognised in the financial statements.

Impairment of social housing properties

Arches 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.

From 1 April 2016, Arches Housing reduced social housing rents by one per cent per annum and will continue to do so in each year until 2019/20 in accordance with Welfare Reform and Work Act 2016. Despite cost efficiency savings and other changes to Arches Housing's business, compliance with the new rent regime has resulted in a loss of net income for certain social housing property. This is a trigger for impairment.

In accordance with paragraphs 14.43 to 14.45 of the Housing SORP 2014, Arches Housing is required to make the following disclosure:

- (a) Judgements made in defining the CGU (cash generating unit)
- (b) Estimation technique and judgement used in measuring recoverable amount
- (c) When VIU-SP is used to estimate the recoverable amount, the key assumptions used and details of the method used

Arches Housing estimated the recoverable amount of its housing properties as follows:

- (a) Determined the level at which the recoverable amount is to be assessed (i.e. the individual asset level or at cash-generating unit (CGU) level. The CGU was determined to be an individual property
- (b) Estimated the recoverable amount of the CGU
- (c) Calculated the carrying amount of the CGU and
- (d) Compared the carrying amount to the recoverable amount to determine if an impairment loss had occurred.

Based on this assessment, Arches Housing calculated the Depreciated Replacement Cost (DRC) of each social housing property scheme, using appropriate construction costs and land prices. Comparing this to the carrying amount of each scheme, there was deemed to be no increase in impairment of social housing properties.

Estimation uncertainty

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

Fair value measurement

Management uses valuation techniques to determine the fair value of assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management base the assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual process that would be achievable in an arm's length transaction at the reporting date.

Provisions

Provision is made for dilapidations and redundancy costs. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

Defined benefit pension scheme

The Association 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.

Arches Housing Limited
Notes to the financial statements
For the year ended 31 March 2017

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

	2017			
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus £'000
Social housing lettings (note 4)	5,650	-	3,603	2,047
Other social housing activities				
1 st tranche property sales	88	37	-	51
Charges for support services	133	-	54	79
Development	-	-	41	(41)
	<u>5,871</u>	<u>37</u>	<u>3,698</u>	<u>2,136</u>
Activities other than social housing activities	20	-	-	20
	<u>5,891</u>	<u>37</u>	<u>3,698</u>	<u>2,156</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
	2016			
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus £'000
Social housing lettings (note 4)	5,620	-	3,873	1,747
Other social housing activities				
1 st tranche property sales	278	180	-	98
Charges for support services	136	-	46	90
Other	-	-	30	(30)
	<u>6,034</u>	<u>180</u>	<u>3,949</u>	<u>1,905</u>
Activities other than social housing activities	22	-	-	22
	<u>6,056</u>	<u>180</u>	<u>3,949</u>	<u>1,927</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

Arches Housing Limited
Notes to the financial statements
For the year ended 31 March 2017

4. Particulars of Income and Expenditure from social housing lettings

	Total 2017 £'000	Total 2016 £'000
Income		
Rents receivable	4,790	4,766
Service charge income	59	57
Amortised government grant	801	797
Other grant	-	-
	<u>5,650</u>	<u>5,620</u>
Turnover from social housing lettings	5,650	5,620
Expenditure		
Service charge costs	45	51
Management	809	969
Routine maintenance	830	803
Planned maintenance	262	278
Major repairs expenditure	-	-
Bad debts	3	(8)
Depreciation of housing properties	1,654	1,646
Impairment of housing properties	-	134
Other costs	-	-
	<u>3,603</u>	<u>3,873</u>
Operating costs	3,603	3,873
Operating surplus social housing lettings	2,047	1,747
	<u>2,047</u>	<u>1,747</u>
Void losses	22	23
	<u>22</u>	<u>23</u>

5. (Deficit)/surplus on disposal of property, plant and equipment

	2017 £'000	2016 £'000
Sale of subsequent tranche shared ownership properties	58	113
Costs of Sale	(77)	(100)
	<u>(19)</u>	<u>13</u>
Right to Buy Disposals	-	105
Costs of sale	(-)	(97)
	<u>-</u>	<u>8</u>
Disposal of Rented Units	283	524
Costs of Sale	(250)	(565)
	<u>33</u>	<u>(41)</u>
Surplus / (Deficit) on disposal	<u>14</u>	<u>(20)</u>

Arches Housing Limited
Notes to the financial statements
For the year ended 31 March 2017

6. Interest and financing costs

	2017	2016
	£'000	£'000
Bank loans and overdrafts	760	759
Finance lease charges	-	-
Unwinding of discounts on provisions	12	9
	<u>772</u>	<u>768</u>
Borrowing costs capitalised	(33)	(35)
	<u>739</u>	<u>733</u>
	<u>=====</u>	<u>=====</u>

Borrowing costs that relate to housing stock under development have been capitalised at a rate of 4.0 per cent (2016 3.9 per cent) which is the weighted average of rates applicable to the Association's general borrowings outstanding during the year.

7. Interest receivable

	2017	2016
	£'000	£'000
Bank interest receivable	24	18
	<u>24</u>	<u>18</u>
	<u>=====</u>	<u>=====</u>

8. Surplus for the year

Surplus for the year is stated after charging/ (crediting):

	2017	2016
	£'000	£'000
Depreciation of property, plant and equipment	1,670	1,685
Impairment of property, plant and equipment	(11)	134
Reversal of past impairment losses on property, plant and equipment	-	-
Government grants	(801)	(797)
(Surplus)/ deficit on disposal of fixed assets	(14)	20
Audit fees:		
- Statutory audit	11	10
- Audit-related assurance services	7	5
- Taxation compliance services	-	-
- Tax advisory services	5	-
Operating lease rentals	-	-
	<u>=====</u>	<u>=====</u>

Arches Housing Limited
Notes to the financial statements
For the year ended 31 March 2017

9. Staff costs

	2017 £'000	2016 £'000
Wages and salaries	674	693
Social security costs	61	55
Other pension costs (see note 19)	54	58
Health care costs	0	4
	<u>789</u>	<u>810</u>
	=====	=====

The Full Time Equivalent number of staff who received emoluments, including pension contribution, in excess of £60,000 were as shown below.

	2017 Number	2016 Number
Salary Band £'000		
60,000 – 69,999	1	1
70,000 – 79,999	-	-
80,000 – 89,999	-	-

The average full time equivalent number of employees was:

	2017 Number	2016 Number
	21	24
	<u>21</u>	<u>24</u>
	=====	=====

The basis of the calculation of the full time equivalents was equivalent hours. The average is measured on a monthly basis.

10. Directors' remuneration and transactions

Key management personnel remuneration

	2017 £'000	2016 £'000
Directors who are executive staff members		
Wages and salaries	62	62
Social security costs	7	8
Other pension costs	6	5
	<u>75</u>	<u>75</u>
	=====	=====
Board members		
Wages and salaries	-	-
	<u>-</u>	<u>-</u>
	=====	=====

Directors are defined as the members of the Board, the Chief Executive and any other person who is a member of the Executive Management team.

Arches Housing Limited
Notes to the financial statements
For the year ended 31 March 2017

10. Directors' remuneration and transactions (continued)

	2017	2016
	£'000	£'000
Remuneration of the highest paid director, excluding pension contributions:		

Emoluments	70	72
	=====	=====

The Chief Executive is an ordinary member of the pension scheme. No enhanced or special terms apply.

11. Intangible assets

Computer software
£'000

Cost

At 1 April 2016	333
Additions	17
Disposals	-

As at 31 March 2017	350
	=====

Amortisation

At 1 April 2016	290
Charge for the year	23
Eliminated on disposals	-

As at 31 March 2017	313
	=====

Net book value

As at 31 March 2017	37
	=====
As at 31 March 2016	43
	=====

Arches Housing Limited
Notes to the financial statements
For the year ended 31 March 2017

12. Tangible fixed assets – housing properties

	Completed properties £'000	Under construction £'000	Completed shared ownership £'000	Shared ownership under construction £'000	Total £'000
Association					
Cost					
At 1 April 2016	66,163	352	5,069	52	71,636
Schemes Completed	1,975	(1,975)	397	(397)	-
Additions	(10)	3,251	-	345	3,586
Disposals	(251)	(46)	(85)	-	(382)
Components capitalised	698	-	-	-	698
Component Disposals	(195)	-	-	-	(195)
At 31 March 2017	68,380	1,582	5,381	-	75,343
Impairment					
At April 2016	454	-	165	-	619
Charge for the year	0	-	(11)	-	(11)
Eliminated on disposals	-	-	-	-	-
At 31 March 2017	454	-	154	-	608
Depreciation					
At 1 April 2016	19,621	-	600	-	20,221
Charge for the year	1,500	-	101	-	1,601
Component Depreciation written back	(143)	-	-	-	(143)
Eliminated on disposals	(127)	-	(13)	-	(140)
At 31 March 2017	20,851	-	688	-	21,539
Net book value					
At 31 March 2017	47,075	1,582	4,539	-	53,196
At 31 March 2016	46,088	352	4,304	52	50,796

Freehold land and buildings with a carrying amount of £35,017,000 (2016: £35,235,000) have been pledged to secure borrowings of the Association. The Association is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Arches Housing Limited
Notes to the financial statements
For the year ended 31 March 2017

13. Property, plant and equipment - other

	Freehold offices £'000	Furniture Fixtures and fittings £'000	Total £'000
Association			
Cost			
At 1 April 2016	597	214	811
Additions	0	6	6
	<hr/>	<hr/>	<hr/>
At 31 March 2017	597	220	817
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 April 2016	157	209	366
Charge for the year	13	4	17
	<hr/>	<hr/>	<hr/>
At 31 March 2017	170	213	383
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2017	427	7	434
	<hr/>	<hr/>	<hr/>
At 31 March 2016	440	5	445
	<hr/>	<hr/>	<hr/>

Freehold land and buildings are held at cost.

14. Stocks and work in progress

	2017 £'000	2016 £'000
Completed properties for sale	179	22
Work in progress	-	17
	<hr/>	<hr/>
	179	39
	<hr/>	<hr/>

15. Debtors

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Rent arrears	188	271
Provision for bad debts	(96)	(125)
Other debtors	53	6
Prepayments and accrued income	165	143
	<hr/>	<hr/>
	310	295
	<hr/>	<hr/>

The net present value adjustment to arrears subject to repayment plans is not material when calculated.

Arches Housing Limited
Notes to the financial statements
For the year ended 31 March 2017

16. Current asset investments

	2017	2016
	£'000	£'000
Unlisted investments – at cost less impairment	2,023	3,407
	<u>2,023</u>	<u>3,407</u>
	=====	=====

17. Creditors – amounts falling due within one year

	2017	2016
	£'000	£'000
Housing loans (see note 18)	473	473
Rents received in advance	183	117
Trade creditors	369	494
Other taxation and social security	20	20
Pensions deficit provision	81	78
Government grants	814	797
Accruals and deferred income	264	261
Grants in advance	580	208
	<u>2,784</u>	<u>2,448</u>
	=====	=====

18. Creditors – amounts falling due after more than one year

	2017	2016
	£'000	£'000
Other creditors		
Loans	18,273	18,736
Sinking funds	16	15
Bond premium	596	612
Recycled Grant Fund (RCGF) - National	372	490
Recycled Grant Fund (RCGF) – Rotherham MBC	68	69
Pension Deficit Provision	513	568
Government grants	23,497	24,196
Recycled other grants	10	5
	<u>43,345</u>	<u>44,691</u>
	=====	=====

The loans are secured on freehold housing properties. Interest is payable at between 0.7% and 12.25%

18. Creditors – amounts falling due after more than one year (continued)

The total accumulated amount of capital grant received or receivable at the balance sheet date is £24,755,000

	2017	2016
	£'000	£'000
Deferred income - Government grants		
At 1 April	24,993	25,562
Grants receivable	119	228
Amortisation to Statement of Comprehensive Income	(801)	(797)
	<u>24,311</u>	<u>24,993</u>
At 31 March	24,311	24,993
	<u>=====</u>	<u>=====</u>
Due within one year	814	797
	<u>-----</u>	<u>-----</u>
Due after one year	23,497	24,196
	<u>-----</u>	<u>-----</u>
	2017	2016
	£'000	£'000
Recycled Capital Grant Fund		
At 1 April	490	97
Inputs to RCGF	214	443
Recycling of grant	(332)	(50)
Interest accrued	-	-
	<u>372</u>	<u>490</u>
At 31 March	372	490
	<u>=====</u>	<u>=====</u>

The reason for the £332,301 grant recycled was to include on the Brameld Road scheme.

There are no amounts which are outstanding for three or more years or otherwise potentially due for repayment to the Homes and Communities Agency.

Borrowings are repayable as follows:

	2017	2016
	£'000	£'000
Bank loans		
Between one and two years	510	492
Between two and five years	1,619	1,683
After five years	16,144	16,561
	<u>18,273</u>	<u>18,736</u>
On demand or within one year	473	473
	<u>-----</u>	<u>-----</u>
	18,746	19,209
	<u>=====</u>	<u>=====</u>

The Association does not hold any finance leases.

19. Retirement benefit schemes

Defined contribution schemes

The Association operates defined contribution retirement benefit schemes for qualifying employees. The total expense charged to Statement of Comprehensive Income in the period ended 31 March 2017 was £29,000 (2016: £192,000 including Remeasurements – amendments to the contribution schedule, £189,000).

The Pensions Trust – Social Housing Pension Scheme

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

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

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

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

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

19. Retirement benefit schemes (continued)

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.

Present values of provision

	2017	2016
	£'000	£'000
Present value of provision	594	646
	=====	=====

Reconciliation of opening and closing provisions

	2017	2016
	£'000	£'000
Provision at start of period	646	517
Unwinding of the discount factor (interest expense)	12	9
Deficit contribution paid	(81)	(63)
Remeasurements - impact of any change in assumptions	17	(6)
Remeasurements - amendments to the contribution schedule	0	189
Provision at end of period	594	646
	=====	=====

Income and expenditure impact

	2017	2016
	£'000	£'000
Interest expense	12	9
Remeasurements - impact of any change in assumptions	17	(6)
Remeasurements - amendments to the contribution schedule	0	189
Costs recognised in income and expenditure account	29	192
	=====	=====

Assumptions

	2017	2016
	% per annum	% per annum
Rate of discount	1.32	2.06
	=====	=====

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

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20. Share capital

	2017	2016
	£	£
At beginning of year	27	27
Issued during the year	-	-
	-----	-----
At end of year	27	27
	=====	=====

Each share has a nominal value of £1.

The shares provide members with the right to vote at general meetings but do not have a right to any dividend or distribution in a winding-up, and are not redeemable.

21. Net cash generated from operating activities

	2017	2016
	£'000	£'000
Cash flow generated from operating activities		
Surplus for the year	1,455	1,192
Adjustment for non-cash items:	-	-
Depreciation of property, plant and equipment	1,670	1,665
Amortisation of intangible assets and government grants	(779)	(777)
(Increase)/Decrease in Stock and Work in progress	(139)	8
(Increase) in debtors	(16)	(57)
(Decrease)/ increase in creditors	(33)	400
Increase/ (Decrease) in provisions	1	(8)
Pension Costs less contributions payable	(70)	121
Carrying amount of property, plant & equipment disposals	327	762
Impairment loss on property, plant and equipment	(11)	99
RCGF written off to Revenue	(72)	(68)
(Surplus)/ deficit on sale of properties	(14)	20
Interest payable	731	733
Interest received	(24)	(18)
	-----	-----
Cash generated by operations	3,026	4,072
	=====	=====
 Cash and cash equivalents		
Cash at bank and in hand	139	848
	=====	=====

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22. Financial commitments

Capital commitments are as follows:

	2017	2016
	£'000	£'000
Contracted for but not provided for	969	5,978
Approved by the directors but not contracted for	1,233	477
	<u>2,202</u>	<u>6,455</u>
	<u>=====</u>	<u>=====</u>

These commitments are to be funded by a mixture of existing funds and property sales

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
	£'000	£'000
Payments due:		
- within one year	1	1
- between one and five years	1	2
- after five years	-	-
	<u>2</u>	<u>3</u>
	<u>=====</u>	<u>=====</u>

23. Housing stock

	2017	2016
	Units	Units
Owned and managed		
General needs housing accommodation	684	692
Housing accommodation at affordable rent	333	313
Housing accommodation at intermediate rent	4	4
Supported housing accommodation	48	48
Shared ownership accommodation	87	80
	<u>1,156</u>	<u>1,137</u>
	<u>=====</u>	<u>=====</u>

24. Related party transactions

During the year we have had Two Board members of Arches Housing Limited who are tenants of the organisation. Their tenancies are on normal commercial terms.

The rent charges through the year total £4,646 and payments received were £4,635. The difference is purely down to timing of receipts.

The timing difference at year end was £153 (2016 £129).

